PPF

PPF TELECOM GROUP B.V.

(formerly PPF Arena 1 B.V.)

Annual accounts 2019

Content:

Directors' Report

Description of the Company

PPF Telecom Group B.V.
(formerly PPF Arena 1 B.V.)

Date of incorporation:	16 October 2013
Registered office:	Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Identification number:	59009187
Authorised capital:	EUR 1,000
Issued capital:	EUR 1,000
Paid up capital:	EUR 1,000
Principal business:	Holding company activities and financing thereof

General information

PPF Telecom Group B.V. (the "Parent Company" or the "Parent"), on 24 February 2020 renamed from PPF Arena 1 B.V., is a leading provider of telecommunication services in the CEE region. Provided services include mobile telecommunication, fixed-line telecommunication, telecommunications infrastructure, data services and internet television. PPF Telecom Group B.V. belongs to a group comprised of PPF Group N.V. and its subsidiaries ("PPF Group"). The PPF Group is privately held and ultimately majority owned and controlled by Mr Petr Kellner. PPF Telecom Group B.V. and its subsidiaries (collectively, the "Group") provide services in the Czech Republic, Slovakia, Hungary, Bulgaria, Serbia and Montenegro, and operate through six principal segments primarily based on geography. In addition, the Group undertakes certain other ancillary activities included in its unallocated segment. Details on the segments are described in Section D of the notes to the accompanying consolidated financial statements.

The O2 Group comprises the Group's Czech Republic (O2) and Slovakia segments. O2 Czech Republic a.s. ("O2 Czech Republic") and its fully owned subsidiary O2 Slovakia s.r.o. ("O2 Slovakia", collectively, the "O2 Group") is separated from other activities of the Group because it is treated by the Group rather as a passive investment only. It has its own management, business and financial strategies and policies, and the relationships between the O2 Group and the remaining part of the Group are at an arm's length. The Group's activities in Hungary, Bulgaria, Serbia and Montenegro consist of Telenor Hungary, Telenor Bulgaria, Telenor Serbia and Telenor Montenegro, respectively.

1. Czech Republic (O2) Segment
The Group's Czech Republic (O2) segment consists of the activities of O2 Czech Republic and its Czech subsidiaries (collectively, the "O2 CZ Group"), a leading fixed-mobile convergent telecommunications provider in the Czech Republic. The O2 CZ Group is a leading integrated telecommunications provider in the Czech Republic. O2 Czech Republic is listed on the Prague Stock Exchange and 15.93% of its shares were in free-float as at 31 December 2019. As of the same date, the Group held a 65.79% ownership interest in O2 Czech Republic, while an additional 15.27% ownership interest was held by other entities of the PPF Group outside of the Group. O2 Czech Republic is the former state monopoly (incumbent) telecom operator in the Czech Republic. O2 CZ Group uses its own funding.

2. Slovakia Segment
The Group's Slovakia segment consists of the activities of O2 Slovakia, s.r.o. (O2 Slovakia), a mobile telecommunications provider in Slovakia and a wholly-owned subsidiary of O2 Czech Republic.

3. Czech Republic (CETIN) Segment
The Group's Czech Republic (CETIN) segment consists of the activities of CETIN, the owner and operator of the incumbent and largest telecommunications network infrastructure in the Czech Republic, and its subsidiaries. CETIN acts as a wholesale provider of fixed and mobile telecommunications infrastructure to all telecommunications operators on an equal and transparent footing. As of 31 December 2019, the Group held an 89.73% ownership interest in CETIN, while the remaining ownership interest was held by other entities of the PPF Group outside of the Group. CETIN was incorporated in June 2015 as a spin-off of the infrastructure assets and wholesale business of the O2 CZ Group. CETIN divides its business activities into two main divisions: domestic network services and international transit services. Its largest customers include the O2 CZ Group and T-Mobile

Czech Republic. CETIN has separate funding through Eurobonds and has been rated Baa2 (negative outlook) and BBB (stable outlook) by Moody's and Fitch, respectively.

4. Hungary Segment
The Group's Hungary segment consists of the activities of Telenor Magyarország Zrt., a leading mobile telecommunications provider in Hungary (Telenor Hungary), and Telenor Real Estate Hungary Zrt., owner of the principal real estate used by Telenor Hungary, including its main office buildings. Both companies are owned by the TMT Hungary B.V. holding company, in which as at 31 December 2019 the Group owned 75%, and a 25% minority stake was owned by Antenna Hungária Zrt., the country's leading state-owned telecommunications service provider.

5. Bulgaria Segment
The Group's Bulgaria segment consists of the activities of Telenor Bulgaria EAD (Telenor Bulgaria), the largest mobile telecommunications provider in Bulgaria.

6. Serbia and Montenegro Segment
The Group's Serbia and Montenegro segment consists of the activities of Telenor d.o.o. Beograd and Telenor Foundation Beograd (collectively, Telenor Serbia) and Telenor d.o.o. Podgorica and Telenor Foundation Montenegro (collectively, Telenor Montenegro), leading mobile telecommunications providers in both Serbia and Montenegro with presence in the fixed voice telecommunications market as well. Telenor Serbia and Telenor Montenegro are separate business units however with common management and business strategy.

7. Unallocated Segment
The Group's unallocated segment consists of ancillary activities of the Group, primarily the provision of technology services through Telenor Common Operation Zrt., incorporated in Hungary (Telenor Common Operation) to the Telenor CEE Group as well as to various entities of the Telenor ASA group. In addition, this segment includes the Group's holding and sub-holding companies: the Parent, PPF Telco B.V., PPF Infrastructure B.V., TMT Hungary B.V. and PPF TMT Bidco 1 B.V.

As at 31 December 2019, companies held by the Parent Company served 17.2 million active customers across its segments.

Business objectives

The Group's mission is to be a leader in providing telecommunication services across the CEE region. In this mission, the Group benefits from the following key strengths:

- well diversified businesses across several geographies with leading positions in stable markets with positive trends
- high-quality telecommunication assets and services, with strong financial performance of the operating companies
- strong track record and experience of the PPF Group, with accomplished executive management, backed by strong shareholder support.

The Group aims to achieve its mission through the following strategy:

- further expansion of its customer and revenue base
- continuous investment in infrastructure, innovation and technology
- continued optimisation, vertical integration and realisation of synergies within the Group
- continued focus on cash flow generation with conservative financial profile and policy.

Business model

PPF Telecom Group belongs to the group comprised of PPF Group N.V. and its subsidiaries active in a range of diverse industries. PPF Telecom Group was established as a holding company for entities of the PPF Group active in the telecommunications sector. The Group's main subsidiaries exercise three different operating models:

1. Convergent commercial telecommunications operator
Used by Czech Republic (O2) Segment

O2 Czech Republic is a leading fixed and mobile convergent telecommunications provider in the Czech Republic. The company provides services to end users in retail, corporate and government institutions market segments. The company markets its services to retail users through a network of its own shops and to corporate and government institutions customers through its own sales representatives. The company owns mobile spectrum licences for its services and owns and operates core of the radio access networks. The company does not own most of the physical infrastructure required for the provision of its services; the infrastructure services are subcontracted mainly to CETIN.

Main products and services

Mobile services – Internet and data, voice services, multimedia message services and short message services on a contract or prepaid basis through a spectrum of tariffs targeting different market segments.

Fixed services – Internet connectivity, data and TV and fixed voice services, offered on a standalone basis or in a bundle with other fixed and mobile services.

Sales of devices – handsets, modems, TV set-top boxes and other devices complementary to the telecommunications services and products provided by the company.

Other mobile services – mainly provision of mobile network services on a wholesale basis to virtual operators.

Information and communication technology services – complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development.

2. Wholesale infrastructure provider

Used by Czech Republic (CETIN) Segment

CETIN is a wholesale provider of fixed and mobile telecommunications infrastructure to all telecommunications operators on equal and transparent footing. The Company does not provide services directly to end users.

CETIN is the owner and operator of the largest telecommunications infrastructure portfolio in Czechia, namely the largest fixed access network in the country, comprising both metallic and fibre lines; radio access network for mobile services in the eastern part of the country and operated in network sharing arrangement with another leading mobile infrastructure operator, T-Mobile Czech Republic; transport network and data centres connecting the fixed and radio access networks; points of presence, transport network and switching equipment for transit of international voice calls. CETIN uses radio access network for mobile services in the western part of the country operated by T-Mobile Czech Republic in network sharing arrangement. CETIN manages an extensive portfolio of real estate properties across the country as an owner or as a lessee, housing its telecommunications equipment.

CETIN divides its business activities into two segments – provision of national network services and international transit services. These two segments operate in different markets; the services are largely provided via different assets, and their business models, profitability and investment demands are fundamentally different.

The national network services primarily consist of mobile network services, mass fixed-line network services – network access service, xDSL, FTTH/FTT, IPTV and voice service, data services, data centres and other services. Their main customers are service providers in the Czech telecommunications market. These services yield gross margins at industry standard level, which the Company reinvests in the development of network infrastructure for the provision of these services.

The international transit services primarily consist of the transmission of international voice traffic for international operators from all over the world. Considerable revenues with a very low margin that require minimum operating and capital costs are characteristic of this type of services.

Main products and services

Mobile network services – the Company is the main provider of mobile network services for O2 Czech Republic a.s. It also operates the mobile network for T-Mobile Czech Republic a.s. in half the country through a shared network. The lease transmission station capacity is a secondary source of income.

Mass fixed-line network services – the Company primarily offers all operators in the Czech market services involving access to the fixed-line network for the vast majority of housing units in the country, together with related voice services, xDSL or fibre broadband Internet access (broadband, FBB), IPTV paid television, local-loop unbundling (VULA and LLU) and technology collocation.

Data services – the Company also provides operators with data services on leased lines for their corporate customers.

International transit services – the Company provides international operators from all over the world with the transmission of international traffic, primarily voice.

Other services – This category includes the lease of dark fibres, housing in data centres, national interconnection services, support services for roaming, forced network transfers, duct hire and other associated services.

3. Mobile operator
Used by Slovakia, Hungary, Bulgaria, Serbia and Montenegro Segments
The subsidiaries in these segments are mobile telecommunications providers in different national markets. They provide services to end users in retail, corporate and government institutions market segments. They market their services to retail users through a network of its own shops and to corporate and government institutions customers through its own sales representatives. These subsidiaries own and operate radio access networks for mobile services on a national scale; transport network connecting the radio access networks with the core in own data centres, and own mobile spectrum licences for its services. The subsidiaries manage an extensive portfolio of real estate properties across their respective countries as owners or as lessees, housing their telecommunications equipment.
Main products and services
Mobile services – Internet and data, voice services, multimedia message services and short message services on a contract or prepaid basis through a spectrum of tariffs targeting different market segments.
Fixed services – Internet connectivity, data and TV and fixed voice services.
Sales of devices – handsets, accessories and other devices complementary to the telecommunications services and products provided by the company.
Other mobile services – mainly provision of mobile network services on a wholesale basis.
Information and communication technology services – complex customer solutions and managed services, mainly system integration, outsourcing services, project solutions and software development.

Group level
PPF Telecom Group does not have any employees or own operations. The senior management team of the Group comprises experienced executives from PPF Group with extensive experience in the telecommunications sector, mainly in the CEE region, and the top level of the management in the Group's operating subsidiaries with vital local knowledge and expertise. The role of the management teams at Segments is to deliver operational and financial objectives set by the Group through managing commercial, financial and regulatory aspects of the subsidiaries' operations. The senior management of the Group is involved in determining the Group's strategy, setting objectives for the subsidiaries, managing the human resources responsible for the delivery of these objectives and managing knowledge transfer between the subsidiaries to spread best practice across the segments in commercial, operational, purchasing, organisational, technological, procurement, financial and other aspects of their operations. O2 Czech Republic has its own management, business and financial strategies and policies, as the PPF Group treats O2 Group rather as a passive investment.

2019 highlights

In July 2018, the Group acquired the Telenor CEE Group, i.e., Telenor's telecommunication assets in Hungary, Bulgaria, Serbia and Montenegro from the Norwegian incumbent telecom operator Telenor. Following the separation of the Telenor CEE Group from the Telenor Group in terms of management, technologies, IT and other corporate services, the focus of the Group in 2019 was on driving the commercial performance of the acquired companies further, carrying out projects to improve the operational efficiency and achieve cross-border synergies, and exploring opportunities in fixed-mobile convergence.

O2 CZ Group continued improving the quality and availability of its network services for customers in retail as well as corporate and government market segments.
CETIN continued improving the availability and the capacity of its mobile network in line with the growing demand for mobile data services, while upgrading its fixed network to NGA standards.

In 2019, the Group made a strong commitment to financial discipline, achieved ratings from all major rating agencies and launched an EMTN programme to refinance the existing bank loan.

Key results

Operational performance
O2 Czech Republic continued strengthening its leading market position, as its mobile customer base grew by 7% and customers continued to migrate from fixed voice to mobile and from pre-paid subscriptions to contracts. Fixed broadband subscriptions grew by 3% year-over-year through technology-agnostic propositions. Subscriptions of O2 TV service reached 443 thousand in 2019, increasing by more than 30% within a year.

O2 Slovakia continued gaining new customers and increasing ARPU, with customer growth of 6% year-over-year, a 3% increase in ARPU and sound progress in converting pre-paid subscriptions to contracts.

CETIN further strengthened its mobile network by adding new stations, new layers, and new network capacity. The fixed network modernisation programme improved significantly, hence the company now offers Next Generation Access lines (50 Mbps or more) in more than 80% of its connection points, including speeds of up to 1 Gbps. These improvements and new long-term contracts with retail operators reversed the decline in the DSL customer base. In 2019 CETIN continued increasing the number of its fixed broadband services.

Telenor CEE Group companies reported resilient business performance with healthy growth in mobile traffic and data consumption and a growing contract customer base throughout the year.

Non-financial KPI's

Mobile services

		1. Czech Republic (O2) Segment	***2. Slovakia Segment***	***4. Hungary Segment***	***5. Bulgaria Segment***	***6. Serbia and Montenegro Segment***	***Group***
mobile subscribers	thousands	5,858	2,149	3,030	3,006	3,163	17,206
y-o-y growth	*per cent*	*7.2%*	*6.0%*	*(1.2%)*	*(2.1%)*	*(1.1%)*	*2.2%*
mobile contract subscribers	per cent of total	66%	65%	65%	81%	58%	67%
y-o-y growth	percentage points	2.6	2.1	2.0	0.9	1.7	1.9
mobile ARPU	EUR	n/a	10.2	12.3	8.3	8.7	n/a
y-o-y growth	*per cent*	n/a	*3.0%*	*8.8%*	*6.4%*	*(1.1%)*	*n/a*

Fixed services

		1. Czech Republic (O2) Segment	***3. Czech Republic (CETIN) Segment***
fixed broadband subscribers	thousands	835	n/a
y-o-y growth	*per cent*	*3.3%*	*n/a*
Pay TV subscribers	thousands	443	n/a
y-o-y growth	*per cent*	*32%*	*n/a*
fixed voice subscribers	thousands	462	n/a
y-o-y growth	*per cent*	*(12%)*	*n/a*
fixed lines clients	thousands	n/a	1,151
y-o-y growth	per cent	n/a	1.6%

Revenues, costs and operating income
The Group's consolidated revenues and operating income before interest, taxes, depreciation and amortisation (EBITDA) grew by almost a third compared to the previous year, owing to the acquisition of Telenor CEE Group in the middle of 2018. On a like-for-like basis (Czech and Slovak segments only) the Group reported modest growth of revenues and EBITDA, driven by sustainable market growth and its continued focus on operational efficiency. The reported EBITDA growth was further helped by the adoption of IFRS 16 in 2019.

Depreciation and Net Income
Depreciation and amortisation charges grew in 2019 mainly due to the acquisition of Telenor CEE Group and partly due to continuous robust investment programme, concerning the infrastructure and IT systems necessary for sustained market leadership and long-term viability of the business. The Net income of the Group grew in line with EBITDA, mainly due to the acquisition of Telenor CEE Group in the middle of 2018.

O2 Group achieved modest revenue growth of 1.9%, driven by strong commercial performance of mobile segments in both Czechia and Slovakia. Fixed services revenues in O2 Czech Republic returned to marginal growth in 2019, driven mainly by the success of the technology-agnostic broadband proposition and PayTV services, offsetting the continued decline of traditional fixed voice services. Consolidated reported EBITDA improved by 14% year-on-year, driven by revenue growth and improving operational efficiency, further helped by the impact of the adoption of IFRS 16. Consolidated net profit grew slightly in 2019, reflecting the EBITDA growth, partly offset by substantial depreciation and amortisation charges, resulting from a robust investment programme.

CETIN's total revenues slightly declined in 2019 due to international voice transit revenues, where the focus on fewer revenues with higher profit margins brought about an increase in the gross margins from the segment. Growing gross margins mainly from mobile services and the turnaround in the fixed lines services translated in underlying EBITDA growth, despite growing energy consumption related to network expansion, inflationary pressures on energy and labour prices. The total EBITDA year-over-year increase of 13% was partly helped by the impact of the adoption of IFRS 16.

Telenor CEE Group companies reported sound underlying revenue and EBITDA growth driven by growing mobile data consumption, the continuous migration of prepaid customers to post-paid, and cost discipline. The total contribution of Telenor CEE Group to the Group has increased substantially year over mainly due to the acquisition of Telenor CEE Group in the middle of 2018.

Capital expenditure
In 2019, the Group acquired fixed assets totalling MEUR 392[1]. These investments were mainly channelled into the further development of the telecommunications infrastructure. The main investment projects involved upgrades of mobile networks – extending the coverage, density and network capacity of mobile networks across all segments, in line with growing demand for mobile data consumption and in preparation for 5G networks.

O2 Czech Republic continued investing in content rights for its leading IPTV platform, and CETIN continued modernising its national broadband network, both to protect their market leadership positions. Telenor CEE invested in the renewal of mobile spectrum licences in Hungary.

Fixed assets
The fixed assets of the Group increased in 2019 and reached MEUR 6,491 as at 31 December 2019 due to the adoption of IFRS 16 that requires right-of-use assets to be recorded on a company's balance sheet.

Tangible assets reached a net book value of MEUR 2,555, with additions from continued investment in the development of the telecommunications infrastructure across all segments, offset by depreciation charges.

Intangible assets and goodwill reached a net book value of MEUR 3,413 with additions from the acquisition of spectrum licences and investments in the improvement of customer-facing systems, offset by amortisation charges.

Right-of-use assets recorded at a net book value of MEUR 523 represent mainly the value of real estate leases for mobile sites, office and technology buildings with network installations.

[1] Organic capital expenditures excluding business combinations

For detailed information, see Notes E.7 and E.8 of the accompanying consolidated financial statements.

Debt and equity
In July 2018, PPF Telecom Group B.V. utilised secured term loan facilities amounting to a total of BEUR 2.8, mainly to finance the acquisition of Telenor CEE Group. The loans are denominated in EUR and CZK and repayable by 2023 and 2024.
In March 2019, the Group obtained a Ba1 corporate credit rating by Moody's, a BB+ rating by Standard & Poor's and BBB- by Fitch, and established a MEUR 3,000 Euro Medium Term Note Programme. Under this programme, the Group issued a senior secured 7-year Eurobond in the aggregate nominal amount of MEUR 550 (in March 2019) and a senior secured 5-year Eurobond amounting to MEUR 500 (in November 2019) and used the proceeds to refinance the Group's secured bank loans.
In October 2019, the Group sold a 25% stake in TMT Hungary B.V. to Antenna Hungária Zrt. Part of the proceeds from the sale were used to further repay the Group's secured bank loans.
As at 31 December 2019, the outstanding amounts of these bank loans were MEUR 1,349 and MCZK 6,139.

In April 2019, the Group completed the subscription of four tranches of new Schuldschein financing amounting to MEUR 160, with maturity of 5 to 7 years.

The total consolidated indebtedness of PPF Telecom Group B.V. as at 31 December 2019 thus represented BEUR 4, with a similar total balance compared to 2018 but with a change in its structure during 2019 as described above. For detailed information, see Notes E.13 and E.14 of the accompanying consolidated financial statements.

The owner's equity of the Group has grown by BEUR 0.1 during 2019, mainly owing to net profit achieved in 2019 and consideration from the sale of a 25% stake in TMT Hungary B.V., partially offset by the distribution of dividends to shareholders, standing at BEUR 2.3 as at 31 December 2019.

The debt-to-assets ratio[2] increased only marginally from 0.71 to 0.72 and the debt-to-equity ratio[3] from 2.48 to 2.63.

Profit distribution and other payments to shareholders
The consolidated net profit of the Group in 2019 reached MEUR 372, adding to MEUR 394 of earnings retained from previous years. PPF Telecom Group paid MEUR 480 in dividends to its shareholders, while non-controlling shareholders received MEUR 76 in dividends.

Cash flows
Consolidated net cash from operating activities of the Group reached MEUR 1,221, growing substantially year-over-year mainly due to contributions from the newly acquired subsidiaries[4]. Net cash used in investment activities consisted mainly of MEUR 402 investments in the development of the telecommunications infrastructure, offset by proceeds from the sale of non-controlling interest in TMT Hungary B.V. Free cash flows excluding the acquisitions and sales of subsidiaries and investment assets[5] reached MEUR 827.

Cash inflows from financing in 2019 were MEUR 1,228, comprising proceeds from two Eurobond issuances and new Schuldschein notes. The Parent Company used the cash raised by Eurobond issuances and some of the proceeds from the sale of non-controlling interest to repay MEUR 1,234 off the existing secured bank loan.

After net interest payments of MEUR 78 and lease payments of MEUR 89, the total pre-dividend cash flows generated in 2019 reached MEUR 1,103. The Group used part of these proceeds for distribution of MEUR 569 of profits to shareholders and retained the remainder on the balance sheet.

