PPF ARENA 1 B.V.

Annual accounts 2018

Content:

Directors' Report

Description of the Company

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 Arena 1 B.V. (the "Parent Company" or the "Parent") is a leading provider of telecommunication services in the CEE region including mobile telecommunication, fixed-line telecommunication, telecommunications infrastructure, data services and internet television. PPF Arena 1 B.V. belongs to the group comprised of PPF Group N.V. and its subsidiaries ("PPF Group"). The PPF Group is privately held and is ultimately majority owned and controlled by Mr. Petr Kellner. PPF Arena 1 B.V. and its subsidiaries (collectively, the "Group") provide services in the Czech Republic, Slovakia, Hungary, Bulgaria, Serbia and Montenegro and operates through seven principal segments, based primarily on geography. In addition, the Group undertakes certain other ancillary activities included in its Unallocated segment. Details to 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 as a financial 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 basis. 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 16.14%. of its shares were in free-float as of 31 December 2018. 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.

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 equal and transparent footing. As of 31 December 2018, 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 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 is 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. and Telenor Real Estate Hungary Zrt. (Telenor Hungary), a leading mobile telecommunications provider in Hungary. Furthermore, Telenor Real Estate Hungary Zrt. owns the principal real estate used by Telenor Hungary, including its main office buildings.

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, Telenor Direct d.o.o. Beograd and Telenor Foundation Beograd (collectively, Telenor Serbia) and Telenor d.o.o. Podgorica, Telenor Direct MNE 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 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. and PPF TMT Bidco 1 B.V.

As at 31 December 2018, companies held by the Parent Company served 16.3 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 of 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 growing 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.

2018 highlights

In March 2018, the Group entered into an agreement with the Norwegian incumbent telecom operator Telenor to acquire the Telenor CEE Group, i.e., Telenor's telecommunication assets in Hungary, Bulgaria, Serbia and Montenegro; the relevant regulatory approvals and acquisition closing occurred in July 2018. Through this acquisition, the Group expanded its telecommunications portfolio to these four countries, more than doubled its customers and almost doubled its EBITDA, thus becoming a major telecommunications provider in the wider CEE region. The focus of the Group following the acquisition was on the separation of the Telenor CEE Group from the Telenor Group in terms of management, technologies, IT and other corporate services, while stabilising the companies, launching an operational efficiency programme and achieving cross-border synergies.

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.

Key Results

Operational performance
O2 Czech Republic continued strengthening its leading market position, with modest growth of mobile customer base by 2% and continued migration of customers from fixed voce to mobile and from pre-paid subscriptions to contracts. Fixed broadband subscriptions declined by 4.8% with stabilising churn rates. Subscriptions of O2 TV service reached 335 thousand in 2018, posting another strong annual growth of 23%.

O2 Slovakia continued growing its market share, with customer growth of 4.7% and strong conversion of pre-paid subscriptions to contracts.

CETIN further strengthened its mobile network by adding new stations, new layers and new network capacity, and signed contracts with new mobile operators. Fixed network modernisation programme has delivered another strong improvement and the company now offers Next Generation Access lines (40 Mbps or more) in two thirds of its connections, including speeds of up to 1 Gbps. These improvements and new long-term contracts with retail operators brought about the reversal of the declining trend of DSL customer base.

Telenor CEE Group companies reported resilient business performance unaffected by the change of ownership, with healthy growth of mobile traffic and data consumption and growing postpaid customer base across the board.

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

O2 Group achieved modest revenue growth of 0.8%, driven by strong commercial performance of mobile segments in both Czechia and Slovakia. Fixed services revenues in O2 Czech Republic continued to decline mainly due to continued fixed-to-mobile substitution. Consolidated reported EBITDA improved by 6.2% year-on-year, driven by revenue growth and improving operational efficiency. Consolidated net profit in 2018 slightly declined due to increased depreciation and amortisation, mainly caused by robust investment programme.

CETIN's revenues slightly declined in 2018, with 0.7% adverse impact to gross margin, mainly due to the deterioration of the low-margin international voice transit markets and due to continued churn of the traditional fixed lines. Growing energy consumption, related to network expansion together with energy price inflation and insourcing of critical functions caused EBITDA to decline by 1.0%.

Telenor CEE Group companies reported healthy revenue and EBITDA growth driven by growing mobile data consumption and cost discipline.

Capital expenditure
In 2018, the Group acquired fixed assets in the amount of MEUR 364[1]. These investments were mainly channelled into the development of telecommunication 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 the growing demand for mobile data consumption and in preparation for 5G networks.

O2 Czech Republic also invested in contents rights for its leading IPTV platform and CETIN continued modernising its national broadband network, both to protect their market leadership positions.

Fixed assets
Fixed assets of the Group increased significantly in 2018 due to the acquisition of assets of Telenor CEE Group.

Tangible assets increased by the acquisition of Telenor CEE Group's assets and further due to continued investment

[1] Organic capital expenditures excluding the acquisition of Telenor CEE Group fixed assets

in development of telecommunication infrastructure across all segments, reaching a total of MEUR 2,552 as of 31 December 2018.

Intangible assets and goodwill increased substantially mainly due to the acquisition of spectrum and brand licences, customer relationship and other assets of Telenor CEE Group including goodwill resulting from the transaction. Further additions were investments in contents rights and in improvement of customer-facing systems across all segments, reaching a total of MEUR 3,621 as of 31 December 2018.

For detailed information, see Notes E.6 and E.7 of the accompanying consolidated financial statements.

Debt and equity
In March 2018, PPF Arena 1 B.V. entered into a Facilities Agreement with a syndicate of banks. In July 2018, PPF Arena 1 utilised under this agreement four secured term loan facilities amounting to a total of BEUR 2.8. The loans are denominated in EUR and CZK and repayable by 2023 and 2024. The CZK-denominated loans in amount corresponding to BEUR 0.4 were used to fully refinance the existing loan facilities related to the acquisition of O2 CZ. The EUR-denominated loans of BEUR 2.4 were used to finance the acquisition of Telenor CEE Group.

In April 2018, the Group completed subscription of six tranches of new Schuldschein financing amounting to MEUR 137 with maturity of 5 to 7 years.

The total consolidated indebtedness of PPF Arena 1 B.V. as of 31 December 2018 thus represented BEUR 4, having increased by BEUR 2.4 during 2018. For detailed information, see Notes E.12 and E.13 of the accompanying consolidated financial statements.

Owner's equity of the company has grown by BEUR 0.4 during 2018, mainly owing to net profit achieved in 2018 and net increase in share premium, reaching a total of BEUR 2.2 as of 31 December 2018.
The new debt, taken on mainly to finance the acquisition of Telenor CEE Group, has increased Debt to assets ratio[2] from 0.6 to 0.7 and Debt to equity ratio[3] from 1.4 to 2.5.

Profit distribution and other payments to shareholders
The consolidated net profit of the Group in 2018 reached MEUR 233, adding to MEUR 216 of earnings retained from previous years. PPF Arena 1 paid MEUR 135 of dividend to its shareholders, while non-controlling shareholders received MEUR 75 of dividends.

Cash flows
Consolidated net cash from operating activities of the Group reached MEUR 764, growing substantially year-over-year due to contributions from the newly acquired operations. Net cash used in investment activities excluding acquisitions of subsidiaries consisted mainly of investments in the development of telecommunication infrastructure, with minor proceeds from assets disposals. Free cash flows excluding acquisitions and sales of subsidiaries reached MEUR 315.

Cash inflows from financing in 2018 comprised mainly of proceeds from a bank loan of MEUR 2,786 and MEUR 203 of share premium from net increase of owner's equity. Sales of shares in subsidiaries generated additional MEUR 173 of cash flows from investing activities.

These proceeds were mainly used to pay MEUR 2,674 for the acquisition of Telenor CEE Group and to refinance MEUR 449 of the existing loan facilities. After net interest payments of MEUR 48 and distribution of MEUR 225 of profits to shareholders, the closing cash position of the Group reached MEUR 262, having increased by MEUR 81 during 2018.

For detailed information, see the accompanying Consolidated Statement of cash flows for the financial year ended on 31 December 2018.

Business Outlook

The group will continue growing the Group's revenue base within the current telecommunications market, primarily

[2] Debt to assets = total liabilities / total assets
[3] Debt to equity = total liabilities / owners' equity

through organic growth. The Group's long term focus is to maintain a low churn rate of customers and improve its mobile customers mix in order 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. In order to maintain a leading position in its respective telecommunications markets and to ensure high quality of service, the Group plans to continue investing substantial amounts into modernisation of its infrastructure and into development of new products and services, such as hardware, travel insurance or investment in various start-up ventures. The Group is in the process of deploying new infrastructure to capture the growing demand for data services and to facilitate speed upgrades in both mobile and fixed market segments.

The Group will continue to invest in research and development of new telecommunication solutions and products, to sustain or extend its market positions in local markets. At the local level, the segments will continue developing tactical solutions and products for its local markets. The central executive management will continue researching and developing strategic solutions around the emerging technologies and trends that 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 financial markets and may consider 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 in development of more efficient internal systems to further increase the time spent by its employees on value added activities, especially in customer-facing positions.

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 Arena 1 B.V.

Senior Management
The senior management of the Group except the O2 Group (the "Senior Management") consists of chief executive officer, chief technology officer, chief commercial officer and the chief executive officers of Group's main operating subsidiaries. O2 is not under 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. 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 of 31 December 2018.

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
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
Sandra Stajner	Chief Executive Officer of Telenor Montenegro	1September 2015

Staff development
The average number of employees during 2018 reached 12,027, having grown substantially compared to 2017 (6,805 employees) mainly due to the acquisition of Telenor CEE Group. CETIN has insourced some of its key network construction capabilities during 2018 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 is conducted by the subsidiaries of PPF Arena 1 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 the larger society.

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

The concerns that the society has about telecommunication are mainly about privacy and security. Each operating segment of the Group is continuously working on improving the privacy of the data of its customers 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 around increasing the security of individuals and of the public from crime and terrorism.

The Group is contributing to these efforts by enabling transfers of the best practices across the segments
.
The Group segments operate within national and international supply chains for telecommunication equipment and software and for network construction materials. The Group pays a close attention to the selection of its suppliers, choosing them from the world's most reputable providers, and requires certificates of quality and compliance of the products with all standards and regulations that are relevant to 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 the current generation and future generations. It has therefore incorporated a policy of limiting negative environmental impacts in its strategy and everyday activities. Targets leading to limiting negative impacts on the environment in 2018 mainly focused on reducing energy consumption, making fuel savings and replacing refrigerants in air-conditioning units, which will also lead to reducing the emission of greenhouse gases and harmful substances into the air and to financial savings.

