PPF GROUP N.V.

Condensed interim consolidated financial statements
for the six months ended 30 June 2018

KPMG

Review report

To: the Board of Directors of PPF Group N.V.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements as at 30 June 2018 of PPF Group N.V., Amsterdam, which comprises the condensed interim consolidated statement of financial position as at 30 June 2018, the condensed interim consolidated income statement, condensed interim consolidated statements of comprehensive income, changes in equity, and cash flows for the six-month period ended 30 June 2018, and the notes. Management of the Company is responsible for the preparation and presentation of this condensed interim consolidated financial statements in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed interim consolidated financial statements based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements as at 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Amstelveen, 29 October 2018

KPMG Accountants N.V.

M. Frikkee RA

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Contents

Glossary of abbreviations

OCI	- other comprehensive income
NCI	- non-controlling interests
AFS	- available for sale
FVTPL	- fair value through profit or loss
FVOCI	- fair value through other comprehensive income
PPE	- property, plant and equipment
PVFP	- present value of future profits
IPRD	- in-progress research and development
FX	- foreign exchange
CGU	- cash generating unit
RBNS	- provision for claims reported but not settled
LTV	- loan to value
JV	- joint venture
ECL	- expected credit loss
PD	- probability of default
LGD	- loss given default

Condensed interim consolidated statement of financial position

In millions of EUR

	Note	30 June 2018	31 December 2017
ASSETS			
Cash and cash equivalents	E1	6,833	9,118
Investment securities	E2	3,337	3,690
Loans and receivables due from banks and other financial institutions	E3	544	546
Loans due from customers	E4	17,876	17,066
Trade and other receivables	E5	569	441
Contract assets	E6	238	-
Current tax assets		41	20
Inventories	E8	187	69
Assets held for sale	E9	21	47
Investments in associates and joint ventures	E10	832	506
Investment property	E11	1,676	1,474
Property, plant and equipment	E12	2,575	2,479
Intangible assets	E13	2,160	2,065
Deferred tax assets		614	373
Other assets	E14	436	328
TOTAL ASSETS		**37,939**	**38,222**
LIABILITIES			
Financial liabilities at fair value through profit or loss	E15	719	813
Due to non-banks	E16	10,955	11,637
Due to banks and other financial institutions	E17	14,255	13,927
Debt securities issued	E18	1,760	1,697
Subordinated liabilities	E19	288	351
Current tax liabilities		257	210
Trade and other payables	E20	1,599	1,559
Contract liabilities	E7	45	-
Provisions	E21	253	191
Deferred tax liabilities		477	460
TOTAL LIABILITIES		**30,608**	**30,845**
CONSOLIDATED EQUITY			
Capital issued	E22	1	1
Share premium	E22	677	677
Other reserves	E23	(502)	(509)
Retained earnings		6,731	6,738
Total equity attributable to owners of the Parent		6,907	6,907
Non-controlling interests	E24	424	470
Total consolidated equity		**7,331**	**7,377**
TOTAL LIABILITIES AND EQUITY		**37,939**	**38,222**

Condensed interim consolidated income statement

For the six months ended 30 June

In millions of EUR

	Note	2018	2017
Interest income		2,274	1,632
Interest expense		(687)	(524)
Net interest income	E25	**1,587**	**1,108**
Fee and commission income		430	362
Fee and commission expense		(87)	(65)
Net fee and commission income	E26	**343**	**297**
Net gain on financial assets	E27	79	40
Net impairment losses on financial assets	E28	(995)	(448)
Other banking result		**(916)**	**(408)**
NET BANKING INCOME		**1,014**	**997**
Net earned premiums		35	50
Net insurance benefits and claims		(13)	(14)
Acquisition costs		(9)	(15)
NET INSURANCE INCOME	E29	**13**	**21**
Net rental and related income	E30	81	71
Property operating expenses		(16)	(16)
Net valuation gain loss on investment property		(29)	(32)
Profit/(loss) on disposal of investment property		1	(1)
Net income related to construction contracts		1	2
NET REAL ESTATE INCOME		**38**	**24**
Telecommunication income		912	871
Telecommunication expenses		(329)	(319)
NET TELECOMMUNICATION INCOME	E31	**583**	**552**
Machinery income		101	-
Machinery expenses		(57)	-
NET MACHINERY INCOME	E32	**44**	**-**
Net agriculture income	E33	3	4
Other income	E34	53	34
OTHER OPERATING INCOME		**56**	**38**
General administrative expenses	E35	(1,143)	(993)
Other operating expenses	E36	(332)	(269)
OPERATING EXPENSES		**(1,475)**	**(1,262)**
Net gain/(loss) from sale of subsidiaries and associates		(13)	(3)
Share of earnings of associates/joint ventures	E10	18	43
PROFIT BEFORE TAX		**278**	**410**
Income tax expense	E37	(58)	(117)
NET PROFIT FOR THE PERIOD		**220**	**293**
Net profit attributable to non-controlling interests	E24	9	25
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**211**	**268**

Condensed interim consolidated statement of comprehensive income

For the six months ended 30 June

In millions of EUR

	2018	2017
NET PROFIT FOR THE PERIOD	**220**	**293**
Other comprehensive income*		
Valuation gains/(losses) on FVOCI/AFS	(173)	(29)
FVOCI/AFS revaluation gains transferred to income statement	(10)	-
Currency translation differences	(93)	(75)
Effect of movement in equity of associates	253	-
Disposal of subsidiaries and associates	17	-
Cash flow hedge – effective portion of changes in fair value	(8)	-
Income tax relating to components of other comprehensive income	6	3
Other comprehensive expense for the period (net of tax)	**(8)**	**(101)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**212**	**192**
Total comprehensive income attributable to non-controlling interests	2	9
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT	**210**	**183**

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

The condensed interim consolidated financial statements were approved by the Board of Directors on 29 October 2018.

Condensed interim consolidated statement of changes in equity

In millions of EUR, for the for the six months ended 30 June 2018

	Capital issued	Share premium	Revaluation reserve	Legal and statutory reserves	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance at 1 January 2018	**1**	**677**	**(44)**	**90**	**(548)**	**-**	**(7)**	**6,738**	**6,907**	**470**	**7,377**
Adjustment on initial application of IFRS 9 (net of tax; refer to F.2.2)	-	-	2	-	-	-	-	(189)	(187)	(24)	(211)
Adjustment on initial application of IFRS 15 (net of tax; refer to F.2.1)	-	-	-	-	-	-	-	21	21	4	25
Balance at 1 January 2018 (adjusted)	**1**	**677**	**(42)**	**90**	**(548)**	**-**	**(7)**	**6,570**	**6,741**	**450**	**7,191**
Profit for the period	-	-	-	-	-	-	-	211	211	9	220
Currency translation differences	-	-	-	-	(88)	-	-	-	(88)	(5)	(93)
FVOCI revaluation gains/(losses) taken to equity	-	-	(171)	-	-	-	-	-	(171)	(2)	(173)
FVOCI revaluation (gains)/losses transferred to income statement	-	-	(10)	-	-	-	-	-	(10)	-	(10)
Effect of hedge accounting	-	-	-	-	-	(8)	-	-	(8)	-	(8)
Effect of movement in equity of associates/joint ventures	-	-	-	-	(7)	255	5	-	253	-	253
Disposal and deconsolidation of subsidiaries	-	-	-	(1)	18	-	-	-	17	-	17
Tax on items taken directly to or transferred from equity	-	-	6	-	-	-	-	-	6	-	6
Total comprehensive income for the period	**-**	**-**	**(175)**	**(1)**	**(77)**	**247**	**5**	**211**	**210**	**2**	**212**
Net allocation to legal and statutory reserves	-	-	-	6	-	-	-	(6)	-	-	-
Dividends to shareholders	-	-	-	-	-	-	-	(40)	(40)	-	(40)
Dividends to NCI	-	-	-	-	-	-	-	-	-	(40)	(40)
Other changes in NCI	-	-	-	-	-	-	-	(4)	(4)	3	(1)
Contributions/(distributions) by NCI	-	-	-	-	-	-	-	-	-	9	9
Total transactions with owners of the Company	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**(50)**	**(44)**	**(28)**	**(72)**
Balance at 30 June 2018	**1**	**677**	**(217)**	**95**	**(625)**	**247**	**(2)**	**6,731**	**6,907**	**424**	**7,331**

In millions of EUR, for the for the six months ended 30 June 2017

	Capital issued	Share premium	Available for sale reserve	Legal and statutory reserves	Translation reserve	Retained earnings	Attributable to owners of the Parent	Attributable to non-controlling interests	Total
Balance at 1 January 2017	**1**	**677**	**(40)**	**65**	**(473)**	**6,131**	**6,361**	**402**	**6,763**
Profit for the period	-	-	-	-	-	268	268	25	293
Currency translation differences	-	-	-	-	(60)	-	(60)	(15)	(75)
Valuation losses taken to equity for AFS	-	-	(28)	-	-	-	(28)	(1)	(29)
Tax on items taken directly to or transferred from equity	-	-	3	-	-	-	3	-	3
Total comprehensive income for the period	**-**	**-**	**(25)**	**-**	**(60)**	**268**	**183**	**9**	**192**
Net allocation to legal and statutory reserves	-	-	-	1	-	(1)	-	-	-
Dividends to shareholders	-	-	-	-	-	(40)	(40)	-	(40)
Dividends to NCI	-	-	-	-	-	-	-	(34)	(34)
Other changes in NCI	-	-	-	-	-	44	44	17	61
Total transactions with owners of the Company	**-**	**-**	**-**	**1**	**-**	**3**	**4**	**(17)**	**(13)**
Balance at 30 June 2017	**1**	**677**	**(65)**	**66**	**(533)**	**6,402**	**6,548**	**394**	**6,942**

Condensed interim consolidated statement of cash flows

For the six months ended 30 June, prepared using the indirect method

In millions of EUR

	Notes	2018	2017
Cash flows from operating activities			
Profit before tax		278	410
Adjustments for:			
Gains/losses on disposal of consolidated subsidiaries/associates		(1)	3
Interest expense	E25	688	525
Interest income	E25	(2,274)	(1,632)
Other adjustments		1,062	(116)
Interest received		2,468	1,866
Change in assets and liabilities		(3,072)	(588)
Net cash from operating activities		**(853)**	**468**
Cash flows from investing activities			
Dividends received		11	-
Purchase of tangible assets and intangible assets		(248)	(214)
Purchase of investment property		-	(5)
Acquisition of subsidiaries and associates, net of cash acquired	B2	(423)	(10)
Proceeds from disposal of subsidiaries and associates, net of cash disposed		4	91
Other movements		208	164
Net cash from/(used in) investing activities		**(447)**	**26**
Cash flows from financing activities			
Interest paid		(950)	(642)
Dividends and other distribution (incl. those to NCI)		(80)	(34)
Change in debt securities issued		(96)	394
Change in loans from banks and other financial institutions		278	4,614
Cash flow from financing activities		**(848)**	**4,332**
Net increase in cash and cash equivalents		**(2,148)**	**4,826**
Cash and cash equivalents as at 1 January		**9,118**	**4,674**
Effect of exchange rate changes on cash and cash equivalents		(137)	25
Cash and cash equivalents as at 30 June	**E1**	**6,833**	**9,525**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A. General

A.1. Description of the Group

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

The condensed interim consolidated financial statements of the Parent Company for the six month period ended 30 June 2018 comprise the Parent Company and its subsidiaries (together referred to as “PPF Group” or the “Group”) and the Group’s interests in associates, joint ventures and affiliated entities. Refer to Section B of these financial statements for a listing of significant Group entities and changes to the Group in 2018 and 2017.

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

As at 30 June 2018, the ultimate shareholder structure was as follows:

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

A.2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

This is the first set of the Group’s financial statements where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in Note F.2.