The closing cash position of the Group was MEUR 795, having increased by MEUR 533 during the year.

For detailed information, see the accompanying consolidated statement of cash flows for the financial year ended on 31 December 2019.

[2] Debt to assets = total liabilities/total assets
[3] Debt to equity = total liabilities/owners' equity
[4] Telenor CEE Group was acquired in July 2018, hence only the second half of 2018 is included in the comparison.
[5] Net cash from operating activities – purchase of PPE and intangible assets + proceeds from disposal of PPE and intangible assets

Business outlook

The group will continue growing the Group’s revenue base within the current telecommunications market, primarily through organic growth. The Group’s long-term focus is to maintain a low churn rate of customers and improve its mobile customers mix to ensure a continued upward trend in ARPU. The Group aims to build on the individual company’s strengths and synergies and capitalise on trends in the telecommunications market, especially increasing data usage and demand for content offering, and evolve its existing portfolio of products and services to meet clients’ expectations. To maintain a leading position in its respective telecommunications markets and to ensure the high quality of services, the Group plans to continue investing substantial amounts into the modernisation of its infrastructure and into the development of new products and services, such as hardware and insurance and procuring licences for its current or future services, including new 5G spectrum and renewals of the existing licences, if needed. The Group is in the process of upgrading its infrastructure to capture the growing demand for data consumption and to facilitate speed upgrades in both the mobile and fixed market segments.

The Group will continue investing in the development of new telecommunication solutions and products, to sustain or extend its market positions in local markets. At the local level, segments will continue developing tactical solutions and products for its local markets. The Group’s executive management will continue researching and developing strategic solutions around emerging technologies and trends so that they can be efficiently deployed across the whole Group.

The Group’s strong and reliable operating cash flows together with its cash reserves and undrawn credit facilities provide sufficient financing for its intended future business activities, capital investments, and for meeting its liabilities towards its creditors, including banks and bondholders. The Group will continue monitoring the financial markets and may consider further refinancing parts of its debts to optimise its capital structure and benefit from potentially favourable market conditions. The Group will continue focusing on increasing the efficiency and high levels of staff loyalty of the workforce in its subsidiaries through local training, personal development and performance management programmes. The Group will continue investing substantial amounts into the development of more efficient internal systems to further increase the time spent by its employees on value added activities, especially in customer-facing positions. The Group will also remain focused on sharing its best practices in retail and operations, procurement, technology transformation, management and the structuring of its subsidiaries, to create synergies and efficiencies to be reinvested in telecommunications infrastructure, licences, products and services that will sustain its leading market position.

Organisational structure, management and staff development

The Parent company has no employees and therefore no organisational structure. All Group employees are employed by the subsidiaries of PPF Telecom Group B.V.

Senior Management

The senior management of the Group without the O2 Group (the “Senior Management”) consists of the chief executive officer, the chief technology officer, the chief commercial officer and the chief executive officers of the Group’s main operating subsidiaries. O2 is not under theactive managerial control of the Group, has its own management, business and financial strategy and resources and the Group treats it as a financial investment only. the members of the Senior Management are employees of PPF Group or of a relevant subsidiary of the Parent company.

The following table sets forth the members of the Senior Management appointed as at 31 December 2019.

Name	Position	Commencement of Current Term of Office
Ladislav Bartoníček	Chief Executive Officer	1 January 2018
Tomáš Budník	Chief Technology Officer	15 May 2018
Marek Sláčík	Chief Commercial Officer	1 July 2018
Jan Kadaník	Head of Strategy, M&A and Finance	1 September 2019
Juraj Šedivý	Chief Executive Officer of CETIN	1 January 2019
Jan Hanuš	Chief Executive Officer of Telenor Hungary	1 August 2018
Jason King	Chief Executive Officer of Telenor Bulgaria	1 September 2018
Mike Michel	Chief Executive Officer of Telenor Serbia	8 October 2018
Branko Mitrovic	Chief Executive Officer of Telenor Montenegro	1July 2019

Staff development

The average number of employees during 2019 reached 12,194, increasing by 1.4% compared to 2018, mainly due to CETIN's insourcing some of its key network construction capabilities to decrease the dependence of its network modernisation programme on external parties.

Social aspects of operating the business

The Parent company has no operations. Operations are conducted by the subsidiaries of PPF Telecom Group B.V. The subsidiaries have their own social policies that are reflective of specific local regulatory requirements and of specific local challenges and opportunities to contribute to larger society.

In general, as a telecommunications operator, the Group impacts on society in a positive way by connecting people at a level previously not possible, offering uninterrupted mobile voice and data connections anytime and in almost any location, providing means of communication, increased security, convenience, education and entertainment to ever larger groups of the population. This enables software and solutions developers to invent and deliver still new solutions that are profoundly changing the way of life for individuals and the way of doing business for companies and entrepreneurs. These new solutions often call for new advances in telecommunications and the two industries operate in a virtuous cycle, driving further innovations and growth of the telecommunications business.

Society has concerns about telecommunications that mainly focus on privacy and security. Each operating segment of the Group is continuously working on improving the privacy of its customers' data and increasing the resilience of the network against cyber-attacks and cyber frauds. The operating segments are also working with the respective national law enforcement authorities on issues that focus on the safety of individuals and of the public from crime and terrorism.

The Group is contributing to these efforts by enabling the transfers of best practices across its segments.

The Group segments operate within the national and international supply chains for telecommunications equipment, software, and network construction materials. The Group pays close attention to the selection of its suppliers, choosing them from the world's most reputable providers, and requiring certificates of quality and compliance of the products with all standards and regulations relevant to the import and operation of these products.

Environmental influence and research and development

The Group is aware of the importance of maintaining a healthy and undamaged environment for current and future generations. It has therefore incorporated a policy of limiting any negative environmental impacts resulting from its strategy and everyday activities. Targets leading to the lessening of any negative impacts on the environment in 2019 mainly focused on reducing energy consumption, fuel savings and replacing refrigerants in air-conditioning units, which will also lead to a reduction in the emission of greenhouse gases and other harmful substances into the air and to financial savings.

The Group dedicates ample resources to research and development activities, primarily in the area of telecommunications technology development and related IT systems.

Information supply and computerisation

The Group's IT applications and systems are decentralised by segments. Back office systems in use are mostly industry standard applications, mainly desktop office applications and ERP systems by SAP and Oracle, with certain levels of customisation. Telecommunications network management systems are mostly industry standard systems supplied by technology vendors. Customer-facing systems are mostly developed internally and tailored to specific local requirements, market conditions, regulation and commercial opportunities.

Code of conduct

PPF Group has implemented a Corporate Compliance programme which sets out the fundamental principles and rules of conduct for all employees in the Group and enables compliance checks and putting remedies in place when shortcomings are discovered, or objectionable or illegal conduct identified. An important part of the programme is the PPF Group Code of Ethics, dealing, among other topics, with the protection of human rights and the prevention of corrupt conduct in all Group activities. Internal guidelines entitled Corporate Compliance Internal Investigation further regulate how workers, managers and the governing and inspection bodies of the Group should proceed in case of suspicion, investigation and discovery of actions that are unethical or improper and/or contrary to legal regulations or the Code of Ethics of PPF Group.

Corporate governance and audit committee

The Parent Company has a two-tier management structure consisting of its management board (bestuur in Dutch) (the "Management Board"). The Management Board represents the Company Parent Company in all matters and is charged with its day-to-day business management. The Parent Company has no administrative, management or supervisory body other than the Management Board despite being established as two-tier under Dutch law as all members of the Management Board are executive.

Management Board

The Management Board is the Parent Company's statutory body, which directs its operations and acts on its behalf. The Parent Company's general meeting (the "General Meeting") elects the members of the Management Board for a term of office determined by the General Meeting at its sole discretion. Re-election of the members of the Management Board is permitted. Pursuant to the Parent Company's Articles of Association (*statuten* in Dutch) (the "Articles of Association"), the Management Board has at least one member. As at the date of these base listing particulars, all three members of the Management Board are executives.

All members of the Management Board are obliged to perform their tasks and duties related to the office in the best corporate interest of the Parent Company and the undertaking attached to it, as required under Dutch law. Pursuant to the Articles of Association, the members of the Management Board are authorised to solely and independently represent the Parent Company.

The following table sets forth the members of the Management Board appointed as at 31 December 2019:

Name	Position	Commencement of Current Term of Office
Jan Cornelis Jansen	Managing Director	16 October 2013
Lubomír Král	Managing Director	16 October 2013
Marcel Marinus van Santen	Managing Director	1 June 2015

The business address of all members of the Management Board is at Strawinskylaan 933, 1077XX Amsterdam, the Netherlands.

Composition of the Management Board

The size and composition of the Management Board and the combined experience and expertise of their members should reflect the best fit for the profile and strategy of the Company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in PPF Telecom Group B.V. currently having a Management Board in which all three members are male. In order to increase gender diversity on the Management Board, in accordance with Article 2:276, Section 2 of the Dutch Civil Code, PPF Telecom Group B.V. pays close attention to gender diversity in the process of recruiting and appointing new members of the Management Board. PPF Telecom Group B.V. will retain an active and open attitude as regards selecting female candidates.

Audit committee

An audit committee has been established at a higher level within the PPF Group (specifically at PPF Group N.V.) in compliance with all conditions of the Dutch transposition of Article 39 (3) (a) of Directive 2006/43/EC, as a result of which PPF Telecom Group B.V. as PPF Group N.V.'s subsidiary is entirely exempt from obligations in respect of an audit committee. Due to the application of the aforementioned exemption, the audit committee of PPF Group N.V. follows all obligatory responsibilities in relation to PPF Telecom Group B.V.

Risk management

The uncertainties and risks that the Group may be facing are continually identified by all segments and evaluated for their potential financial impacts and risk likelihood. Significant risks are periodically monitored, while preventive measures are applied to effectively limit the impact or likelihood of risks. The effectiveness of the measures is periodically reviewed by management.

Strategic uncertainties

The Group's main strategic uncertainties stem from potential changes in the market environment, including regulatory issues, new entrants, new technologies, and economic developments. The Group's key mitigants of these potential risks are geographical diversification and a dedicated team of accomplished industry professionals at the Group level, monitoring the developments in the individual segments in the global environment, making critical decisions about technology investments and marketing strategies in the segments to anticipate and avert or minimise the potential risks.

Operating risks

Operating risks in the segments primarily concern issues of network capacity and quality, business critical systems and cybersecurity. The Group's dedicated executive team plays an important role in further improving the resilience of the segments against operating risks by transferring best practices across the segments and by taking decisions on investment programmes and future developments of critical network and systems capabilities. All Group's subsidiaries comply with EU's General Data Protection Regulation and the derived national laws and regulations. In compliance with the GDPR requirements the Group's subsidiaries established rigorous security standards for storage, treatment and processing of personal data.

Financial risks

Financial risks mainly include the effects of changes in debt market prices, foreign currency exchange rates, and interest rates. The Group uses derivative financial instruments and/or non-derivative instruments to hedge potential exposures. At the operational level in the segments, the Group is also facing credit risk, arising from the provision of services to more than 17 million private and corporate customers, and liquidity risk, stemming from differences in the timing of operating, investing, and financing cash in- and outflows. Risk management is carried out by the treasury departments in the segments in accordance with policies issued at the Group level, where the executive management benefits from the insight into the best practices in the segments.

Credit risk

Under the Group's policy, all customers wishing to trade on credit terms are subjected to credit verification procedures. In addition, receivable balances are continuously monitored, together with the resulting non-significant Group's exposure to bad debts. Most of the risk in 2019 was related to trade receivables from retail customers, followed by the corporate sector, with 60% stemming from Czechia and another 30% from the Slovakia and Hungary segments.

For detailed information, see Note C.1 of the accompanying consolidated financial statements.

Liquidity risk

The object of the Group's liquidity risk management is to secure access to cash resources sufficient to meet all cash payment obligations as they fall due. The Group collects information from the 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 Group maintains access to a financing base via bank loans from various banks worldwide, to enhance financing flexibility, limit dependence on any one source of funds and lower the costs.

The Group particularly focuses on its liquidity profile within the time horizon of the next 12-24 months, considering projected cash flow from operations and the maturity structure of both debt obligations and financial investments. Almost two thirds of the liquidity available to the Group is accessible within less than 3 months and most of the remainder within one year. Approximately 80% of the Group's debt is due in 1 to 5 years, however.

For detailed information, see Note C.2 of the accompanying consolidated financial statements.

Market risks

Fluctuations in interest rates or foreign exchange rates might affect the Group's income or the value of its holdings of financial instruments.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risks arising from floating, interest-rate-bearing cash investments and some debt instruments with a floating interest rate. Interest rate sensitivity analyses showed that the impact of a yield-curve movement by a hypothetical one percentage point on the Group's equity would be immaterial.

The Group is exposed to currency risk through transactions in foreign currencies, and 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 towards the countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Hungarian forints and Bulgarian levs. 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 and are presented as part of a translation reserve in other comprehensive income. Net investments in foreign operations are not hedged.

Since the acquisition of the Telenor businesses, the Group has been hedging cash flows arising from long-term debt denominated in EUR and CZK and entered into at the Parent Company level. The debt carries floating interest rates and the hedge is designed to prevent the variability of interest payments due to market factors. In addition, the Group started to hedge its foreign currency risk exposure resulting from expected dividend inflows denominated in HUF. The hedging instruments used are a combination of several interest rate swaps denominated in EUR and CZK as well as several EUR/HUF cross currency swaps and foreign exchange forward contracts. Cash flows from the hedging instruments are scheduled in regular intervals from February 2020 to July 2024 to match the contractual interest payments and expected dividend receipts. The Group does not apply hedge accounting for these hedge instruments.

O2 has been hedging cash flows arising from long-term debt denominated in CZK with a floating interest rate to hedge interest rate risk. The used hedging instrument is a combination of several interest rate swaps denominated in CZK. Hedged cash flows are the expected monthly payments from September 2017 to November 2020. The Group applies hedge accounting for these hedge instruments.

CETIN uses cross currency swaps to hedge cash flows arising from debt securities denominated in EUR (annual interest payments and repayment of nominal at maturity of the debt security) and foreign exchange contracts to hedge cash flows arising from short-term operational needs. The Group applies hedge accounting for these hedge instruments.

For detailed information, see Note C.3 of the accompanying consolidated financial statements.

Events after the reporting period

In January 2020, the Group completed a MEUR 100 tap issue of the existing 5-year MEUR 500 Eurobond issued in November 2019, using the proceeds to further refinance its existing secured loans.

Mr Roman Staněk was appointed the Group's Chief Technology Officer effective from 15 February 2020, replacing Mr Tomáš Budník.

Effective 24 February 2020, the Group changed its name from PPF Arena 1 B.V. to PPF Telecom Group B.V.

2 March 2020

Board of Directors:

Jan Cornelis Jansen *Director*	Lubomír Král *Director*

Marcel Marinus van Santen
Director

PPF Telecom Group B.V.

(formerly PPF Arena 1 B.V.)

Consolidated financial statements for the year ended 31 December 2019

Contents

Glossary

CAPEX	- capital expenditures
CEE	- Central and Eastern Europe
CGU	- cash generating unit
EBIT	- earnings before interest and taxes
EBITDA	- earnings before interest, tax, depreciation and amortisation
FVTPL	- fair value through profit or loss
FVOCI	- fair value through other comprehensive income
NCI	- non-controlling interests
OCI	- other comprehensive income
PPE	- property, plant and equipment
ROU	- right-of-use asset

Consolidated income statement and other comprehensive income

For the year ended 31 December

In millions of EUR

	Note	2019	2018
Revenue	E1	3,162	2,415
Other income from non-telecommunication services	E2	8	9
Operating expenses	E3	(1,776)	(1,485)
Net gain from sale of investments in subsidiaries		3	1
Earnings before impairment loss, interest, tax, depreciation and amortisation (EBITDA)		**1,397**	**940**
Depreciation and amortisation	E.4	(690)	(469)
Amortisation of costs to obtain contracts	E1.3	(46)	(28)
Impairment loss on PPE and intangible assets		(7)	(8)
Operating profit (EBIT)		**654**	**435**
Finance income	E5	18	5
Finance costs	E5	(188)	(122)
Profit for the period before tax		**484**	**318**
Income tax expense	E6.1	(112)	(85)
Profit for the period		**372**	**233**
Other comprehensive income			
Currency translation differences*		(1)	(17)
Cash flow hedge – effective portion of changes in fair value*		(11)	12
Cash flow hedge - net amount transferred to the income statement*		7	(3)
Valuation gains/(losses) on FVOCI equity instruments		-	(1)
Income tax related to components of OCI*		1	(2)
Other comprehensive income, net of tax		**(4)**	**(11)**
Total comprehensive income for the period		**368**	**222**
Profit attributable to:			
Equity holders of the Parent		305	170
Non-controlling interests		67	63
Profit for the period		**372**	**233**
Total comprehensive income attributable to:			
Equity holders of the Parent		303	162
Non-controlling interests		65	60
Total comprehensive income for the period		**368**	**222**

*Items that are or may be reclassified to the income statement.

Consolidated statement of financial position

In millions of EUR

	Note	31 December 2019	31 December 2018
ASSETS			
Property, plant and equipment	E7	2,555	2,552
Intangible assets	E8.2	1,810	2,012
Goodwill	E8.1	1,603	1,609
Right-of-use assets	E20	523	-
Equity-accounted investees		1	1
Other financial assets	E9	14	8
Trade and other receivables	E9.3	52	59
Contract assets	E9.4	18	30
Cost to obtain contracts	E1.3	41	31
Deferred tax assets	E6.2	5	3
Other assets	E10	21	19
Non-current assets		**6,643**	**6,324**
Other financial assets	E9	6	180
Trade and other receivables	E9.3	571	575
Contract assets	E9.4	63	50
Cost to obtain contracts	E1.3	12	17
Inventories	E11	76	73
Current income tax receivables		5	6
Cash and cash equivalents	E12	795	262
Other assets	E10	44	50
Current assets		**1,572**	**1,213**
TOTAL ASSETS		**8,215**	**7,537**
LIABILITIES			
Due to banks	E13	1,867	3,015
Debt securities issued	E14	1,855	812
Financial liabilities at fair value through profit or loss	E9.1	72	53
Deferred tax liabilities	E6.2	407	425
Lease liabilities	E20	448	-
Trade and other payables	E15	25	40
Contract liabilities	E9.4	61	58
Provisions	E16	48	40
Non-current liabilities		**4,783**	**4,443**
Due to banks	E13	272	130
Debt securities issued	E14	14	-
Current income tax liability		8	11
Lease liabilities	E20	78	-
Trade and other payables	E15	737	745
Contract liabilities	E9.4	47	32
Provisions	E16	15	13
Current liabilities		**1,171**	**931**
TOTAL LIABILITIES		**5,954**	**5,374**
Issued capital*	E17	-	-
Share premium	E17	1,417	1,341
Other reserves	E18	14	100
Retained earnings		285	394
Total equity attributable to equity holders of the Parent		1,716	1,835
Non-controlling interests	E19	545	328
Total equity		**2,261**	**2,163**
TOTAL LIABILITIES AND EQUITY		**8,215**	**7,537**

*Issued capital is TEUR 1.

Consolidated statement of changes in equity

In millions of EUR

	Issued capital*	Share premium	Legal and statutory reserves	Translation reserve	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to NCI	Total
Balance as at 1 January 2019	**-**	**1,341**	**6**	**75**	**19**	**394**	**1,835**	**328**	**2,163**
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	-	-	**-**
Effect of change in functional currency (refer to A.6.)	-	76	-	(84)	-	8	-	-	**-**
Adjusted balance as at 1 January 2019	**-**	**1,417**	**6**	**(9)**	**19**	**402**	**1,835**	**328**	**2,163**
Profit for the period	-	-	-	-	-	305	305	67	372
Currency translation differences	-	-	-	-	-	-	-	(1)	(1)
Effect of hedge accounting	-	-	-	-	(10)	-	(10)	(1)	(11)
Net change in fair value of CF hedges transferred to the income statement	-	-	-	-	7	-	7	-	7
Tax on items taken directly to or transferred from equity	-	-	-	-	1	-	1	-	1
Total comprehensive income	**-**	**-**	**-**	**-**	**(2)**	**305**	**303**	**65**	**368**
Dividends paid to shareholders	-	-	-	-	-	(480)	(480)	-	(480)
Dividends to NCI	-	-	-	-	-	-	-	(76)	(76)
Sale of NCI	-	-	-	-	-	61	61	243	304
Other changes in NCI	-	-	-	-	-	(3)	(3)	(2)	(5)
Distribution paid to NCI	-	-	-	-	-	-	-	(13)	(13)
Total transactions with owners of the Parent	**-**	**-**	**-**	**-**	**-**	**(422)**	**(422)**	**152**	**(270)**
Balance as at 31 December 2019	**-**	**1,417**	**6**	**(9)**	**17**	**285**	**1,716**	**545**	**2,261**

*Issued capital is TEUR 1.