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

Information supply and computerisation

The Company'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 level of customisation. Telecommunication network management systems are mostly industry standard systems supplied by technology vendors. Customer-facing systems are mostly own development, 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 PPF Group Code of Ethics that deals among other topics with 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 action which is unethical or improper and/or action which is 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) (the “Management Board”). The Management Board represents the Issuer 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 in its sole discretion. Re-election of the members of the Management Board is permitted. Pursuant to the Parent Company’s Articles of Association (*statuten*) (the “Articles of Association”), the Management Board has at least one member. As of the date of these Base Listing Particulars, all three members of the Management Board are executive.

All members of the Management Board are obliged to perform their tasks and duties further 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 of 31 December 2018:

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 Arena 1 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 Arena 1 B.V. pays close attention to gender diversity in the process of recruiting and appointing new members of the Management Board. PPF Arena 1 B.V. will retain an active and open attitude as regards selecting female candidates.

Audit Committee

An audit committee has been established at 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 Arena 1 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 Arena 1 B.V..

Risk management

Uncertainties and risks that the Group is facing are continually identified by all segments and evaluated from the perspective of potential financial impacts and the risk likelihood. Significant risks are periodically monitored, preventive measures applied to effectively limit the impacts or likelihood and the effectiveness of the measures is periodically reviewed by the management.

Strategic uncertainties

The Group's main strategic uncertainties stem from the potential changes in the market environment, including regulation, 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 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.

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 16 million private and corporate customers, and liquidity risk, stemming from differences in timing of operating, investing and financing cash inflows 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 insights into 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 monitored on an ongoing basis, together with the resulting non-significant Group's exposure to bad debts. With the acquisition of Telenor CEE Group, the overall exposure of the Group to credit risk more than doubled in 2018. The vast majority of the risk in 2018 was related to trade receivables from retail customers, followed by corporate sector, with 30% stemming from Czechia and another 30% from 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 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 12-18 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 40% of the Group's debt is however due in 1 to 5 years and another 40% in more than 5 years.
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 risk arising from floating, interest-rate-bearing cash investments and some debt instruments with a floating interest rate. 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 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.

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 January 2019 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 the 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.

6 March 2019

Board of Directors:

Jan Cornelis Jansen
Director

Lubomír Král
Director

Marcel Marinus van Santen
Director

PPF Arena 1 B.V.

Consolidated financial statements for the year ended 31 December 2018

Contents

Glossary

AFS	- available for sale
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
JV	- joint venture
NCI	- non-controlling interests
OCI	- other comprehensive income
PPE	- property, plant and equipment

Consolidated income statement and other comprehensive income

In millions of EUR

	Note	2018	2017
Revenue	E1	2,415	1,826
Other income from non-telecommunication services	E2	9	7
Operating expenses	E3	(1,485)	(1,129)
Net gain from sale of investments in subsidiaries		1	-
Earnings before impairment loss, interest, tax, depreciation and amortisation (EBITDA)		**940**	**704**
Depreciation and amortisation		(469)	(341)
Amortisation of costs to obtain or fulfil a contract	E1.3	(28)	-
Impairment loss		(8)	(11)
Operating profit (EBIT)		**435**	**352**
Finance income	E4	5	9
Finance costs	E4	(122)	(24)
Profit for the period before tax		**318**	**337**
Income tax expense	E5.1	(85)	(73)
Profit for the period		**233**	**264**
Other comprehensive income*			
Currency translation differences		(17)	78
Gains/(losses) on valuation differences from cash flow hedges		12	(11)
Cash flow hedge - net amount transferred to the income statement		(3)	31
FVOCI revaluation losses		(1)	-
Income tax related to components of OCI		(2)	(4)
Other comprehensive income, net of tax		**(11)**	**94**
Total comprehensive income for the period		**222**	**358**
Profit attributable to:			
Equity holders of the Parent		170	209
Non-controlling interests		63	55
Profit for the period		**233**	**264**
Total comprehensive income attributable to:			
Equity holders of the Parent		162	290
Non-controlling interests		60	68
Total comprehensive income for the period		**222**	**358**

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

Consolidated statement of financial position

In millions of EUR

	Note	31 December 2018	31 December 2017
ASSETS			
Property, plant and equipment	E6	2,552	2,077
Intangible assets	E7.2	2,012	1,045
Goodwill	E7.1	1,609	549
Equity-accounted investees		1	1
Investment securities	E8	2	2
Receivables due from banks	E8.3	6	12
Trade and other receivables	E8.4	69	23
Contract assets	E8.5	30	-
Cost to obtain or fulfil the contract	E1.3	31	-
Deferred tax assets	E5.2	3	3
Other assets	E9	19	7
Non-current assets		**6,334**	**3,719**
Investment securities	E8	174	-
Inventories	E10	73	34
Receivables due from banks	E8.3	-	12
Trade and other receivables	E8.4	600	310
Contract assets	E8.5	50	-
Cost to obtain or fulfil the contract	E1.3	17	-
Current income tax receivables		6	3
Cash and cash equivalents	E11	262	182
Other assets	E9	50	26
Current assets		**1,232**	**567**
TOTAL ASSETS		**7,566**	**4,286**
LIABILITIES			
Due to banks	E12	3,023	804
Debt securities issued	E13	812	813
Financial liabilities at fair value through profit or loss	E8.1	53	12
Deferred tax liabilities	E5.2	425	333
Trade and other payables	E14	40	54
Contract liabilities	E8.5	58	-
Provisions	E15	40	18
Non-current liabilities		**4,451**	**2,034**
Due to banks	E12	151	1
Current income tax liability		11	6
Trade and other payables	E14	745	474
Contract liabilities	E8.5	32	-
Provisions	E15	13	6
Current liabilities		**952**	**487**
TOTAL LIABILITIES		**5,403**	**2,521**
Issued capital*	E16	-	-
Share premium	E16	1,341	1,138
Other reserves	E17	100	105
Retained earnings		394	216
Total equity attributable to equity holders of the Parent		1,835	1,459
Non-controlling interests	E18	328	306
Total equity		**2,163**	**1,765**
TOTAL LIABILITIES AND EQUITY		**7,566**	**4,286**

*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	Revaluation of financial assets at FVOCI	Hedging reserve	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	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.

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 non-controlling interest	Total
Balance as at 1 January 2017	**-**	**1,229**	**5**	**19**	**(1)**	**146**	**1,398**	**294**	**1,692**
Profit for the period	-	-	-	-	-	209	209	55	264
Currency translation differences	-	-	-	67	-	-	67	11	78
Effect of hedge accounting	-	-	-	-	(13)	-	(13)	2	(11)
Net change in fair value of CF hedges transferred to income statement	-	-	-	-	31	-	31	-	31
Tax on items taken directly to or transferred from equity	-	-	-	-	(4)	-	(4)	-	(4)
Total comprehensive income	**-**	**-**	**-**	**67**	**14**	**209**	**290**	**68**	**358**
Net allocation to legal and statutory reserves	-	-	1	-	-	(1)	-	-	-
Dividends paid to shareholders	-	-	-	-	-	(181)	(181)	-	(181)
Dividends to NCI	-	-	-	-	-	-	-	(55)	(55)
Net decrease of share premium	-	(91)	-	-	-	-	(91)	-	(91)
Distributions paid to NCI	-	-	-	-	-	-	-	(13)	(13)
Other changes in NCI	-	-	-	-	-	43	43	12	55
Total transactions with owners of the Parent	**-**	**(91)**	**1**	**-**	**-**	**(138)**	**(229)**	**(56)**	**(285)**
Balance as at 31 December 2017	**-**	**1,138**	**6**	**86**	**13**	**216**	**1,459**	**306**	**1,765**

*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	2018	2017
Cash flows from operating activities			
Profit before tax		318	337
Adjustments for:			
Depreciation and amortisation		469	341
Amortisation of costs to obtain or fulfil a contract		28	
Impairment losses on current and non-current assets		23	11
Profit on sale of investment securities		(1)	(3)
Net finance costs	E4	60	22
Other non-cash adjustments		50	30
Foreign exchange (gains)/losses (net)	E4	2	(48)
Net operating cash flow before changes in working capital		**949**	**690**
Change in inventories		(7)	(10)
Change in trade and other receivables		(40)	(58)
Change in contract assets		(7)	-
Change in other assets		(22)	1
Change in cost to obtain or fulfil the contract		(32)	-
Change in trade and other payables		28	43
Change in provisions		(5)	4
Cash flows from operating activities		**864**	**670**
Income tax paid		(100)	(76)
Net cash from/(used in) operating activities		**764**	**594**
Cash flows from investing activities			
Purchase of PPE and intangible assets		(309)	(322)
Change in term deposit		18	(12)
Purchase of investment securities		(173)	(1)
Acquisition of subsidiaries and associates, net of cash acquired	B.2.1.	(2,674)	(2)
Proceeds from disposals of PPE and intangible assets		15	31
Proceeds from investment securities		-	3
Proceeds from sale of subsidiaries to NCI		173	55
Net cash from/(used in) investing activities		**(2,950)**	**(248)**
Cash flows from financing activities			
Proceeds from the issue of share premium	E.19	406	-
Distribution of share premium	E.19	(203)	(91)
Cash collateral placed due to derivatives		-	(6)
Proceeds from loans due to banks		2,786	214
Payment of debt securities		-	(114)
Repayment of loans due to banks		(449)	(78)
Interest paid		(53)	(18)
Interest received		5	-
Dividends paid to NCI		(75)	(55)
Distributions to NCI		(15)	(13)
Dividends paid to shareholders		(135)	(181)
Cash flow from/(used in) financing activities		**2,267**	**(342)**
Net increase/(decrease) in cash and cash equivalents		**81**	**4**
Cash and cash equivalents as at 1 January		**182**	**168**
Effect of exchange rate changes on cash and cash equivalents		(1)	10
Cash and cash equivalents as at 31 December		**262**	**182**

The consolidated financial statements were approved by the Board of Directors on 6 March 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

PPF Arena 1 B.V. (the "Parent Company" or the "Parent") 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 2018 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 2018 and 2017.