A.3. Basis of preparation

Dutch accounting legislation enables the Group to prepare these condensed interim consolidated financial statements in accordance with IFRS (as adopted by the EU).

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

The financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income, investment property and biological assets which are measured at fair value. Financial assets and liabilities and non-financial assets and liabilities which are 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 carrying amount and fair value less costs to sell.

A.4. Use of judgements and estimates

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

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

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

- the fair value of tangible and intangible assets identified during the purchase price allocation exercise and initial value of goodwill for each business combination (refer to B.2);
- in-progress research and development recognised as intangible asset (refer to E.13);
- the fair value of investment property (refer to E.11);
- the fair value of financial instruments (refer to C.1);
- provisions recognised under liabilities (refer to E.21);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits; and
- revenue recognition timing in terms of the transfer of control over the goods and services to the customer – at a point in time or over time (refer to E.31, E.32).

<u>Enhancement of credit risk model</u>

During 2017, the Group enhanced its credit risk prediction model limit the volatility of risk costs caused by seasonal and other effects related to the end-of-month provision calculation cycle. Specifically, the Group decided to extend the definition of the "current" bucket from an exact 0 days past due ("DPD") to a wider category of 0-15 DPD. As a result, the Group released a part of its existing collective impairment allowances amounting to MEUR 71 in the income statement. This change has been in effect since 1 July 2017.

B. Consolidated group and the main changes for the period

B.1. Group entities

The following list shows only significant holding and operating entities that are subsidiaries, associates or joint ventures of the Parent Company as of 30 June 2018 and 31 December 2017.

Company	Domicile	Effective proportion of ownership interest 2018	Effective proportion of ownership interest 2017
PPF Group N.V.	Netherlands	Parent Company	Parent Company
PPF Financial Holdings subgroup -subsidiaries			
PPF Financial Holdings B.V.	Netherlands	100.00%	100.00%
AB 2 B.V.	Netherlands	88.62%	88.62%
AB 4 B.V.	Netherlands	88.62%	88.62%
AB 7 B.V.	Netherlands	88.62%	88.62%
AB Structured Funding 1 DAC	Ireland	88.62%	-
Air Bank a.s.	Czech Republic	88.62%	88.62%
Asnova Insurance CJSIC	Belarus	88.62%	88.62%
Bank Home Credit SB JSC	Kazakhstan	88.62%	88.62%
Favour Ocean Ltd.	Hong Kong	88.62%	88.62%
Guangdong Home Credit Number Two Information Consulting Co., Ltd.	China	88.62%	88.62%
HC Consumer Finance Philippines, Inc.	Philippines	88.62%	88.62%
HCPH Financing 1, Inc.	Philippines	88.62%	88.62%
Home Credit a.s.	Czech Republic	88.62%	88.62%
Home Credit and Finance Bank LLC	Russia	88.62%	88.62%
Home Credit Asia Ltd.	Hong Kong	88.62%	88.62%
Home Credit B.V.	Netherlands	88.62%	88.62%
Home Credit Consumer Finance China Ltd.	China	88.62%	88.62%
Home Credit Group B.V.	Netherlands	88.62%	100.00%
Home Credit India Finance Private Ltd.	India	88.62%	88.62%
Home Credit Indonesia PT	Indonesia	75.33%	75.33%
Home Credit Insurance LLC	Russia	88.62%	88.62%
Home Credit International a.s.	Czech Republic	88.62%	88.62%
Home Credit Lab N.V.	Netherlands	88.62%	88.62%
Home Credit Slovakia, a.s.	Slovakia	88.62%	88.62%
Home Credit US, LLC	USA	44.40%	44.40%
Home Credit Vietnam Finance Company Ltd.	Vietnam	88.62%	88.62%
Homer Software House LLC	Ukraine	88.62%	88.62%
PPF banka, a.s.	Czech Republic	92.96%	92.96%
PPF Co3 B.V.	Netherlands	92.96%	92.96%
Ruconfin B.V.	Netherlands	92.96%	92.96%
Shenzhen Home Credit Number One Consulting Co., Ltd.	China	88.62%	88.62%
Shenzhen Home Credit Xinchi Consulting Co., Ltd.	China	88.62%	88.62%
Sichuan Home Credit Number Three Socioeconomic Consulting Co., Ltd	China	88.62%	88.62%
Usconfin 1 DAC	Ireland	92.96%	-
Zonky, s.r.o.	Czech Republic	88.62%	88.62%
Non-banking Credit and Financial Organization Home Credit OJSC	Belarus	-	88.62%
PPF Financial Holdings subgroup - associates			
ClearBank Ltd.	United Kingdom	38.89%	36.36%
Real estate subgroup - subsidiaries			
PPF Real Estate Holding B.V.	Netherlands	100.00%	100.00%

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

Anthiarose Ltd.	Cyprus	100.00%	100.00%
Bammer trade a.s.	Czech Republic	100.00%	-
Bavella B.V.	Netherlands	100.00%	100.00%
Bestsport, a.s.	Czech Republic	100.00%	100.00%
BONAK a.s.	Czech Republic	99.99%	99.99%
CETIN Finance B.V.	Netherlands	100.00%	100.00%
Česká telekomunikační infrastruktura a.s. ("CETIN")	Czech Republic	100.00%	100.00%
Facipero Investments Ltd.	Cyprus	100.00%	100.00%
Fodina B.V.	Netherlands	100.00%	100.00%
GEMCOL Ltd.	Cyprus	100.00%	100.00%
Letňany eGate s.r.o.	Czech Republic	100.00%	100.00%
Letňany Park Gate s.r.o.	Czech Republic	100.00%	100.00%
Letňany Air Land s.r.o.	Czech Republic	100.00%	100.00%
Letňany Air Logistics s.r.o.	Czech Republic	100.00%	100.00%
Lindus Services Ltd.	Cyprus	100.00%	100.00%
O2 Czech Republic a.s.*	Czech Republic	83.40%	83.40%
O2 IT Services s.r.o.	Czech Republic	83.40%	83.40%
O2 Slovakia, s.r.o.	Slovakia	83.40%	83.40%
Pars nova a.s.	Czech Republic	100.00%	-
PPF a.s.	Czech Republic	99.99%	99.99%
PPF A3 B.V.	Netherlands	100.00%	100.00%
PPF Arena 1 B.V.	Netherlands	100.00%	100.00%
PPF Beer Topholdco B.V.	Netherlands	100.00%	100.00%
PPF Capital Partners Fund B.V.	Netherlands	96.00%	96.00%
PPF Financial Holdings B.V.	Netherlands	100.00%	100.00%
PPF Infrastructure B.V.	Netherlands	100.00%	100.00%
PPF Life Insurance LLC	Russia	100.00%	100.00%
PPF Telco B.V.	Netherlands	100.00%	100.00%
Prague Entertainment Group B.V.	Netherlands	100.00%	100.00%
RAV Agro LLC	Russia	100.00%	100.00%
RAV Molokoproduct LLC	Russia	100.00%	100.00%
Sotio a.s.	Czech Republic	92.16%	92.16%
Sotio Medical Research (Beijing) Co., Ltd.	China	96.00%	96.00%
Sotio N.V.	Netherlands	96.00%	96.00%
ŠKODA ELECTRIC a.s.	Czech Republic	100.00%	-
Škoda Investment a.s.	Czech Republic	100.00%	-
Škoda Transportation a.s.	Czech Republic	100.00%	-
ŠKODA VAGONKA a.s.	Czech Republic	100.00%	-
Timeworth Holdings Ltd.	Cyprus	100.00%	100.00%
Transtech Oy	Finland	100.00%	-
Vox Ventures B.V.	Netherlands	100.00%	100.00%
Other significant associates/joint ventures			
Cytune Pharma SAS	France	23.94%	22.96%
The Culture Trip Ltd.	United Kingdom	43.69%	43.69%
LEAG Holding a.s.	Czech Republic	50.00%	50.00%
Lausitz Energie Verwaltungs GmbH**	Germany	50.00%	50.00%
SIBELEKTROPRIVOD LLC	Russia	50.00%	-
Sully system a.s.	Czech Republic	40.00%	40.00%
CZC.cz s.r.o.	Czech Republic	40.00%	40.00%
Heureka Shopping s.r.o.	Czech Republic	40.00%	40.00%
Internet Mall Slovakia, s.r.o.	Slovakia	40.00%	40.00%
Internet Mall, a.s.	Czech Republic	40.00%	40.00%
Westminster JV a.s.	Czech Republic	50.00%	50.00%
Carolia Westminster Hotel Ltd.	United Kingdom	45.00%	45.00%

*As of 30 June 2018, due to existence of treasury shares held by O2 Czech Republic a.s. (hereinafter also "O2 CR") the direct stake in the registered capital of this company is 81.06% (2017: 81.06%).
** This joint venture comprises a group of entities.

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

Place of business	Entity
Russia	Anthemona Ltd., Ryazan Shopping Mall Ltd., Flowermills Holding B.V., Marisana Enterprises Ltd.
United Kingdom	Alrik Ventures Ltd., Tanaina Holdings Ltd.
Germany	Langen Property B.V., Monheim Property B.V., Trigon Berlin B.V.

B.2. Acquisitions and disposals through business combinations in 2018/2017

B.2.1. Acquisition of Škoda Transportation

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

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

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

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

During the three month period ended 30 June 2018, consolidated group contributed revenue of MEUR 103 and profit of MEUR 6 to the Group´s results. If the acquisition had occurred on 1 January 2018 consolidated revenue would have been increased by MEUR 113 and profit by MEUR 1.

The following table shows the determination of purchase price:

In millions of EUR

Purchase price (paid in cash)	310
Contingent consideration (maximum amount of deferred earn-out)	59
Fair value of contingent consideration	54
Total purchase price	364

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

In accordance with IFRS 3 the Group initiated purchase price allocation ("PPA") exercise to identify the fair value of assets and liabilities. At the date of these financial statements the Group has not yet finalised the exercise. The Group utilises the twelve month period given by IFRS 3 to finalise the PPA so ultimate results will be presented in the year-end consolidated financial statements. These interim financial statements contain carrying amount of assets and liabilities as the most reasonable estimate.

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

In millions of EUR, as at 24 April 2018

Carrying value of assets (excluding goodwill)	**815**
Cash and cash equivalents	42
Financial assets at fair value through profit or loss	17
Income tax receivable	13
Deferred tax assets	10
Investment in JV	13
Trade receivables	128
Inventories	123
Contract assets	208
Other assets	21
Property, plant and equipment	148
Intangible assets	92
Carrying value of liabilities	**503**
Due to banks and other financial institutions	81
Due to non-banks	25
Debt securities issued	92
Subordinated liabilities	36
Deferred tax liabilities	16
Trade and other payables	187
Provisions	66
Carrying value of identifiable net assets	**312**

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

Goodwill arising from the acquisition has been recognised as follows:

In millions of EUR

Total consideration	364
Effective ownership	100%
Carrying value of identifiable net assets	312
Goodwill	52

The goodwill is attributable to the established position of acquired businesses in the market and the assembled workforce. None of the goodwill recognised is expected to be deducted for tax purposes.

B.2.2. Acquisition of real estate projects

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

The following table summarises the financial aspects of both transactions:

	Wagnerford LLC	One Westferry Circus S.a.r.l.
Transaction date	April 2018	April 2018
Type of investment property	office building	office building
Location	Russia	United Kingdom
Effective stake acquired	89.91%	100%
In millions of EUR		
Consideration (paid in cash)	44	47
Consideration (deferred)	12	
Fair value of assets acquired	118	126
of which:		
Investment property	114	123
Fair value of liabilities acquired	(72)	(79)

B.2.3. Sale of Home Credit Belarus

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

The following table summarises the financial aspect of the transaction:

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

B.2.4. Acquisition of Bulgarian Nova Group (not yet finalised)

In February 2018, the Group signed an agreement for the acquisition of a 100% stake in Nova Broadcasting Group JSC, a Bulgarian media company. Nova is Bulgaria’s largest commercial media group and comprises seven TV channels and 19 online businesses. The total acquisition price amounts to approx. MEUR 167. The closing of the transaction is subject to regulatory approvals and is expected within several months.