In millions of EUR

	Issued capital*	Share premium	Legal and statutory reserves	Translation reserve	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to NCI	Total
Balance as at 1 January 2018	**-**	**1,138**	**6**	**86**	**13**	**216**	**1,459**	**306**	**1,765**
Adjustment on initial application of IFRS 15 and IFRS 9 (net of tax)	-	-	-	-	-	18	18	7	**25**
Adjusted balance as at 1 January 2018	**-**	**1,138**	**6**	**86**	**13**	**234**	**1,477**	**313**	**1,790**
Profit for the period	-	-	-	-	-	170	170	63	233
Currency translation differences	-	-	-	(13)	-	-	(13)	(4)	(17)
FVOCI revaluation losses transferred directly to retained earnings	-	-	-	-	-	(1)	(1)	-	(1)
Effect of hedge accounting	-	-	-	-	11	-	11	1	12
Net change in fair value of CF hedges transferred to the income statement	-	-	-	-	(3)	-	(3)	-	(3)
Tax on items taken directly to or transferred from equity	-	-	-	-	(2)	-	(2)	-	(2)
Total comprehensive income	**-**	**-**	**-**	**(13)**	**6**	**169**	**162**	**60**	**222**
Dividends paid to shareholders	-	-	-	-	-	(135)	(135)	-	(135)
Dividends to NCI	-	-	-	-	-	-	-	(75)	(75)
Net increase of share premium	-	203	-	-	-	-	203	-	203
Distributions paid to NCI	-	-	-	-	-	-	-	(15)	(15)
Other changes in NCI (ref. to B.2.2)	-	-	-	2	-	126	128	45	173
Total transactions with owners of the Parent	**-**	**203**	**-**	**2**	**-**	**(9)**	**196**	**(45)**	**151**
Balance as at 31 December 2018	**-**	**1,341**	**6**	**75**	**19**	**394**	**1,835**	**328**	**2,163**

*Issued capital is TEUR 1.

Consolidated statement of cash flows

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

In millions of EUR

	Note	2019	2018
Cash flows from operating activities			
Profit before tax		484	318
Adjustments for:			
Depreciation and amortisation		690	469
Amortisation of costs to obtain contracts		46	28
Impairment losses on current and non-current assets		27	23
Profit on sale of investment securities		1	(1)
Net finance costs	E5	128	60
Other non-cash adjustments		39	50
Foreign exchange (gains)/losses (net)	E5	(15)	2
Net operating cash flow before changes in working capital		**1,400**	**949**
Interest received		13	5
Change in inventories		(3)	(7)
Change in receivables due from banks		(11)	18
Change in trade and other receivables		(6)	(40)
Change in contract assets		(1)	(7)
Change in other assets		3	(22)
Change in cost to obtain contracts		(51)	(32)
Change in trade and other payables		5	28
Change in provisions		9	(5)
Cash flows from operating activities		**1,358**	**887**
Income tax paid		(137)	(100)
Net cash from/(used in) operating activities		**1,221**	**787**
Cash flows from investing activities			
Purchase of PPE and intangible assets		(402)	(309)
Purchase of investment securities		-	(173)
Acquisition of subsidiaries and associates, net of cash acquired	B.2.2	(1)	(2,674)
Proceeds from disposals of PPE and intangible assets		8	15
Proceeds from investment securities		173	-
Proceeds from sale of subsidiaries to NCI	B.2.1	304	173
Acquisition of own shares		(5)	-
Net cash from/(used in) investing activities		**77**	**(2,968)**
Cash flows from financing activities			
Proceeds from the issue of share premium	E.21	-	406
Distribution of share premium	E.21	-	(203)
Proceeds from the issue of debt securities		501	-
Proceeds from loans due to banks		190	2,786
Repayment of loans due to banks		(697)	(449)
Net payments on settlement of derivatives		(22)	-
Interest paid		(78)	(53)
Cash payments for principal portion of lease liability		(89)	-
Dividends paid to shareholders		(480)	(135)
Dividends paid to NCI		(76)	(75)
Distributions to NCI		(13)	(15)
Cash flow from/(used in) financing activities		**(764)**	**2,262**
Net increase/(decrease) in cash and cash equivalents		**534**	**81**
Cash and cash equivalents as at 1 January		**262**	**182**
Effect of exchange rate changes on cash and cash equivalents		(1)	(1)
Cash and cash equivalents as at 31 December		**795**	**262**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Telecom Group B.V. (the "Parent Company" or the "Parent"), renamed from PPF Arena 1 B.V. on 24 February 2020, is a limited liability company incorporated in the Netherlands since 16 October 2013. On 2 January 2018, PPF Group N.V. ("PPF Group") contributed its 100% share in the Parent Company to PPF TMT Holdco 1 B.V. At the same date, PPF TMT Holdco 1 B.V. contributed the shares of PPF Arena 1 B.V. to PPF TMT Holdco 2 B.V., making it a direct shareholder of the Parent Company. PPF Group N.V. remains the ultimate parent of the Parent Company, and Mr Petr Kellner is the ultimate controlling party.

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

The Parent is the holder of several significant investments: O2 Czech Republic group, a telecommunication operator providing a range of mobile, fixed voice and data services in the Czech Republic and mobile voice and data services in Slovakia; Česká telekomunikační infrastruktura a.s. ("CETIN"), the largest Czech owner and provider of mobile and fixed telco infrastructures; and Telenor CEE group, a mobile telecommunication operator providing services in Hungary, Bulgaria, Serbia and Montenegro. Shares of O2 Czech Republic are traded on the Prague Stock Exchange.

The consolidated financial statements of the Parent Company for the year ended 31 December 2019 comprise the Parent Company and its subsidiaries (together, the "Group") and the Group's interests in associates, joint ventures and affiliated entities. Refer to Section B of these consolidated financial statements for a list of significant Group entities and changes to the Group in 2019 and 2018.

A.2. Statement of compliance

The consolidated financial statements were approved by the Board of Directors on 2 March 2020.

These consolidated financial statements have been prepared in accordance with 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 unconsolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with IFRSs, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

A.3. Basis of measurement

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 purchase is recognised in profit or loss immediately (refer to F.1.11.1). 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) and its subsequent impairment testing (refer to E.8);
- useful life of tangible and intangible fixed assets
- provisions recognised under liabilities (refer to E.16);

- impairment of trade receivables and contract assets (refer to E.9);
- commissions as costs to obtain contracts with customers (refer to E.9.4);
- stand-alone selling prices;
- lease-term for the lessee accounting whether the Group is reasonably certain to exercise extension options (refer to E.20).

Useful life of fixed assets

The accounting treatment of fixed assets entails the use of estimates to determine the useful life for depreciation and amortisation purposes. Determining useful life of software, telecommunication technologies and equipment requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgement involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict. The set useful asset life is reviewed and revised at each balance sheet date and it is adjusted as a change in accounting estimate if needed.

Provisions and contingent liabilities

As set out in section E.22, the Group is a participant in several lawsuits and administrative proceedings, including those related to its pricing policies. For every litigation and administrative proceeding, it is necessary to estimate the occurrence probability of the liability, its amount and the moment of its occurrence. Provisions are recognised only when it is probable that the Group will be forced to pay a present obligation in future and it is possible to reliably estimate its amount. Contingent liabilities are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Impairment of trade receivables and contract assets

Trade receivables are carried at their original amount less a bad debt allowance. The bad debt allowance is estimated according to historical experience and expected future development; and individual assessment.

Commission as costs to obtain contracts with customers

For the capitalised costs to obtain contracts, the amortisation period was determined as the expected average period over which the customer will continue to use the Group's services. This amortisation period was further specified according to the customer segments of the Group that include resident customers, entrepreneurs and medium and large corporate clients.

Throughout the amortisation period, the actual values are subject to periodic review and reassessment against the developments of business activities, trends in the telecommunications sector, and the structure of business channels.

Stand-alone selling prices

In accordance with the requirements of IFRS 15, the transaction price is allocated to separate performance obligations based on the proportional stand-alone selling prices of the products and services provided. A stand-alone selling price is the price at which the Group sells a promised product or service to its customers in a stand-alone transaction. In most cases, the Group considers the prices shown in its price list to be the stand-alone selling prices.

A.5. Basis of consolidation

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

Associates are entities in which the Group has significant influence but not control over financial and operating policies. Jointly controlled entities are entities over whose activities the Group has joint control established by a 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 the 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, unrealised gains and losses, and dividends are eliminated in the preparation of the consolidated financial statements.

A.6. Presentation and functional currency

The consolidated financial statements are presented in euros (EUR), the Group's reporting currency, rounded to the nearest million. Since 1 January 2019 the functional currency of the Parent was changed from CZK to EUR as a consequence of Telenor transaction in 2018. The Telenor transaction brought changes in the relations in currencies by which the Parent is financed and under which it is operating from CZK to EUR. This change resulted in recalculation of share premium, retained earnings and translation reserve with no impact on the total equity. The difference is caused by recalculation of share premium and retained earnings of the Parent using spot rate as at 31 December 2018 whereas previously the amounts were retranslated using historical FX rates.

The functional currency of O2 Czech Republic and CETIN is CZK. The functional currencies of the Telenor CEE operations correspond to the country of origin: HUF for Hungary, BGN for Bulgaria, RSD for Serbia and EUR for Montenegro.

A.7. Change in presentation of receivable portfolio provided to Serbian client for accessories

In 2018, the Group recognised the receivable portfolio provided to Telenor Serbia customers by Mobi Banka (formerly "Telenor Banka" – a related party since February 2019) for financing handsets purchases. In 2019, the Group ceased to present the receivable portfolio due to the fact that Telenor Serbia customers and Mobi Banka have loan agreements, hence the portfolio itself recognized by Mobi Banka and Telenor Serbia is acting only as a guarantor. As a consequence, the Group recognises only the deposit placed at Mobi Banka as a collateral whereas the portfolio itself is recognized by Mobi Banka. The comparative period 2018 was restated accordingly, the trade and other receivables decreased by MEUR 35, liabilities due to banks decreased by MEUR 29 and other financial assets increased by MEUR 6.

B. The consolidated group and main changes for the period

B.1. Group entities

The following list only shows the significant holding and operating entities that are subsidiaries of the Parent Company as at 31 December 2019 and 31 December 2018.

Company	Domicile	Effective proportion of ownership interest	
		31 Dec. 2019	31 Dec. 2018
PPF Telecom Group B.V. *(formerly PPF Arena 1 B.V.)*	Netherlands	Parent	Parent
CETIN Finance B.V.	Netherlands	89.73%	89.73%
Česká telekomunikační infrastruktura a.s. ("CETIN")	Czech Republic	89.73%	89.73%
O2 Czech Republic a.s.*	Czech Republic	67.83%	67.69%
O2 IT Services s.r.o.	Czech Republic	67.83%	67.69%
O2 Slovakia, s.r.o.	Slovakia	67.83%	67.69%
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%	100.00%
Telenor Bulgaria EAD	Bulgaria	100.00%	100.00%
Telenor Common Operation Zrt.	Hungary	100.00%	100.00%
Telenor d.o.o. Beograd	Serbia	100.00%	100.00%
Telenor d.o.o. Podgorica	Montenegro	100.00%	100.00%
TMT Hungary B.V. **	Netherland	75.00%	-
Telenor Magyarország Zrt.	Hungary	75.00%	100.00%
Telenor Real Estate Hungary Zrt.	Hungary	75.00%	100.00%

*As at 31 December 2019, due to the existence of treasury shares held by O2 Czech Republic a.s., the direct stake in the registered capital of this company is 65.79% (2018: 65.79%).
**founded in September 2019

As at 31 December 2019 and 2018, PPF Group N.V. holds a 100% stake in CETIN and an 83.57% effective stake in O2 Czech Republic a.s.

B.2. Significant changes in the Group structure in 2019 and 2018

B.2.1. Sale of 25% shareholding in Telenor Hungary

In October 2019, the Group sold a 25% share in TMT Hungary B.V. to a third party, which resulted in the decrease of the Group's effective ownership in TMT Hungary B.V. from 100% to 75%. TMT Hungary B.V. was founded in September 2019 as a new holding company for the Group's businesses in Hungary – Telenor Magyarország Zrt. and Telenor Real Estate Hungary Zrt.

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

In millions of EUR

Total net consideration	303
Net effective ownership in Telenor Hungary decreased	25%
Net asset value attributable to non-controlling interests sold	242
Effect recorded in equity attributable to equity holders of the Parent (gain)	61

B.2.2. Acquisition of Telenor's telecommunications assets in CEE countries (in 2018)

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:

In millions of EUR

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, 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 MEUR 741 and profit by MEUR 102.

The following table shows the determination of 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

Immediately after the closing of the transaction, the Group transferred the deferred purchase price to PPF TMT Holdco1 B.V., an indirect parent of PPF Telecom Group B.V. The consideration amounting to MEUR 400 was financed by a capital increase in the Parent Company.

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**
Property, plant and equipment	505
Intangible assets	1,082
Trade and other receivables	327
Contract assets	55
Inventories	31
Cash and cash equivalents	55
Other assets	29
Fair value of liabilities	**420**
Due to banks and other financial institutions	26
Deferred tax liabilities	97
Trade and other payables	257
Current income tax liability	7
Provisions	34
Fair value of identifiable net assets	**1,664**

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

B.2.3. Sale of O2 CR shares in 2018

In March 2018, the Group sold a 5% stake in O2 CR to an affiliated company (exact share 4.9998%). Following the sale and considering treasury shares, the Group's effective share in O2 CR decreased to 67.69%.

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

In millions of EUR

Total net consideration received	173
Net effective ownership in O2 CR decreased	5.14%
Net asset value attributable to non-controlling interests sold	45
Effect recorded in equity attributable to equity holders of the Parent (gain)	128

B.2.4. Share buy-back programme in O2 CR

In 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. During the second half of 2019, O2 CR acquired an additional 0.6 million shares for MEUR 5.6, increasing the Group's effective share from 67.69% to 67.83%.

C. Risk exposures, risk management objectives and procedures

The Group is exposed to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates as a result of ordinary business, debt taken on to finance its business, and net investment in foreign operations. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the financial performance of the Group. The Group uses either derivative financial instruments or non-derivative instruments (such as cash instruments) to hedge certain exposures.

The Group does not conduct any speculative trading activities.

Risk management is carried out by the relevant treasury departments in accordance with approved policies. The Board of Directors provides written principles for overall risk management. In accordance with these principles, policies are in place for specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments, and investing excess liquidity.

C.1. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial asset fails to meet its contractual obligations, arising principally from the Group's trade receivables. Individual significant credit exposures to third parties are monitored by the Group's top management and Board of Directors on a case-by-case basis. Individual exposures are monitored and assessed, as is the Group's country and sector concentration.

Under the Group's policy, all customers wishing to trade on credit terms are subjected to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, together with the resulting non-significant Group's exposure to bad debts.

The maximal possible credit risk arising from receivables and other financial assets equals the carrying amount of those financial instruments.

Credit risk is managed by:

- 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

	31 December 2019	31 December 2019	31 December 2018	31 December 2018
Economic concentration				
Household/individuals	396	25.88%	381	32.75%
Corporate sector	299	19.54%	314	26.97%
Financial services	818	53.47%	277	23.79%
Public sector/Government	17	1.11%	192	16.49%
Total	**1,530**	**100.00%**	**1,164**	**100.00%**
Geographic concentration				
Czech Republic	933	60.98%	502	43.11%
Slovak Republic	126	8.24%	104	8.96%
Hungary	162	10.59%	227	19.50%
Serbia	104	6.80%	93	7.99%
Montenegro	26	1.70%	5	0.43%
Bulgaria	70	4.58%	108	9.28%
Other EU countries	78	5.10%	91	7.81%
Other	31	2.01%	34	2.92%
Total	**1,530**	**100.00%**	**1,164**	**100.00%**
Of which:				
Trade and other receivables (E.9.3)*	628	41.05%	634	54.47%
Contract assets (IFRS 15) (E.9.4)	81	5.29%	80	6.87%
Cash and cash equivalents (excl. cash on hand) (E.12)	794	51.90%	260	22.34%
Financial assets at FVTPL (E.9.1)	2	0.13%	176	15.12%
Receivables due from banks (E.9.2)	16	1.05%	6	0.51%
Guarantees provided (E.22.1)	9	0.58%	8	0.69%
Total	**1,530**	**100.00%**	**1,164**	**100.00%**

* including other 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 all collateral or security proved to be of no value. The amounts, therefore, greatly exceed the expected losses that are included in the allowance for uncollectibility. The table comprises off-balance sheet items (refer to E.22.2) and financial assets except for equity securities.

Trade and other receivables and contract assets

The Group generally uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables from individual customers, which comprise a large number of small balances. In industry segments, where trade receivables comprise small number of large balances, a specific allowance for impairment is used.

Loss rates are calculated using the roll rate method based on the probability of a receivable progressing through the 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 2019.

In millions of EUR, as at 31 December 2019

	Weighted-average loss rate	Gross amount	Loss allowance	Carrying amount	Credit-impaired
Current (not past due)	1.5%	599	(9)	590	No
1-90 days	3.8%	80	(3)	76	No
91-180 days	27.3%	22	(6)	17	No
more than 180 days past due	74.4%	81	(60)	21	Yes
Total	**-**	**782**	**(78)**	**704**	

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)	0.6%	565	(3)	562	No
1-90 days	1.5%	91	(1)	90	No
91-180 days	16.5%	19	(3)	16	No
more than 180 days past due	45.3%	84	(40)	46	Yes
Total	**-**	**759**	**(47)**	**714**	

Loss rates are based on actual credit loss experience 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, actual and forecasted unemployment rates.

C.2. Liquidity risk

The Group's essential objective of liquidity risk management is having access to cash resources sufficient to meet all its cash payment obligations as they fall due, allowing some flexibility. The cash resources consist of a generated cash position maintained in highly liquid instruments.

The Group 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, available management tools and preventive actions.

The Group particularly focuses on its liquidity profile within the time horizon of the next 12-24 months, considering projected cash flow from operations and the maturity structure of both debt obligations and financial investments.

The following tables show exposure to liquidity risk (discounted view):

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial assets at FVTPL	1	1	-	-	2
Receivables due from banks	4	-	12	-	16
Trade and other receivables*	488	83	57	-	628
Contract assets	-	63	18	-	81
Cash and cash equivalents	795	-	-	-	795
Total financial assets	**1,288**	**147**	**87**	**-**	**1,522**

* including other assets

In millions of EUR, as at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to banks	2	276	1,826	35	2,139
Debt securities issued	13	-	815	1,041	1,869
Financial liabilities at FVTPL	-	-	72	-	72
Trade and other payables*	441	129	22	1	593
Lease liabilities	21	57	279	169	526
Total financial liabilities	**477**	**462**	**3,014**	**1,246**	**5,199**

* excluding tax and other non-financial liabilities

Net liquidity position 2019	**811**	**(315)**	**(2,927)**	**(1,246)**	**(3,677)**

With adoption of IFRS 16 by the Group in 2019, lease liabilities balance increased significantly. For the impact of transition to IFRS 16 refer to F.2.1.

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 assets at FVTPL	-	174	2	-	176
Receivables due from banks	-	6	6	-	12
Trade and other receivables*	456	119	59	-	634
Contract assets	-	50	30	-	80
Cash and cash equivalents	262	-	-	-	262
Total financial assets	**718**	**349**	**97**	**-**	**1,164**

* including other assets

Financial assets at FVTPL in 2018 comprise of T-bills issued by the Czech National Bank that were fully redeemed on 2 January 2019.

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 banks	(2)	132	1,154	1,861	3,145
Debt securities issued	-	-	812	-	812
Financial liabilities at FVTPL	-	-	9	44	53
Trade and other payables*	431	128	37	1	597
Total financial liabilities	**429**	**260**	**2,012**	**1,906**	**4,607**

* excluding tax and other non-financial liabilities

Net liquidity position 2018	**289**	**89**	**(1,915)**	**(1,906)**	**(3,443)**

The following tables show the residual maturities of balance sheet and off-balance sheet liabilities on an undiscounted cash flow basis. Listed are only liability items 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 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to banks	10	304	1,923	37	2,274
Debt securities issued	32	9	943	1,086	2,070
Trade and other payables*	468	129	22	1	620
Lease liabilities	24	64	311	191	590
Provided payment guarantees	1	4	4	-	9
Total	**535**	**510**	**3,203**	**1,315**	**5,563**

*excluding tax and other non-financial liabilities

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 banks	17	215	1,470	1,893	3,595
Debt securities issued	-	11	839	-	850
Trade and other payables*	431	128	37	1	597
Provided payment guarantees	1	5	1	-	7
Total	**449**	**359**	**2,347**	**1,894**	**5,049**

* excluding tax and other non-financial liabilities

C.3. Market risk

Market risk is the risk that changes in market rates such as interest rates or foreign exchange rates 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.

C.3.1. Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Short- and long-term debt as well as cash assets can be maintained on both floating and fixed interest rates. The Group may sometimes use interest rate swaps, forward rate agreements and option-based products to manage a desired mix of fixed and variable interest rates.

The Group's objective in managing its exposure to interest rate fluctuations is to minimise reported earnings and cash flow volatility associated with interest rate changes.

The Group is exposed to interest rate risk arising from floating, interest-rate-bearing cash investments and some debt instruments with a floating interest rate. Taking into account the derivative hedging instruments, an interest rate sensitivity analysis showed that the impact of a yield-curve movement by a hypothetical one percentage point on the Group's equity would be immaterial.

The tables below summarise the interest rate repricing gap of the Group's financial assets and liabilities as 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:

In millions of EUR, as at 31 December 2019

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Receivables due from banks	-	4	-	12	-	16
Trade and other receivables*	0.04%	488	83	57	-	628
Contract assets	-	-	63	18	-	81
Cash and cash equivalents	-	795	-	-	-	795
Total financial assets		**1,287**	**146**	**87**	**-**	**1,520**

* including other assets

In millions of EUR, as at 31 December 2019

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to banks	2.1%	1,851	140	138	10	2,139
Debt securities issued	2.3%	13	-	815	1,041	1,869
Trade and other payables*	0.01%	441	129	22	1	593
Lease Liabilities	3.1%	21	57	279	169	526
Total financial liabilities		**2,326**	**326**	**1,254**	**1,221**	**5,127**

* excluding tax and other non-financial liabilities

Net position 2019		**(1,039)**	**(180)**	**(1,167)**	**(1,221)**	**(3,607)**

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 assets at FVTPL	0.2%	-	174	-	-	174
Receivables due from banks	-	-	6	6	-	12
Trade and other receivables*	-	456	119	59	-	634
Contract assets	-	-	50	30	-	80
Cash and cash equivalents	0.4%	262	-	-	-	262
Total financial assets		**718**	**349**	**95**		**1,162**

* including other 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
Due to banks	2.9%	2,986	51	19	89	3,145
Debt securities issued	1.5%	-	-	812	-	812
Trade and other payables*	0.2%	431	128	37	1	597
Total financial liabilities		**3,417**	**179**	**868**	**90**	**4,554**

* excluding tax and other non-financial liabilities

Net position 2018		**(2,699)**	**170**	**(773)**	**(90)**	**(3,392)**

C.3.2. Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and 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 countries in which the Group operates. Its exposures are measured mainly in Czech crowns, Hungarian forints and Bulgarian levs. 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 are presented as part of a translation reserve in other comprehensive income. 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 other than in local currency is excluded.