A.2. Statement of compliance

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 2018, 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.7)
- useful life of tangible and intangible fixed assets
- provisions recognised under liabilities (refer to E.15)
- impairment of trade receivables and contract assets (refer to E.8)
- commissions as costs to obtain contracts with customers
- stand-alone selling prices.

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 judgment 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.20, 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 the new 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. The functional currency of the Parent, O2 Czech Republic, and CETIN is CZK (refer to section G.1). The functional currencies of the acquired Telenor CEE operations correspond to the country of origin: HUF for Hungary, BGN for Bulgaria, RSD for Serbia and EUR for Montenegro.

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, associates or joint ventures of the Parent Company as at 31 December 2018 and 31 December 2017.

Company	Domicile	Effective proportion of ownership interest	
		31 Dec. 2018	31 Dec. 2017
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	67.69%	72.83%
O2 IT Services s.r.o.	Czech Republic	67.69%	72.83%
O2 Slovakia, s.r.o.	Slovakia	67.69%	72.83%
PPF Infrastructure B.V.	Netherlands	100.00%	100.00%
PPF Telco B.V.	Netherlands	100.00%	100.00%
PPF TMT Bidco 1 B.V.	Netherlands	100.00%	-
Telenor Bulgaria EAD	Bulgaria	100.00%	-
Telenor Common Operation Zrt.	Hungary	100.00%	-
Telenor d.o.o. Beograd	Serbia	100.00%	-
Telenor d.o.o. Podgorica	Montenegro	100.00%	-
Telenor Magyarország Zrt.	Hungary	100.00%	-
Telenor Real Estate Hungary Zrt.	Hungary	100.00%	-

*As at 31 December 2018, 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% (2017: 70.79%).

As at 31 December 2018 and 2017, PPF Group N.V. holds a 100% stake in CETIN and an 83.4% effective stake in O2 Czech Republic a.s.

B.2. Significant changes in the Group structure in 2018 and 2017

B.2.1. Acquisition of Telenor’s telecommunications assets in CEE countries

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

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

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 Arena 1 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.2.2. 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 taking into account 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.2.3. Sale of O2 CR shares in 2017

In February 2017, the Group sold a 3% stake in O2 Czech Republic a.s. to an external party. As a consequence, the effective share taking into account the treasury shares held by O2 CR decreased to 72.83%.

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

In millions of EUR

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

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

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

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 2018	31 December 2018	31 December 2017	31 December 2017
Economic concentration				
Household/individuals	416	44.30%	128	34.97%
Corporate sector	314	33.42%	190	51.91%
Financial services	17	1.81%	34	9.29%
Public sector/Government	192	20.47%	14	3.83%
Total	**939**	**100.00%**	**366**	**100.00%**
Geographic concentration				
Czech Republic	400	42.60%	235	64.21%
Slovak Republic	94	10.01%	69	18.85%
Hungary	131	13.95%	-	0.00%
Serbia	118	12.57%	-	0.00%
Bulgaria	99	10.54%	-	0.00%
Other EU countries	63	6.71%	42	11.48%
Other	34	3.62%	20	5.46%
Total	**939**	**100.00%**	**366**	**100.00%**
Of which:				
Financial assets at FVTPL (E.8.1)	176	18.74%	1	0.27%
Receivables due from banks (E.8.3)	6	0.64%	24	6.56%
Trade and other receivables (E.14)	669	71.25%	333	90.98%
Contract assets (IFRS 15) (E.8.5)	80	8.52%	-	-
Guarantees provided (E.20.2)	8	0.85%	8	2.19%
Total	**939**	**100.00%**	**366**	**100.00%**

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.20.2) and financial assets except 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 2018.

In millions of EUR, as at 31 December 2018

	Weighted-average loss rate	Gross amount	Loss allowance	Carrying amount	Credit-impaired
Current (not past due)	0.6%	602	(3)	597	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	-	796	(47)	749	

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.

Due to the choice of the IFRS 9 adoption method, the Company did not restate comparable data for the previous period. Comparable data in accordance with IAS 39 shows an analysis of the allowance for impairment losses for trade and other receivables as at 31 December 2017 is, as follows:

In millions of EUR, as at 31 December 2017

	Gross amount	Loss allowance	Carrying amount
Current (not past due)	**270**	**-**	**270**
Past due but not impaired			
1-90 days	14	-	14
91-360 days	1	-	1
Impaired	82	(34)	48
Total	**367**	**(34)**	**333**

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 12-18 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 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
Trade and other receivables	481	169	99	-	749
Cash and cash equivalents	262	-	-	-	262
Total financial assets	**743**	**343**	**107**	**-**	**1,193**

Financial assets at FVTPL comprise 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)	153	1,162	1,861	3,174
Debt securities issued	-	-	812	-	812
Financial liabilities at FVTPL	-	-	9	44	53
Trade and other payables	619	128	37	1	785
Total financial liabilities	**617**	**281**	**2,020**	**1,906**	**4,824**
Net liquidity position 2018	**126**	**62**	**(1,913)**	**(1,906)**	**(3,631)**

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial assets at FVTPL	-	-	1	-	1
Financial assets available for sale	-	-	-	1	1
Receivables due from banks	12	-	12	-	24
Trade and other receivables	252	58	23	-	333
Cash and cash equivalents	182	-	-	-	182
Total financial assets	**446**	**58**	**36**	**1**	**541**

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to banks	-	1	702	102	805
Debt securities issued	-	-	623	190	813
Financial liabilities at FVTPL	-	-	12	-	12
Trade and other payables	328	145	9	46	528
Total financial liabilities	**328**	**146**	**1,346**	**338**	**2,158**
Net liquidity position 2017	**118**	**(88)**	**(1,310)**	**(337)**	**(1,617)**

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 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	618	128	38	1	785
Provided payment guarantees	1	5	1	-	7
Total	**636**	**359**	**2,348**	**1,894**	**5,237**

In millions of EUR, as at 31 December 2017

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to banks	3	12	734	102	851
Debt securities issued	-	11	659	193	863
Trade and other payables	328	127	29	44	528
Total	**331**	**150**	**1,422**	**339**	**2,242**

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 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	0.22%	-	174	2	-	176
Receivables due from banks	-	-	-	6	-	6
Trade and other receivables	-	481	169	99	-	749
Cash and cash equivalents	0.4%	262	-	-	-	262
Total financial assets		**743**	**343**	**107**	**-**	**1,193**

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%	3,007	51	27	89	3,174
Debt securities issued	1.5%	-	-	812	-	812
Financial liabilities at FVTPL	-	-	-	9	44	53
Trade and other payables	0.2%	619	128	37	1	785
Total financial liabilities		**3,626**	**179**	**885**	**134**	**4,824**
Net position 2018		**(2,883)**	**164**	**(778)**	**(134)**	**(3,631)**

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial assets at FVTPL	-	-	-	1	-	1
Financial assets available for sale	-	-	-	-	1	1
Receivables due from banks	-	12	-	12	-	24
Trade and other receivables	-	252	58	23	-	333
Cash and cash equivalents	0.01%	182	-	-	-	182
Total financial assets		**446**	**58**	**36**	**1**	**541**

In millions of EUR, as at 31 December 2017

	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Due to banks	3.0%	669	30	18	88	805
Debt securities issued	1.5%	-	-	622	191	813
Financial liabilities at FVTPL	-	-	-	12	-	12
Trade and other payables	-	328	145	9	46	528
Total financial liabilities		**997**	**175**	**661**	**325**	**2,158**
Net position 2017		**(551)**	**(117)**	**(625)**	**(324)**	**(1,617)**

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 2018

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

In millions of EUR, as at 31 December 2017

	EUR	CZK	Total
Net investment in foreign operation	358	2,051	2,409

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 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.

In millions of EUR, as at 31 December 2017

	EUR	USD	Other	Total
Financial assets	84	15	5	104
Financial liabilities	730	14	4	748
Net FX position	**(646)**	**1**	**1**	**(644)**

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

In millions of EUR

	CZK	HUF	BGN	RSD
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
Effect of 5% currency depreciation against EUR in 2017	(105)	-	-	-
Effect of 5% currency appreciation against EUR in 2017	106	-	-	-

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 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 January 2019 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 2018 and 2017, the cash flow hedges of 02 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 2018 or 2017:

In millions of EUR

	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Receivables due from banks (Level 2)	6	6	24	24
Trade and other receivables (Level 3)	749	749	333	333
Due to banks (Level 2)	(3,174)	(3,168)	(805)	(800)
Debt securities issued (Level 2)	(812)	(818)	(813)	(831)
Trade and other payables (Level 3)	(785)	(785)	(528)	(528)

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

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

In millions of EUR, as at 31 December 2018

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

In millions of EUR, as at 31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	-	1	-	1
Financial assets available for sale	-	1	-	1
Financial liabilities at FVTPL	-	(12)	-	(12)
Total	**-**	**(10)**	**-**	**(10)**

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. Any breaches in meeting the financial covenants would permit lenders to call loans and borrowings, subject to the Group not being able to remedy the breach. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

The 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 2018 and 2017.

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 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 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 2018 and 2017 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

	2018	2017
Revenue	2,415	1,826
Other income from non-telecommunication operation	9	7
Total revenue from external customers	**2,424**	**1,833**

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

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	1,067	177	(367)	7,566
Equity-accounted investees	-	1	-	-	-	-	-	-	1
Segment liabilities	1,352	772	195	132	112	172	2,797	(129)	5,403
Segment equity	**886**	**1,118**	**322**	**1,105**	**695**	**895**	**(2,620)**	**(238)**	**2,163**

In millions of EUR

2017	CETIN	O2 Czech Republic	O2 Slovak Republic	Unallocated segment	Eliminations	**Consolidated**
Revenue from external customers	407	1,147	279	-	-	1,833
Inter-segment revenue	396	25	2	-	(423)	-
Total revenue	**803**	**1,172**	**281**	**-**	**(423)**	**1,833**
Operating expenses	(505)	(847)	(200)	-	423	(1,129)
EBITDA	**298**	**325**	**81**	**-**	**-**	**704**
Depreciation and amortisation	(151)	(142)	(48)	-	-	(341)
Impairment loss	(3)	(5)	(3)	-	-	(11)
EBIT	**144**	**178**	**30**	**-**	**-**	**352**
Finance income	6	3	-	-	-	9
Finance expense	(12)	(5)	(1)	(6)	-	(24)
Profit for the period before tax	**138**	**176**	**29**	**(6)**	**-**	**337**
Income tax expense	(28)	(32)	(13)	-	-	(73)
Profit for the period	**110**	**186**	**16**	**(6)**	**-**	**264**
Capital expenditure	(155)	(119)	(48)	-	-	(322)
Other significant non-cash expenses	(3)	(5)	(3)	-	-	(11)
Segment assets	2,209	1,907	483	1	(315)	4,285
Equity-accounted investees	-	1	-	-	-	1
Segment liabilities	1,320	729	152	396	(76)	2,521
Segment equity	**889**	**1,179**	**331**	**(395)**	**(239)**	**1,765**

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

	2018	2017
Mobile originated revenue	1,610	1,012
Fixed originated revenue	409	410
International transit revenue	304	342
Other wholesale revenue	90	62
Other sales	2	-
Revenue from telecommunication business	**2,415**	**1,826**
out of which:		
Services/Products transferred over time	2,196	1,707
Services/Products transferred at a point in time	217	119

Other Mobile and fixed originated revenue comprises hardware sales amounting to MEUR 264 (2017: MEUR 119).