B.2.5. Acquisition of Serbian Telenor Banka (not yet finalised)

In June 2018, the Parent signed an agreement for the acquisition of a 100% stake in Telenor Banka a.g. Beograd, a Serbian bank providing consumer loans to the customers of Telenor Serbia, a telecommunication operator. The closing of the transaction is subject to regulatory approvals and is expected in several months. The acquisition price did not exceed MEUR 1.

B.2.6. Acquisition of Telenor's telecommunications assets (completed after 30 June 2018)

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

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%

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

The following table shows the determination of purchase price:

In millions of EUR

Initial instalment (paid in cash)	2,333
Net present value of deferred instalments	400
Deferred period	4 equal instalments until July 2022
Total purchase price	2,733

In accordance with IFRS 3 the Group initiated purchase price allocation ("PPA") exercise to identify the fair value of assets and liabilities. The acquired business was divided into four cash-generating units based on geographic location of individual operations acquired. The ultimate results will be presented in the year-end consolidated financial statements.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition based on the unaudited preliminary financial results.

In millions of EUR, as at 31 July 2018

Carrying value of assets (excluding goodwill)	**1,292**
Cash and cash equivalents	55
Trade receivables	174
Inventories	31
Other assets	151
Property, plant and equipment	439
Intangible assets	442
Carrying value of liabilities	**345**
Due to banks and other financial institutions	26
Deferred tax liabilities	27
Trade and other payables	263
Provisions	29
Carrying value of identifiable net assets	**947**

In connection with the deal, MEUR 3,025 acquisition and revolving facilities 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.

B.2.7. Acquisition of Sully Group (in 2017)

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

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

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

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

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

In millions of EUR, as at 17 October 2017

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

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

In millions of EUR

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

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

B.2.8. Acquisition of Komodor (in 2017)

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

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

B.2.9. Acquisition of Westminster Hotel (in 2017)

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

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

In millions of EUR

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

B.2.10. Sale of O2 CR Shares (in 2017)

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

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

In millions of EUR

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

B.3. Other changes

B.3.1. Share buy-back program 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 30 June 2018, it acquired a total of 8.7 million treasury shares for the total acquisition price of MEUR 86. The aggregate amount of acquired treasury shares represents 2.8% of voting rights of O2 CR.

C. Risk exposures, risk management objectives and procedures

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

During the interim period there were no other significant changes in the nature or extent of risks arising from financial instruments. There were no significant transactions influencing liquidity position of the Group.

C.1. Fair value of financial assets and liabilities

The Group has performed a fair-value assessment of its financial instruments to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

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

In millions of EUR, as at 30 June 2018

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost	836	836	-	12	824
Loans and receivables due from banks and other financial institutions	544	544	-	544	-
Loans due from customers	17,876	18,041	-	-	18,041
Trade and other receivables	569	569	-	-	569
Due to non-banks	(10,955)	(10,979)	-	(10,979)	-
Due to banks and other financial institutions	(14,255)	(14,249)	-	(14,249)	-
Debt securities issued	(1,760)	(1,769)	(87)	(1,682)	-
Subordinated liabilities	(288)	(290)	(90)	(200)	-
Trade and other payables	(1,599)	(1,599)	-	-	(1,599)

In millions of EUR, as at 31 December 2017

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

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 30 June 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	357	195	93	645
Financial assets FVOCI	1,634	143	79	1,856
Financial liabilities at FVTPL	(193)	(132)	(394)	(719)
Total	**1,798**	**206**	**(222)**	**1,782**

In millions of EUR, as at 31 December 2017

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

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

In millions of EUR, for the six months ended 30 June 2018

	Financial assets FVTPL	Financial assets FVOCI/ AFS	Financial liabilities FVTPL	Total
Balance at 1 January (IFRS 9)	-	116	(332)	(216)
Restatement due to IFRS 9	89	(90)	-	(1)
Net gains/(losses) recorded in profit or loss (included in “Net gain/(loss) on financial assets”)	4	1	(8)	(3)
Net gains/(losses) recorded in other comprehensive income	-	2	-	2
Purchases of financial assets	-	50	-	50
Additions of financial liabilities	-	-	(54)	(54)
Balance at 30 June 2018	**93**	**79**	**(394)**	**(222)**

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

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

No transfers took place between Level 1, 2 and 3 in 2018.

The financial assets at FVTPL presented in Level 3 include debt securities. The fair value of debt securities is sensitive to market interest rates. For financial liabilities at FVTPL refer to E.15.

The financial assets at FVOCI presented in Level 3 consist of equity securities of MEUR 79 (2017: debt securities of MEUR 90 and equity securities of MEUR 26). The fair value of equity securities is sensitive to economic developments of the businesses in question.

C.2. Capital management

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

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

To manage its capital the Subgroup uses various tools within its internal management and controlling system such as capital planning, capital forecasting, capital measures, and internal capital allocation. The Subgroup prepares and annually updates a 3-year capital plan that outlines the development of the main balance sheet items, the main risks of the Subgroup, and the main components of the regulatory capital. The Subgroup updates the capital plan for the current year on a quarterly basis with a forecast. Based on the capital plan and forecast the Subgroup adopts certain capital measures such as issuance of new shares, increase or decrease of share premium, issuance or repayment of additional tier 1 instruments, issuance or repayment of tier 2 instruments, and dividend distribution. The capital allocation within the Subgroup is driven by the business needs of individual entities and by regulatory requirements on individual and/or sub-consolidated level if those are applicable.

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

In November 2015, by a decision of the Czech National Bank the Subgroup was identified as an “Other Systemically Important Institution” (O-SII). This classification was confirmed in the following years as well. No additional capital requirement was imposed as a result of this classification.

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

D. Segment reporting

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

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

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

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

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

In millions of EUR, for the six months ended 30 June

	2018	2017
Interest income	2,274	1,632
Fee and commission income	430	362
Net earned premiums	35	50
Net rental and related income	81	71
Telecommunication income	912	871
Machinery income	101	-
Net agriculture income	3	4
Net income related to construction contracts	1	2
Total revenue from external customers	**3,837**	**2,992**

The following table shows the main items from the financial statements broken down according to reportable segments for the six months ended 30 June 2018 and comparative figures for 2017:

In millions of EUR

30 June 2018	Financial segment	Telecommunications	Machinery	Real estate	Insurance	Other	Unallocated	Eliminations	**Consolidated**
Revenue from external customers	2,701	912	103	81	28	8	4	-	3,837
Inter-segment revenue	2	1	-	1	1	-	18	(23)	-
Total revenue	**2,703**	**913**	**103**	**82**	**29**	**8**	**22**	**(23)**	**3,837**
Segment share of earnings of associates/JVs	(7)	-	2	11	-	12	-	-	18
Net profit	**93**	**127**	**6**	**(23)**	**2**	**6**	**2**	**7**	**220**
Other significant non-cash expenses	(990)	(5)	-	(14)	-	-	(2)	-	(1,011)
30 June 2018									
Segment assets	28,946	4,331	871	1,961	173	540	1,982	(1,697)	37,107
Investments in associates/JVs	20	1	15	47	-	749	-	-	832
Total assets									**37,939**
Segment liabilities	26,192	2,400	586	1,480	130	363	1,150	(1,693)	30,608
Total liabilities									**30,608**
Segment equity	**2,774**	**1,932**	**300**	**528**	**43**	**926**	**832**	**(4)**	**7,331**

In millions of EUR

30 June 2017	Financial segment	Telecommunications	Real estate	Insurance	Other	Unallocated	Eliminations	**Consolidated**
Revenue from external customers	1,996	871	73	36	9	7	-	2,992
Inter-segment revenue	2	1	1	1	-	10	(15)	-
Total revenue	**1,998**	**872**	**74**	**37**	**9**	**17**	**(15)**	**2,992**
Segment share of earnings of associates/JVs	(1)	-	17	-	27	-	-	43
Net profit	**176**	**127**	**(15)**	**3**	**17**	**(22)**	**7**	**293**
Other significant non-cash expenses	(448)	(5)	(3)	-	-	-	-	(456)
31 December 2017								
Segment assets	30,224	4,283	1,787	175	536	2,287	(1,576)	37,716
Investments in associates/JVs	17	1	72	-	416	-	-	506
Total assets								**38,222**
Segment liabilities	27,469	2,125	1,411	131	404	873	(1,568)	30,845
Total liabilities								**30,845**
Segment equity	**2,772**	**2,159**	**448**	**44**	**548**	**1,414**	**(8)**	**7,377**

D.1. Financial segment

The segment represented by the PPF Financial Holdings subgroup comprises PPF banka, Air Bank and Home Credit business.

The Home Credit ("HC") business is divided into segments based on geographical regions corresponding to the geographical location of customers. The HC Group operates in the following principal geographical areas: China, the Russian Federation, the Czech Republic, Vietnam, Kazakhstan, Slovakia, India, Indonesia, and the Philippines. The Russian and Kazakh Home Credit segments operate under banking licences enabling taking of deposits. The countries not presented in a separate segment column are included in the Other segment.

ClearBank as an associate with insignificant value is included in the Unallocated segment.

The following table supplements the information presented for the financial segment in the previous table. Eliminations represent intercompany balances among individual reporting segments. Inter-segment revenue represents revenue realised with other segments inside the financial segment.

In millions of EUR

30 June 2018	Corporate banking	Retail banking and consumer finance								Unallocated	Eliminations	**Consolidated**
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovakia	HC India	Other			
Revenue from customers	61	38	1,692	343	48	133	103	23	121	133	8	-	2,703
Inter-segment revenue	18	24	-	3	11	-	-	-	-	-	-	(56)	-
Total revenue	**79**	**62**	**1,692**	**346**	**59**	**133**	**103**	**23**	**121**	**133**	**8**	**(56)**	**2,703**
Net interest income from external customers	46	22	979	181	41	89	60	20	98	89	(13)	-	1,612
Inter-segment net interest income	17	24	-	(2)	(7)	-	-	(3)	(20)	(10)	(1)	2	-
Total net interest income	**63**	**46**	**979**	**179**	**34**	**89**	**60**	**17**	**78**	**79**	**(14)**	**2**	**1,612**
Income tax expense	(11)	(3)	15	(16)	(4)	(6)	(7)	(1)	-	13	(4)	-	(24)
Net profit	**55**	**14**	**(42)**	**65**	**3**	**25**	**27**	**3**	**(7)**	**(4)**	**(52)**	**6**	**93**
Other significant non-cash expenses	1	(3)	(852)	(26)	4	(37)	(3)	(4)	(40)	(29)	(1)	-	(990)
30 June 2018													
Segment assets (incl. associates)	7,340	4,121	11,497	3,637	665	698	683	235	686	754	985	(2,335)	28,966
Segment liabilities	6,928	3,860	10,185	2,978	662	556	542	221	541	511	1,552	(2,344)	26,192
Segment equity	**412**	**261**	**1,312**	**659**	**3**	**142**	**141**	**14**	**145**	**243**	**(567)**	**9**	**2,774**

In millions of EUR

30 June 2017	Corporate banking	Retail banking and consumer finance									Unallocated	Eliminations	**Consolidated**
	PPF banka	Air Bank	HC China	HC Russian Federation	HC Czech Republic	HC Vietnam	HC Kazakhstan	HC Slovakia	HC India	Other			
Revenue from customers	41	29	1,123	382	48	126	91	28	55	69	6	-	1,998
Inter-segment revenue	12	14	-	4	4	-	-	-	-	-	7	(41)	-
Total revenue	**53**	**43**	**1,123**	**386**	**52**	**126**	**91**	**28**	**55**	**69**	**13**	**(41)**	**1,998**
Net interest income from external customers	31	16	614	193	41	81	46	24	44	46	(6)	-	1,130
Inter-segment net interest income	11	14	-	(6)	(7)	-	-	(4)	(9)	(2)	-	3	-
Total net interest income	**42**	**30**	**614**	**187**	**34**	**81**	**46**	**20**	**35**	**44**	**(6)**	**3**	**1,130**
Income tax expense	(8)	(3)	(19)	(23)	(2)	(8)	(9)	(1)	-	(1)	(6)	-	(80)
Net profit	**35**	**12**	**63**	**91**	**8**	**33**	**32**	**5**	**(43)**	**(22)**	**(48)**	**10**	**176**
Other significant non-cash expenses	(1)	(3)	(363)	(24)	4	(22)	3	(6)	(20)	(16)	-	-	(448)
31 December 2017													
Segment assets (incl. associates)	9,122	3,827	11,440	3,848	640	656	568	256	575	628	855	(2,174)	30,241
Segment liabilities	8,728	3,599	9,939	3,174	622	518	451	243	458	397	1,522	(2,182)	27,469
Segment equity	**394**	**228**	**1,501**	**674**	**18**	**138**	**117**	**13**	**117**	**231**	**(667)**	**8**	**2,772**

D.2. Telecommunication segment

The telecommunication segment is represented by O2 CR and CETIN. O2 CR is further divided into two segments based on geographical regions corresponding to the geographical location of customers.