In millions of EUR, as at 31 December 2019

	EUR	CZK	HUF	BGN	RSD	Total
Net investment in foreign operation	(896)	1,820	976	620	777	3,297

In millions of EUR, as at 31 December 2018

	EUR	CZK	HUF	BGN	RSD	Total
Net investment in foreign operation	497	2,377	1,111	697	795	5,477

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' foreign currency largest exposures are for financial assets and financial liabilities, meaning the 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 2019

	EUR	HUF	CZK	USD	Other	Total
Financial assets	212	6	4	14	5	241
Financial liabilities	1,040	-	217	21	2	1,280
Effect of FX derivatives	55	(293)	-	-	-	(238)
Net FX position	**(773)**	**(287)**	**(213)**	**(7)**	**3**	**(1,277)**

In millions of EUR, as at 31 December 2018

	EUR	HUF	USD	Other	Total
Financial assets	113	-	14	9	136
Financial liabilities	3,106	-	23	4	3,133
Effect of FX derivatives	326	(396)	-	-	(70)
Net FX position	**(2,667)**	**(396)**	**(9)**	**5**	**(3,067)**

Since 2018, the Group hedges its foreign currency risk exposure resulting from expected dividend inflows denominated in HUF.

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 2019 and 2018 and a simplified scenario of a 5% change in CZK, HUF, BGN and RSD to EUR exchange rates:

In millions of EUR

	CZK	HUF	BGN	RSD
Effect of 5% currency depreciation against EUR in 2019	(80)	(34)	(31)	(39)
Effect of 5% currency appreciation against EUR in 2019	80	34	31	39
Effect of 5% currency depreciation against EUR in 2018	(119)	(36)	(35)	(40)
Effect of 5% currency appreciation against EUR in 2018	119	36	35	40

C.3.3. Hedging

Since the acquisition of the Telenor businesses the Group has been hedging cash flows arising from long-term debt denominated in EUR and CZK and entered into at the Parent Company level. The debt carries floating inter est rates and the hedge is designed to prevent the variability of interest payments due to market factors. In addition, the Group has been hedging its foreign currency risk exposure resulting from expected dividend inflows denominated in HUF. The hedging instruments used are a combination of several interest rate swaps denominated in EUR and CZK as well as several EUR/HUF cross currency swaps and foreign exchange swap contracts. Cash flows from the hedging instruments are scheduled in regular intervals from February 2020 to July 2024 to match the contractual interest payments and expected dividend receipts. The Group does not apply hedge accounting for these hedge instruments.

The O2 CR subgroup has been hedging cash flows arising from long-term debt denominated in CZK with a floating interest rate to hedge interest rate risk. The used hedging instrument is a combination of several interest rate swaps denominated in CZK. Hedged cash flows are the expected monthly payments from September 2017 to November 2020. The Group applies hedge accounting for these hedge instruments.

The CETIN subgroup uses cross currency swaps to hedge cash flows arising from debt securities denominated in EUR (annual interest payments and repayment of nominal at maturity of the debt security) and foreign exchange contracts to hedge cash flows arising from the short term operational needs of the company. The Group applies hedge accounting for these hedge instruments.

In 2019 and 2018, the cash flow hedges of O2 CR and CETIN were effective and no ineffectiveness was recognised in profit or loss.

The Group's objective is to maintain an appropriate mix of debt with fixed and floating interest rates in line with the risk management concept.

C.4. Fair value of financial assets and liabilities

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques using inputs that have a significant effect on the recorded fair value and are not based on observable market data.

The fair value of derivative financial instruments is calculated based on discounted cash flow models (using market rates). The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of its fair value, since financial assets and liabilities are composed mainly of current trade receivables and payables, cash and cash equivalents and borrowings with a variable interest rate.

The fair value was calculated based on contractual cash flows discounted using a current yield rate. It is classified as Level 3 fair value in the fair value hierarchy due to the inclusion of unobservable inputs such as own credit risk.

The fair values of the following financial instruments differ from their carrying amounts shown in the consolidated statement of financial position, either in 2019 or 2018:

In millions of EUR

	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Due to banks (Level 2,3)	(2,139)	(2,133)	(3,145)	(3,139)
Debt securities issued (Level 2)	(1,869)	(1,879)	(812)	(818)

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 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	-	1	1	2
Financial assets at FVOCI	-	-	2	2
Financial liabilities at FVTPL	-	(72)	-	(72)
Total	**-**	**(71)**	**3**	**(68)**

In millions of EUR, as at 31 December 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	-	175	1	176
Financial liabilities at FVTPL	-	(53)	-	(53)
Total	**-**	**122**	1	**123**

C.5. Capital management

For the purpose of the Group's capital management, capital includes issued share capital, share premium and all other equity reserves attributable to the equity holders of the Parent. The primary objective of the Group's capital management is to maximise the shareholder value while maintaining investor, creditor and market confidence and being able to sustain the future development of the business.

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. Further, the PPF Facilities Agreement also contains financial covenants involving the regular testing of:

- proportionate leverage calculated as proportionate net debt to proportionate EBITDA of the relevant part of the Group, which for any relevant period ending on or after 31 December 2018 may not exceed: (i) 4.50:1 for the group consisting of all material Group entities, (ii) 2.50:1, subject to adjustments from time to time, for the group consisting primarily of the O2 Group and CETIN (iii) 1.00:1 for the group consisting of the Telenor CEE Group and future target entities.
- the interest cover calculated as cash upstreamed to the issuer by its subsidiaries to net finance charges of the Issuer, which may not be less than 2.50:1 in respect of the financial years ending on 31 December 2018 and 2019 and less than 3.00:1 thereafter. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group is not subject to any externally imposed regulatory capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

D. Segment reporting

The Group recognises reportable segments that are defined in both geographical and sector terms. The Group's Board of Directors and shareholder (the Chief Operating Decision Maker) review the internal management reports of the individual segments on a regular basis.

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

Reportable segment	Operations	Geographic focus
CETIN	Wholesale telecommunication services (mobile, fixed and data services) to other telco operators and international transit	Czech Republic
O2 Czech Republic	Fixed and mobile telecommunication and data services	Czech Republic
O2 Slovak Republic	Mobile telecommunication and data services	Slovak Republic
Telenor Hungary *(since August 2018)*	Mobile telecommunication and data services	Hungary
Telenor Bulgaria *(since August 2018)*	Mobile telecommunication and data services	Bulgaria
Telenor Serbia & MNE *(since Aug.2018)*	Mobile telecommunication and data services	Serbia and Montenegro

The Telenor Serbia and Montenegro segment comprises two individual businesses units with a common management and business strategy.

The unallocated segment represents the operations of holding entities not directly attributable to the core segments and comprising mainly funding related to acquisitions.

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 segments. Significant non-cash expenses for the year ended 31 December 2019 and 2018 comprise mainly impairment losses on trade and other receivables, impairment losses on property, plant and equipment and impairment losses on other assets. Eliminations represent intercompany balances among individual reporting segments.

The total segment revenue contains the following categories that may be reconciled to the income statement as follows:

In millions of EUR, for the year ended 31 December

	2019	2018
Revenue	3,162	2,415
Other income from non-telecommunication operation	8	9
Total revenue from external customers	**3,170**	**2,424**

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

In millions of EUR

2019	CETIN	O2 Czech Republic	O2 Slovak Republic	Telenor Hungary	Telenor Bulgaria	Telenor Serbia & MNE	Unallocated segment	Eliminations	**Consolidated**
Revenue from external customers	344	1,210	293	524	379	417	3	-	3,170
Inter-segment revenue	409	26	5	3	5	13	31	(492)	-
Total revenue	**753**	**1,236**	**298**	**527**	**384**	**430**	**34**	**(492)**	**3,170**
Operating expenses	(420)	(865)	(180)	(319)	(204)	(246)	(28)	486	(1,776)
Net gain/loss from sale of investments in subsidiaries	-	3	-	-	-	-	-	-	3
EBITDA	**333**	**374**	**118**	**208**	**180**	**184**	**6**	**(6)**	**1,397**
Depreciation and amortisation	(175)	(191)	(58)	(113)	(77)	(85)	(2)	11	(690)
Amortisation of costs to obtain or fulfil a contract	-	(16)	(6)	(6)	(12)	(6)	-	-	(46)
Impairment loss	(2)	(1)	-	(2)	-	(2)	-	-	(7)
EBIT	**156**	**166**	**54**	**87**	**91**	**91**	**4**	**5**	**654**
Finance income	1	3	-	4	4	8	-	(2)	18
Finance expense	(18)	(15)	(4)	(7)	(9)	(7)	(132)	4	(188)
Profit for the period before tax	**139**	**154**	**50**	**84**	**86**	**92**	**(128)**	**7**	**484**
Income tax expense	(26)	(30)	(14)	(16)	(9)	(13)	(4)	-	(112)
Profit for the period	**113**	**124**	**36**	**68**	**77**	**79**	**(132)**	**7**	**372**
Capital expenditure	(161)	(57)	(38)	(62)	(28)	(46)	-	-	(392)
Other significant non-cash expenses	(4)	(6)	(4)	(4)	(2)	(7)	-	-	(27)
Segment assets	2,515	2,092	594	1,176	781	1,088	469	(500)	8,215
Segment liabilities	1,607	1,031	289	232	163	196	2,694	(258)	5,954
Segment equity	**908**	**1,061**	**305**	**944**	**618**	**892**	**(2,225)**	**(242)**	**2,261**

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**
Operating expenses	(484)	(874)	(191)	(145)	(95)	(113)	(18)	435	(1,485)
Net gain/loss from sale of investments in subsidiaries	-	1	-	-	-	-	-	-	1
EBITDA	**295**	**332**	**101**	**75**	**70**	**70**	**(3)**	**-**	**940**
Depreciation and amortisation	(143)	(156)	(46)	(47)	(36)	(41)	-	-	(469)
Amortisation of costs to obtain or fulfil a contract	-	(13)	(4)	(3)	(6)	(2)	-	-	(28)
Impairment loss	(7)	(1)	-	-	-	-	-	-	(8)
EBIT	**145**	**162**	**51**	**25**	**28**	**27**	**(3)**	**-**	**435**
Finance income	1	1	-	2	-	1	-	-	5
Finance expense	(16)	(7)	-	(1)	(1)	(3)	(94)	-	(122)
Profit for the period before tax	**130**	**156**	**51**	**26**	**27**	**25**	**(97)**	**-**	**318**
Income tax expense	(25)	(31)	(14)	(6)	(3)	(4)	(2)	-	(85)
Profit for the period	**105**	**125**	**37**	**20**	**24**	**21**	**(99)**	**-**	**233**
Capital expenditure	(158)	(129)	(43)	(10)	(7)	(17)	-	-	(364)
Other significant non-cash expenses	(8)	(7)	(3)	(2)	(1)	(2)	-	-	(23)
Segment assets	2,238	1,890	517	1,237	807	1,038	177	(367)	7,537
Segment liabilities	1,352	772	195	132	112	143	2,797	(129)	5,374
Segment equity	**886**	**1,118**	**322**	**1,105**	**695**	**895**	**(2,620)**	**(238)**	**2,163**

**Income statement and capital expenditure for Telenor Hungary, Telenor Bulgaria and Telenor Serbia &MNE presented since acquisition in July 2018 (refer to B.2.2.)*

E. Notes to the consolidated financial statements

E.1. Revenue

E.1.1. Revenue from telco business – major lines of business

Revenue from the telecommunication business comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Mobile originated revenue	2,350	1,610
Fixed originated revenue	423	409
International transit revenue	256	304
Other wholesale revenue	119	90
Other sales	14	2
Revenue from telecommunication business	**3,162**	**2,415**
out of which:		
Services/Products transferred over time	2,700	2,127
Services/Products transferred at a point in time	462	286

Other mobile and fixed originated revenue comprises hardware sales amounting to MEUR 401 (2018: MEUR 264).

For relevant information on contract assets and contract liabilities, please refer to E.9.4.

E.1.2. Revenue from telco business – geographical markets

The revenue from the telco business is geographically disaggregated per customer sites, as follows:

In millions of EUR, for the year ended 31 December

	2019	2018
Services/products transferred over time	2,700	2,127
Czech Republic	1,182	1,151
Slovakia	259	258
Germany	38	43
Switzerland	8	47
Hungary	434	178
Bulgaria	244	97
Serbia and Montenegro	303	145
Other	232	208
Services/products transferred at a point in time	462	286
Czech Republic	97	90
Slovakia	55	56
Hungary	85	38
Bulgaria	126	60
Serbia and Montenegro	89	42
Other	10	-

E.1.3. Incremental costs to obtain contracts

Capitalised incremental costs to obtain contracts 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 on 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 consumers, and separately for certain product types (ranging from 16 to 48 months).

In millions of EUR

	2019	2018
Balance as at 1 January	48	22
Additions through business combinations	-	22
Capitalised costs to obtain contracts	51	32
Amortisation of capitalised costs to obtain contracts	(46)	(28)
Balance as at 31 December	**53**	**48**

The Group regularly evaluates capitalised incremental costs to obtain contracts and assesses whether there is any indication of impairment. The assessment is based on the monitoring of two parameters – the statistical evolution of clawbacks, i.e. deductions for the additional change of contracted services or contractual penalties for the non-observance of performance indicators and, simultaneously, the monitoring of calculation corrections based on the revision of the period in which the customers use the individual segments of the Group. According to an assessment of these parameters, there was no impairment of the capitalised costs to obtain contracts as at 31 December 2019 or 31 December 2018.

E.2. Other income from non-telecommunication services

Other income comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Rental income	1	1
Other income	7	8
Total other income from non-telecommunication services	**8**	**9**

E.3. Operating expenses

Operating expenses comprise the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Supplies	645	592
Cost of telco and other devices sold (inventories)	397	254
Employee compensation	251	184
Payroll related taxes	75	64
Rental, maintenance and repair expense	78	141
Information technologies	68	65
Commissions	37	30
Advertising and marketing	43	35
Professional services	30	20
Telecommunication and postage	12	10
Taxes other than income tax	17	17
Net impairment losses on trade and other receivables	22	15
Restructuring charge	3	1
Other	98	57
Total operating expenses	**1,776**	**1,485**

E.4. Depreciation and amortisation

In millions of EUR, for the year ended 31 December

	2019	2018
Depreciation of property, plant and equipment	281	232
Depreciation of property, plant and equipment – ROU (IFRS 16)	91	-
Amortisation of intangible assets	318	237
Total depreciation and amortisation	**690**	**469**

E.5. Finance income and finance costs

Finance income comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Interest income	18	5
Total finance income	**18**	**5**

Finance costs comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Interest expenses	146	65
Net loss on financial derivatives	29	53
Fee and commission expense	3	2
Net foreign currency losses	10	2
Total finance costs	**188**	**122**

E.6. Income taxes

E.6.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2019	2018
Current tax expense	(136)	(95)
Deferred tax benefit	24	10
Total income tax expense	**(112)**	**(85)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2019	2018
Tax rate	25.0%	25.0%
Profit from continuing operations (before taxation)	484	316
Computed taxation using applicable tax rate	(121)	(79)
Tax non-deductible expenses	(23)	(13)
Non-taxable income	5	3
Tax rate differences on foreign results	56	20
Tax loss carry forward not recognised	(6)	(13)
Items taxed at a different tax rate (e.g. withholding tax)	(8)	(4)
Other	(15)	-
Total income tax expense	**(112)**	**(85)**

E.6.2. Deferred tax

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

In millions of EUR, for the year ended 31 December

	2019	2018
Net deferred tax liability as at 1 January	(422)	(330)
Deferred tax income for the period	24	10
Deferred tax recognised directly in equity	-	(7)
Additions from business combinations	-	(97)
Effects of movements in exchange rates	(4)	2
Net deferred tax liability as at 31 December	**(402)**	**(422)**

Recognised deferred tax assets and liabilities were as follows:

In millions of EUR

	31 Dec. 2019 Deferred tax liabilities	31 Dec. 2019 Deferred tax assets	31 Dec. 2018 Deferred tax liabilities	31 Dec. 2018 Deferred tax assets
Trade receivables	-	11	-	8
Inventories	-	1	-	1
Property, plant and equipment	(285)	-	(272)	-
Intangible assets	(137)	1	(159)	1
Contract assets	(9)	-	(9)	-
Other assets	(5)	3	(4)	4
Lease liabilities	-	9	-	-
Other liabilities	(2)	5	-	6
Provisions	-	7	-	5
Other temporary differences	(3)	5	(3)	4
Value of loss carry-forwards recognised	-	2	-	1
Value of cash flow hedge	(5)	-	(5)	-
Deferred tax assets/(liabilities)	**(446)**	**44**	**(452)**	**30**
Net deferred tax assets/(liabilities)	**(407)**	**5**	**(425)**	**3**

E.6.3. Tax losses

As at 31 December 2019, the Group incurred tax losses from recent years of MEUR 171 (2018: MEUR 144), 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 39 (2018: MEUR 33). The unutilised tax losses can be claimed in the period from 2020 to 2027 in the Netherlands, 2020 to 2024 in the Czech Republic, 2020 to 2022 in Slovakia, 2020 to 2025 in Hungary, and will expire as follows:

In millions of EUR

	31 December 2019	31 December 2018
2019 – 2021	15	16
2022	13	14
2023	4	4
2024	42	41
2025	50	27
2026	6	6
2027	41	36
Total	**171**	**144**

E.7. Property, plant and equipment

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

In millions of EUR

	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 2019	272	1,324	655	151	150	2,552
Additions	10	33	143	14	80	280
Disposal	-	-	(3)	(1)	(4)	(8)
Transfers	12	14	47	7	(80)	-
Depreciation charge	(17)	(70)	(165)	(29)	-	(281)
Impairment charge	-	-	-	(1)	(3)	(4)
Effects of movements in exchange rates	1	16	1	(2)	-	16
Balance as at 31 December 2019	**278**	**1,317**	**678**	**139**	**143**	**2,555**
Cost	390	1,773	1,213	227	146	3,749
Accumulated depreciation and impairment	(112)	(456)	(535)	(88)	(3)	(1,194)

In millions of EUR

	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 2018	238	1,355	319	38	127	2,077
Additions resulting from business combinations (refer to B.2.2)	37	-	323	110	35	505
Additions	13	31	82	16	82	224
Disposal	(1)	-	(1)	-	(1)	(3)
Transfers	11	15	59	7	(92)	-
Depreciation charge	(18)	(68)	(126)	(20)	-	(232)
Impairment charge	(5)	(2)	-	-	-	(7)
Effects of movements in exchange rates	(3)	(7)	(1)	-	(1)	(12)
Balance as at 31 December 2018	**272**	**1,324**	**655**	**151**	**150**	**2,552**
Cost	369	1,705	1,042	222	151	3,489
Accumulated depreciation and impairment	(97)	(381)	(387)	(71)	(1)	(937)

In both periods, the most significant additions of PPE relate to the construction and renovation of a telecommunication infrastructure in CETIN and the construction of a telecommunication network in O2 Slovakia.

E.8. Intangible assets and goodwill

Intangible assets comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Goodwill	1,603	1,609
Software	230	245
Licences	556	605
Valuable rights	47	68
Customer relationships	900	1,017
Other intangible assets	49	55
Construction in progress	28	22
Total intangible assets	**3,413**	**3,621**

Acquired licences represent the rights to operate cellular networks. The licences are technologically neutral. The Group uses the following standards for the operation of cellular networks in the Czech Republic, Slovakia, Hungary, Bulgaria, Serbia and Montenegro: GSM (Global System for Mobile Communication, second generation technology), UMTS (Universal Mobile Telecommunication System, third generation mobile cellular technology for networks), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

Valuable rights comprise a licence agreement to use the O2 brand in the Czech Republic and Slovakia initially until January 2019. In 2018, the Group extended the O2 brand license period until January 2022. The Group will be entitled to extend the O2 brand licence by another five years, i.e. until January 2027. As part of the 2018 acquisition, the Group acquired a licence agreement to use the Telenor brand in Hungary, Bulgaria, Serbia and Montenegro until April 2021.

Customer relationships are assets that ensure a long-term revenue streams from customers who have made commitments to purchase specific amounts of products or services.

Construction in progress represents acquired intangible fixed assets not put in use during the same reporting period. It comprises mainly software.

E.8.1. Goodwill

The following table shows the roll-forward of goodwill:

In millions of EUR, as at 31 December

	2019	2018
Balance as at 1 January	1,609	549
Additions from business combination	-	1,065
Impairment losses	-	(1)
Net exchange differences	(6)	(4)
Balance as at 31 December	**1,603**	**1,609**

Goodwill is allocated to individual CGUs as follows:

In millions of EUR, as at 31 December

	2019	2018
O2 CR – Czech operations	401	396
O2 CR – Slovak operations	40	40
CETIN	111	108
Telenor Hungary	421	435
Telenor Bulgaria	219	219
Telenor Serbia	369	369
Telenor Montenegro	42	42

Goodwill is tested annually for impairment. A reasonably possible change in the key assumptions on which the management has based its determination of the recoverable amounts would not result in O2 CR, CETIN, Telenor carrying amounts higher than their recoverable amounts.