For relevant information on contract assets and contract liabilities refer to E.8.4.

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

	2018	2017
Services/products transferred over time	2,196	1,707
Czech Republic	1,151	1,138
Slovakia	258	252
Germany	43	94
Switzerland	47	65
Hungary	178	-
Bulgaria	158	1
Serbia and Montenegro	147	-
Other	214	157
Services/products transferred at a point in time	217	119
Czech Republic	90	72
Slovakia	56	47
Hungary	38	-
Serbia and Montenegro	33	-

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. Amortisation of these costs is recognised in a separate line (amortisation of cost to obtain contracts) in profit or loss; the amortisation period is determined by the expected average duration of contracts separately for business customers and for consumers and separately for certain product types (ranging from 16 to 48 months).

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

In millions of EUR

	2018
Balance as at 1 January	22
Additions through business combinations	22
Capitalised costs to obtain contracts	32
Amortisation of capitalised costs to obtain contracts	(28)
Balance as at 31 December	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 non-observance of the performance indicators and, simultaneously, the monitoring of calculation corrections based on the revision of the period in which the customers use individual segments of the Group. Based on an assessment of these parameters, there was no impairment of the capitalised costs to obtain contracts as at 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

	2018	2017
Rental income	1	1
Other income	8	6
Total other income from non-telecommunication services	**9**	**7**

E.3. Operating expenses

Operating expenses comprise the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Supplies	592	535
Cost of telco and other devices sold (inventories)	254	122
Employee compensation	184	136
Payroll related taxes	64	52
Rental, maintenance and repair expense	141	102
Information technologies	65	57
Commissions	30	37
Advertising and marketing	35	26
Professional services	20	14
Telecommunication and postage	10	10
Taxes other than income tax	17	17
Net impairment losses on trade and other receivables	15	-
Restructuring charge	1	-
Other	57	21
Total operating expenses	**1,485**	**1,129**

E.4. Finance income and finance costs

Finance income comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Interest income	5	-
Net gain on financial assets	-	2
Net foreign currency gains	-	7
Total finance income	**5**	**9**

Finance costs comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Interest expenses	65	23
Net loss on financial derivatives	53	-
Fee and commission expense	2	1
Net foreign currency losses	2	-
Total finance costs	**122**	**24**

E.5. Income taxes

E.5.1. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the year ended 31 December

	2018	2017
Current tax expense	(95)	(78)
Deferred tax benefit	10	5
Total income tax expense	**(85)**	**(73)**

The following table reconciles the tax expense:

In millions of EUR, for the year ended 31 December

	2018	2017
Tax rate	25.0%	25.0%
Profit from continuing operations (before taxation)	316	337
Computed taxation using applicable tax rate	(79)	(84)
Tax non-deductible expenses	(13)	(12)
Non-taxable income	3	8
Tax rate differences on foreign results	20	20
Tax loss carry forward not recognised	(13)	(2)
Items taxed at a different tax rate (e.g. withholding tax)	(4)	(3)
Total income tax expense	**(85)**	**(73)**

E.5.2. Deferred tax

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

In millions of EUR, for the year ended 31 December

	2018	2017
Net deferred tax liability as at 1 January	(330)	(314)
Deferred tax income for the period	10	5
Deferred tax recognised directly in equity	(7)	(4)
Additions from business combinations	(97)	-
Effects of movements in exchange rates	2	(17)
Net deferred tax liability as at 31 December	**(422)**	**(330)**

Recognised deferred tax assets and liabilities were as follows:

In millions of EUR

	31 Dec. 2018 Deferred tax liabilities	31 Dec. 2018 Deferred tax assets	31 Dec. 2017 Deferred tax liabilities	31 Dec. 2017 Deferred tax assets
Trade receivables	-	8	-	-
Inventories	-	1	-	1
Property, plant and equipment	(272)	-	(235)	-
Intangible assets	(159)	1	(111)	1
Contract assets	(9)	-	-	-
Other assets	(4)	4	(2)	7
Other liabilities	-	6	-	5
Provisions	-	5	-	4
Other temporary differences	(3)	4	(6)	5
Value of loss carry-forwards recognised	-	1	-	1
Value of cash flow hedge	(5)	-	-	-
Deferred tax assets/(liabilities)	**(452)**	**30**	**(354)**	**24**
Net deferred tax assets/(liabilities)	**(425)**	**3**	**(333)**	**3**

E.5.3. Tax losses

As at 31 December 2018, the Group incurred tax losses from recent years of MEUR 144 (2017: MEUR 95), 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 33 (2017: MEUR 22). The unutilised tax losses can be claimed in the period from 2019 to 2028 in the Netherlands, 2019 to 2023 in the Czech Republic, 2019 to 2022 in Slovakia and will expire as follows:

In millions of EUR

	31 December 2018	31 December 2017
2018 – 2021	16	7
2022	14	16
2023	4	16
2024	41	45
2025	27	5
2026	6	6
2027	36	-
Total	**144**	**95**

E.6. 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 2018	238	1,355	319	38	127	2,077
Additions resulting from business combinations (refer to B.2.1)	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 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 2017	241	1,317	254	28	102	1,942
Additions	6	36	98	13	55	208
Disposal	(1)	-	(1)	-	-	(2)
Transfers	3	6	15	10	(34)	-
Depreciation charge	(22)	(79)	(63)	(13)	-	(177)
Effects of movements in exchange rates	11	75	16	-	4	106
Balance as at 31 December 2017	**238**	**1,355**	**319**	**38**	**127**	**2,077**
Cost	322	1,669	602	97	127	2,817
Accumulated depreciation and impairment	(84)	(314)	(283)	(59)	-	(740)

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.7. Intangible assets and goodwill

Intangible assets comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Goodwill	1,609	549
Software	245	132
Licences	605	345
Valuable rights	68	73
Customer relationships	1,017	407
Other intangible assets	55	4
Construction in progress	22	84
Total intangible assets	**3,621**	**1,594**

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, the second generation technology), UMTS (Universal Mobile Telecommunication System, the third generation mobile cellular technology for networks), CDMA (Code Division Multiple Access) and LTE (Long Term Evolution).

Valuable rights comprise the 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 the part of the 2018 acquisition, the Group acquired the licence agreement to use the Telenor brand in Hungary, Bulgaria, Serbia and Montenegro until April 2021.

Customer relationships are an asset ensuring a long-term revenue stream from customers who have made commitments to purchase specific amounts of products or services.

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

E.7.1. Goodwill

The following table shows the roll-forward of goodwill:

In millions of EUR, as at 31 December

	2018	2017
Balance as at 1 January	549	521
Additions from business combination	1,065	1
Impairment losses	(1)	-
Net exchange differences	(4)	27
Balance as at 31 December	**1,609**	**549**

Goodwill is allocated to individual CGUs as follows:

In millions of EUR, as at 31 December

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

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

<u>O2 CR</u>

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

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

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

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

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

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

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

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

CETIN

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

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

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

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

Discount rate – this reflects the Group's estimate of the risk and related expected return. The weighted average cost of capital forms the basis for the determination of the discount rate.

Relevant data taken from independent financial analysts as a benchmark for the weighted average cost of capital is used to determine the discount rate. The resulting discount rate and its effect on value in use are tested for sensitivity. The current methodology used as of 31 December 2018 will be subject to regular reassessment and, potentially, adjustment.

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

TELENOR

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

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

E.7.2. 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	Constructi on 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.2.1)	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)

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 2017	117	360	68	445	4	56	1,050
Additions resulting from business combinations	2	-	-	-	-	-	2
Additions	36	5	30	-	1	43	115
Disposal	(2)	-	-	-	-	-	(2)
Transfers	15	4	-	-	-	(19)	-
Amortisation charge	(41)	(35)	(28)	(58)	(2)	-	(164)
Impairment charge	(2)	-	-	-	(1)	-	(3)
Effects of movements in exchange rates	7	11	3	20	2	4	47
Balance as at 31 December 2017	**132**	**345**	**73**	**407**	**4**	**84**	**1,045**
Cost	287	471	175	639	9	84	1,665
Accumulated amortisation and impairment losses	(155)	(126)	(102)	(232)	(5)	-	(620)

E.8. Financial assets (excluding cash and cash equivalents)

Financial assets comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Financial assets at FVTPL	2	1
Financial assets at FVOCI/available for sale	-	1
Receivables due from banks	6	12
Trade and other receivables	69	23
Contract assets	30	-
Non-current	**107**	**37**
Financial assets at FVTPL	174	-
Receivables due from banks	-	12
Trade and other receivables	600	310
Contract assets	50	-
Current	**824**	**322**
Total financial assets	**931**	**359**

E.8.1. 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 2018	31 December 2017
Hedging derivatives	2	1
Czech treasury bills	173	-
Corporate bonds	1	-
Financial assets at FVTPL	**176**	**1**

Treasury bills issued by the Czech National Bank amounting to MEUR 173 with remaining maturity less than 1 year (2017: nil) 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 2018	31 December 2017
Currency derivatives	39	-
Interest rate derivatives	14	-
Hedging derivatives	-	12
Financial liabilities at FVTPL	**53**	**12**

Details of derivatives are provided in the following tables:

In millions of EUR, as at 31 December 2018

Currency derivatives	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**	**-**

In millions of EUR, as at 31 December 2017

Currency derivatives	Notional amount	Positive fair values	Negative fair values
OTC products:			
Forward exchange contracts	3	-	-
Total	**3**	**-**	**-**
Currency/cross currency swaps	565	-	(12)
Other	98	1	-
Total	**663**	**1**	**(12)**

E.8.2. Financial assets at FVOCI/available for sale

Financial assets in 2017 classified as available for sale (equity instruments) amounting to MEUR 1 were sold in 2018.