The following table supplements the information presented for the telecommunications business in the previous table. Eliminations represent intercompany balances among individual reporting segments within the segment. Inter-segment revenue represents revenue realised with other core segments outside the telecommunication segment.

In millions of EUR

30 June 2018	CETIN	O2 Czech Republic	O2 Slovak Republic	Eliminations	**Consolidated**
Revenue from customers	190	583	140	-	913
Inter-segment revenue	201	10	2	(213)	-
Total revenue*	**391**	**593**	**142**	**(213)**	**913**
Cost related to telecommunication business	(163)	(315)	(57)	206	(329)
Net telecommunication income	33	465	86	(1)	583
Segment result	**49**	**112**	**13**	**(47)**	**127**
Services/products transferred over time	190	540	114		844
Services/products transferred at a point in time	-	43	26		69
Inter-segment revenue	200	9	2	(211)	-
Total Revenue (timing of recognition)**	**390**	**592**	**142**	**(211)**	**913**
Other significant non-cash expenses	(1)	(3)	(1)	-	(5)
30 June 2018					
Segment assets (incl. associates)	2,151	2,049	487	(355)	4,332
Segment liabilities	1,328	1,006	188	(122)	2,400
Segment equity	**823**	**1,043**	**299**	**(233)**	**1,932**

* includes revenues recognised in accordance with other standards than IFRS 15
** revenues recognised in accordance with IFRS 15.

In millions of EUR

30 June 2017	CETIN	O2 Czech Republic	O2 Slovak Republic	Eliminations	**Consolidated**
Revenue from customers	183	562	127	-	872
Inter-segment revenue	203	6	2	(211)	-
Total revenue from continuing operations*	**386**	**568**	**129**	**(211)**	**872**
Cost related to telecommunication business	(161)	(111)	(56)	9	(319)
Net telecommunication income	21	451	71	9	552
Segment result	**55**	**100**	**13**	**(41)**	**127**
Services/products transferred over time	182	520	125	-	827
Services/products transferred at a point in time	-	35	9	-	44
Inter-segment revenue	193	4	1	(198)	-
Total Revenues (timing of recognition)**	**375**	**559**	**135**	**(198)**	**871**
Other significant non-cash expenses	(3)	-	(1)	-	(4)
31 December 2017					
Segment assets (incl. associates)	2,209	1,907	483	(315)	4,284
Segment liabilities	1,320	729	152	(76)	2,125
Segment equity	**889**	**1,178**	**331**	**(239)**	**2,159**

* includes revenues recognised in accordance with other standards than IFRS 15
** revenues recognised in accordance with IFRS 15

E. Notes to the consolidated financial statements

E.1. Cash and cash equivalents

Cash and cash equivalents comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Cash on hand	81	111
Current accounts	786	1,517
Balances with central banks	76	189
Reverse repo operations with central banks	5,783	7,277
Placements with financial institutions due within one month	107	24
Total cash and cash equivalents	**6,833**	**9,118**

As of 30 June 2018, cash and cash equivalents amounting to MEUR 349 (2017: MEUR 834) are restricted by the borrowing agreements contracted by Chinese Home Credit with the creditors either to disbursement of loans to retail clients or repayment of the loans received from the creditors. If the cash is used to provide loans to retail clients, the loans are pledged as collateral.

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

E.2. Investment securities

Investment securities comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Financial assets at fair value through profit or loss	645	332
Financial assets at FVOCI/available for sale	1,856	3,346
Financial assets at amortised cost/held-to-maturity	836	12
Total financial securities	**3,337**	**3,690**

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

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

In millions of EUR

	30 June 2018	31 December 2017
Government and other public-sector bonds	351	183
Corporate bonds	8	13
Other debt securities	93	-
Positive fair value of trading derivatives	179	131
Positive fair value of hedging derivatives	14	5
Total financial assets at FVTPL	**645**	**332**

In 2018, PPF banka increased its investments into government bonds as a reaction to favourable market conditions.

E.2.2. Financial assets at amortised cost/held to maturity

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

In millions of EUR, as at 30 June 2018

	Gross amount	Amortised cost
Government bonds	750	750
Corporate bonds	74	74
Other debt securities	12	12
Total financial assets at amortised cost	**836**	**836**

In millions of EUR, as at 31 December 2017

	Gross amount	Amortised cost
Other debt securities	12	12
Total financial assets held to maturity	**12**	**12**

The Government bonds and corporate bonds in the new category "at amortised cost" were previously classified as available-for-sale financial assets (refer to F.2.2).

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

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

In millions of EUR

	30 June 2018	31 December 2017
Debt securities	1,328	2,740
Government bonds	479	1,576
Corporate bonds	842	1,101
Other debt securities	7	63
Equity securities	528	606
Shares	504	606
Mutual funds investments	21	-
Other equity securities	3	-
Total financial assets at FVOCI/AFS assets	**1,856**	**3,346**

As of 30 June 2018, the Group holds 54.6 million shares in Polymetal (2017: 54.6 million). The fair value amounted to MEUR 413 and a MEUR 153 loss was recognised as revaluation reserve in 2018 equity (2017: a fair value of MEUR 566).

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

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

In millions of EUR

	30 June 2018	31 December 2017
Term deposits at banks	38	30
Minimum reserve deposits with central banks	129	153
Loans to banks	6	7
Loans and advances provided under repos	178	130
Cash collateral for derivative instruments	39	68
Other	154	158
Total loans and receivables due from banks and other financial institutions	**544**	**546**

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

E.4. Loans due from customers

Loans and receivables due from non-banks comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Gross amount		
Cash loan receivables	12,150	9,967
Consumer loan receivables	5,524	5,959
Revolving loan receivables	533	524
Car loan receivables	120	117
Mortgage loan receivables	175	147
Loans to corporations	1,498	1,687
Loans to associates	146	152
Other	3	3
Total gross amount	**20,149**	**18,556**
Collective allowances for impairment		
Cash loan receivables	(1,512)	(882)
Consumer loans receivables	(595)	(441)
Revolving loan receivables	(60)	(64)
Car loan receivables	(21)	(22)
Mortgage loan receivables	(3)	(5)
Total collective impairment	**(2,191)**	**(1,414)**
Individual allowances for impairment		
Loans to corporations	(76)	(70)
Loans to associates	(6)	(6)
Total individual impairment	**(82)**	**(76)**
Total carrying amount	**17,876**	**17,066**

On the adoption of IFRS 9 on 1 January 2018, the impact of the increase in loss allowances to loans due from customers (before tax) was MEUR 273 (refer to F.2.2).

E.5. Trade and other receivables

Trade and other receivables comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Gross amount		
Trade receivables	605	470
Accrued income	2	11
Individual impairment	(38)	(40)
Total carrying amount	**569**	**441**

E.6. Contract assets

In millions of EUR

	30 June 2018
Gross amount	
Contract assets from machinery business	218
Contract assets from telecommunication business	20
Total carrying amount	**238**

E.7. Construction contracts

The following table shows details from construction contracts in the machinery business acquired in April 2018:

In millions of EUR

	30 June 2018
Total budgeted contract costs	(915)
Aggregate amount of contract costs incurred to date	(570)
Total budgeted transaction price for the contracts	1,061
Amount of contract revenues recognised in the current period (since April 2018)	51
Aggregate amount of contract revenues to date	642
Progress billings	(373)
Advances received	(96)
Total net amount due from customers	**173**
Out of which:	
Contract assets (machinery)	218
Contract liabilities (machinery)	(45)
Transaction price on performance obligations yet to be satisfied*	**419**

The figures in the above table are shown for those contracts that are not completed or fully invoiced at period end, so for which, as at the period end, a contract asset or a liability is recognised.

E.8. Inventories

Inventories comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Machinery inventories	140	-
Goods/merchandise for resale	36	37
Trading property	4	22
Agricultural inventories	4	7
Other inventory	3	3
Total inventories	**187**	**69**

E.9. Assets held for sale

Assets and liabilities held for sale are as follows:

In millions of EUR

	30 June 2018	31 December 2017
Inventories	18	-
Investment property	-	43
Property, plant and equipment	-	1
Other assets	3	3
Total assets held for sale	**21**	**47**

E.10. Investments in associates and joint ventures

The following table shows the breakdown of individual investments in associates and joint ventures:

In millions of EUR

	30 June 2018	31 December 2017
LEAG	652	358
Metropolis (Russia)	47	54
Sully Group	62	43
The Culture Trip	21	18
ClearBank	17	14
Westminster	8	8
Other	25	11
Total investments in associates/JV	**832**	**506**

The following table shows the breakdown of the share of earnings of associates and joint ventures:

In millions of EUR

	30 June 2018	30 June 2017
LEAG	33	31
Metropolis (Russia)	11	18
Sully Group	(15)	-
The Culture Trip	(6)	(2)
ClearBank	(8)	(3)
Other	3	(1)
Total share of earnings in associates/JV	**18**	**43**

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

<u>LEAG</u>

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

In millions of EUR

	30 June 2018	31 December 2017
Percentage ownership interest	**50.00%**	**50.00%**
Non-current assets	2,540	2,150
Current assets	2,658	2,059
Non-current liabilities	(2,628)	(2,575)
Current liabilities	(1,266)	(918)
Net assets (100%)	1,304	716
Carrying amount of investment in JV (50.00%)	**652**	**358**
	30 June 2018	30 June 2017
Total revenue	1,059	1,032
Total net profit/(loss) for the period (100%)	66	61
Total share in profit/(loss) (50.00%)	**33**	**31**

For the period ending 30 June 2018, LEAG recognised a significant gain in other comprehensive income from cash flow hedge related to the forward contracts for CO_2 emission rights. The Group recognised its share on this gain amounting to MEUR 255 (2017: nil) in hedging reserve (see E.23.1).

Metropolis (Russia)

In July 2015, the Group acquired an effective 49.94% stake in entities holding two up-and-running Moscow office buildings (the Metropolis project).