<u>O2 CR</u>

The impairment test involves determining the recoverable amount of the consolidated entity, corresponding 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 in 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 2020 to 2022). Cash flows beyond the forecast period were extrapolated (for 2023 to 2026) 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 2019 will be subject to regular reassessments 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 2019. 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.

The 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: The enterprise value is divided by the proportion of the sub-units' EBITDAs, and the 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 in an enterprise valuation model and assessed from a group-internal perspective. Value in use is derived from the medium-term forecast for a period of five years (for 2020 to 2024), 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 2025 to 2026) 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 1.0% 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 analyses 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 2019 will be subject to regular reassessments 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 draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2019. Additionally, the EV/Sales multiple is considered as well.

TELENOR

Telenor's CEE businesses operate in four countries, identified as individual CGUs for the purposes of the impairment test. These operating businesses are in Hungary, Bulgaria, Serbia and Montenegro.

The impairment test involves determining the recoverable amounts of the above four cash-generating units, which correspond to their value in use. The value in use of a CGU is the present value of the future cash flows expected to be derived from each CGU.

Value in use is determined in an enterprise valuation model and assessed from the group-internal perspective. Value in use is derived from the most recent forecast for a period of five years (for 2020 to 2024), prepared by the management at the time of the impairment test. The forecast is based on past experience, as well as on future market trends. Further, the forecast considers 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 2025 to 2026) using appropriate growth rates based on general economic data derived from macroeconomic and financial studies.

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

Estimated growth rate in terminal value – forecasts of the market and regulatory environment in which the companies conduct their principal businesses, as well as the investment life cycle, are the basis for determining the value assigned to the estimated growth rate. A growth rate of 1.0% is used for Hungary and Bulgaria and growth rates of 1.5% and 2.5% are used for Serbia and Montenegro, respectively.

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 for each respective Telenor CGU. The resulting discount rates and their effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2019 will be subject to regular reassessments 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 draw on EV/EBITDA multiples based on market data as at the valuation date and the EBITDA of the peer public companies for 2019. Additionally, the EV/Sales multiple is considered as well.

E.8.2. Other intangible assets

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

In millions of EUR

	Software	Licences	Valuable rights	Customer relation-ships	Other intangible assets	Construction in progress	Total
Carrying amount							
Balance as at 1 January 2019	245	605	68	1,017	55	22	2,012
Additions resulting from business combinations	2	-	-	-	-	-	2
Additions	47	31	-	-	14	20	112
Disposal	(1)	-	-	-	-	-	(1)
Transfers	12	-	-	-	2	(14)	-
Amortisation charge	(78)	(80)	(21)	(115)	(24)	-	(318)
Effects of movements in exchange rates	3	-	-	(2)	2	-	3
Balance as at 31 December 2019	**230**	**556**	**47**	**900**	**49**	**28**	**1,810**
Cost	520	809	194	1,329	77	28	2,957
Accumulated amortisation and impairment losses	(290)	(253)	(147)	(429)	(28)	-	(1,147)

In millions of EUR

	Software	Licences	Valuable rights	Customer relation-ships	Other intangible assets	Construction in progress	Total
Carrying amount							
Balance as at 1 January 2018	132	345	73	407	4	84	1,045
Additions resulting from business combinations (refer to B.2.2)	55	313	18	692	1	3	1,082
Additions	64	-	-	-	61	15	140
Disposal	(6)	(6)	-	-	-	-	(12)
Transfers	67	8	-	-	2	(77)	-
Amortisation charge	(65)	(55)	(23)	(80)	(13)	(1)	(237)
Effects of movements in exchange rates	(2)	-	-	(2)	-	(2)	(6)
Balance as at 31 December 2018	**245**	**605**	**68**	**1,017**	**55**	**22**	**2,012**
Cost	453	785	193	1,326	67	22	2,846
Accumulated amortisation and impairment losses	(208)	(180)	(125)	(309)	(12)	-	(834)

E.9. Financial assets (excluding cash and cash equivalents)

Financial assets comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Financial assets at FVTPL	-	2
Financial assets at FVOCI	2	-
Receivables due from banks	12	6
Trade and other receivables	52	59
Contract assets	18	30
Non-current	**84**	**97**
Financial assets at FVTPL	2	174
Receivables due from banks	4	6
Trade and other receivables	571	575
Contract assets	63	50
Other financial assets	-	6
Current	**640**	**811**
Total financial assets	**724**	**908**

E.9.1. Financial assets/liabilities at fair value through profit or loss

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

In millions of EUR

	31 December 2019	31 December 2018
Hedging derivatives	1	2
Currency derivatives	1	-
Czech treasury bills	-	173
Corporate bonds	-	1
Financial assets at FVTPL	**2**	**176**

In 2018, treasury bills issued by the Czech National Bank amounting to MEUR 173 were redeemed in full on 2 January 2019.

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

In millions of EUR

	31 December 2019	31 December 2018
Currency derivatives	53	39
Interest rate derivatives	10	14
Hedging derivatives	9	-
Financial liabilities at FVTPL	**72**	**53**

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2019

	Notional amount	Positive fair values	Negative fair values
OTC products:			
Interest rate swaps	1,484	-	(10)
Total	**1,484**	**-**	**(10)**
OTC products:			
Forward exchange contracts	46	-	-
Currency/cross currency swaps	2,302	1	(53)
Total	**2,348**	**1**	**(53)**
Currency/cross currency swaps	568	-	(9)
Other	138	1	-
Total	**706**	**1**	**(9)**

In millions of EUR, as at 31 December 2018

	Notional amount	Positive fair values	Negative fair values
OTC products:			
Interest rate swaps	482	-	(14)
Total	**482**	**-**	**(14)**
OTC products:			
Forward exchange contracts	58	-	
Currency/cross currency swaps	2,298	-	(39)
Total	**2,356**	**-**	**(39)**
Currency/cross currency swaps	561	-	-
Other	97	2	-
Total	**658**	**2**	**-**

E.9.2. Receivables due from banks

Receivables due from banks comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Cash collateral for derivative instruments	12	6
Non-current	**12**	**6**
Loans to banks	4	6
Current	**4**	**6**
Total receivables due from banks	**16**	**12**

Cash collateral placed represents the one-sided collateral of the Group's derivative transactions. Cash collateral placed results from the Group's obligation to place cash collateral to the counterparty in a derivative transaction and for the period of the derivative transaction, where the amount of collateral is calculated from the nominal and fair value of the financial derivative. The amount of the placed collateral is regularly updated.

Loans to banks as at 31 December 2019 represent a loan to a related party that was collected in January 2020 (2018: MEUR 6).

E.9.3. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Trade receivables	57	74
Subtotal (gross) - non-current	**57**	**74**
Individual allowances for impairment on trade and other receivables	(5)	(15)
Subtotal (net) - non-current	**52**	**59**
Trade receivables	615	572
Accrued income	29	35
Subtotal (gross) - current	**644**	**607**
Individual allowances for impairment on trade and other receivables	(73)	(32)
Subtotal (net) - current	**571**	**575**
Carrying amount trade and other receivables - total	**623**	**634**

The Group provides mobile handsets and other telecommunication equipment to its customers on instalments (usually for 12-24 months, interest-free). In 2019, the Group entered into a transaction (issue of participation certificates by Telenor Bulgaria and Telenor Hungary) with PPF Co3 N.V., a fully owned subsidiary of PPF Banka a.s. (a subsidiary of PPF Group). Under this transaction, all risks and rewards related to these instalment receivables were transferred and derecognised from the Group's consolidated statement of financial position. For the Group, no recourse or other liability resulted from this transaction. The total nominal amount of the receivables derecognised amounted to MEUR 60 and the total proceeds received by the Group were MEUR 57.

The movements in the allowance for impairment in respect of trade and other receivables during the year were as follows:

In millions of EUR, for the year ended 31 December

	2019	2018
Balance as at 1 January	(47)	(34)
Additions resulting from business combinations	(1)	-
Impairment losses recognised in income statement	(26)	(15)
Amount related to receivable written off	-	4
Release of impairment losses on written off items	1	-
Effects of movements in exchange rates	(6)	(2)
Balance as at 31 December	**(79)**	**(47)**

E.9.4. Contract assets and 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

	31 December 2019	31 December 2018
Receivables, which are included in "trade and other receivables"	**95**	**81**
Contract assets	**81**	**80**
Non-current part	18	30
Current part	63	50
Contract liabilities	**(108)**	**(90)**
Non-current part	(61)	(58)
Current part	(47)	(32)

As at 31 December 2019, the ECL allowance for current contracts assets amounted to MEUR 1 (2018: nil).

Contract assets primarily relate to the Group's rights to consideration in exchange for goods or services that the Group has already transferred to customers and which it has 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.

A contract liability 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, which 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

	Contract assets	**Contract liabilities**
Balance as at 1 January 2019	80	(90)
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	28
Increases due to cash received, excluding amounts recognised as revenue during the period	-	(45)
Transfers from contract assets recognised at the beginning of the period to receivables	(54)	-
Increases as a result of changes in the measure of progress	56	-
FX differences from translation to presentation currency	(1)	(1)
Balance as at 31 December 2019	**81**	**(108)**

In millions of EUR

	Contract assets	Contract liabilities
Balance as at 1 January 2018	18	(76)
Additions resulting from business combinations	55	-
Revenue recognised that was included in the contract liability balance at the beginning of the period	-	24
Increases due to cash received, excluding amounts recognised as revenue during the period	-	(39)
Transfers from contract assets recognised at the beginning of the period to receivables	(25)	-
Increases as a result of changes in the measure of progress	33	-
FX differences from translation to presentation currency	(1)	1
Balance as at 31 December 2018	**80**	**(90)**

The transaction price allocated to the remaining performance obligations related to contracts with customers is as follows:

In millions of EUR

	31 December 2019	31 December 2018
Within 1 year	737	452
1-2 years	210	30
2-5 years	105	16
More than 5 years	53	41
Transaction price on performance obligations yet to be satisfied	**1,105**	**539**

E.10. Other assets

Other assets comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Deferred expenses and advances	16	16
Other assets	5	3
Non-current	**21**	**19**
Deferred expenses and advances	27	36
Other tax receivables	7	6
Other assets	10	8
Current	**44**	**50**
Total other assets	**65**	**69**

E.11. Inventories

Inventories comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Goods	81	78
Gross value of inventories	**81**	**78**
Balance as at 1 January	(5)	(4)
Impairment losses recognised in the income statement	-	(1)
Reversal of write-down	1	-
Other movements	(1)	-
Impairment losses on inventories	**(5)**	**(5)**
Net value of inventories	**76**	**73**

E.12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Current accounts	794	261
Cash on hand	1	1
Total cash and cash equivalents	**795**	**262**

E.13. Due to banks

Liabilities due to banks comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Secured loans (other than repo)	1,571	2,608
Unsecured loans	296	407
Non-current	**1,867**	**3,015**
Secured loans (other than repo)	-	129
Unsecured loans	272	1
Current	**272**	**130**
Total secured loans	**2,139**	**3,174**

In March 2018, the Parent Company entered into a facilities agreement with a syndicate of banks. In July 2018, under this agreement the Parent Company utilised secured term loan facilities amounting to MEUR 2,396 and MCZK 10,172. In Mach 2019, the secured term loan facilities were restructured and partially refinanced by a senior secured Eurobond issued by the Parent Company in the total amount of MEUR 550 (refer to E.14). The secured term loans were further refinanced in November 2019 by new senior secured Eurobonds issued by the Parent Company in the total amount of MEUR 500 (refer to E.14). As at 31 December 2019, the outstanding amounts of the secured term loan facilities were MEUR 1,349 and MCZK 6,139. The actual amount of outstanding secured loan liabilities stated in the above table is lower by unamortised facility and legal fees directly attributable to the origination of the loan facilities. These fees were capitalised and are amortised to finance costs using the effective interest rate method. As at 31 December 2019 and 31 December 2018, a committed revolving facility of MEUR 200 has not been utilised. For details on security of the facilities refer to E.22.3. As at 31 December 2019 and 31 December 2018, the Group complied with the financial covenants imposed by its loan facilities.

The following loans are EUR-denominated:

Repayable by	2023	2024
Margin rate over 3M EURIBOR	1.25% - 2.50%	1.25% - 3.00%
Actual respective margin levels applicable	1.25%	1.25%

The EUR loans were used to finance the acquisition of Telenor Group telecommunications assets in Central and Eastern Europe (refer to B.2.2.).

The following loans are CZK-denominated:

Repayable by	2023	2024
Margin rate over 3M PRIBOR	1.00% - 2.00%	1.00% - 2.50%
Actual respective margin levels applicable	1.00%	1.00%

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).

Unsecured loans comprise a long-term facility agreement with 5-year maturity (until 2020) and a credit limit of MEUR 470 (MCZK 12,000). The facility bears an interest rate of 1M PRIBOR + 0.6%. In 2019, there was no drawdown or repayment under the long-term loan agreement. As at 31 December 2019, the Group had utilised a total of MEUR 275 (MCZK 7,000) from the long-term facility agreement. In April 2019, the Group completed a placement of four tranches of promissory loan notes (Schuldschein), in total of MEUR 160 (MCZK 4,106) with maturity of 5 to 7 years. In 2018, six Schuldschein tranches were subscribed of MEUR 137 (comprising tranches of MCZK 2,970 and MEUR 20) with maturity of 5 to 7 years.

E.14. Debt securities issued

Debt securities issued compromise the following:

In millions of EUR

	Date of issue	Maturity	Fixed rate	31 December 2019	31 December 2018
Unsecured bond (MEUR 625)	2016	2021	1.42%	625	623
Unsecured bond (MCZK 4,866)	2016	2023	1.25%	190	189
Secured bond (MEUR 550)	2019	2026	3.13%	557	-
Secured bond (MEUR 500)	2019	2025	2.13%	497	-
Total debt securities issued				**1,869**	**812**

In March 2019, the Group established MEUR 3,000 Euro medium term note programme. At the same moment, the Group obtained corporate credit ratings Ba1 by Moody's, BB+ by Standard & Poor’s and BBB- by Fitch Ratings. Under this programme, on 27 March 2019, the Group issued a senior secured Eurobond in the aggregate nominal amount of MEUR 550. Under the programme, the Group further issued a senior secured Eurobond amounting to MEUR 500 on 12 November 2019. As at 31 December 2019, the unused capacity of the programme is

MEUR 1,950. Bonds proceeds (excluding expenses incurred in relation to issuance of the bonds) were used to repay the Group's secured loans.

E.15. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR

	31 December 2019	31 December 2018
Settlements with suppliers	22	37
Deferred income and prepayments	-	2
Advances received	2	1
Other liabilities	1	-
Non-current	**25**	**40**
Settlements with suppliers	523	499
Wages and salaries	32	33
Advances received	7	5
Social security and health insurance	14	13
Prepaid cards	1	16
Other tax payable	40	36
Accrued expense	92	105
Deferred income and prepayments	15	32
Other liabilities	13	6
Current	**737**	**745**
Total trade and other payables	**762**	**785**

E.16. Provisions

Provisions comprises the following:

In millions of EUR

	31 December 2019	31 December 2018
Fixed asset retirement obligation	42	34
Provision for litigations except for tax issues	5	5
Provision for restructuring	1	2
Other provisions	15	12
Total provisions	**63**	**53**

In millions of EUR

	Fixed asset retirement obligation	Provision for litigations except for tax issues	Provision for restructuring	Other	Total
Balance as at 1 January 2019	34	5	2	12	53
Provisions created during the year	12	2	-	8	22
Provisions used during the year	(2)	-	(1)	(4)	(7)
Provisions released during the year	(2)	(2)	-	(1)	(5)
Balance as at 31 December 2019	**42**	**5**	**1**	**15**	**63**
Non-current	**41**	**-**	**1**	**6**	**48**
Current	**1**	**5**	**-**	**9**	**15**

In millions of EUR

	Fixed asset retirement obligation	Provision for litigations except for tax issues	Provision for restructuring	Other	Total
Balance as at 1 January 2018	16	3	-	5	24
Additions resulting from business combinations	24	2	-	8	34
Provisions created during the year	1	1	2	6	10
Provisions used during the year	(2)	(1)	-	(7)	(10)
Provisions released during the year	(5)	-	-	-	(5)
Balance as at 31 December 2018	**34**	**5**	**2**	**12**	**53**
Non-current	**33**	**2**	**-**	**5**	**40**
Current	**1**	**3**	**2**	**7**	**13**

The Group recognised a provision for the estimated cost of dismantling and removing assets and restoring sites of MEUR 42 (2018: MEUR 34). 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 their present value. Discount rates are paired with the expected dates of any future dismantling and removing of assets.

The other provision consists of a provision for costs connected with the move out of the current office of CETIN amounting to MEUR 2 (2018: MEUR 3). This provision represents costs which will occur in connection with the sale of the office premises of the subsidiary. These costs are mainly removal costs and costs connected with the premature termination of some rental services. Other provisions include above all a provision for redundancy cost.

E.17. Issued capital, share premium and dividends

Issued capital is 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 shareholders' resolution.

	31 December 2019	31 December 2018
Number of shares authorised	1,000	1,000
Number of shares issued, out of which fully paid	1,000	1,000
Par value per share	EUR 1	EUR 1

The share premium is the amount received by the Parent Company in excess of the par value of its shares.

As at 31 December 2019, the share premium amounts to MEUR 1,417 (2018: MEUR 1,341). The share premium is freely distributable.

During 2019, the Parent Company paid dividends amounting to MEUR 480 (2018: MEUR 135).

E.18. Reserves

E.18.1. 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.18.2. 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.18.3. 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 the shareholders.

E.18.4. Hedging reserve

The hedging reserve, i.e. the cash flow hedge reserve, represents the effect of the recognition of the effective portion of changes in the fair value of hedging instruments in other comprehensive income in equity. The cash flow hedge reserve is not available for distribution to shareholders.

E.19. Non-controlling interests

The following table summarises the information relating to O2 CR, CETIN an TMT Hungary that are consolidated subgroups with NCI:

In millions of EUR

As at 31 December 2019	**O2 CR**	**CETIN**	**TMT Hungary**
NCI percentage (ownership)*	**32.17%**	**10.27%**	**25.00%**
Total assets	1,879	2,405	1,202
Total liabilities	(1,193)	(1,607)	(234)
Net assets	**686**	**798**	**968**
Carrying amount of NCI	221	82	242
NCI percentage during the period*	**32.31%**	**10.27%**	**25.00%**
Revenue	1,510	747	528
Profit/(loss)	165	113	69
Profit/(loss) allocated to NCI	54	12	2
OCI allocated to NCI	1	(2)	(2)
Dividends paid to NCI	**66**	**10**	**-**

* The NCI for TMT Hungary arise from sale of 25% shareholding described in section B.

In millions of EUR

As at 31 December 2018	**O2 CR**	**CETIN**
NCI percentage (ownership)*	**32.31%**	**10.27%**
Total assets	1,661	2,128
Total liabilities	(894)	(1,352)
Net assets	**767**	**776**
Carrying amount of NCI	248	80
NCI percentage during the period*	**31.67%**	**10.27%**
Revenue	1,481	772
Profit/(loss)	162	105
Profit/(loss) allocated to NCI	52	11
OCI allocated to NCI	(3)	-
Dividends paid to NCI	**64**	**11**

*The NCI for O2 CR changed during the period due to several transactions. The average NCI percentage during the period was used. The NCI for CETIN changed during the period due to the acquisition.

E.20. Leases

The Group acts as a lessee under the lease contracts for stores, office and technical buildings, telecommunication technology, vehicles, and office equipment.

The aggregate future minimum lease payments under IAS 17 operating leases (in which the Group is the lessee):

In millions of EUR

	31 December 2018
Less than 1 year	76
Between 1 and 5 years	199
More than 5 years	199
Total payables under non-cancellable operating leases	**474**

The less-than-one-year category includes commitments from cancellable contracts due to longer notice period.

Total minimum lease payments relating to operating leasing of property, plant and equipment recognised as an expense in 2018 were MEUR 132.

E.20.1. Right-of-use assets

The following table shows the roll-forward of right-of-use assets:

In millions of EUR

	Land and buildings	Ducts, cables and related plant	Telecom. technology and related equipment	Other tangible assets and equipment	Total
Carrying amount					
Balance as at 1 January 2019	440	3	72	15	530
Additions	72	-	16	5	93
Disposal	(10)	-	-	-	(10)
Transfers	-	-	-	-	-
Depreciation charge	(74)	-	(11)	(6)	(91)
Effects of movements in exchange rates	5	(1)	(3)	-	1
Balance as at 31 December 2019	**433**	**2**	**74**	**14**	**523**
Cost	505	2	85	21	613
Accumulated depreciation and impairment	(72)	-	(11)	(7)	(90)

For a maturity analysis of lease liabilities, please refer to C.2.

E.20.2. Amounts recognised in profit and loss

In 2019, interest expense on leases under IFRS 16 amounted to MEUR 15, variable lease payments totaled MEUR 1.

In 2018, the Group recognised lease expenses for operating leases under IAS 17 of MEUR 132.

E.20.3. Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. At the lease commencement date the Group assesses whether it is reasonably certain that it will exercise the extension options. The Group reassesses whether it is reasonably certain that it will exercise the options if a significant events or significant changes in circumstances within its control occur.

The Group has estimated that should it exercise the extension option, potential future lease payments would result in an increase of MEUR 7 in lease liability.

Total cash outflow for leases amounted to MEUR 100 for the year ended 31 December 2019.