E.8.3. Receivables due from banks

Receivables due from banks comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Cash collateral for derivative instruments	6	12
Non-current	**6**	**12**
Term deposits at banks	-	12
Cash collateral for derivative instruments	-	-
Current	**-**	**12**
Total receivables due from banks	**6**	**24**

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 derivative transaction counterparty 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 collateral placed is regularly updated.

E.8.4. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Trade receivables	84	23
Subtotal (gross) - non-current	**84**	**23**
Individual allowances for impairment on trade receivables	(15)	-
Subtotal (net) - non-current	**69**	**23**
Trade receivables	597	337
Accrued income	35	7
Subtotal (gross) - current	**632**	**344**
Individual allowances for impairment on trade and other receivables	(32)	(34)
Subtotal (net) - current	**600**	**310**
Carrying amount trade and other receivables - total	**669**	**333**

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

In millions of EUR, for the year ended 31 December

	2018	2017
Balance as at 1 January (under IAS 39)	(34)	(25)
Adjustment on initial application of IFRS 9	-	
Balance as at 1 January (under IFRS 9)	(34)	-
Amount related to loans written off	-	2
Impairment losses recognised in income statement	(15)	(8)
Amount related to receivable written off	4	-
Effects of movements in exchange rates	(2)	(3)
Balance as at 31 December	**(47)**	**(34)**

E.8.5. 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 2018
Receivables, which are included in "trade and other receivables"	**81**
Contract assets	**80**
Non-current part	30
Current part	50
Contract liabilities	**(90)**
Non-current part	(58)
Current part	(32)

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

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 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 as at 31 December is as follows:

In millions of EUR

	2018
Within 1 year	452
1-2 years	30
2-5 years	(16)
More than 5 years	(41)
Transaction price on performance obligations yet to be satisfied	**425**

E.9. Other assets

Other assets comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Deferred expenses and advances	16	7
Other assets	3	-
Non-current	**19**	**7**
Deferred expenses and advances	36	18
Other tax receivables	6	6
Other assets	8	2
Current	**50**	**26**
Total other assets	**69**	**33**

E.10. Inventories

Inventories comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Goods	78	36
Other inventory	-	2
Gross value of inventories	**78**	**38**
Balance as at 1 January	(4)	(3)
Impairment losses recognised in the income statement	(1)	-
Effects of movements in exchange rates	-	(1)
Impairment losses on inventories	**(5)**	**(4)**
Net value of inventories	**(73)**	**34**

E.11. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Current accounts	261	181
Cash on hand	1	1
Total cash and cash equivalents	**262**	**182**

E.12. Due to banks

Liabilities due to banks comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Secured loans (other than repo)	2,608	395
Unsecured loans	407	409
Other	8	-
Non-current	**3,023**	**804**
Secured loans (other than repo)	129	-
Unsecured loans	1	1
Other	21	
Current	**151**	**1**
Total secured loans	**3,174**	**805**

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 four secured term loan facilities amounting to MEUR 882, MEUR 1,514, MCZK 3,745 and MCZK 6,427 (MEUR 2,792 in total), respectively. As at 31 December 2018, a committed revolving facility of MEUR 200 has not been utilised. The actual amount of outstanding secured loan liabilities stated in the table above 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. The facilities are secured *inter allia* by pledges over all shares of the Parent Company, PPF TMT Bidco 1 B.V., PPF Telco B.V., PPF Infrastructure B.V. and the Telenor operating entities (refer to E.20.4). As at 31 December 2018, the Group complies with the financial covenants imposed by its loan facilities.

The following loans are EUR-denominated:

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

*Initial agreed margin

The EUR loans were used to finance the acquisition of Telenor Group telecommunications assets in Central and Eastern Europe (refer to B.2.1.).

The following loans are CZK-denominated:

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

*Initial agreed margin

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

Unsecured loans comprise a long term facility agreement with 5-year maturity (until 2020) and a credit limit of MEUR 470. The facility is in Czech crowns and bears an interest rate of 1M PRIBOR + 0.6%. As at 31 December 2018, the Group utilised a total of MEUR 272

(2017: MEUR 274). In April 2018, the Group completed the subscription of six tranches of new Schuldschein financing amounting to MEUR 137 (comprising tranches of MCZK 3,000 and MEUR 20) with maturity of 5 to 7 years.

E.13. Debt securities issued

Debt securities issued compromise the following:

In millions of EUR

	Date of issue	Maturity	Fixed rate	31 December 2018	31 December 2017
Unsecured bond (MEUR 625)	2016	2021	1.42%	623	624
Unsecured bond (MCZK 4,866)	2016	2023	1.25%	189	189
Total debt securities issued				**812**	**813**

E.14. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR

	31 December 2018	31 December 2017
Settlements with suppliers	37	2
Deferred income and prepayments	2	50
Other liabilities	1	2
Non-current	**40**	**54**
Settlements with suppliers	499	361
Wages and salaries	33	30
Social security and health insurance	13	12
Prepaid cards	16	17
Other tax payable	36	22
Accrued expense	105	-
Deferred income and prepayments	32	25
Other liabilities	11	7
Current	**745**	**474**
Total trade and other payables	**785**	**528**

E.15. Provisions

Provisions comprises the following:

In millions of EUR

	31 December 2018	31 December 2017
Fixed asset retirement obligation	34	16
Provision for litigations except for tax issues	5	3
Provision for restructuring	2	-
Other provisions	12	5
Total provisions	**53**	**24**

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**

In millions of EUR

	Fixed asset retirement obligation	Provision for litigations except for tax issues	Other	Total
Balance as at 1 January 2017	10	4	6	20
Provisions created during the year	7	-	-	7
Provisions used during the year	(1)	(1)	-	(2)
Provisions released during the year	-	-	(1)	(1)
Balance as at 31 December 2017	**16**	**3**	**5**	**24**
Non-current	**15**	**-**	**3**	**18**
Current	**1**	**3**	**2**	**6**

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

The other provision consists of a provision for costs connected with removal from the current seat of CETIN amounting to MEUR 3 (2017: MEUR 4). This provision represents costs which will occur in connection with the sale of the seat 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.16. 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 2018	31 December 2017
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

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

As at 31 December 2018, the share premium amounts to MEUR 1,341 (2017: MEUR 1,138). The share premium is freely distributable.

During 2018, the Parent Company paid dividends amounting to MEUR 135.

E.17. Reserves

E.17.1. 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.17.2. 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.17.3. Currency translation reserve

The currency translation reserve comprises foreign exchange differences arising from 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.17.4. 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.18. Non-controlling interests

The following table summarises the information relating to O2 CR and CETIN that are consolidated subgroups with NCI:

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 partial sale. The average NCI percentage during the period was used.

In millions of EUR

As at 31 December 2017	**O2 CR**	**CETIN**
NCI percentage (ownership)*	**27.17%**	**10.27%**
Total assets	1,682	2,099
Total liabilities	(851)	(1,320)
Net assets	**831**	**779**
Carrying amount of NCI	226	80
NCI percentage during the period*	**27.33%**	**10.27%**
Revenue	1,432	796
Profit/(loss)	159	111
Profit/(loss) allocated to NCI	43	12
OCI allocated to NCI	4	8
Dividends paid to NCI	**54**	**1**

*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.19. Reconciliation of movements of liabilities to cash flows arising from financing activities

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

In millions of EUR for the year 2018

	Debt securities issued	Due to banks	Share premium	Total
Balance as at 1 January 2018	**813**	**805**	**1,138**	**2,756**
Additions resulting from business combinations	**-**	**29**	**-**	**29**
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**	**3,174**	**1,341**	**5,327**

In millions of EUR for the year 2017

	Debt securities issued	Due to banks	Share premium	Total
Balance as at 1 January 2017	**912**	**629**	**1,229**	**2,770**
Changes from financing cash flows:				
Proceeds from due to banks	-	214	-	214
Repayments of debt securities issued	(114)			(114)
Repayments of due to banks	-	(78)	-	(78)
Share premium distribution	-	-	(91)	(91)
Total changes from financing cash flows	**(114)**	**136**	**(91)**	**(69)**
Effect of changes in foreign exchange rates and transfers	15	36	-	51
Interest expense	12	10	-	22
Interest paid	(12)	(6)	-	(18)
Balance as at 31 December 2017	**813**	**805**	**1,138**	**2,756**

E.20. Off-balance sheet items

E.20.1. Lease agreements

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

In millions of EUR

	31 December 2018	31 December 2017
Less than 1 year	76	52
Between 1 and 5 years	199	99
More than 5 years	199	101
Total payables under non-cancellable operating leases	**474**	**252**

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 (2017: MEUR 57).

The impact of the forthcoming new lease standard IFRS 16 effective from 1 January 2019 is described in F.3.1.

E.20.2. Commitments

In millions of EUR

	31 December 2018	31 December 2017
Guarantees provided	8	8
Capital expenditure commitments – PPE	35	33
Capital expenditure commitments – intangible assets	18	16
Other	19	1
Total commitments and contingent liabilities	**80**	**58**

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 is presented as other commitment.

E.20.3. Off-balance sheet assets

In millions of EUR

	31 December 2018	31 December 2017
Guarantees received	10	4
Loan commitments received	220	221
Total commitments and contingent assets	**230**	**225**

E.20.4. Assets pledged as security

The Group has pledged certain assets as collateral for its funding liabilities. As at 31 December 2018, the pledged asset include, in particular 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. and the Telenor operating entities (with exception of 75% shares of Telenor Hungary pledged as collateral). As at 31 December 2017, a 50% share in O2 CR was used as collateral for PPF Telco B.V. secured loan. The disclosed percentage of O2 CR shares under pledge does not take into account any treasury shares held by O2 CR.

E.20.5. 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. At the beginning of 2018, the court decided in favour of O2 CR and dismissed the plaintiff's claim. In June 2018, the plaintiff appealed against the decision, no hearing has been set.