In millions of EUR

	30 June 2018	31 December 2017
Non-current assets	361	361
Current assets	10	15
Non-current liabilities	(267)	(252)
Current liabilities	(10)	(16)
Net assets (100%)	94	108
Carrying amount of investment in associate (49.94%)	**47**	**54**
	30 June 2018	30 June 2017
Total revenue	20	21
Total net profit/(loss) for the period (100%)	23	36
Total share in profit/(loss) (49.94%)	**11**	**18**

The Culture Trip

The Culture Trip Ltd., a UK start-up company dealing with online publishing and book selling, was acquired in June 2016. As of 30 June 2018, the Group holds a 43.69% share with a net asset value of MEUR 6 (2017: MEUR 2).

The ClearBank

Clearbank Ltd. is a newly established UK bank that, since 2017, has been providing clearing and settlement services. As of 30 June 2018, the Group holds a 38.89% share (2017: 36.36% share) with a net asset value of MEUR 40 (2017: MEUR 34).

Westminster Hotel

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

In millions of EUR

	30 June 2018	31 December 2017
Non-current assets	210	211
Current assets	11	7
Non-current liabilities	(197)	(196)
Current liabilities	(6)	(5)
Net assets (100%)	18	17
NCI at subholding level	(2)	(2)
Carrying amount of investment in associate (45%)	**8**	**8**
	30 June 2018	30 June 2017
Total revenue	13	11
Total net profit/(loss) for the period (100%)	(1)	(2)
Total share in profit/(loss) (45%)	**-**	**(1)**

Sully Group

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

The following table presents Sully Group's performance (since October 2017):

In millions of EUR

	30 June 2018	31 December 2017
Non-current assets	170	176
Current assets	138	165
Non-current liabilities	(207)	(261)
Current liabilities	(160)	(193)
Net assets (100%)	(59)	(113)
Group's share of net assets (40%)	(24)	(45)
Goodwill included in carrying amount	86	88
Carrying amount of investment in associate	**62**	**43**
	30 June 2018	30 June 2017
Revenue	279	-
Total net loss for the period (100%)	(37)	-
Total share in profit/(loss) (40%)	**(15)**	**-**

E.11. Investment property

Investment property includes all projects acquired through several acquisitions during the last several years. The projects, located in the Russian Federation, the Czech Republic, the Netherlands, Germany, Romania and the UK, consist mainly of completed and rented office premises, buildings, warehouses and shopping malls.

The following table shows the break-down of investment property by category and country:

In millions of EUR, as at 30 June 2018

	Russian Federation	Czech Republic	Netherlands	Germany	Romania	UK	Total
Land plot	121	-	-	-	-	-	121
Office	405	80	278	116	53	123	1,055
Warehouse	310	-	-	-	-	-	310
Retail	107	23	31	-	-	-	161
Residential	-	-	-	-	-	19	19
Other	10	-	-	-	-	-	10
Total investment property	**953**	**103**	**309**	**116**	**53**	**142**	**1,676**

In millions of EUR, as at 31 December 2017

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

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

In millions of EUR

	30 June 2018	31 December 2017
Balance as at 1 January	1,474	1,505
Additions resulting from business combination*	237	-
Disposals resulting from business combination	-	(3)
Additions - capitalised costs	16	20
Disposals	-	(9)
Transfer to non-current assets held for sale	-	(43)
Transfer from trading property	-	18
Unrealised gains from investment property	8	102
Unrealised losses from investment property	(37)	(41)
Effect of movements in exchange rates	(22)	(75)
Balance at 30 June 2018 / 31 December 2017	**1,676**	**1,474**

* Refer to B.2.2 for details of acquisitions.

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

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

E.12. Property, plant and equipment

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

In millions of EUR, for the six months ended 30 June 2018

	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Total
Carrying amount					
Balance at 1 January	501	1,374	397	207	2,479
Additions	23	18	46	44	131
Additions resulting from business combinations	109	-	-	40	149
Disposals	(2)	-	-	(10)	(12)
Other movements	(1)	-	3	2	4
Depreciation charge	(14)	(39)	(40)	(35)	(128)
Depreciation included in cost of sales (agriculture)	-	-	-	(1)	(1)
Effect of movements in exchange rates	(11)	(24)	(8)	(4)	(47)
Total	**605**	**1,329**	**398**	**243**	**2,575**
Cost	759	1,674	714	513	3,660
Accumulated depreciation and impairment	(154)	(345)	(316)	(270)	(1,085)
Of which: Not in use	9	21	87	23	140

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

	Land and buildings	Ducts, cables and related plant	Telecom technology and related equipment	Other tangible assets and equipment	Total
Carrying amount					
Balance as at 1 January	455	1,334	329	151	2,269
Additions	58	43	116	134	351
Disposals resulting from business combinations					
Disposals	(5)	(1)	(1)	(3)	(10)
Transfer to non-current assets held for sale	(1)	-	-	-	(1)
Other movements	8	-	(1)	(9)	(2)
Depreciation charge	(30)	(79)	(63)	(58)	(230)
Depreciation included in cost of sales (agriculture)	-	-	-	(2)	(2)
Impairment charge	-	-	-	(1)	(1)
Effect of movements in exchange rates	16	77	17	(5)	105
Balance as at 31 December	**501**	**1,374**	**397**	**207**	**2,479**
Cost	646	1,687	681	463	3,477
Accumulated depreciation and impairment	(145)	(313)	(284)	(256)	(998)
Of which: Not in use	9	18	78	22	127

E.13. Intangible assets

Intangible assets comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Goodwill	611	569
Software	472	447
Licences	333	354
Customer relationships	371	407
In-process research and development (IPRD)	235	196
Trademark	119	73
Present value of future profits from portfolios acquired (PVFP)	10	11
Other	9	8
Total intangible assets	**2,160**	**2,065**

E.13.1. Goodwill

Goodwill consists of two significant items arising from the acquisition of O2 CR in 2014. Following the demerger of O2 CR in 2015 the initial goodwill was allocated to newly established CGUs not existing at the time of acquisition based on the proportion of external revenues generated by both businesses (O2 CR: 80.3%, CETIN: 19.7%).

As of 30 June 2018, the carrying amount of O2 CR goodwill was MEUR 432 (2017: MEUR 441) and the carrying amount of CETIN goodwill was MEUR 108 (2017: MEUR 110).

In April 2018, the Group acquired Skoda Transportation with a resulting goodwill of MEUR 52 which is a subject to change with completing the purchase price allocation exercise (refer to B.2.1).

E.13.2. Other intangible assets

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

In millions of EUR, for the six months ended 30 June 2018

	Software	Licences	Customer relation-ships	IPRD	Trade-marks	PVFP	Other intangible assets	Total
Carrying amount								
Balance at 1 January	447	354	407	196	73	11	8	1,496
Additions resulting from business combination	3	-	-	29	59	-	1	92
Additions	75	1	-	10	-	-	5	91
Additions from internal development	22	-	-	3	-	-	-	25
Disposal	(10)	-	-	-	-	-	-	(10)
Other changes	(6)	-	-	2	-	-	(2)	(6)
Amortisation charge	(50)	(18)	(30)	(1)	(11)	(1)	(2)	(113)
Impairment charge	-	-	-	-	-	-	-	-
Effect of movements in exchange rates	(9)	(4)	(6)	(4)	(2)	-	(1)	(26)
Balance at 30 June	**472**	**333**	**371**	**235**	**119**	**10**	**9**	**1,549**
Cost	945	477	628	236	234	28	20	2,568
Accumulated amortisation and impairment losses	(473)	(144)	(257)	(1)	(115)	(18)	(11)	(1,019)
Out of this: Not in use	90	-	-	-	-	-	-	90

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

	Software	Licences	Customer relation-ships	IPRD	Trade-marks	PVFP	Other intangible assets	Total
Carrying amount								
Balance as at 1 January	342	360	445	158	68	13	9	1,395
Additions resulting from business combinations	2	-	-	-	-	-	-	2
Additions	141	17	-	24	30	-	1	213
Additions from internal development	41	-	-	5	-	-	-	46
Disposal	(5)	-	-	-	-	-	-	(5)
Amortisation charge	(86)	(35)	(58)	-	(28)	(2)	(3)	(212)
Impairment charge	(2)	-	-	-	-	-	-	(2)
Impairment reversal	-	-	-	-	-	-	-	-
Effect of movements in exchange rates	14	12	20	9	3	-	1	59
Balance as at 31 December	**447**	**354**	**407**	**196**	**73**	**11**	**8**	**1,496**
Cost	885	482	639	196	179	30	17	2,428
Accumulated amortisation and impairment losses	(438)	(128)	(232)	-	(106)	(19)	(9)	(932)
Of which: Not in use	78	8	-	-	-	-	1	87

E.14. Other assets

Other assets comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Prepaid expenses and advances	158	164
Cash collateral for credit card settlement	61	54
Other taxes receivable	28	23
Biological assets	19	7
Insurance related other assets	5	6
Cost to obtain or fulfil the contract	22	-
Other	149	80
Subtotal other assets (gross)	**442**	**334**
Individual allowances for impairment	(6)	(6)
Prepaid expenses and advances	(5)	(6)
Other	(1)	-
Total other assets (net)	**436**	**328**

E.15. Financial liabilities at fair value through profit or loss

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

In millions of EUR

	30 June 2018	31 December 2017
Negative fair values of derivatives	122	109
Negative fair values of hedging derivatives	10	-
Liabilities from short sales of securities	193	372
Financial liabilities designated at FVTPL (FV option)	317	313
Other	77	19
Total financial liabilities at FVTPL	**719**	**813**

In July 2017, the Group signed a strategic partnership agreement with PAG Asia Capital (“PAG”), one of Asia’s largest private equity firms, with the aim of supporting the long-term development of the Group’s business, in China. Within this deal, through one of its investment funds PAG made an investment to the Group in form of a long-term loan provided to the Group’s subsidiary. The loan is measured at fair value through profit or loss. The fair value was categorised as Level 3 and determined as MEUR 317 as at 30 June 2018 (MEUR 313 as at 31 December 2017). In accordance with the partnership agreement, the value of the loan was derived from the fair value of the Chinese business. The fair value of the Chinese business was determined using generally accepted valuation techniques, in particular the dividend discount model. The majority of inputs to this model are not observable from the market.

The “Other” financial liabilities at FVTPL comprise contingent consideration for the acquisition of Škoda Transportation in amount of MEUR 54 (for more details see B.2.1).

E.16. Liabilities due to non-banks

Liabilities to non-banks comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Current accounts and demand deposits	6,597	6,628
Term deposits	3,300	3,133
Loans	94	97
Loans received under repos	963	1,778
Other	1	1
Total liabilities to non-banks	**10,955**	**11,637**

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

As of 30 June 2018, the LTV covenant for the Ryazan shopping mall project had not been fulfilled which is the situation that arose in 2016. During 2017, the initial bank loan has been assumed by a Russian investment fund manager and was reclassified as the loan to non-banks. The Group currently negotiates prolongation of waiver with the new creditor. The outstanding amount of the loan provided to the Ryazan project is MEUR 70 (2017: MEUR 71).

E.17. Liabilities due to banks and other financial institutions

Liabilities to banks and other financial institutions comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Repayable on demand	2	1
Loans received under repos	1,310	1,754
Secured loans (other than repos)	8,368	8,251
Unsecured loans	4,510	3,830
Other	65	91
Total liabilities to banks	**14,255**	**13,927**

Secured loans include following significant loan facilities.

The syndicated loan facility was provided by a consortium led by Société Générale (the “SG facility”) in connection with the acquisition of O2 CR in January 2014. It comprised a MEUR 1,300 term loan, financing the initial acquisition price and additional shares acquired during the mandatory tender offer, and a MEUR 63 revolving loan used to cover debt service costs. In August 2015, the facility was fully repaid and replaced by a new facility. At that moment the Group obtained a new syndicated loan facility through its subsidiary CETIN, which was provided by a bank consortium and totalled MEUR 1,181. The facility, denominated in Czech crowns, consisted of a three-year term loan amounting to MEUR 374 and a seven-year term loan amounting to MEUR 807. It was secured by a pledge of the CETIN share held by PPF Telco and with fixed assets held by CETIN. In July 2016, CETIN as a debtor received a Moody’s investment rating which resulted in the release of the pledge of a 74.46% share in CETIN and fixed assets of the said entity amounting to MEUR 952. The facility became unsecured. In December 2016, CETIN refinanced the existing facility by an unsecured CZK and EUR bond issue.