E.21. 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 2019

	Debt securities issued	Due to banks	Lease liability	Share premium	Total
Balance as at 1 January 2019	**812**	**3,145**	**530**	**1,341**	**5,828**
Changes from financing cash flows:					
Proceeds from due to banks	-	190	-	-	190
Proceeds from the issue of debt securities issued	501	-	-	-	501
Repayments of due to banks	-	(697)	-	-	(697)
Repayment of principal portion of lease liability	-	-	(89)	-	(89)
Total changes from financing cash flows	**501**	**(507)**	**(89)**	**-**	**(95)**
Effect of changes in foreign exchange rates and transfers	2	(10)	1	-	(7)
Effect of change in functional currency	-	-	-	76	76
Other movements (offset)	537	(537)	-	-	-
New leases	-	-	80	-	80
Interest expense	28	104	15	-	147
Interest paid	(11)	(56)	(11)	-	(78)
Balance as at 31 December 2019	**1,869**	**2,139**	**526**	**1,417**	**5,951**

In millions of EUR for the year 2018

	Debt securities issued	Due to banks	Share premium	Total
Balance as at 1 January 2018	**813**	**805**	**1,138**	**2,756**
Additions resulting from business combinations	**-**	**-**	**-**	**-**
Changes from financing cash flows:				
Proceeds from due to banks	-	2,786	-	2,786
Repayments of debt securities issued	-	-	-	-
Repayments of due to banks	-	(449)	-	(449)
Proceeds from the issue of share premium			406	406
Share premium distribution	-	-	(203)	(203)
Total changes from financing cash flows	**-**	**2,337**	**203**	**2,540**
Effect of changes in foreign exchange rates and transfers	(2)	(3)	-	(5)
Interest expense	12	48	-	60
Interest paid	(11)	(42)	-	(53)
Balance as at 31 December 2018	**812**	**3,145**	**1,341**	**5,301**

E.22. Off-balance sheet items

E.22.1. Commitments

In millions of EUR

	31 December 2019	31 December 2018
Guarantees provided	9	8
Capital expenditure commitments – PPE	36	35
Capital expenditure commitments – intangible assets	8	18
Other	264	19
Total commitments and contingent liabilities	**317**	**80**

On 25 May 2018, CETIN signed a new lease contract for the lease of its head office's new premises. The contracted term is 12 years. CETIN has limited rights to terminate the contract, therefore an off-balance sheet liability of MEUR 19 was presented as other commitment in 2018. Since the adoption of IFRS 16 in 2019, this commitment is considered under leases (refer to E.20).

Other commitments in 2019 represent current bank guarantees issued by local banks in Hungary for Telenor Hungary, requested by the local telecommunication regulator from participants in the upcoming spectrum auction. The Group was given a guarantee of MEUR 264 fully covering the spectrum auction entry requirement.

E.22.2. Off-balance sheet assets

In millions of EUR

	31 December 2019	31 December 2018
Guarantees received	10	10
Loan commitments received	210	220
Total commitments and contingent assets	**220**	**230**

E.22.3. Assets pledged as security

The Group has pledged certain assets as collateral for its funding liabilities. As at 31 December 2019, the pledged assets in particular include receivables from bank accounts, hedging agreements and all shares of the Parent Company, PPF TMT Bidco 1 B.V., PPF Telco B.V., PPF Infrastructure B.V., the Telenor operating entities in Bulgaria, Serbia and Montenegro, and TMT Hungary B.V. (the Group's effective share).

E.22.4. Litigations

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. VOLNÝ filed the legal action to coincide directly with the opening of ÚOHS proceedings, which were closed by a decision in favour of O2 CR in January 2019. The amount is meant to represent the lost profit for the years 2004 to 2010. VOLNÝ claims to have had 30% share on the dial-up Internet market in 2003 and, in its legal action, it implies that it should have automatically had the same result on the broadband market, which it did not. Allegedly, it was due to the margin squeeze applied by O2 CR on the fix broadband market. O2 CR replied to the petition in July 2011, noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and pointing out discrepancies in the petition claims. The court started the proceedings in the matter and hearings took place during the year 2013, including the hearings of witnesses and experts. In 2018, the Municipal court in Prague fully dismissed the legal action of Volný, after hearing of an independent expert which the court appointed. The court concluded that O2 CR did not breach competition law rules and therefore could not even cause any damage. O2 CR is convinced that the ÚOHS decision dated 23 January 2019, which was submitted to the court, confirms the O2 CR's consistent position in the civil dispute and the correctness of the first instance dismissal of the legal action. No decision on the merits was issued by the court of appeal during 2019.

The legal action brought by Vodafone Czech Republic a.s. claiming MEUR 15 was delivered to O2 CR on 2 April 2015. The legal action is grounded on an alleged breach of competition rules related to the broadband internet services based on xDSL technology between 2009 and 2014. The legal action was filed shortly after a two-page notice claiming this amount was delivered to O2 CR. According to O2 CR, the whole claim is a purely artificial case, the sole purpose of which was to damage O2 CR by bad publicity. Vodafone Czech Republic a.s. claims that it did not reach 200,000 customers of xDSL internet services and therefore lost profit. O2 CR provided the court with its statement that there are no grounds for the claim. The Municipal Court in Prague dismissed the plaintiff's petition requesting O2 CR to disclose all information and documents supporting the claim filed in the legal action. The court found that the plaintiff had not yet described the essential facts which would at least indicate that the plaintiff would have ever suffered any damage. This is confirmed also by the decision of ÚOHS dated 23 January 2019 in a separate administrative proceedings. The High Court in Prague confirmed this decision. Vodafone filed an extraordinary appeal to the Supreme Court. No courts hearing were ordered during 2019.

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. During 2019, another positive decision was achieved. The Constitutional Court by its resolution dated 30 July 2019 rejected the constitutional complaint of BELL TRADE against the Supreme Court's denial of an extraordinary appeal. The case was thus closed in the courts of the Czech Republic – it is legally established that no contracts or receivables have ever existed.

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.

E.22.5. Regulatory investigations

In 2016, the European Commission initiated an own-initiative proceedings concerning suspected infringement of Article 101 of the Treaty on the Functioning of the European Union (agreements disrupting competition in the internal market). The reason given is the network sharing agreement concluded between T-Mobile and O2 CR in 2013 (as part of the 2015 spin-off, the contract was transferred to CETIN). In the notification, the Commission initially stated that the commencement of the proceedings alone does not mean that it is convinced of any offense. The Group has submitted its opinions and supporting documents to the Commission and cooperates with an international expert institute.

On 7 August 2019, the Commission issued a statement of objections, expressing its intention to issue a decision that the network sharing agreements constitute a breach of Article 101 of the Treaty. If such a decision were taken, there would be a risk for O2 CR and CETIN of imposition of a fine pursuant to Article 23 of Regulation (EC) No. 1/2003 and possibly of imposition of further measures to put an end to the alleged infringement. However, the Commission has in no way indicated the amount of the potential fine, not even approximately. On 8 August 2019, European Commission informed PPF Group N.V. that intends to extend the above described investigation also to PPF Group N.V.

The Group including its individual entities involved in the case (i.e. O2 CR and CETIN) is firmly convinced that network sharing has significantly enhanced the availability and quality of mobile signal in the Czech Republic, which is currently among the top European countries in terms of coverage density. Thus, no harm to competition or consumers has occurred. The Group continues to communicate with the Commission and is preparing further analyses regarding the benefits of network sharing and the quality of coverage in the Czech Republic.

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.23. Related parties

The Group has related party relationships with PPF Group N.V., PPF TMT Holdco 1 B.V. and PPF TMT Holdco 2 B.V. (as the indirect and direct parent companies) and fellow subsidiaries.

E.23.1. Transactions with direct and indirect parents

In 2018, immediately after the closing of the transaction with Telenor, the Group transferred the deferred purchase price to PPF TMT Holdco 1 B.V., an indirect parent of PPF Telecom Group B.V. and a subsidiary of the ultimate parent. The liability was transferred for its carrying amount, i.e. MEUR 400, with no effect on consolidated profit (refer to B.2.2).

E.23.2. Transactions with fellow subsidiaries

During the course of the year, the Group had the following significant transactions at arm's length with fellow subsidiaries (i.e. entities under control of PPF Group N.V.):

In millions of EUR

	31 December 2019	31 December 2018
Receivables due from banks	12	6
Trade receivables	4	1
Cash and cash equivalents	525	50
Investment securities	2	1
Right-of-use assets (IFRS 16)	1	-
Other assets	6	-
Negative fair value of hedging derivatives	(9)	-
Trade payables	(3)	(4)
Lease liabilities (IFRS 16)	(1)	-
Debt securities issued	(3)	-

In millions of EUR

	2019	2018
Revenue from telecommunication business	13	6
Cost related telecommunication business	(3)	-
Interest income	1	1
Net gain on financial assets	4	1
Depreciation of property, plant and equipment – ROU (IFRS 16)	(1)	-
Other operating expenses	(19)	(12)

In 2019, the Group issued participation certificates that were fully acquired by its fellow subsidiary. For more details refer to E.9.3.

In March 2018, the Group sold a 5% stake in O2 CR to an affiliated company (refer to B.2.3).

E.23.3. Transactions with key management personnel

For year ended 31 December 2019, key management personnel were provided with benefits totalling MEUR 10 (2018: MEUR 7). These benefits consist of fixed and variable salaries, incentive bonuses, contributions to pension and insurance plans as well as cash-settled share-based payment awards granted by the Group or PPF Group. Total benefits in 2018 comprise benefits provided to key management of the Telenor entities since August 2018.

No loans were provided to key management personnel in 2019 and 2018.

Key management personnel of the Group includes the members of the Board of Directors and key management personnel of the Parent and its subsidiaries.

F. Significant accounting policies

F.1. Significant accounting policies

The accounting policies set out below have been applied consistently by all Group entities to all periods presented in these consolidated financial statements.

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 available-for-sale equity investments which are recognised in other comprehensive income (except for impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

The following table summarises the applied foreign exchange rates of the currencies of the most significant businesses:

	31 December 2019	31 December 2018
CZK/EUR spot rate	25.41	25.72
CZK/EUR yearly average rate	25.67	25.65
HUF/EUR spot rate	330.53	320.98
HUF/EUR yearly average rate	325.30	323.31
BGN/EUR spot rate	1.96	1.96
BGN/EUR yearly average rate	1.96	1.96
RSD/EUR spot rate	117.59	118.20
RSD/EUR yearly average rate	117.85	118.29

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 euros at the exchange rates prevailing at the reporting date and announced by the European Central Bank.

The income and expenses of foreign operations are translated to euros 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. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, short term deposits at banks with original maturity of three months, other short-term highly liquid investments readily convertible to a known amount of cash and subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities section of the statement of financial position. Cash and cash equivalents are carried at amortised cost less expected credit losses (impairment) in the statement of financial position.

F.1.3. Other financial assets

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.

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

F.1.3.1. Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held either at a portfolio level, because this best reflects the way the business is managed and information is provided to management or the asset is assessed individually in the specific cases. The information that is considered for the portfolio assets, besides a portfolio cash-flow characteristics, includes 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 specific individual cases.

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, maximizing cash-flows through sale and other models).

F.1.3.2. Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether 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 such that it would not meet this condition.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents 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.1.3.3. Financial assets at fair value through profit or loss

Financial assets that at initial recognition are 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 that at initial recognition are 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 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 financial assets at fair value through profit or loss. 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.1.3.4. Financial assets at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents, receivables due from banks, trade receivables, contract assets 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 expected credit losses (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.1.3.5. 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 choice 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, the cumulative gain or loss previously recognised in equity is not reclassified to the income statement under any circumstances but directly reclassified to retained earnings. Transaction costs incurred upon the 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 a designation eliminates or significantly reduces a measurement or recognition inconsistency. This choice is made on an investment-by-investment basis.

F.1.3.6. 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 expected credit losses (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.1.4. Leases

Policy applied after 1 January 2019

At inception of a contract, the Group assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The Group presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment”, the same line item as it presents underlying assets of the same nature that it owns.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term. The Group has decided not to recognize lease and non-lease components separately.

Policy applied before 1 January 2019

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys a right to use the assets.

Leases under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment that is required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest. The corresponding lease obligations, net of finance charges, are included in other long-term payables (depending on maturity).

The interest element of the finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

F.1.5. 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:

- the derivative is in compliance with the Group's risk management objective and strategy in undertaking the hedge;
- at the inception of the hedge, the hedging relationship has been formally designated and documented including the 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;
- 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);
- 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 the hedged risk are recognised in OCI 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 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.

F.1.6. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an 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 must be 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

F.1.7.1. Non-derivative financial assets

In accordance with IFRS 9, the Group's entities calculate the loss allowance for financial assets as equal to 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

The Group calculates loss allowances for receivables and contract assets at the amount of expected credit losses over the life of the financial asset. For cash and cash equivalents and loans provided, the Group calculates loss allowances equal to the 12-month expected credit losses unless there has been a significant increase in the credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the default risk of a financial instrument at the balance sheet date with the risk at the date of initial recognition and considers reasonable and supportable information that is relevant and available without undue cost or effort and that indicates a significant increase in the credit risk. The assessment is mainly based on the Group's historical experience, available information and market analyses, including actual macroeconomic indicators and future forecasts.

Regardless of these analyses, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days overdue. In the case of cash and cash equivalents, it includes the situation where Moody's external credit rating falls from the investment grade (Aaa-Baa3 rating) to the speculative (non-investment) grade (Ba1-B3 rating). The Group categorises these assets into the 2nd stage of the IFRS 9 impairment model and calculates a loss allowance equal to expected lifetime credit losses. Credit-impaired financial assets are included in the third stage of the IFRS 9 impairment model. The Group assesses a financial asset as credit-impaired when one or more of the following events occurs: the debtor is facing significant financial difficulty; it is probable that the debtor will enter bankruptcy or other financial reorganisation; the financial asset is more than 90 days overdue. Loss allowance for assets in the third stage is equal to the expected lifetime credit losses and the interest is calculated from the net value of the asset.

A financial asset is considered to be in default when it is more than 90 days overdue. And in the case of cash and cash equivalents, it includes the situation, where according to Moody's, the external credit rating of the counterparty decreases to risk grade (Caa1-C rating) or below.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as 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, discounted at the original effective interest rate.

F.1.7.2. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (tangible assets, intangible assets including goodwill) to determine any indication of impairment. If such an 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 that generates cash inflows from continued use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to the 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 first allocated 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, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

F.1.9. Assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) expected to be primarily recovered through sale rather than through continued 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 and investment property; 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.1.10. Property, plant and equipment

Property, plant and equipment is stated at 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 the asset to working condition for its intended use. With respect to the construction of the 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 costs also include the estimated costs of dismantling and removing the asset and restoring the site. No borrowing costs are capitalised to assets under construction.

The gain or loss on 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 35 years

Component parts of an asset with different useful lives or providing 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.1.11. Intangible assets

F.1.11.1. Goodwill and gain on bargain purchase

The Group accounts for all business combinations, as acquisitions, except for business combinations determined to be reorganisations involving group companies under common control.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units at the date of the acquisition and 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 an 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.1.11.2. Other intangible assets

Intangible assets of the Group include computer software, licences, valuable rights and customer bases. Computer software mainly represents the external acquisition costs of the Group's information systems that are intended for use within the Group. Generally, costs associated with developing or maintaining computer software programs are recognised as an incurred expense. However, costs that are directly associated with identifiable and unique software products controlled by the Group and that have a probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, generally from one to nine years. Valuable rights are amortised according to the period for which the Group is allowed to utilise the rights, usually for a period from 1 to 5 years.

Intangible assets of the Group acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less accumulated amortisation and accumulated impairment charges and amortised on a straight-line basis over their estimated useful lives. Customer bases are amortised over a period of the remaining average terms of the binding contracts or the period over which they are utilisable to generate an economic benefit for the entity, which is between the period from 3 to 14 years.

Acquired licences are recorded at cost and amortised on a straight-line basis from the start of commercial service over the remaining life of the licence (i.e. over 15 to 20 years) to best reflect the pattern in which the economic benefits of the intangible assets will be utilised by the Group.

Intangible assets with an indefinite useful life are not amortised but instead subject to regular impairment reviews

At least at every balance sheet date the Group reviews the useful lives of intangible assets that are not amortised to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

On the balance sheet date, carrying amounts, residual values and the useful lives of assets are reviewed, revised and if necessary, prospectively amended and accounted for as a change in an accounting estimate.

Intangible assets that are no longer in use and from which no future economic benefits are expected or that are disposed of for any other reason are de-recognised from the consolidated statement of financial position together with the corresponding accumulated amortisation (for amortised assets only). All gains or losses arising in this respect are recognised in net operating income, i.e. net gain or loss is determined as the difference between net disposal proceeds, if any, and the carrying amount of the asset.

Intangible assets, with the exception of assets with an indefinite useful life, are amortised using the straight-line method from the time they are available for use. Amortisation ceases at the earlier of the date the asset is de-recognised, the date the asset is classified as having the indefinite useful life or the date the asset is classified as held for sale.

F.1.12. 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.1.12.1. 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.1.12.2. Deferred tax

A deferred tax position is recognised 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.1.12.3. Tax exposure

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. During the ordinary course of business, the ultimate tax determination is uncertain for many transactions and calculations. 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 that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such a determination is made.

F.1.13. Bank loans, debt securities issued

Liabilities due to banks and debt securities issued are the Group's sources of debt funding.

Loans and debt securities issued 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.1.14. 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.1.15. Equity

F.1.15.1. Repurchase of share capital – treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, 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.1.15.2. 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.1.15.3. 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 that part of the net results of the Group attributable to interests which are 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.

F.1.16. 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.1.17. Commission income and expense

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.

F.1.18. 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 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 that had been recognised directly in equity.

Dividends from financial assets are recorded in the income statement once declared and approved by the shareholders’ meeting of the respective company.

F.1.19. Revenue and expenses

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.1.19.1. 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.1.19.2. 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.1.19.3. 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.1.19.4. 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.1.19.5. 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.1.19.6. 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.1.20. Employee benefits

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 employee salaries is made by the Group to the governments to fund national pension plans. Payments under these pension schemes are charged as expenses as they fall due. The Group has no further payment obligations once the contributions have been paid.

The Group recognises employee bonuses related to the given accounting period in accordance with the expectations of achievement of the targets of the Group, which take into consideration key performance indicators such as turnover or free cash flow after adjustments. The Group recognises a provision where the Group is contractually obliged to grant bonuses or where there is a past practice that has created a constructive obligation.

Employees whose employment was terminated due to statutory reasons are entitled to redundancy and severance payment. The Group recognises a provision for redundancy and severance payments when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without an opt-out possibility. Severance payments falling due more than 12 months after the balance sheet date are discounted to their present value. The Group presently has no redundancy and severance obligations falling due more than 12 months after the balance sheet date.

F.1.21. Alternative earnings measures

The Group presents certain alternative earnings measures such as EBITDA and EBIT. As used in these consolidated financial statements, the following terms have the following meaning:

EBITDA refers to income before income taxes and finance income (costs) plus depreciation and amortisation, plus amortisation of costs to obtain or fulfil a contract, plus impairment of property, plant and equipment and intangible assets.

EBIT refers to income before income taxes and finance income and finance costs.

F.2. Changes in accounting policies and accounting pronouncements adopted since 1 January 2019

F.2.1. IFRS 16 Leases (effective from 1 January 2019)

The Group adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

Impact of transition to IFRS 16 Leases

Effective 1 January 2019, the Group adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group has also elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4.

The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019. The following table reconciles the Group's operating lease obligations at 31 December 2018, as previously disclosed in the Group's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at 1 January 2019.

In millions of EUR

	1 January 2019
Right-of-use assets	530
Deferred tax asset	-
Lease liabilities	(530)
Retained earnings	-

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3.03%.

In millions of EUR

	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed in E.20	474
Discounted using the incremental borrowing rate at 1 January 2019	**(79)**
Finance lease liabilities recognised as at 31 December 2018	-
Recognition exemption for leases of low-value asset	(2)
Recognition exemption for leases with less than 12 months of lease term at transition	-
Extension options reasonably certain to be exercised and other	137
Lease liabilities recognised at 1 January 2019	**530**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised MEUR 523 of right-of-use assets and MEUR 526 of lease liabilities as at 31 December 2019.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year 2019, the Group recognised MEUR 90 of depreciation charges and MEUR 15 of interest expense from these leases. This effected the value of EBITDA, reported in amount of MEUR 1,397. Value of EBITDA without the adoption of IFRS 16 was calculated in amount of MEUR 1,298.

F.2.2. 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 the tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authorities will accept an 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 relevant information.

These interpretations have been adopted by the EU. These interpretations did not have a significant impact on the Group's financial statements.

F.2.3. Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (effective from 1 January 2019)

In October 2018 IASB issued amendments to IFRS 9 Prepayment Features with Negative Compensation. These amendments enable entities to measure some pre-payable financial assets with so-called negative compensation at amortised cost.

These amendments have been adopted by the EU.

These amendments did not have a significant impact on the Group's financial statements.

F.2.4. Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (effective from 1 January 2019)

The amendments to IAS 28 Investments in Associates 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 have been adopted by the EU.

These amendments did not have a significant impact on the Group's financial statements.

F.2.5. Annual Improvements to IFRS Standards 2015-2018 Cycle (effective from 1 January 2019)

In February 2018, 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. The new cycle of improvements contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

These annual improvements have been adopted by the EU.

These amendments did not have a significant impact on the Group's financial statements.

F.3. Standards, interpretations and amendments to published standards that are not yet effective and 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 2019 and have not been applied in the preparation of the consolidated financial statements. Of these pronouncements, the following will have potentially an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

<u>Amendments to IAS 1 and IAS 8: Definition of material (effective from 1 January 2020)</u>

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 been adopted by the EU.

These amendments are not expected to have a significant impact on the Group's financial statements.

<u>Amendments to References to Conceptual Framework (effective from 1 January 2020)</u>

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 2019, includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, 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 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 been adopted by the EU.