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

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

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

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

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

E.20.6. Regulatory investigations

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

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

E.21. 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.21.1. Transactions with direct and indirect parents

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 Arena 1 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 the consolidated profit (refer to B.2.1).

E.21.2. 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 2018	31 December 2017
Receivables due from banks	6	24
Trade receivables	1	2
Cash and cash equivalents	50	109
Investment securities	1	-
Negative fair value of hedging derivatives	-	(12)
Trade payables	(4)	(3)

In millions of EUR

	2018	2017
Revenue from telecommunication business	6	3
Cost related telecommunication business	-	(1)
Interest income	1	-
Net gain on financial assets	1	-
Other operating expenses	(12)	(7)

In March 2018, the Group sold a 5% stake in O2 CR to an affiliated company (refer to B.2.2).

E.21.3. Transactions with key management personnel

For year ended 31 December 2018, key management personnel were provided with benefits totalling MEUR 7 (2017: MEUR 5). Total benefits in 2018 also comprise benefits provided to the key management of the Telenor entities since August 2018.

No loans were provided to key management personnel in 2018 and 2017.

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 CZK as the functional currency of the Parent and the most significant businesses:

	31 December 2018	31 December 2017
CZK/EUR spot rate	25.72	25.54
CZK/EUR yearly average rate	25.65	26.33
HUF/EUR spot rate	320.98	-
HUF/EUR average rate since 1 Aug. 2018	323.31	-
BGN/EUR spot rate	1.96	-
BGN/EUR average rate since 1 Aug. 2018	1.96	-
RSD/EUR spot rate	118.20	-
RSD/EUR average rate since 1 Aug. 2018	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

Policy applied from 1 January 2018

The Group has applied IFRS 9 from 1 January 2018. Information about the Group’s accounting policies relating to the financial instruments is provided below. The effect of initially applying IFRS 9 is described in Note F.2.2.

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.

Policy applied before 1 January 2018

F.1.3.7. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading.

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.1.3.8. Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are not classified as other categories of financial assets. Available-for-sale investments comprise equity securities and debt securities.

After initial recognition, the Group measures financial assets available for sale at their fair values, with the exception of instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured. The latter are stated at cost, including transaction costs, less impairment losses.

Any revaluation gain or loss on a financial asset available for sale is recognised in other comprehensive income with the exception of impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When available-for-sale assets are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Where these instruments are interest-bearing, interest calculated using the effective interest rate method is recognised in the income statement.

F.1.3.9. Trade receivables

Receivables are measured at amortised cost using the effective interest rate method and are reported net of allowances for loan losses to reflect the estimated recoverable amounts.

Trade receivables are carried at the original invoice amount less an allowance for the impairment of these receivables. Such an allowance for the impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the initial market rate of interest for similar borrowers. Cash flows relating to short-term receivables are usually not discounted. The amount of the allowance is recognised in profit or loss.

F.1.4. Derivatives and hedge accounting

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations, as follows:

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- 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.1.5. 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.1.6. Impairment

Policy applied after 1 January 2018

F.1.6.1. 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.1.6.2. 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.

Policy applied before 1 January 2018

F.1.6.3. Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine any objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default on interest or principal payments;
- the disappearance of an active market for a security;
- observable data indicating a measurable decrease in the expected cash flows from a group of financial assets.

The Group considers evidence of impairment for loans, receivables and assets available for sale at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified.

F.1.6.4. Assets carried at amortised costs

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, they are included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss and only to the extent that the carrying amount of the financial asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible or sold.

F.1.6.5. Available for sale financial assets

If such an asset is impaired, the cumulative loss that had been previously recognised (due to fair value revaluation) in other comprehensive income shall be removed from other comprehensive income and recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

F.1.7. Leases

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.1.8. 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 26 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.

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 2018

The Group initially applied IFRS 15 (refer to F.2.1) and IFRS 9 (refer to F.2.2) from 1 January 2018. Both standards have a material effect on the Group's financial statements. A number of other new standards are also effective from 1 January 2018 but do not have a material effect on the Group's financial statements.

F.2.1. IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The Group decided to adopt IFRS 15 using the modified cumulative retrospective transition method, which means that the Group applied the new guidance only to contracts that were not completed as at 1 January 2018. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. Comparative prior year periods were not adjusted.

The Group enters into contracts with a large number of customers with similar contractual terms. The Group applies a portfolio approach to contracts that can be grouped to portfolios with terms similar to other telecommunication peers, as it reasonably expects that the effect of applying a portfolio approach does not differ materially from considering each contract separately. Principally, the Group adopts the portfolio approach to the majority of contracts with customers. However, contracts with customers from the corporate segment with unique terms that do not fit into any portfolio are assessed and accounted for individually.

The Group also recognises the part of installation fees associated with network construction as deferred income over the contract duration. Because these are long-term contracts and installation fees are paid by the customer at the beginning of the contractual period when the service is promised, the time value of the money must be reflected. The financial component of such transactions will be reflected by using the interest rate derived from the theoretical curve which would show how much the Group would borrow on the bond market.

The following table shows the impact of the initial application of IFRS 15 on equity:

In millions of EUR, as at 1 January 2018

Retained earnings	**Note**	
Capitalisation of costs to obtain contracts	F.2.1.2	15
Bundles of telecommunication service and equipment	F.2.1.1	7
Related tax		(4)
Net impact		**18**
Non-controlling interests		
Capitalisation of costs to obtain contracts	F.2.1.2	6
Bundles of telecommunication service and equipment	F.2.1.1	3
Related tax		(2)
Net impact		**7**

The following table illustrates the impact of adopting IFRS 15 on the consolidated statement of financial position:

In millions of EUR, as at 31 December 2018

	Note	Amounts recognised under IFRS 15	Adjustment	Amounts without adoption of IFRS 15
Trade and other receivables	F.2.1.1	669	80	749
Contract assets	F.2.1.1	80	(80)	-
Other assets		6,806	(48)	6,758
Out of which: Cost to obtain or fulfil the contract	F.2.1.2	48	(48)	-
Total assets		**7,555**	**(48)**	**7,507**
Trade and other payables	F.2.1.1	785	90	875
Contract liabilities	F.2.1.1	90	(90)	-
Deferred tax liabilities		414	(9)	405
Other liabilities		4,103	-	4,103
Total liabilities		**5,392**	**(9)**	**5,383**
Retained earnings		400	(13)	387
Total equity		**2,163**	**(13)**	**2,150**

In the consolidated income statement, adopting of IFRS 15 had the most significant impact on revenues, that would be lower by MEUR 3 without IFRS 15; operating expenses, that would be higher by MEUR 33; EBITDA, that would be lower by MEUR 36 and amortisation of cost to obtain or fulfil the contract that would be nil without IFRS 15 for the year ended 31 December 2018.

The following sections describe new significant accounting policies in the telecommunication business.

F.2.1.1. Bundles of telecommunication service and equipment

The core principle of IFRS 15 is the requirement for the Group to recognise revenues at the time the promised goods or services are transferred to customers in amounts that reflect consideration to which the Group expects to be entitled in exchange for the goods or services supplied. The standard also provides guidance for reporting transactions that previously were not addressed comprehensively (e.g. customer’s material rights, principal versus agent considerations, etc.), and newly specifies the requirements for recognising multiple-element arrangements in detail.

Under the previous accounting and reporting framework, the Group’s accounting treatment of several bundles of telecommunication services and equipment for the residential segment was in accordance with the contingent revenue cap, which was required to be applied for such legal contracts and which represented the reallocation of contract revenue depending on the supplies. As this treatment was fully replaced by the new standard, the pool of such offerings which are subject to a re-allocation of revenue from contracts with customers under IFRS 15 increased. The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with residential customers that have not been completed at that date is an increase of MEUR 3.

Other types of contracts that are newly subject to adjustments under IFRS 15 are contracts with corporate customers where the supply of telecommunication services is complemented by the sale of telecommunication equipment on preferential terms.

The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with corporate customers that have not been completed at that date is an increase of MEUR 4. In comparison to the residential segment where the telecommunication equipment is transferred to customers at the inception of the telecommunication contract, corporate contracts usually allow the utilisation of preferential terms for the purchase of telecommunication equipment during the whole duration of the contract.

The standard defines promises to transfer distinct goods or services as performance obligations. The Group provides telecommunication services which are offered on a stand-alone basis and represent a separate performance obligation. Most of the goods and services that are sold in bundles represent separate performance obligations as long as customer may also benefit from them on a stand-alone basis.

In accordance with the requirements of the new standard, the transaction price is allocated to separate performance obligations on the basis of the relative stand-alone selling prices of the products or services provided. The stand-alone selling price is the price at which the Group sells a promised good or service to its customers in a separate transaction. In the majority of cases, the Group considers its list prices for goods and services to be the stand-alone selling prices.

The Group recognises revenue when the goods or services are transferred to the customer and the customer obtains control of the goods or service. The Group first assesses whether the performance obligation is satisfied over time or at a certain point in time. Most services are provided over time as customers benefit from these services as the services are rendered.

Within the business models used by the Group, the funding element is not material.

F.2.1.2. *Commissions: incremental cost to obtain contracts*

Capitalised incremental costs to obtain contracts mainly represent external and internal sales commissions which are directly attributable to the acquisition of the contract with customers and are incremental. These expenditures are recognised in the balance sheet within the other assets line and are amortised on a straight-line basis. The amortisation of those costs is presented within the other operating expenses line in the income statement, while the amortisation period is determined with respect to the estimated average contract duration period for business customers, and the estimated average customer life-time period for residential customers (within an interval of 18 to 48 months).

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

F.2.1.3. *Change in classification of deferred revenue*

In line with the requirements of IFRS 15, the Group changed the classification of deferred revenue and revenue from prepaid services from customers. These items are newly presented as contract liabilities.

F.2.2. IFRS 9 Financial instrument (effective from 1 January 2018)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to the 2018 disclosures but have generally not been applied to the comparative information.

The transition to IFRS 9 did not have significant impact on equity and NCI, as its total impact was determined to have been lower than MEUR 1.

F.2.2.1. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI, and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see F.1.3.