In connection with additional direct purchases of O2 CR shares, the Group received another secured loan of MEUR 270, initially maturing in October 2020. In 2015, the facility was renegotiated in a move that saw the maturity extended until October 2021. The facility is secured by a pledge of O2 CR and CETIN shares (following the demerger of O2 CR) in a proportion financed by the facility.

In November 2015, the Group received a new senior loan facility from a group of banks consisting of a term loan of MEUR 370 and a revolving credit facility of MEUR 10. The term loan was fully drawn to finance the deferred purchase price owed to Telefonica S.A. and for recapitalisation purposes. The facility, denominated in Czech crowns, matures in December 2020 and is secured by a pledge of O2 CR shares (refer to E.34.1).

As of 30 June 2018 the Group complied with all covenants related to the bank loan facilities.

E.18. Debt securities issued

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

The maturities of the debt securities are as follows:

In millions of EUR, as at 31 December

	30 June 2018	31 December 2017
Fixed rate debt securities	**1,600**	**1,697**
Within 1 year	186	567
1-2 years	57	126
2-3 years	276	177
3-4 years	156	624
4-5 years	661	14
More than 5 years	264	189
Variable rate debt securities	**160**	-
1-2 years	102	-
2-3 years	48	-
3-4 years	10	-
Total debt securities issued	**1,760**	**1,697**

As at 30 June 2018, debt securities issued of MEUR 192 (2017: MEUR 387) were secured by cash loan receivables amounting to MEUR 188 (2017: MEUR 398) and consumer loan receivables of MEUR 530 (2017: MEUR 640).

E.19. Subordinated liabilities

Subordinated liabilities comprise the following:

In millions of EUR

	Interest rate	Maturity	30 June 2018	31 December 2017
Loan participation notes issue 7 of MUSD 500	Fixed	2020	-	74
Loan participation notes issue 8 of MUSD 200	Fixed	2021	88	106
Bond issue of MCZK 1,400	Fixed	2023	26	28
Loan MUSD 7	Variable	2023	7	-
Bond issue of MCZK 2,000	Fixed	2024	51	53
Bond issue of MCZK 4,000	Fixed	2027	116	90
Total subordinated liabilities			**288**	**351**

Subordinated loan participation notes issue 7 was made in October 2012. The Group used an early redemption option exercisable on 24 April 2018. Before 30 June 2018 the Group bought back the loan participation notes with a cumulative par value of MUSD 221 (2017: cumulative par value of MUSD 276).

Subordinated loan participation notes issue 8 was made in October 2013. The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date the interest rate is determined as a variable rate. Before 30 June 2018 the Group bought back the loan participation notes with a cumulative par value of MUSD 43 (2017: cumulative par value of MUSD 35).

The bond issue of MCZK 1,400 was made in April 2013. The Group used an early redemption option exercisable on 4 July 2018 and the remaining liability amounting to MEUR 26 was fully repaid.

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

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

E.20. Trade and other payables

Trade and other payables comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Settlements with suppliers	657	672
Wages and salaries	149	188
Social security and health insurance	25	27
Other taxes payable	77	68
Accrued expenses	86	83
Deferred income	114	91
Advance received	49	27
Customer loan overpayments	54	41
Other	388	362
Total trade and other payables	**1,599**	**1,559**

The “Other” category includes blocked accounts of PPF banka amounting to MEUR 275 (2017: MEUR 300) and consisting chiefly of collateral deposits for derivatives and clearing accounts.

E.21. Provisions

Provisions comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Insurance provisions	146	147
Warranty provisions	20	-
Provision for litigation except for tax-related litigation	15	9
Provision for onerous contracts	14	-
Provisions for insurance commissions return	12	9
Provisions for expected credit losses from loan commitments and financial guarantees	2	-
Other provisions	44	26
Total provisions	**253**	**191**

Other provisions include mainly asset retirement obligation related to liquidation of technical installation in CETIN.

E.21.1. Insurance provisions

Insurance provisions comprise the following:

In millions of EUR

	30 June 2018	31 December 2017
Non-life insurance provisions	28	29
Provisions for unearned premiums	27	27
Provisions for outstanding claims	1	2
RBNS provisions	1	2
Life insurance provisions	118	118
Provisions for outstanding claims	4	4
Mathematical provisions	107	106
Provisions for profit participation allocated to policyholders	7	8
Total insurance provisions	**146**	**147**

E.22. Capital issued and share premium

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

The following table provides details of authorised and issued shares:

	30 June 2018	31 December 2017
Number of shares authorised	250,000	250,000
Number of shares issued and fully paid	62,401	62,401
Par value per share	EUR 10	EUR 10

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

As of 30 June 2018 share premium representing the excess received by the Parent Company over the par value of its share amounted to MEUR 677 (2017: MEUR 677).

E.23. Reserves

E.23.1. Hedging reserve

The hedging reserve represents mainly a cash flow hedge effect related to the forward contracts for CO_2 emission rights recognised in other comprehensive income by the Group's joint venture LEAG. The significant gain is caused by the recent significant increase in emission rights prices. For the period ending 30 June 2018, the Group recognised its share on this effect in other comprehensive income amounting to MEUR 255 (2017: nil).

E.24. Non-controlling interests

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

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

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

The following table summarises the information relating to these subsidiaries:

In millions of EUR

30 June 2018	O2 CR	HC	PPFB	VELT	HCID	INTR	Other	**Total**
NCI percentage (ownership)	**16.60%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Total assets	1,791	21,763	7,341	308	242	87		
Total liabilities	(1,113)	(19,920)	(6,915)	(192)	(193)	(82)		
Net assets	**678**	**1,843**	**426**	**116**	**49**	**5**		
Net assets attributable to NCI of the sub-group	-	(16)	-	-	-	-		
Net assets attributable to owners of the Parent	**678**	**1,827**	**426**	**116**	**49**	**5**		
Carrying amount of NCI	113	209	30	46	7	1	18	**424**
NCI percentage during the period	**16.60%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Profit/(loss)	78	48	58	(3)	5	6		
Other comprehensive income	-	(26)	(32)	-	-	-		
Total comprehensive income	78	22	26	(3)	5	6		
Profit/(loss) allocated to NCI	13	5	4	(1)	1	1	(14)	**9**
OCI allocated to NCI	-	(4)	(2)	-	-	-	(1)	**(7)**
Total comprehensive income allocated to NCI	13	1	2	(1)	1	1	(15)	**2**

In millions of EUR

31 December 2017	O2 CR	HC	PPFB	VELT	HCID	INTR	Other	Total
NCI percentage (ownership)	**16.60%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Total assets	1,682	21,526	9,437	302	187	99		
Total liabilities	(850)	(19,498)	(9,026)	(186)	(156)	(84)		
Net assets	**832**	**2,028**	**411**	**116**	**31**	**15**		
Net assets attributable to NCI of the sub-group	-	(15)	-	-	-	-		
Net assets attributable to owners of the Parent	**832**	**2,013**	**411**	**116**	**31**	**15**		
Carrying amount of NCI	138	229	29	46	5	3	20	**470**

In millions of EUR

30 June 2017	O2 CR	HC	PPFB	VELT	HCID	INTR	Other	Total
NCI percentage during the period*	**16.77%**	**11.38%**	**7.04%**	**39.93%**	**24.67%**	**21.25%**		
Profit/(loss)	72	133	38	(10)	(13)	7		
Other comprehensive income	-	(118)	3	-	-	-		
Total comprehensive income	72	15	41	(10)	(13)	7		
Profit/(loss) allocated to NCI	12	15	3	(4)	(3)	1	1	**25**
OCI allocated to NCI	-	(13)	-	-	-	-	(3)	**(16)**
Total comprehensive income allocated to NCI	12	2	3	(4)	(3)	1	(2)	**9**

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

E.25. Net interest income

Interest income comprises the following:

In millions of EUR, for the six months ended 30 June

	2018	2017
Financial instruments at FVTPL	8	3
Financial assets at FVOCI/AFS	33	34
Financial instruments at amortised cost/held to maturity	4	-
Due from banks and other financial institutions	42	19
Cash loan receivables	1,633	1,046
Consumer loan receivables	448	406
Revolving loan receivables	54	68
Car loan receivables	9	9
Mortgage loan receivables	2	2
Loans to corporations	41	45
Total interest income	**2,274**	**1,632**

Interest expense comprises the following:

In millions of EUR, for the six months ended 30 June

	2018	2017
Due to customers	119	118
Due to banks and other financial institutions	509	363
Debt securities issued	44	28
Subordinated liabilities	12	13
Other	3	2
Total interest expenses	**687**	**524**

Total net interest income	**1,587**	**1,108**

E.26. Net fee and commission income

Fee and commission income comprises the following:

In millions of EUR, for the six months ended 30 June

	2018	2017
Insurance commissions	290	243
Penalty fees	84	64
Cash transactions	13	10
Customer payment processing and account maintenance	21	20
Retailers' commissions	6	10
Other	16	15
Total fee and commission income	**430**	**362**

Fee and commission expense comprises the following:

In millions of EUR, for the six months ended 30 June

	2018	2017
Commissions to retailers	10	11
Cash transactions	13	8
Payment processing and account maintenance	23	19
Payments to deposit insurance agencies	16	12
Credit and other register expense	19	13
Other	6	2
Total fee and commission expense	**87**	**65**
Total net fee and commission income	**343**	**297**

E.27. Net gain/loss on financial assets

In millions of EUR, for the six months ended 30 June

	2018	2017
Net trading income	58	33
Debt securities trading	14	8
FX trading	(17)	53
Derivatives	61	(28)
Net losses on financial assets/liabilities at FVTPL not held for trading	(4)	(2)
Net realised losses on financial assets at amortised cost	(2)	-
Net realised gains on FVOCI/AFS financial assets	12	-
Dividends	15	9
Total net gain on financial assets	**79**	**40**

E.28. Net impairment losses on financial assets

In millions of EUR, for the six months ended 30 June

	2018	2017
Cash loan receivables	724	252
Consumer loan receivables	256	187
Revolving loan receivables	5	3
Loans to corporations	6	6
Trade and other receivables	5	-
Financial assets at FVOCI	1	-
Mortgage loan receivables	(1)	-
Undrawn credit limit	(1)	-
Total net impairment losses on financial assets	**995**	**448**

E.29. Insurance income

In millions of EUR, for the six months ended 30 June 2018

	Non-life	Life	Total
Gross earned premium	13	22	35
Gross premium written	14	22	36
Change in the provisions for unearned premiums	(1)	-	(1)
Net insurance benefits and claims	-	(13)	(13)
Claims paid	(1)	(7)	(8)
Change in provisions for outstanding claims	1	-	1
Change in mathematical provisions	-	(7)	(7)
Change in life provisions for profit participation allocated to policyholders	-	1	1
Acquisition cost	(3)	(6)	(9)
Total insurance income	**10**	**3**	**13**

In millions of EUR, for the six months ended 30 June 2017

	Non-life	Life	Total
Gross earned premium	27	23	50
Gross premium written	16	23	39
Change in the provisions for unearned premiums	11	-	11
Net insurance benefits and claims	-	(14)	(14)
Claims paid	(1)	(7)	(8)
Change in provisions for outstanding claims	1	-	1
Change in mathematical provisions	-	(6)	(6)
Change in life provisions for profit participation allocated to policyholders	-	(1)	(1)
Acquisition cost	(9)	(6)	(15)
Total insurance income	**18**	**3**	**21**