The Group does not expect these amendments to have a significant impact on its consolidated financial statements.

<u>Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7 (effective from 1 January 2020)</u>

The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

These amendments have been adopted by the EU.

These amendments are not expected to have a significant impact on the Group's financial statements.

Amendments to IFRS 3 Definition of Business Combinations (effective from 1 January 2020)

The amendments to IFRS 3 Business Combinations narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

These amendments have not yet been adopted by the EU.

These amendments are not expected to have a significant impact on the Group's financial statements.

G. Subsequent events

In January 2020, the Group issued a secured bond amounting to MEUR 100 under the established MEUR 3,000 Euro medium term note programme. On 20 January 2020, the bond was consolidated and now forms a single series with the existing MEUR 500 bonds due 31 January 2025 (refer to E.13). The bonds were used to repay the Group's secured loans.

On 24 February 2020, the Group changed its name from PPF Arena 1 B.V. to PPF Telecom Group B.V.

No other significant events occurred after the end of the reporting period.

2 March 2020

The board of directors:

Jan Cornelis Jansen *Member of the board of directors*	Lubomír Král *Member of the board of directors*
Marcel Marinus van Santen *Member of the board of directors*	

PPF Telecom Group B.V.
(formerly PPF Arena 1 B.V.)

Unconsolidated financial statements for the year ended 31 December 2019

Contents

Statement of financial position

	Note	31 December 2019 TEUR	31 December 2018 TEUR	1 January 2018 TEUR
Non-current assets				
Investments in subsidiaries	5	1,881,470	2,014,216	1,441,802
Loans receivable	6	2,166,434	2,332,806	-
Total non-current assets		**4,047,904**	**4,347,022**	**1,441,802**
Current assets				
Cash and cash equivalents	7	407,870	27,642	183
Debt securities at fair value through profit or loss	8	-	126,157	-
Total current assets		**407,870**	**153,799**	**183**
TOTAL ASSETS		**4,455,774**	**4,500,821**	**1,441,985**
Non-current liabilities				
Due to banks	9	1,565,100	2,607,650	-
Debt securities issued	10	1,038,936	-	-
Derivative liabilities at fair value through profit or loss	11	62,678	53,238	-
Total non-current liabilities		**2,666,714**	**2,660,888**	**-**
Current liabilities				
Due to banks	9	68	128,846	-
Debt securities issued	10	14,600	-	-
Trade and other payables		877	192	-
Total current liabilities		**15,545**	**129,038**	**-**
TOTAL LIABILITIES		**2,682,259**	**2,789,926**	**-**
Capital and reserves				
Issued capital	12.1	1	1	1
Share premium	12.2	1,417,358	1,417,358	1,215,014
Retained earnings		356,155	293,536	226,970
TOTAL EQUITY		**1,773,514**	**1,710,895**	**1,441,985**
TOTAL LIABILITIES AND EQUITY		**4,455,774**	**4,500,821**	**1,441,985**

Statement of comprehensive income

	Note	For the year ended 31 December 2019 TEUR	For the year ended 31 December 2018 TEUR
Operating income			
Dividend income	13	632,237	264,293
Interest income		50,499	27,173
Total operating income		**682,737**	**291,466**
Operating expense			
Operating expenses	14	1,690	1,499
Finance cost	15	91,356	35,059
Gains and losses from derivatives revaluation and currency translations	3.1, 11	40,455	53,464
Impairment loss on receivables	6	6,572	-
Total operating expense		**140,073**	**90,022**
Profit before taxation		**542,664**	**201,444**
Income tax expense	17	-	-
Net profit for the year		**542,664**	**201,444**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**542,664**	**201,444**

Statement of changes in equity

TEUR	Issued capital	Share premium	Retained earnings	Total
Balance at 1 January 2019	**1**	**1,417,358**	**293,536**	**1,710,895**
Transaction with the owner of the Company				
Contribution for the year	-	-	-	-
Distributions for the year	-	-	-	-
Dividends paid	-	-	(480,045)	(480,045)
Total comprehensive income				
Net profit for the year	-	-	542,664	542,664
Revaluation reserve	-	-	-	-
Balance at 31 December 2019	**1**	**1,417,358**	**356,155**	**1,773,514**

TEUR	Issued capital	Share premium	Retained earnings	Total
Balance at 1 January 2018	**1**	**1,215,014**	**226,970**	**1,441,985**
Transaction with the owner of the Company				
Contribution for the year	-	403,891	-	403,891
Distributions for the year	-	(201,547)	-	(201,547)
Dividends paid	-	-	(134,878)	(134,878)
Total comprehensive income				
Net profit for the year	-	-	201,444	201,444
Revaluation reserve	-	-	-	-
Balance at 31 December 2018	**1**	**1,417,358**	**293,556**	**1,710,895**

Statement of cash flows

	Note	For the year ended 31 December 2019 TEUR	For the year ended 31 December 2018 TEUR
Profit from operations		542,664	201,444
Adjustments for:			
Dividend income	13	(632,237)	(264,293)
Interest expense (net)		40,857	7,886
Losses on derivatives revaluation and currency translations (net)	11	40,455	53,464
Impairment loss on receivables	6	6,572	-
Net operating cash flows before changes in working capital		**(1,690)**	**(1,499)**
Change in other receivables and payables		(5,989)	192
Cash flows used in the operations		**(7,679)**	**(1,307)**
Increase of investment in subsidiaries	5	(29,730)	(796,343)
Distribution from investment in subsidiary	5	162,476	223,930
Dividend received	13	626,277	264,293
Purchase of debt securities at FVTPL	8	-	(126,157)
Disposal of debt securities at FVTPL	8	126,157	-
Loans provided to a subsidiary	6	(875,262)	(2,321,116)
Loan repayment from a subsidiary	6	1,047,636	-
Interest received		37,925	27,011
Cash flows from/(used in) investing activities		**1,095,479**	**(2,728,382)**
Utilisation of loans from banks (net of fees)	9	29,677	2,720,586
Repayment of loans from banks (net of fees)	9	(690,863)	-
Interest paid		(45,721)	(30,703)
Net payments on settlement of derivatives		(21,668)	(174)
Proceeds from share premium contribution	12	-	403,891
Distribution of share premium	12	-	(201,547)
Proceeds from the issue of debt securities		501,065	-
Dividends paid	21	(480,045)	(134,878)
Cash flows (used in)/from financing activities		**(707,555)**	**2,757,175**
Change in cash and cash equivalents		**380,245**	**27,486**
Cash and cash equivalents at beginning of year	7	27,642	183
Effect of exchange rate changes on cash and cash equivalents		(17)	(27)
Cash and cash equivalents at end of year	7	**407,870**	**27,642**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

PPF Telecom Group B.V. (the "Company"), renamed from PPF Arena 1 B.V. on 24 February 2020, was incorporated with limited liability under the Dutch law on 16 October 2013. The registered office of the Company is Strawinskylaan 933, Amsterdam, the Netherlands. The main activity of the Company is to act as a holding and financing company.

On 2 January 2018 PPF Group N.V. contributed the shares of PPF Arena 1 B.V. to PPF TMT Holdco 1 B.V.. At the same date PPF TMT Holdco 1 B.V. contributed the shares of PPF Arena 1 B.V. to PPF TMT Holdco 2 B.V. making it a direct parent of the Company. PPF Group N.V. remains the ultimate parent of the Company.

The Company's Board of Directors has the following composition:

Jan Cornelis Jansen	Director
Lubomir Kral	Director
Marcel Marinus van Santen	Director

2 Basis of preparation

2.1 Statement of compliance

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

These separate financial statements are the statutory financial statements of PPF Telecom Group B.V. (formerly PPF Arena 1 B.V.). The Company's consolidated financial statements are available in a separate part of the annual report.

2.2 Basis of measurement

The financial statements are prepared at the historical cost convention and are presented in Euro ("EUR"), and rounded to the nearest thousand. Assets and liabilities are stated at nominal value, unless stated otherwise.

2.3 Functional and presentation currency

These financial statements are presented in Euro, which is the Company's functional currency. Since 1 January 2019 the functional currency was changed from CZK to EUR, as a consequence of Telenor transaction in 2018 (in detail described in the consolidated financial statements). The Telenor transaction brought changes in the relations in currencies by which the Company is financed and under which it operates, from CZK to EUR. The recalculation of comparative figures for 2018 from CZK to EUR was performed using a spot exchange rate as at 1 January 2019 which was 25.725 CZK/EUR.

2.4 Use of judgement and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those affecting valuation and possible impairment of subsidiaries and loans receivable from these subsidiaries. Refer to Notes 4.1 and 5 for more details.

2.5 Going concern

These financial statements have been prepared on the basis of the going concern assumption.

2.6 Changes in Accounting policies and accounting pronouncements adopted since 1 January 2019

The following revised standards, amendments to standards and interpretations effective from 1 January 2019 are mandatory and relevant for the Company and have been applied by the Company since 1 January 2019:

<u>IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019)</u>
IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by the tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authorities will accept an 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 relevant information.
These interpretations have been adopted by the EU. These interpretations did not have significant impact on the Company’s separate financial statements.

<u>Annual Improvements 2015-2018 Cycle (effective from 1 January 2019)</u>
In February 2018 the IASB published Annual Improvements to IFRSs 2014-2017 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 Annual Improvements have been adopted by the EU. These amendments did not have significant impact on the Company’s separate financial statements.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (effective from 1 January 2019)
In October 2018 IASB issued amendments to IFRS 9 Prepayment Features with Negative Compensation. These amendments enable entities to measure some pre-payable financial assets with so-called negative compensation at amortised cost. These amendments have been adopted by the EU. These amendments did not have significant impact on the Company's separate financial statements.

2.7 Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Company's financial statements

A number of new Standards, amendments to Standards and Interpretations were not yet effective as of 31 December 2019, and have not yet been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective. The Company is in the process of analysing the likely impact on its 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 are not expected to have significant impact on the Company'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 are not expected to have significant impact on the Company's financial statements.

3 Significant accounting policies

3.1 Foreign currency transactions

A foreign currency transaction is a transaction that is denominated or requires settlement in a currency other than 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 foreign currency exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at rates of exchange prevailing at the reporting date (31 December 2019: CZK/EUR 25.410 and 31 December 2018: CZK/EUR 25.725). Transactions denominated in foreign currencies are translated at rates prevailing at the time the transaction occurred. Translation differences are recorded in the statement of comprehensive income.

3.2 Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company initially recognises its investments in subsidiaries at cost. Subsequently they are measured at cost less impairment losses.

3.3 Financial instruments

a) Recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Company’s policy is to recognise them at the settlement date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

b) Classification and measurement

Financial assets

IFRS 9 contains a classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost 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 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.

A financial asset 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.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

Financial liabilities
Financial liabilities are classified as subsequently measured at amortised cost or, when derivative or held for trading, at FVTPL. The Company can also irrevocably, at initial recognition, designate the financial liability at FVTPL meeting certain criteria. When designated at FVTPL, the financial liability's fair value change due to the Company's change in its credit risk is presented in OCI, unless such presentation creates or enlarge an accounting mismatch in profit or loss. Other changes in fair value are presented in profit or loss.

c) Fair value measurement principals
The fair value of financial instruments is based on their quoted market price at the end of the reporting period without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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 end of the reporting period for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the end of the reporting period.

d) Offsetting
Financial assets and liabilities are permitted to be set off and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

No amounts were offset in periods reported.

3.4 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, short term deposits at banks with original maturity of three months or less, other short-term highly liquid investments readily convertible to a known amount of cash and subject to an insignificant risk of changes in value, and bank overdrafts. Cash and cash equivalents are carried at amortised cost less expected credit losses (impairment) in the statement of financial position.

3.5 Other receivables and payables

Other receivables and payables arise when the Company has a contractual obligation to receive or deliver cash or another financial asset. Other receivables and payables are measured at amortised cost, which is normally equal to their nominal or repayment value.

3.6 Equity

Share capital represents the nominal value of shares issued by the Company.

Dividends on share capital, share premium reduction and other capital distributions are recognised as a liability provided that they are declared before the end of the reporting period. Dividends, share premium reduction and other capital distributions declared after the end of the reporting period are not recognised as a liability but are disclosed in the notes.

3.7 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 tax rates enacted or substantially enacted at the end of the reporting period. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.8 Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income on an accrual basis, taking into account the effective yield of the asset or liability, or the applicable floating rate. Interest income and interest expense include the amortisation of any discounts or premiums of other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated using the effective interest rate method.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Other income and expense items are recognised in profit or loss when the corresponding service is provided.

3.9 Operating expenses

Operating expenses are accounted for in the period in which these are incurred. Losses are accounted for in the year in which they are identified.

3.10 Impairment

Non-derivative financial assets

In accordance with IFRS 9, the Company calculates the loss allowance for financial assets as equal to 12-month expected credit losses or equal to the expected credit losses over the life of the financial assets.

The Company calculates loss allowances for receivables at the amount of expected credit losses over the life of the financial asset. For cash and cash equivalents and loan receivables, the Company calculates loss allowances equal to the 12-month expected credit losses unless there has been a significant increase in the credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the default risk of a financial instrument at the balance sheet date with the risk at the date of initial recognition and considers reasonable and supportable information that is relevant and available without undue cost or effort and that indicates a significant increase in the credit risk. The assessment is mainly based on the Company’s historical experience, available information and market analyses, including actual macroeconomic indicators and future forecasts.

Regardless of these analyses, the Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days overdue. In the case of cash and cash equivalents, it includes the situation where Moody's external credit rating falls from the investment grade (Aaa-Baa3 rating) to the speculative (non-investment) grade (Ba1-B3 rating). The Company categorises these assets into the 2nd stage of the IFRS 9 impairment model and calculates a loss allowance equal to expected lifetime credit losses. Credit-impaired financial assets are included in the third stage of the IFRS 9 impairment model. The Company assesses a financial asset as credit-impaired when one or more of the following events occurs: the debtor is facing significant financial difficulty; it is probable that the debtor will enter bankruptcy or other financial reorganisation; the financial asset is more than 90 days overdue. Loss allowance for assets in the third stage is equal to the expected lifetime credit losses and the interest is calculated from the net value of the asset.

A financial asset is considered to be in default when it is more than 90 days overdue. And in the case of cash and cash equivalents, it includes the situation, where according to Moody's, the external credit rating of the counterparty decreases to risk grade (Caa1-C rating) or below.
Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as 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, discounted at the original effective interest rate.

Non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

The recoverable amount of the Company's investment in subsidiaries and other assets is greater of their value less the cost to sell and their value in use. In assessing the value in use, the estimated future cash flows are 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.

An impairment loss is recognised in the statement of comprehensive income if the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed through the statement of comprehensive income if there has been an increase in the recoverable amount and increase can be objectively related to an event occurring after the date of the impairment. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4 Risk management

Management of the risk arising from participating in subsidiaries and risk arising from financial instruments is fundamental to the Company's business and is an essential element of the Company's operations. The major risks related to participating in foreign subsidiaries and associates is the risk of impairment due to adverse economic conditions, movements in foreign exchange rates and liquidity risks given the strong growth in the Central and Eastern European market. These risks are managed by the Company monitoring the development of financial markets, using robust investment decision process and proper liquidity management. Financial instrument risks faced by the Company are those related to credit exposures, movements in interest rates and foreign exchange rates. The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The risks are managed in the following manner:

4.1 Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation. The majority of the Company's exposure to credit risk arises in connection the provision of loans to related parties. The remaining part of the Company's exposures to credit risk is related to investments in debt securities, deposits with banks and certain other assets. Loans provided by the Company to related parties are unsecured. The carrying amount of financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk by providing loans only to related parties, investing to debt securities issued by central banks and placing funds with reputable financial institutions.

The Company recognized an expected probability-weighted estimate of credit losses relating to loans receivable from a subsidiary maturing in 2023, 2024, 2025 and 2026. The relating loss allowance amounted to TEUR 6,572 as at 31 December 2019 (31 December 2018: nil).

4.2 Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. The Company's objective in managing its exposure to interest rate fluctuations is to minimise reported earnings and cash flow volatility associated with interest rate changes.

A summary of the Company's interest rate gap position, analysed by the earlier of contractual re-pricing or maturity date, is as follows.

2019 TEUR	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Interest bearing financial assets						
Cash and cash equivalents	0.00%	407,870	-	-	-	407,870
Loans receivable	2.02%	1,281,160	-	-	885,274	2,166,434
Total interest bearing financial assets		**1,689,030**	**-**	**-**	**885,274**	**2,574,304**
Interest bearing financial liabilities						
Due to banks	2.16%	1,565,168	-	-	-	1,565,168
Debt securities issued	2.84%	14,600	-	-	1,038,936	1,053,536
Total interest bearing financial liabilities		**1,579,768**	**-**	**-**	**1,038,936**	**2,618,704**
Net position		**109,262**	**-**	**-**	**(153,662)**	**(44,400)**

2018 TEUR	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Interest bearing financial assets						
Cash and cash equivalents	0.00%	27,642	-	-	-	27,642
Debt securities at fair value through profit or loss	0.20%	-	126,157	-	-	126,157
Loans receivable	2.68%	-	-	818,646	1,514,160	2,332,806
Total interest bearing financial assets		**27,642**	**126,157**	**818,646**	**1,514,160**	**2,486,605**
Interest bearing financial liabilities						
Due to banks	3.02%	2,736,496	-	-	-	2,736,496
Total interest bearing financial liabilities		**2,736,496**	**-**	**-**	**-**	**2,736,496**
Net position		**(2,708,854)**	**126,157**	**818,646**	**1,514,160**	**(249,891)**

4.3 Liquidity risk

Liquidity risk represents 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 obligation as they become due. The Company continually assesses its liquidity risk with the Group treasury by identifying and monitoring changes in the funding required to meet the business goals.

A summary of the Company's liquidity gap position, analysed by the maturity date, is as follows.

2019 TEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Cash and cash equivalents	407,870	-	-	-	407,870
Loans receivable			1,281,160	885,274	2,166,434
Total financial assets	**407,870**	**-**	**1,281,160**	**885,274**	**2,574,304**
Due to banks	-	-	1,565,168	-	1,565,168
Debt securities issued	14,600	-	-	1,038,936	1,053,536
Derivative liabilities at fair value through profit or loss	-	-	62,678	-	62,678
Trade and other payables	877	-	-	-	877
Total financial liabilities	**15,477**	**-**	**1,627,846**	**1,038,936**	**2,682,259**
Net position	**392,393**	**-**	**(346,686)**	**(153,662)**	**(107,955)**

2018 TEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Cash and cash equivalents	27,642	-	-	-	27,642
Debt securities at fair value through profit or loss	-	126,157	-	-	126,157
Loans receivable			818,646	1,514,160	2,332,806
Total financial assets	**27,642**	**126,157**	**818,646**	**1,514,160**	**2,486,605**
Due to banks	(2,270)	131,116	849,564	1,758,086	2,736,496
Derivative liabilities at fair value through profit or loss	-	-	9,066	44,172	53,238
Trade and other payables	192	-	-	-	192
Total financial liabilities	**(2,078)**	**131,116**	**858,630**	**1,802,258**	**2,789,926**
Net position	**25,564**	**(4,959)**	**(39,984)**	**(288,098)**	**(303,321)**

4.4 Foreign currency risk

Foreign currency risk arises when the actual or forecasted assets in foreign currency are either greater or less than the liabilities in that currency. The Company's strategy is to keep its foreign currency position closed, as practically as possible.

A summary of the Company's currency gap position, analysed by currencies, is as follows.

2019 **TEUR**	**EUR**	**CZK**	**HUF**	**Total**
Cash and cash equivalents	403,794	3,873	203	407,870
Loans receivable	2,166,434	-	-	2,166,434
Total financial assets	**2,570,228**	**3,873**	**203**	**2,574,304**
Due to banks	1,348,617	216,551	-	1,565,168
Debt securities issued	1,053,536	-	-	1,053,536
Derivative liabilities at fair value through profit or loss	62,678	-	-	62,678
Trade and other payables	877	-	-	877
Total financial liabilities	**2,465,708**	**216,551**	**-**	**2,682,259**
Net position	**104,520**	**(212,678)**	**203**	**(107,955)**

2018 **TEUR**	**EUR**	**CZK**	**HUF**	**Total**
Cash and cash equivalents	26,787	855	-	27,642
Debt securities at fair value through profit or loss	-	126,157	-	126,157
Loans receivable	2,332,806	-	-	2,332,806
Total financial assets	**2,359,593**	**127,012**		**2,486,605**
Due to banks	2,344,136	392,360	-	2,736,496
Derivative liabilities at fair value through profit or loss	-	53,238	-	53,238
Trade and other payables	192	-	-	192
Total financial liabilities	**2,344,328**	**445,598**	**-**	**2,789,926**
Net position	**15,265**	**(318,586)**		**(303,321)**

4.5 Capital management

For the purpose of the Company's capital management, capital includes issued share capital, share premium and all other equity reserves. The primary objective of the Company's capital management is to maximise the shareholder value while maintaining investor, creditor and market confidence and being able to sustain the future development of the business.

To achieve this overall objective, the Company's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings. Please refer to Note C.5. in the Company's consolidated financial statements for details of the financial covenants.

Breaches in meeting the financial covenants would permit lenders to call loans and borrowings, subject to Company 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 Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company is not subject to any externally imposed regulatory capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

4.6 Fair values of financial instruments

The Company has performed an assessment of fair values of its financial instruments. Fair values have been estimated either by reference to the market value at the end of the reporting period date or by discounting the relevant cash flows using current interest rates for similar instruments.

The Company believes that the carrying amounts of its financial assets and liabilities reasonably approximate their fair values. All of the Company's financial assets and liabilities are classified as Level 2 in the fair value hierarchy and no transfers from Level 2 to other levels occurred in 2019 or 2018.