The following table summarises the changes in the financial assets categories for all Group's financial assets as at 1 January 2018:

In millions of EUR

	Note	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Cash and cash equivalents	F.1.2	Amortised cost (L&R)	Amortised cost	182	182
Receivables due from banks	F.1.3.4	Amortised cost (L&R)	Amortised cost	24	24
Trade and other receivables	F.1.3.6 F.1.3.9	Amortised cost (L&R)	Amortised cost	333	333
Investment securities (held for trading)	F.1.4	FVTPL (held for trading)	FVTPL (mandatory)	1	1
Investment securities (Equity securities)	F.1.3.5 F.1.3.8	FVOCI (AFS)	FVOCI (equity instruments)	1	1

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 related solely to the new impairment requirements and is insignificant.

Neither the classification nor the measurement of financial liabilities were affected by the adoption of IFRS 9 compared to classification and measurement under IAS 39.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, refer to F.1.4).

F.2.2.2. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – refer to F.1.6.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements after 1 January 2018 results in an additional allowance for impairment as follows.

Additional information about how the Group measures the allowance for impairment is described in F.1.6.

F.2.2.3. Hedge accounting

IFRS 9 sets new hedge accounting requirements. Hedging relations must be consistent with the objectives and strategy of the Group's risk management. At the same time, when assessing the effectiveness of hedging, greater emphasis is placed on qualitative assessment and expectations relating to the effectiveness of hedging and is therefore only focused on the future.

The Group has used the transitional provisions in IFRS 9 and continues to apply IAS 39 for existing hedging relations.

For an explanation of how the Group applies hedge accounting under IFRS 9, refer to F.1.4.

F.2.3. Other new currently effective relevant requirements (effective from 1 January 2018)

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018)

IFRIC 22 clarifies the transactions date used to determine the exchange rate for foreign currency transactions involving an advance payment or receipt: the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

This interpretation did not have a significant impact on the Group's financial statements.

Annual Improvements 2014-2016 Cycle (effective from 1 January 2018)

In November 2015, the IASB published Annual Improvements to IFRS 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS.

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 2018 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.

F.3.1. IFRS 16 Leases (effective from 1 January 2019)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees including: (a) leases with a lease term of 12 months or less and containing no purchase options, and (b) leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged. Here, the distinction between operating and finance leases will be retained.

F.3.1.1. Leases where the Group is the lessee

The Group will re-classify its recognition of assets and liabilities from operating leases of stores, office and technical buildings, telecommunication technology, vehicles and office equipment. The nature of these related costs has now changed; the depreciation of usage rights and interest expense of lease liabilities will be recognised, instead of operating costs as before.

Based on currently available information, the Company estimates that, as at 1 January 2019, it will recognise lease liabilities in the range from MEUR 429 to MEUR 479. The difference between the expected lease liability under IFRS 16 and the total of future minimal lease payments from non-cancellable operating lease contracts (see Note 19) arises mainly from the different approach to the contract length determination in case of contracts with indefinite lease period and future payments discounting. The actual impact of the application of the standard as at 1 January 2019 may be different, mainly due to the ongoing analyses of the determination of lease periods for contracts that do not have specifically agreed lease terms.

F.3.1.2. Leases where the Group is the lessor

The Group does not expect a material impact from leases where it functions as the lessor.

F.3.1.3. Adoption of the standard

The Group plans to initially adopt the standard as of 1 January 2019 using a modified retrospective method. Comparable data for the previous period will not be adjusted.

The Group will not use the exemption relating to the short-term leases and has decided to capitalise leases with lease term of 12 month or shorter. Regarding the leases with a low-value underlying asset the Group has decided to use the practical expedient based on type of assets and not strictly based on the value of the specific asset. Low value tangible assets like copy machines (below 5ths EUR) are not required to capitalize. The Group will also outscope the leased intangible assets to be capitalised, as allowed by IFRS 16. The Group has decided not to separate non-lease components and capitalise them as lease payments.

The Group plans to take advantage of the practical expedient available and will not re-classify contracts as leases or containing a lease as at the date of the first application. This means that the Group will apply IFRS 16 to all contracts that were concluded before 1 January 2019 and were identified as leases in accordance with IAS 17 and IFRIC 4.

F.3.2. Other relevant not yet effective requirements

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

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

In October 2017 IASB issued amendments to IFRS 9 Prepayment Features with Negative Compensation. These amendments enable entities to measure some pre-payable financial assets with so-called negative compensation at amortised cost.

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

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 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.

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

The amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

These amendments have not yet been adopted by the EU.

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

Annual Improvements to IFRS Standards 2015-2017 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 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

There are no significant events after the reporting period.

6 March 2019

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

PPF Arena 1 B.V.

Unconsolidated financial statements for the year ended 31 December 2018

Contents

Statement of financial position

	Note	31 December 2018 TCZK	31 December 2017 TCZK
Non-current assets			
Investments in subsidiaries	5	51,815,709	37,090,369
Loans receivable	6	60,011,422	-
Total non-current assets		**111,827,131**	**37,090,369**
Current assets			
Cash and cash equivalents	7	711,091	4,698
Debt securities at fair value through profit or loss	8	3,245,393	-
Total current assets		**3,956,484**	**4,698**
TOTAL ASSETS		**115,783,615**	**37,095,067**
Non-current liabilities			
Loans from banks	9	67,081,804	-
Derivative liabilities at fair value through profit or loss	10	1,369,551	-
Total non-current liabilities		**68,451,355**	**-**
Current liabilities			
Loans from banks	9	3,314,550	-
Trade and other payables		4,938	-
Total current liabilities		**3,319,488**	**-**
TOTAL LIABILITIES		**71,770,843**	**-**
Capital and reserves			
Issued capital	11.1	26	26
Share premium	11.2	36,461,543	31,256,241
Currency translation reserve	11.3	1	1
Retained earnings		7,551,202	5,838,799
TOTAL EQUITY		**44,012,772**	**37,095,067**
TOTAL LIABILITIES AND EQUITY		**115,783,615**	**37,095,067**

Statement of comprehensive income

	Note	For the year ended 31 December 2018 TCZK	For the year ended 31 December 2017 TCZK
Operating income			
Dividend income	12	6,798,927	4,748,000
Interest income		699,029	1
Total operating income		**7,497,956**	**4,748,001**
Operating expense			
Operating expenses	13	38,562	450
Interest expense		901,899	-
Net loss on revaluation of derivatives	10	1,374,025	-
Foreign exchange gain/loss (net)		1,332	15
Total operating expense		**2,315,818**	**465**
Gain on sale of investment	15	-	2,612,606
Profit before taxation		**5,182,138**	**7,360,142**
Income tax expense	16	-	-
Net profit for the year		**5,182,138**	**7,360,142**

Statement of changes in equity

TCZK	Issued capital	Share premium	Currency translation reserve	Retained earnings	Total
Balance at 1 January 2018	**26**	**31,256,241**	**1**	**5,838,799**	**37,095,067**
Transaction with the owner of the Company					
Contribution for the year	-	10,390,087	-	-	10,390,087
Distributions for the year	-	(5,184,785)	-	-	(5,184,785)
Dividends paid	-	-	-	(3,469,735)	(3,469,735)
Total comprehensive income					
Net profit for the year	-	-	-	5,182,138	5,182,138
Revaluation reserve	-	-	-	-	-
Balance at 31 December 2018	**26**	**36,461,543**	**1**	**7,551,202**	**44,012,772**

TCZK	Issued capital	Share premium	Currency translation reserve	Retained earnings	Total
Balance at 1 January 2017	**27**	**33,491,278**	**228,963**	**3,231,657**	**36,951,925**
Transaction with the owner of the Company					
Distributions for the year	-	(2,464,000)	-	-	(2,464,000)
Dividends paid	-	-	-	(4,753,000)	(4,753,000)
Total comprehensive income					
Net profit for the year	-	-	-	7,360,142	7,360,142
Revaluation reserve	(1)	228,963	(228,962)	-	-
Balance at 31 December 2017	**26**	**31,256,241**	**1**	**5,838,799**	**37,095,067**

Statement of cash flow

	Note	For the year ended 31 December 2018 TCZK	For the year ended 31 December 2017 TCZK
Profit from operations		5,182,138	7,360,142
Adjustments for:			
Dividend income	12	(6,798,927)	(4,748,000)
Gain on sale of investment	15	-	(2,612,606)
Interest income/expense (net)		202,870	-
Gain/loss on revaluation of derivatives (net)	10	1,374,025	-
Foreign exchange gain/loss (net)		1,332	-
Net operating cash flows before changes in working capital		**(38,562)**	**(464)**
Change in other receivables and payables		4,938	-
Cash flows used in the operations		**(33,624)**	**(464)**
Increase of investment in subsidiaries	5	(20,485,928)	(19,956,180)
Distribution from investment in subsidiary	5	5,760,588	2,464,000
Dividend received	12	6,798,927	4,748,000
Disposal of assets held for sale		-	19,956,180
Purchase of debt securities at FVTPL	8	(3,245,393)	-
Loans provided to a subsidiary	6	(59,710,716)	-
Interest received		694,863	-
Cash flows (used in)/from investing activities		**(70,187,659)**	**7,212,000**
Utilisation of loans from banks (net of fees)	9	69,987,086	-
Interest paid		(789,841)	-
Net payments on settlement of derivatives		(4,473)	-
Proceeds from share premium contribution	11	10,390,087	-
Distribution of share premium	11	(5,184,785)	(2,464,000)
Dividends paid	20	(3,469,736)	(4,753,000)
Cash flows from/(used in) financing activities		**70,928,338**	**(7,217,000)**
Change in cash and cash equivalents		**707,055**	**(5,464)**
Cash and cash equivalents at beginning of year	7	4,698	10,162
Effect of exchange rate changes on cash and cash equivalents		(662)	-
Cash and cash equivalents at end of year	7	**711,091**	**4,698**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

PPF Arena 1 B.V. (the "Company") 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 Arena 1 B.V. The Company's consolidated financial statements are available in a separate document.

2.2 Basis of measurement

The financial statements are prepared at the historical cost convention and are presented in Czech Koruna ("CZK"), 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 Czech Koruna, which is the Company's functional currency.

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. Refer to Note 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 2018

The following standard effective from 1 January 2018 is mandatory and relevant for the Company and has been applied by the Company since 1 January 2018.

<u>IFRS 9 Financial Instruments (effective from 1 January 2018)</u>
IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

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

Impairment:
IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired.

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

This standard does not have significant impact on the Company’s 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 2018, 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.