E.30. Net rental and related income

In millions of EUR, for the six months ended 30 June

	2018	2017
Gross rental income	68	60
Service income	7	7
Service charge income	13	11
Service charge expense	(7)	(7)
Total net rental and related income	**81**	**71**

E.31. Net telecommunication income

Telecommunication income comprises the following:

In millions of EUR, for the six months ended 30 June

	2018	2017
Mobile originated revenues:	520	484
Voice services (incl. SMS & MMS)	225	230
Internet and data	143	126
Mobile terminated	58	55
Hardware sales	61	46
Other mobile revenues	33	27
Fixed originated revenues:	202	200
Voice services	43	48
Internet & Broadband (incl. other data services)	116	113
ICT	30	29
Hardware sales	6	3
Other fixed revenues	7	7
International transit revenues	156	160
Other wholesale revenues	34	27
Revenues from telecommunication business	**912**	**871**
out of which:		
Services/Products transferred over time	844	827
Services/Products transferred at a point in time	68	44
Interconnection and roaming	218	214
Cost of goods sold	61	51
Sub-deliveries	15	15
Commissions	12	18
Other costs	23	21
Costs related to telecommunication business	**329**	**319**
Net telecommunication revenues	**583**	**552**

E.32. Net machinery income

In millions of EUR, since the acquisition in April to 30 June

	2018
Sales of finished goods, services and goods for resale	101
Tramcars	31
Electric locomotives and suburb units	12
Trolleybuses	16
Metro	3
Electric equipment	1
Full service and repairs	21
Spare parts	1
Other products and services	16
Revenues from machinery business	**101**
out of which:	
Services/Products transferred over time	51
Services/Products transferred at a point in time	50
Raw material	37
Purchased services related to projects	9
External workforce	3
Other	8
Costs related to machinery business	**57**
Net machinery income	**44**

E.33. Net agricultural income

In millions of EUR, for the six months ended 30 June

	2018	2017
Sales of goods	6	8
Cost of sales	(8)	(7)
Other revenue	-	1
Change in fair value of biological assets	5	2
Total net agriculture income	**3**	**4**

E.34. Other income

In millions of EUR, for the six months ended 30 June

	2018	2017
Rental income	7	5
Gain on disposal of PPE and intangible assets	2	2
Other	44	27
Total other income	**53**	**34**

E.35. General administrative expenses

In millions of EUR, for the six months ended 30 June

	2018	2017
Employee compensation	586	511
Payroll related taxes (including pension contribution)	145	125
Advertising and marketing	46	41
Professional services	46	60
Telecommunication and postage	40	37
Travel expenses	14	13
Taxes other than income tax	34	25
Information technologies	65	46
Rental, maintenance and repair expense	93	84
Collection agency fees	26	19
Distribution, transport and storage of goods	1	1
Other	47	31
Total general administrative expenses	**1,143**	**993**

E.36. Other operating expenses

In millions of EUR, for the six months ended 30 June

	2018	2017
Depreciation of property, plant and equipment	128	109
Amortisation of intangible assets	113	103
Foreign currency losses	64	48
Net impairment losses on goodwill recognised	11	-
Net impairment losses on other intangible assets	-	1
Net impairment losses other assets (including contract assets)	5	7
Amortisation of cost to obtain or fulfil a contract	8	-
Loss on disposal of PPE and intangible assets	3	1
Total other operating expenses	**332**	**269**

E.37. Income tax expense

Income tax expense comprises the following:

In millions of EUR, for the six months ended 30 June

	2018	2017
Current tax expense	(236)	(175)
Deferred tax income	178	58
Total income tax expense	**(58)**	**(117)**

Income tax is computed and recognised by entities generating substantial accounting profit for the interim period, either via application of statutory income tax rate on pre-tax income adjusted by, if significant, excluded disregarded revenues and costs. The Group's consolidated effective tax rate for the six months ended 30 June 2018 was 21% (30 June 2017: 29%).

The significant change in the effective tax rate is caused primarily by the effect of IFRS 9 impairment model application since 1 January 2018 and increasing business activities in Asia, which both contributed to the significant increase in deferred tax assets recognised.

E.38. Off-balance sheet items

E.38.1. Commitments and contingent liabilities

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

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

In millions of EUR

	30 June 2018	31 December 2017
Loan commitments	753	691
Revolving loan commitments	537	379
Consumer loan commitments	44	80
Cash loan commitments	36	33
Undrawn overdraft facilities	43	66
Term loan facilities	93	133
Capital expenditure commitments	153	114
Guarantees provided	96	76
Non-payment guarantees	16	31
Non-revocable letters of credit	1	1
Payment guarantees	79	44
Total commitments and contingent liabilities	**1,002**	**881**

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

The following table shows secured liabilities:

In millions of EUR, as at 31 December

	30 June 2018	31 December 2017
Secured bank loans	8,368	8,251
Secured non-bank loans	16	15
Loans received under repos	2,273	3,531
Debt securities issued	193	388
Total secured liabilities	**10,850**	**12,185**

The secured non-bank loans include a loan to the Ryazan project (refer to E.16) which is not fully covered by the investment property pledged: the fair value of the property as of 30 June 2018 was MEUR 55 lower (2017: MEUR 56 lower).

The assets pledged as security were as follows:

In millions of EUR

	30 June 2018	31 December 2017
Cash and cash equivalents	365	846
Financial assets at fair value through profit and loss (repos)	5	211
Financial assets FVOCI (repos)/AFS (repos)	726	525
Loans and receivables due from banks and other financial institutions	109	47
Loans and receivables due from customers	8,387	8,043
Trade and other receivables/other assets	35	2
Investment property (incl. assets held for sale)	1,467	1,333
Property, plant and equipment	156	146
Financial assets in off balance sheet (repo operations)	1,718	3,020
Total assets pledged as security	**12,968**	**14,173**

As of 30 June 2018, cash and cash equivalents of MEUR 349 (2017: MEUR 834) were restricted by borrowing agreements with the creditors in Chinese Home Credit either to the disbursement of loans to retail clients or to the repayment of the loans received from creditors. If the cash was used to provide loans to retail clients, the loans were pledged as collateral. Thus, the restriction on the cash effectively increases the security of the creditors.

In addition, the Group pledges certain shares in O2 CR and CETIN. As of 30 June 2018, a 62.01% share in O2 CR (2017: 62.01%) and a 10.27% share in CETIN (2017: 10.27%) were used as collateral for several funding facilities (refer to E.17).

E.38.2. Other contingencies

E.38.2.1. Litigation

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

Furthermore, the Group (through its subsidiary PPF A4 B.V.) is involved in litigations connected to a squeeze-out of minority shareholders in Česká telekomunikační infrastruktura a.s. ("CETIN"), approved by general meeting of this company on 3 December 2015. Several former minority shareholders filed their actions with the relevant court and asked the court to decide on adequate consideration (i.e. higher than that originally paid by PPF A4 B.V.) for their shares in CETIN. The first hearings took place in March and May 2018.

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

The following legal cases related to O2 CR are significant from the Group's perspective:

On 28 March 2011, VOLNÝ, a.s. filed a legal action with the Municipal Court in Prague against O2 CR for an amount exceeding MEUR 157 for an alleged abuse of a dominant position on the market of Internet broadband connection provided to households via ADSL. The amount is meant to represent the lost profit for years 2004 to 2010. VOLNÝ, a.s. claims to have had 30% share on the dial-up Internet market in 2003 and thus implies in its legal action that it should automatically have the same result on the broadband market, which it does not. Allegedly, it is due to the margin squeeze applied by O2 CR on the fix broadband market. O2 CR replied to the petition in July 2011 by noting that both the claim and the calculations submitted by the plaintiff were unsubstantiated and by pointing at discrepancies in the petition claims. The court has already started the proceeding in the matter and further oral hearings took place during the year 2013 and 2014. Another hearing took place on 30 March 2016, where the court considered the possibility of the revision expert opinion, which would review the opinion filed by VOLNÝ and by the Company as well. VOLNÝ proposed the expert which eventually turned out to be biased, because of the merit, thus O2 CR filed the protest. Subsequently the court appointed other expert and defined the set of questions. The revision expert opinion has confirmed the statement of the Company. The expert opinion stated that any anti- competition practice of O2 CR was not proved and also pointed on the question of absence of the dominant position on the market of Internet broadband connection. The latest oral hearing was ordered on February 2018 but it was postponed for the purpose of the statement of the independent expert. The Municipal court in Prague fully dismissed the legal action of VOLNÝ. The court concluded that the Company did not breach competition law rules and therefore could not have been liable for any damages. The decision was delivered in June 2018. The plaintiff has filed an appeal against this decision.

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.

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

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

All payments connected with this dispute have been paid in previous years. The customer filed an action for the annulment of the above-mentioned arbitration award. To date, no hearings have taken place and no decision has been issued in the matter itself.

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

E.38.2.2. Regulatory investigation

In October 2016, the European Commission initiated the formal phase of an investigation in respect of a network sharing agreement between O2 CR, CETIN and T-Mobile Czech Republic. The investigation’s objective is to review if such cooperation does not harm free business competition in the Czech market and whether there are no obstructions to innovations that would be in contrast to EU antitrust rules. Currently, there is no indication that this investigation could result in potentially negative effects for the Group.

E.38.2.3. Taxation

The taxation systems in the Russian Federation, Kazakhstan, Vietnam and some other countries of operations are characterised by frequent changes in legislation which are then subject to varying interpretations by diverse tax authorities. Taxes are subject to review and investigation by a number of authorities that have the power to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities for several subsequent calendar years. Common practice in the Russian Federation, India, Kazakhstan, Vietnam, China and some other countries of the Group’s operations suggests that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The facts mentioned above may create tax risks in the respective countries that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities and that outstanding tax receivables are recoverable based on its interpretations of applicable tax legislation, official pronouncements and court decisions within each country in question.

In terms of other countries where Group companies operate, several changes in tax legislation have been observed in recent years, especially in Cyprus, the Netherlands, the Czech Republic and the Slovak Republic. However, these changes have had no significant impact on the tax positions of any of the Group companies.

E.38.3. Guarantee received and off-balance sheet assets

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

In millions of EUR

	30 June 2018	31 December 2017
Guarantees received	173	169
Loan commitments received	180	292
Value of assets received as collateral (including repos)	5,730	8,647
Total contingent assets	**6,083**	**9,108**

E.39. Related parties

E.39.1. Transactions with associates

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

In millions of EUR, for the six months ended 30 June

	2018	2017
Interest income	4	1
Net gain on financial assets	1	-
Other income	1	-
Total revenue	**6**	**1**

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

In millions of EUR

	30 June 2018	31 December 2017
Loans due from customers	146	152
Trade and other receivables	1	-
Total assets	**147**	**152**
Due to non-banks	(29)	(26)
Trade and other payables	(1)	-
Total liabilities	**(30)**	**(26)**

E.39.2. Other related parties including key management personnel

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

In millions of EUR, for the six months ended 30 June

	2018	2017
Interest income	9	8
Other income	1	-
Total revenue	**10**	**8**
General administrative expenses	(7)	(7)
Total expenses	**(7)**	**(7)**

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

In millions of EUR

	30 June 2018	31 December 2017
Loans due from customers	284	280
Trade and other receivables	1	1
Intangible assets	1	3
Other assets	1	-
Total assets	**287**	**284**
Due to non-banks	(12)	(7)
Trade and other payables	(3)	(5)
Total liabilities	**(15)**	**(12)**

F. Significant accounting policies

F.1. Significant accounting policies

The Group applies the same accounting policies in these condensed interim consolidated financial statements as were applied in the recent annual consolidated financial statements for the year ended 31 December 2017, except for the changes described below.