5 Investments in subsidiaries

	Share	31 December 2019 TEUR	31 December 2018 TEUR	1 January 2018 TEUR
PPF Telco B.V.	100%	1,115,182	1,147,280	953,630
PPF Infrastructure B.V.	100%	488,172	488,172	488,172
PPF TMT Bidco 1 B.V.	100%	278,116	378,764	-
		1,881,470	**2,014,216**	**1,441,802**

There were no reasons for an impairment of investments in 2019 (2018: none).

	2019 TEUR	2018 TEUR
Balance as at 1 January	**2,014,216**	**1,441,802**
Share capital contribution at incorporation	-	1
Share premium contribution	29,730	796,343
Share premium distribution	(162,476)	(223,930)
Balance as at 31 December	**1,881,470**	**2,014,216**

6 Loans receivable

In July 2018 the Company (as lender) and its subsidiary PPF TMT Bidco 1 B.V. (as borrower) entered into an Intra-Group Loan Framework Agreement under which PPF TMT Bidco 1 B.V. utilised unsecured term loans amounting to MEUR 2,333 in aggregate. The loan proceeds were used to finance the acquisition of Telenor Group's telecommunications assets in the Central and Eastern Europe. These loans are denominated in EUR, bear floating interest rate and are repayable in 2023 and 2024.

In 2019 these loans were partially repaid using proceeds from share premium distribution by the borrower (refer to Note 5) and partially refinanced by new unsecured term loans amounting to MEUR 875. The new loans are denominated in EUR, bear fixed interest rate and are repayable in 2025 and 2026, respectively.

The aggregate gross balance of the intra-group loans receivables amounted to TEUR 2,173,005 (2018: TEUR 2,332,806).

In 2019, the Company recognized an expected probability-weighted estimate of credit losses relating to the intra-group loans receivables, some of which were originated in the prior period. The relating impairment loss amounted to TEUR 6,572 (2018: nil).

7 Cash and cash equivalents

		31 December 2019 TEUR	31 December 2018 TEUR	1 January 2018 TEUR
Current accounts – Group	CZK	3,873	854	180
Current accounts – Group	EUR	400,393	19,401	3
Current accounts – Group	HUF	203	-	-
Current accounts – Non-group	CZK	-	1	0
Current accounts – Non-group	EUR	3,401	7,386	-
Total cash and cash equivalents		**407,870**	**27,642**	**183**

All current accounts are payable on demand. Cash and cash equivalents are freely distributable.

8 Debt securities at fair value through profit or loss

In 2018, the Company invested in treasury bills issued by the Czech National Bank in order to optimise its liquidity position. The fair value of the investment amounted to TEUR 126,157 on 31 December 2018. The investment was fully disposed in early 2019.

9 Due to banks

In March 2018, the Company entered into a Facilities Agreement with a syndicate of banks. In July 2018, under this agreement the Company utilised secured term loan facilities amounting to MEUR 2,396 and MCZK 10,172. In March 2019, the secured term loan facilities were restructured and partially refinanced by a senior secured Eurobond issued by the Company in the total amount of MEUR 550 (refer to Note 10). The secured term loans were further refinanced in November 2019 by new senior secured Eurobonds issued by the Company in the total amount of MEUR 500 (refer to Note 10). In addition to the refinancing, the secured term loan facilities were also partially repaid subject to the terms of the Facilities Agreement.

As at 31 December 2019, the outstanding amounts of the secured term loan facilities were MEUR 1,349 and MCZK 6,139. The actual amount of outstanding secured loan liabilities stated in the statement of financial position is lower by unamortised facility and legal fees directly attributable to the origination of the loan facilities. These fees were capitalised and are amortised to finance costs using the effective interest rate method.

As at 31 December 2019 and 31 December 2018, a committed revolving facility of MEUR 200 has not been utilised.

The Company and its affiliates have pledged certain assets as collateral for the Company’s funding liabilities. As at 31 December 2019, the pledged assets include, in particular, receivables from bank accounts, hedging agreements and all shares of the Company, PPF TMT Bidco 1 B.V., PPF Telco B.V., PPF Infrastructure B.V., the Telenor operating entities in Bulgaria, Serbia and Montenegro, and TMT Hungary B.V. (the Company’s effective share).

As at 31 December 2019 and 31 December 2018, the Company complied with the financial covenants imposed by its loan facilities.

The EUR-denominated loans are following:

Repayable by	2023	2024
Margin rate over 3M EURIBOR	1.25% - 2.50%	1.25% - 3.00%
Actual respective margin levels applicable	1.25%	1.25%

The CZK-denominated loans are following:

Repayable by	2023	2024
Margin rate over 3M PRIBOR	1.00% - 2.00%	1.00% - 2.50%
Actual respective margin levels applicable	1.00%	1.00%

10 Debt securities issued

In March 2019, the Company established MEUR 3,000 Euro Medium Term Note Programme. At the same moment, the Company obtained corporate credit ratings Ba1 by Moody's, BB+ by Standard & Poor's and BBB- by Fitch Ratings. Under this programme, on 27 March 2019, the Company issued a senior secured Eurobond in the aggregate nominal amount of MEUR 550, with a fixed coupon rate of 3.125% and repayable in 2026. Under the programme, on 12 November 2019, the Company further issued a senior secured Eurobond amounting to MEUR 500, with a fixed coupon rate of 2.125% and repayable in 2025. The unused capacity of the programme is MEUR 1,950 as at 31 December 2019. The bond proceeds (excluding expenses incurred in relation to issuance of the bonds) were used to repay the Company's secured loans (refer to Note 9).

The actual amount of outstanding debt securities liabilities stated in the statement of financial position is lower by unamortised transaction fees directly attributable to the origination of the securities. These fees were capitalised and are amortised to finance costs using the effective interest rate method.

Accrued interest of TEUR 14,600 (2018: nil) is payable in 2020 and therefore presented as current.

11 Derivative liabilities at fair value through profit or loss

The Company hedges cash flows arising from its long-term bank loan payables denominated in EUR and CZK. The bank loan payables carry floating interest rates and the hedge is designed to prevent the variability of interest payments due to market factors. Besides, the Company hedges its foreign currency risk exposure at the group level resulting from expected dividend inflows denominated in HUF. The hedging instruments used are a combination of several interest rate swaps denominated in EUR and CZK as well as several EUR/HUF cross currency swaps and foreign exchange swap contracts. Cash flows from the hedging instruments are scheduled in regular intervals from January 2020 to July 2024 to match with the contractual interest payments and expected dividend receipts.

The Company did not adopt hedge accounting option in its company financial statements.

12 Equity

12.1 Share capital

	31 December 2019 EUR	31 December 2018 EUR	1 January 2018 EUR
Authorised capital	1,000	1,000	1,000
Issued and fully paid up	1,000	1,000	1,000
Nominal value	1	1	1

The Company's share capital is registered and issued in Euro. All shares rank equally with regards to the Company's residual assets. The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company.

12.2 Share premium

Share premium is the amount by which the amount received by the Company in excess of par value of its shares. Share premium is freely distributable.

In 2019, the share premium was increased by nil (2018: TEUR 403,891) and reduced by nil (2018: TEUR 201,547).

As at 31 December 2019 the share premium amounts to TEUR 1,417,358 (2018: TEUR 1,417,358).

12.3 Reconciliation of the Company's equity to its consolidated equity

The difference between the Company's equity and its consolidated equity results from the fact that the Company presents its investments in subsidiaries at cost. In consolidated financial statements the subsidiaries are consolidated and their cumulative result is added to the consolidated equity. The Company's net result for 2019 is higher than the consolidated result by MEUR 238 as disclosed below (2018: higher by MEUR 31). The reconciliation of equity as per these separate financial statements and consolidated financial statements is shown below.

in MEUR (EUR million)	Share capital	Share premium	Revalu-ation reserve	Legal and statutory reserves	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Attributable to equity holders of parent
Individual balance as at 31 December 2019 in MEUR	**-**	**1,417**	**-**	**-**	**-**	**-**	**-**	**356**	**1,773**
Adjustment for:									
Dividend income								(632)	(632)
Net result of subsidiaries in 2019								394	394
Reserves related to subsidiaries				6	(9)	17		167	181
Consolidated balance as at 31 December 2019 in MEUR	**-**	**1,417**	**-**	**6**	**(9)**	**17**	**-**	**285**	**1,716**

12.3 Reconciliation of the Company's equity to its consolidated equity (continued)

in MEUR (EUR million)	Share capital	Share premium	Revaluation reserve	Legal and statutory reserves	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Attributable to equity holders of parent
Individual balance as at 31 December 2018 in MEUR	**-**	**1,417**	**-**	**-**	**-**	**-**	**-**	**294**	**1,711**
Adjustment for:									
Historical FX rate		(76)							(76)
Dividend income								(264)	(264)
Net result of subsidiaries in 2018								233	233
Reserves related to subsidiaries				6	75	19	-	131	231
Consolidated balance as at 31 December 2018 in MEUR	**-**	**1,341**	**-**	**6**	**75**	**19**	**-**	**394**	**1,835**

13 Dividend income

The composition of the Company's dividend income was as follows:

	2019 TEUR	2018 TEUR
PPF Telco B.V.	136,414	134,878
PPF Infrastructure B.V.	88,840	94,772
PPF TMT Bidco 1 B.V.	406,983	34,644
	632,237	264,293

14 Operating expenses

	2019 TEUR	2018 TEUR
Professional expenses	183	884
Financial expenses	1,507	615
	1,690	1,499

Professional expenses represented namely professional, legal and accounting services provided to the Company.

15 Finance costs

	2019 TEUR	2018 TEUR
Interest expense on due to banks	45,565	30,899
Interest expense on debt securities issued	14,600	-
Amortised origination fees	31,191	4,160
	91,356	35,059

16 Audit fee

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the fee in relation to the 2019 financial statements for audit services rendered by KPMG Accountants N.V. to the Company amount to TEUR 346 (2018 financial statements: TEUR 226). Besides, fees for other non-audit assurance services provided to the Company by KPMG Accountants N.V. and their affiliates in 2019 amounted to TEUR 289 (2018: nil).

17 Income tax

	2019 TEUR	2018 TEUR
Profit before tax	542,664	201,444
Non-taxable dividend	(632,237)	(264,293)
None-deductible costs (other)	66,801	17,461
Profit / (Loss) taxable	**(22,772)**	**(45,388)**
20% up to TEUR 200	-	-
25% over amounts above TEUR 200	-	-
Income tax expense	**-**	**-**

Deferred tax, in total amount of TEUR 5,290 (2018: TEUR 15,072) arising from unutilised tax losses is not recognised as its future utilisation is uncertain.

The Company is the head of a fiscal unity with PPF TMT Bidco 1 B.V. effective from 1 January 2019. Consequently, effective from 1 January 2019 the corporate income tax of the fiscal unity is calculated on a consolidated basis.

18 Employees and directors

During the reporting period the Company did not employ any personnel. The Company had 3 directors as at 31 December 2019 (31 December 2018: 3 directors). During 2019 and 2018 directors of the Company were not entitled to any remuneration.

19 Related parties

The Company has a related party relationship with its parent, subsidiaries and associates. All transactions with related parties are disclosed in the individual disclosures above. Furthermore, the Management Board, plus the close family members of such personnel and other parties, which are controlled, jointly controlled or significantly influenced by such individuals and entities in which the individuals hold significant voting power are also considered related parties. The Company did not conclude any transaction with these related parties in 2019 and 2018.

20 Events after the reporting period

In January 2020, the Company issued a secured bond amounting to MEUR 100 under the established MEUR 3,000 Euro Medium Term Note Programme. On 20 January 2020, the bond was consolidated and forms now a single series with the existing MEUR 500 bond due in 2025 (refer to Note 10). The bond proceeds were used to repay the Company's secured loans (refer to Note 9).

21 Profit appropriation for 2019

In 2019, the Company distributed dividend to its shareholder in total amount of TEUR 480,045 from the 2019 result (2018: TEUR 134,878).

22 Confirmation

The Company´s financial statements for the year ended 31 December 2019 give a true and fair view of the Company´s financial condition and operations as at and for the year ended 31 December 2019.

Date: 2 March 2020	Signature of the Board of Directors:

<u>Other information</u>

Profit appropriation

The allocation of profits accrued in a financial year shall be determined by the General Meeting of Shareholders. Distribution of profits shall be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts. The General Meeting of Shareholders may resolve at the proposal of the management board 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 which does not exceed the amount of the distributable equity.

Offices

The company has operating offices in the Netherlands and the Czech Republic. For further details please refer to Note 1 of the financial statements.

Auditor’s report

The auditor’s report on the company financial statements is set out at the end of the annual report.

Independent auditor's report

To: the General Meeting of Shareholders and the Board of Directors of PPF Telecom Group B.V. (formerly PPF Arena 1 B.V.)

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of PPF Telecom Group B.V. as at 31 December 2019 and of its result and its cash flows for the year then ended, 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.

What we have audited

We have audited the financial statements 2019 of PPF Telecom Group B.V. (the 'Company' or the 'Group') based in Amsterdam, the Netherlands.

The financial statements comprise:

1 the consolidated and company statement of financial position as at 31 December 2019;

2 the following consolidated and company statements for 2019: consolidated income statement and other comprehensive income, statement of changes in equity and statement of cash flows; and

3 the notes comprising a summary of the significant 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 Telecom Group B.V. in accordance with 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).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
— Group materiality of EUR 27 million — Based on total revenue (0.9%) — The Company materiality of EUR 22 million — Based on total assets (0.5%)

Group audit
— 98% of total assets — 98% of revenue — 92% of profit before tax

Key audit matters
— Valuation of goodwill — Litigations and regulatory investigations — Implementation of IFRS 16 – Leases

Opinion
Unqualified

Materiality

Based on our professional judgment we determined the materiality for the consolidated financial statements as a whole at EUR 27 million (2018: EUR 35 million) and for the company financial statements as a whole at EUR 22 million (2018: EUR 23 million).

The materiality for the consolidated financial statements is determined with reference to revenue (0.9%). We consider revenue as the most appropriate benchmark based on the nature of the business, the level of activities and focus of the users of the consolidated financial statements on revenue for the purpose of evaluating the Group's financial performance in the telecom sector.

The materiality for the company financial statements is determined with reference to total assets (0.5%). We consider total asset as the most appropriate benchmark based on the nature of the business of the Company as holding company without operational activities.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the consolidated and company financial statements for qualitative reasons.

We agreed with the Board of Directors that misstatements in excess of EUR 1.35 million and EUR 1.1 million which are identified during the audit of the consolidated and company financial statements respectively, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds*.*

Scope of the group audit

PPF Telecom Group B.V. is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of PPF Telecom Group B.V. The Group is structured along 7 segments: CETIN, O2 Czech Republic, O2 Slovak Republic, Telenor Hungary, Telenor Bulgaria,Telenor Serbia & MNE and other.

Because we are ultimately responsible for the audit opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities (or ‘components’).

Our group audit mainly focused on significant components. These significant components are either individually financially significant due to their relative size within the Group or because we assigned a significant risk of material misstatement to one or more account balances of the component. In addition, we included certain components in the scope of our group audit in order to arrive at a sufficient coverage over all relevant significant account balances.

This resulted in a full scope audit for 6 components with a total coverage of 98% of revenue, 98% of total assets and 92% of profit before tax. For the remaining population procedures were performed at the group level including analytical procedures in order to corroborate our assessment that the risk in the residual population is remote. This coverage is in line with our 2018 audit.

We sent audit instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. All components in scope for group reporting purposes are audited by KPMG member firms, except for Telenor d.o.o. Beograd (Serbia) which is audited by EY.

The group audit team has set component materiality levels ranging from EUR 5 million to EUR 20 million, based on the mix of size and risk profile of the components within the Group. The consolidation of the Group, the disclosures in the financial statements and certain accounting topics that are dealt with at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, the assessment of the use of the going concern assumption, goodwill impairment testing, equity, certain elements of the risk and capital management disclosures and certain legal proceedings.

We visited locations in Czech Republic and Serbia (prior year Czech Republic, Hungary and Bulgaria) where we discussed the audit work performed with the component audit teams. For other components we performed remote reviews. With all component auditors we held conference calls and/or physical meetings. During these visits, meetings and calls we discussed in more detail the planning and the risk assessment phase and the procedures performed including the findings and observations. Based on these meetings and calls we as group auditor assessed the sufficiency of the audit procedures performed.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

The audit coverage as stated in the section summary is as follows:

Total assets	Revenue	Profit Before Tax
98%	98%	92%
Full scope audit	Full scope audit	Full scope audit

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill

Description

As at 31 December 2019, the goodwill in the Group amounts to EUR 1,603 million. This goodwill is allocated to a number of Cash Generating Units (CGUs) for which management is required to test the carrying value of goodwill for impairment annually or more frequently if there is a triggering event for testing. The impairment tests were significant to our audit as the assessment process is complex due to the level of judgment based on assumptions, such as WACCs and growth rates that are affected by future market or economic conditions.

No impairment of goodwill was recognised during 2019.

Our response

With involvement of our valuation specialist, our procedures to assess the valuation of goodwill included, amongst others:

- Obtain an understanding of the management's annual impairment test, including evaluation of relevant internal controls designed by management to estimate the free cash flows.
- Assessment of the appropriateness of the methodology and mathematical accuracy of the calculations in the model.

— Assessment of management's goodwill impairment analysis with a focus on the appropriateness of the management's identification of the Group's CGUs and the assumptions to which the outcome of the impairment test is most sensitive, such as the WACCs, free cash flows in the forecast period and the terminal growth rates.
— Involvement of specialists to assess the impairment model, the WACC and terminal growth rates used based on historical data and analysis of sensitivities.
— Assessment of the adequacy of the related disclosure in relation to the requirements of IAS 36.

Our observation

Based on our procedures relating to the valuation of goodwill we consider management's key assumptions and estimates to be within a reasonable range. We determined that the related disclosures (note E.8.1) meet the requirements of EU-IFRS.

Litigations and regulatory investigations

Description

As disclosed in note E.22.4 and E.22.5, the Group is a party to several lawsuits and regulatory proceedings. Management concluded under IAS 37 that it is not probable that a present obligation per 31 December 2019 exists and therefore an outflow of resources is not probable. Due to the complexity and judgment involved in assessing if there is an obligation, predicting the outcome and estimating the potential amounts of any fines, penalties and/or other settlements that could be material to the financial statements, we considered this to be a key audit matter.

Our response

Our audit procedures included, amongst others:

— Inquiry with the board of directors and director for corporate law, litigations and compliance on impending and existing lawsuits and regulatory proceedings, including an inspection of the relating documentation supporting the provided explanations (e.g. internal summary of lawsuits of the Group, minutes from the meetings of the board of directors and the supervisory board, protocols and other relevant correspondence related to ongoing proceedings);
— Critical assessment of the adequacy of the estimates of the probable impact made on the Group in respect of significant lawsuits and regulatory proceedings, supported by inquiries with external legal representatives of the Group through confirmation letters and in selected cases also by using our internal specialists in the field of law and regulatory matters;
— Evaluation of the adequacy of the Group's disclosure regarding contingent liabilities for litigations and regulatory investigations as included in note E.22.4 and E.22.5.

Our observation

We consider management's assessment of the litigations and regulatory investigations to be reasonable and determined that the disclosures meet the requirements of IAS 37.

Implementation of IFRS 16 – Leases

Description

As disclosed in Note E.20 to the consolidated financial statements the Group adopted IFRS 16 Leases on 1 January 2019. The application of this standard, resulted in an increase of non-current assets of EUR 539 million and an increase in financial liabilities of EUR 530 million as of 1 January 2019.

We identified the adoption of IFRS 16 related to the recognition of the right of use asset and lease liability as a key audit matter because of the judgment involved in the determination of discount rates, evaluation of lease extension options and determination of applicability of practical expedients.

Our response

Our procedures included, among others:

— Evaluating the Group's lease accounting policies, including practical expedients, that have been applied for the transition to and implementation of IFRS 16. This includes an assessment of the key judgments made by management such as the lease term and the discount rate used.

— To assess the completeness of the leases subject to IFRS 16 accounting, we have, amongst others, assessed whether the contracts for which IAS 17 rent expense was recognized in the previous years were included in the lease population subject to IFRS 16.

— We assessed, on a sample basis, the measurement of the lease liability and the related right-of-use assets based on the contractual obligations, assessment of extension options, the initial direct costs incurred by the lessee and estimate of costs to be incurred by the lessee for dismantling and removing the underlying asset.

— We challenged management's assumptions, such as the applied lease term and discount rate, applied by the Company in determining the lease liability and related right-of-use asset, by inspecting the enforceable period in the lease contracts, including, amongst others, the evaluation of extension options, and determination of the incremental borrowing rate (IBR).

— Where considered necessary, we were assisted by valuation specialists to assess the reasonableness of the IBRs applied.

Our observation

Based on our procedures performed for the transition to and implementation of IFRS 16, we consider that management's key judgments are within a reasonable range and the disclosures (Note E.20) are in accordance with IFRS 16.

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.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- 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 information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Board of Directors as auditor of PPF Telecom Group B.V. on 19 November 2018, as of the audit for the year 2017 and have operated as statutory auditor ever since that financial year.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is 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 is responsible for such internal control as management determines, is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing PPF Telecom Group B.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors of PPF Telecom Group B.V. should prepare the financial statements using the going concern basis of accounting unless Board of Directors of PPF Telecom Group B.V. either intends to liquidate PPF Telecom Group B.V. or to cease operations, or has no realistic alternative but to do so. The Board of Directors of PPF Telecom Group B.V. 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 engagement 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. 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 included in the appendix of this auditor's report on the next page. This description forms part of our auditor's report.

Amstelveen, 2 March 2020

KPMG Accountants N.V.

M.L.M. Kesselaer RA

Appendix:
Description of our responsibilities for the audit of the financial statements

Appendix

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

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

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the components or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

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

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.