<u>Annual Improvements 2015-2017 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 not yet been adopted by the EU. These amendments are not expected to have significant impact on the Company's separate 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 2018: CZK/EUR 25.725 and 31 December 2017: CZK/EUR 25.540). 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. Exchange differences arising on translation of share capital are recognised in a separate reserve within equity ('Currency translation reserve') at the end of each reporting date as described in note 11.3.

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 new 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). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

– the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
– the remaining amount of the change in the fair value will be 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 includes 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

The carrying amounts of the Company's 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 loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. Loans and receivables are reported net of allowance for loan losses to reflect the estimated recoverable amounts. Receivables are stated at their cost less impairment losses.

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 in respect of loan or receivable is reversed through the statement of comprehensive income (up to the amount of amortised cost) if the subsequent increase in recoverable amount can be attributed objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, 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.

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 loan receivables and loan payables carry floating interest based on 3-month market benchmark rates. Residual maturity of investments in debt securities is shorter than one year. Therefore, the risk of change in value of these assets and liabilities due to changes in market interest rates is considered low.

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.

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 possible.

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.

In order 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. 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 2018 and 2017.

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 2018.

5 Investments in subsidiaries

	Share	2018 TCZK	Share	2017 TCZK
PPF Telco B.V.	100%	29,513,776	100%	24,532,141
PPF Infrastructure B.V.	100%	12,558,228	100%	12,558,228
PPF TMT Bidco 1 B.V.	100%	9,743,705	-	-
Balance as at 31 December		**51,815,709**		**37,090,369**

There were no reasons for an impairment of investments in 2018 (2017: none).

	2018 TCZK	2017 TCZK
Balance as at 1 January	**37,090,369**	**19,598,189**
Share capital contribution at incorporation	26	-
Share premium contribution	20,485,902	19,956,180
Share premium distribution	(5,760,588)	(2,464,000)
Balance as at 31 December	**51,815,709**	**37,090,369**

6 Loans receivable

In July 2018 the Company (as lender) and its subsidiary PPF TMT Bidco 1 B.V. ("Bidco") (as borrower) entered into an Intra-Group Loan Framework Agreement under which Bidco utilised unsecured term loans amounting to MEUR 2,333 (TCZK 59,710,716) in aggregate. The loan proceeds were used to finance the acquisition of Telenor Group's telecommunications assets in the Central and Eastern Europe. The loans are denominated in EUR, bear floating interest rate and are repayable in 2023 and 2024.

7 Cash and cash equivalents

		31 December 2018 TCZK	31 December 2017 TCZK
Current accounts payable on demand – Group	CZK	21,971	4,618
Current accounts payable on demand – Group	EUR	499,095	70
Current accounts payable on demand – Non-group	CZK	18	10
Current accounts payable on demand – Non-group	EUR	190,007	-
Total cash and cash equivalents		**711,091**	**4,698**

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 amounts to TCZK 3,245,393 on 31 December 2018 (2017: nil).

9 Loans from banks

In March 2018, the Company entered into a Facilities Agreement with a syndicate of banks. In July 2018, the Parent Company utilised under this agreement four secured term loan facilities amounting to MEUR 882, MEUR 1,514, MCZK 3,745 and MCZK 6,427, respectively (MCZK 71,509 equivalent in total). The outstanding amount of loan liabilities stated in the statement of financial position is lower by unamortised facility and legal fees directly attributable to the loan facilities origination. These fees were capitalised and are amortised to finance costs using the effective interest rate method. The facilities are secured *inter allia* by pledges over shares of the Company, PPF Telco B.V., PPF Infrastructure B.V., PPF TMT Bidco 1 B.V. and some of its subsidiaries. As of 31 December 2018, the Company complies with financial covenants imposed by its loan facilities.

The EUR-denominated loans are following:

Repayable by	2023	2024
Margin rate over 3M EURIBOR*	1.50% - 2.50%	2.25% - 3.00%
Actual respective margin levels applicable**	2.00%	2.75%

The CZK-denominated loans are following:

Repayable by	2023	2024
Margin rate over 3M PRIBOR*	1.00% - 2.00%	1.50% - 2.50%
Actual respective margin levels applicable**	1.50%	2.00%

*based on the net proportionate leverage reached by the Company group in the preceding quarter
** initial agreed margin

10 Derivative liabilities at fair value through profit or loss

The Company began to hedge cash flows arising from its long-term debt denominated in EUR and CZK in 2018. The debt carries floating interest rates and the hedge is designed to prevent the variability of interest payments due to market factors. Besides, the Company has started hedging 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 forward contracts. Cash flows from the hedging instruments are scheduled in regular intervals from January 2019 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.

11 Equity

11.1 Share capital

	31 December 2018 EUR	31 December 2017 EUR
Authorised capital	1,000	1,000
Issued and fully paid up	1,000	1,000
Nominal value	1	1

The Company's share capital is registered and issued in Euro. All shares rank equally with regard 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.

11.2 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 2018, the share premium was increased by TCZK 10,390,087 (2017: nil) and reduced by TCZK 5,184,785 (2017: TCZK 2,464,000).

As at 31 December 2018 the share premium amounts to TCZK 36,461,543 (2017: TCZK 31,256,241).

11.3 Currency translation reserve

The Dutch Civil Code Title 2.9 Article 373.5 requires the Company to translate its issued share capital from its registered currency to presentation currency at the exchange rate effective on the reporting date. The effect of this translation is presented in the Currency Translation reserve, which is an undistributable reserve. The reserve amounted to TCZK 1 at the end of 2018 (2017: TCZK 1).

11.4 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 2018 is lower than the consolidated result by MEUR 31 (2017: higher by MEUR 16). 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**	**Available for sale 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 MCZK	0	36,462	0	0	0	0	0	7,551	44,013
Individual balance as at 31 December 2018 in MEUR	**0**	**1,417**	**0**	**0**	**0**	**0**	**0**	**294**	**1,711**
Adjustment for:									
Impairment of subsidiaries, current year									
Impairment of subsidiaries, prior years									
Historical FX rate		(76)							(76)
Dividend income								(135)	(135)
Net result of subsidiaries in 2018								166	166
Reserves related to subsidiaries				6	75	19	0	69	169
Consolidated balance as at 31 December 2018 in MEUR	**0**	**1,341**	**0**	**6**	**75**	**19**	**0**	**394**	**1,835**

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

in MEUR (EUR million)	**Share capital**	**Share premium**	**Available for sale 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 2017 in MCZK	0	31,256	0	0	0	0	0	5,839	37,095
Individual balance as at 31 December 2017 in MEUR	**0**	**1,224**	**0**	**0**	**0**	**0**	**0**	**229**	**1,453**
Adjustment for:									
Impairment of subsidiaries, current year									
Impairment of subsidiaries, prior years									
Historical FX rate		(86)							(86)
Dividend income								(181)	(181)
Net result of subsidiaries in 2017								165	165
Reserves related to subsidiaries				6	86	13		3	108
Consolidated balance as at 31 December 2017 in MEUR	**0**	**1,138**	**0**	**6**	**86**	**13**	**0**	**216**	**1,459**

12 Dividend income

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

	2018 TCZK	2017 TCZK
PPF Telco B.V.	3,469,736	4,523,000
PPF Infrastructure B.V.	2,438,000	225,000
PPF TMT Bidco 1 B.V.	891,191	-
	6,798,927	4,748,000

13 Operating expenses

	2018 TCZK	2017 TCZK
Professional expenses	22,735	438
Financial expenses	15,827	12
	38,562	450

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

14 Audit fee

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the fee in relation to the 2018 financial statements for audited services rendered by KPMG Accountants N.V. to the Company amount to TCZK 5,788 (2017: TCZK 2,790). No other engagements, tax related advisory services and other non-audit services have been provided by KPMG Accountants N.V. to the Company.

15 Net profit from sale of shares

At the end of 2016 the Company acquired 23.79% share in O2 CR from PPF Telco B.V. The purpose of this transaction was internal restructuring of O2 CR in relation to a potential acquisition deal planned by PPF Group N.V.. As the plan was not realised all O2 CR shares were transferred back to PPF Telco B.V. in January 2017, which resulted in a profit of TCZK 2,612,606 (2018: nil).

16 Income tax

	2018 TCZK	2017 TCZK
Profit before tax	5,182,138	7,360,142
Non-taxable dividend	(6,798,927)	(4,748,000)
None-deductible costs (other)	449,170	-
Non-taxable sale of investment	-	(19,956,180)
Non-deductible expenses of sale of investment	-	17,343,574
Profit / (Loss) taxable	**(1,167,619)**	**(464)**
20% up to TEUR 200	-	-
25% over amounts above TEUR 200	-	-
Income tax expense	**-**	**-**

Deferred tax, in total amount of TCZK 387,731 (2017: TCZK 95,826) arising from unutilised tax losses is not recognised as its future utilisation is uncertain.

17 Employees and directors

During the reporting period the Company did not employ any personnel. The Company had 3 directors as at 31 December 2018 (31 December 2017: 3). During 2018 and 2017 directors of the Company were not entitled to any remuneration.

18 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 2018 and 2017.

19 Events after the reporting period

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

20 Profit appropriation for 2018

In July 2018, the Company distributed dividend to its shareholder in total amount of TCZK 3,469,736 from the 2018 result (2017: TCZK 4,753,000).

21 Confirmation

The Company´s financial statements for the year ended 31 December 2018 give a true and fair view of the Company´s financial condition and operations as at and for the year ended 31 December 2018.

Date: 6 March 2019	Signature of the Board of Directors:

Other information

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 on page 24.

KPMG

Independent auditor's report

To: the Board of Directors of PPF Arena 1 B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2018 of PPF Arena 1 B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of PPF Arena 1 B.V. 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the consolidated and company statement of financial position 31 December 2018;
2. the following consolidated and company statements for 2018: income statement, other comprehensive income, changes in equity and 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 Arena 1 B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Directors' Report;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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

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

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Board of Directors report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors and the Supervisory Board for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with 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 the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

— identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, 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 for one resulting from errors, 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 Company'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;

— 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.

Because we are ultimately responsible for the opinion, we are also 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. Decisive were the size and/or the risk profile of the group entities. On this basis, we selected group entities for which an audit had to be carried out on the complete set of financial information or specific items.

We communicate with those charged with governance 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.

Amstelveen, 6 March 2019

KPMG Accountants N.V.

M. Frikkee RA