F.2. Changes in accounting policies and accounting pronouncements adopted since 1 January 2018

The below changes in accounting policies are expected to be also reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The following revised standard and annual improvements to IFRSs effective from 1 January 2018 are mandatory and relevant for the Group and have been applied by the Group since 1 January 2018.

Annual Improvements 2014-2016 Cycle (effective from 1 January 2017 and from 1 January 2018)

In November 2015 the IASB published Annual Improvements to IFRSs 2014-2016 Cycle as part of the annual improvements process to make non-urgent but necessary amendments to IFRS. Out of the amendments contained in the 2014-2016 Cycle, the amendments to IFRS 1 and IAS 28 are effective from 1 January 2018.

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

Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective from 1 January 2018)

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. These concerns include temporary volatility in reported results.

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard:

- gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued; and
- gives companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 continue to apply the existing financial instruments Standard – IAS 39.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

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

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

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

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

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

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

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

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

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	
Capitalisation of costs to obtain contracts	18
Bundles of telecommunication service and equipment	8
Related tax	(5)
Net impact	21
Non-controlling interests	
Capitalisation of costs to obtain contracts	4
Bundles of telecommunication service and equipment	1
Related tax	(1)
Net impact	**4**

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

In millions of EUR, as at 30 June 2018

	Note	**Amounts recognised under IFRS 15**	**Adjustment**	**Amounts without adoption of IFRS 15**
Trade and other receivables	F.2.1.1	569	228	797
Contract assets	F.2.1.1	238	(238)	-
Other assets		37,132	(20)	37,112
Out of which: Cost to obtain or fulfil the contract	F.2.1.2	22	(22)	-
Total assets		**37,939**	**(30)**	**37,909**
Trade and other payables	F.2.1.1	1,599	46	1,645
Contract liabilities	F.2.1.1	45	(45)	-
Deferred tax liabilities		477	(5)	472
Other liabilities		28,487	-	28,487
Total liabilities		**30,608**	**(4)**	**30,604**
Retained earnings		6,731	(26)	6,705
Total equity		**7,331**	**(26)**	**7,305**

The impact on the consolidated income statement and on the net profit for the six months ended 30 June 2018 would be immaterial.

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

F.2.1.1. Bundles of telecommunication service and equipment

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

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

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

The impact on retained earnings as at 1 January 2018 due to changes in accounting for contracts with corporate customers that have not been completed at that date is an increase of

MEUR 4. In comparison to the residential segment where the telecommunication equipment is transferred to customers at the inception of the telecommunication contract, corporate contracts usually allow the utilisation of the preferential terms for the purchase of telecommunication equipment during the whole duration of the contract.

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

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

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

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

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

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

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

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

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

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The Group has adopted the new requirements of IFRS 9 for hedge accounting.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and other reserves as at 1 January

2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application. The determination of the business model within which a financial asset is held. The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL. The designation of certain investments in equity instruments not held for trading as at FVOCI. If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance or reserves, retained earnings and non-controlling interests.

In millions of EUR, as at 1 January 2018

***Revaluation reserve** (AFS/FVOCI reserve)*	
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	2
Related tax	-
Net impact	2
Retained earnings	
Recognition of expected credit losses under IFRS 9	(252)
Remeasurement due to change in measurement model	1
Related tax	62
Net impact	(189)
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	(24)
Related tax	-
Net impact	**(24)**

F.2.2.1. Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

In millions of EUR, as at 1 January 2018

	Measurement category under IAS 39	Carrying amount	Measurement category under IFRS 9	Carrying amount
Financial assets				
Cash and cash equivalents	Amortised cost (L&R)	9,118	Amortised cost	9,118
Loans and receivables due from banks and other financial institutions	Amortised cost (L&R)	546	Amortised cost	544
Loans to customers	Amortised cost (L&R)	17,066	Amortised cost	16,799
Trade receivables and other receivables	Amortised cost (L&R)	441	Amortised cost	440
Investment securities (Held for trading)	FVTPL (held for trading)	332	FVTPL (mandatory)	332
Investment securities (Debt securities)	FVOCI (AFS)	2,740	FVOCI (debt instruments) FVTPL (mandatory)	1,814 5
Investment securities (Held to maturity)	Amortised cost (HTM)	12	Amortised cost	845
Investment securities (Equity securities)	FVOCI (AFS)	606	FVOCI (equity instruments)	606

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

Policy applied since 1 January 2018

Financial assets

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost (“AC”); FVOCI – debt instruments; FVOCI – equity instruments; or 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. IFRS 9 thus eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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

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.

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

- 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.

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. In addition, on initial recognition, the Group 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.

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

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

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 (non-portfolio) cases. The information that is considered for portfolio assets, beside a portfolio cash-flow characteristics, includes a 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 for the specific cases.

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

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

All of the Group’s retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents 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.

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.

Policy applied before 1 January 2018

Cash and cash equivalents are short-term (with original maturities of one month or less from the date of acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost less impairment.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intended to sell immediately or in the near term, those that the Group upon initial recognition designated as at fair value through profit or loss, or those where its initial investment might have not been substantially recovered, other than because of credit deterioration.

Financial assets and liabilities at fair value through profit or loss were financial assets or liabilities that were classified as held for trading or those which were upon initial recognition designated by the entity as at fair value through profit or loss. Trading instruments included those that the Group principally held for the purpose of short-term profit taking and derivative contracts that were not designated as effective hedging instruments. The Group designated financial assets and liabilities at fair value through profit or loss where either the assets or liabilities were managed, evaluated and reported internally on a fair value basis or the designation eliminated or significantly reduced an accounting mismatch which would have otherwise arisen or the asset or liability contained an embedded derivative that significantly modified the cash flows that would have otherwise been required under the contract. Financial assets and liabilities at fair value through profit or loss were not reclassified subsequent to initial recognition.

F.2.2.2. Identification and measurement of impairment

Policy applied since 1 January 2018

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information is required to be provided for expected credit losses.

Under IAS 39, an entity may only consider losses that arise from past events and current conditions. The effects of possible future credit loss events could not be considered, even when they were expected. IFRS 9 broadens the information that an entity may consider when determining its ECLs also with the forecast information. Thus, under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and receivables due from banks and other financial institutions;
- loans due from customers;
- trade receivables and accrued income;
- contract assets;
- cash and cash equivalents;
- debt instruments at FVOCI;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

In accordance with IFRS 9, the Group recognises loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group has elected to measure loss allowances for trade and lease receivables, accrued income and contract assets at an amount equal to lifetime ECLs.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses and is measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls - i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that

the Group expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Determining whether credit risk has increased significantly
The Group considers historical experience, expert credit assessment, forward-looking information and other relevant reasonable and supportable information.

The criteria may vary by portfolio and include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to materiality threshold – has not been received.

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition if the remaining lifetime probability of default (PD) is determined to have increased – since initial recognition – more than is defined for the respective exposure class.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was firstly used could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

Definition of default
Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on the respective significant credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit risk grades
The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Credit risk grades and client's score are primary inputs into the determination of the probability of default development for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

When a financial asset is modified the Group assess whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers both qualitative (such as SPPI criterion, change in currency, change in counterparty, maturity, covenants) and quantitative (such as comparison of present values of the remaining contractual cash flows under the original terms with the contractual cash flows under the modified terms) factors.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

For retail portfolio PD and EAD is usually estimated together using statistical models (stochastic Markov chain based model of simple Roll Rate model) based on internally compiled data. Where it is available, market data are also used to determine the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period when the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Forward-looking information
Under IFRS 9, the Group incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of measurement of ECLs. External information used include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the Organisation for Economic Co-operation and Development and the International Monetary Fund, and selected private sector and academic forecasters.

The Group uses – based on data availability and credibility of sources – an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, gross-domestic-product forecasts and other.

Write-off
Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may also apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowances for ECL in the financial statements
Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.
- remaining term to maturity.

<u>Policy applied before 1 January 2018</u>

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

Objective evidence that financial assets were impaired included:

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

The Group considered evidence of impairment for loans, receivables and held-to-maturity securities at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist at that moment. The methodology and assumptions used for estimating future cash flows were reviewed regularly by the Group to reduce any differences between the loss estimates and the actual loss experience.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Receivables with a short duration were not discounted. Losses were recognised in the income statement and reflected in an allowance account. When the Group determined that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through the income statement.

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to the income statement. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, it was reversed through other comprehensive income.

An impairment loss in respect of an associate or joint venture was measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss was recognised in profit or loss, and was reversed if there had been a favourable change in the estimates used to determine the recoverable amount.

F.2.2.3. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics, as described above in this section.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Financial assets					
Amortised cost					
Cash and cash equivalents:					
Opening balance under IAS 39	9,118	-	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	9,118
Investment securities (held to maturity):					
Opening balance under IAS 39	12	-	-	-	-
Subtraction: To "Investment securities at amortised cost" category (IFRS 9)	-	(12)	-	-	-
Closing balance under IFRS 9	-	-	-	-	-
Investment securities at amortised cost:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "available-for-sale" (IAS 39)	-	830	-	-	-
Addition: From "Investment securities (held to maturity)"	-	12	-	-	-
Remeasurement	-	-	3	-	-
Closing balance under IFRS 9	-	-	-	-	845
Loans and receivables due from banks, other financial institutions and holding companies					
Opening balance under IAS 39	546	-	-	-	-
Remeasurement	-	-	-	(2)	-
Closing balance under IFRS 9	-	-	-	-	544
Loans to customers:					
Opening balance under IAS 39	17,066	-	-	-	-
Remeasurement	-	-	-	(271)	-
Closing balance under IFRS 9	-	-	-	-	16,795
Trade and other receivables:					
Opening balance under IAS 39	441	-	-	-	-
Remeasurement	-	-	(1)	-	-
Closing balance under IFRS 9	-	-	-	-	440
Total financial assets measured at amortised cost	**27,183**	**830**	**2**	**(273)**	**27,742**

MEUR	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement: change of classification	Remeasurement: change of ECL	IFRS 9 carrying amount at 1 January 2018
Fair value through other comprehensive income (FVOCI)					
Available-for-sale					
Opening balance under IAS 39	3,346	-	-	-	-
Subtraction: to FVOCI (IFRS 9)	-	(2,420)	-	-	-
Subtraction: to FVTPL mandatorily (IFRS 9)	-	(96)	-	-	-
Subtraction: To "Investment securities at amortised cost" category (IFRS 9)	-	(830)	-	-	-
Closing balance under IFRS 9	-	-	-	-	-
FVOCI (debt instruments)					
Bonds and other debt securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "Financial assets available-for-sale (IAS 39)	-	1,814	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	1,814
FVOCI (equity instruments)					
Equity securities:					
Opening balance under IAS 39	-	-	-	-	-
Addition: From "Financial assets available-for-sale (IAS 39)	-	606	-	-	-
Remeasurement	-	-	-	-	-
Closing balance under IFRS 9	-	-	-	-	606
Total financial assets measured at FVOCI	**3,346**	**(926)**	**-**	**-**	**2,420**
Fair value through profit and loss and hedging (FVTPL)					
Opening balance under IAS 39	332	-	-	-	-
Addition: From “Financial assets available-for-sale (IAS 39)”	-	96	-	-	-
Remeasurement	-	-	(1)	-	-
Closing balance under IFRS 9	-	-	-	-	427
Total financial assets measured at FVTPL	**332**	**96**	**(1)**	**-**	**427**

F.2.2.4. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	**Loss allowance under IAS 39/Provision under IAS 37**	**Reclassification**	**Remeasurement**	**Loss allowance under IFRS 9**
	MEUR	**MEUR**	**MEUR**	**MEUR**
L&R (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and receivables due from banks, other financial institutions and holding companies	-	-	(2)	(2)
Loans to customers - collective impairment	(1,414)	-	(264)	(1,678)
Loans to customers - individual impairment	(76)	5	(7)	(78)
subtotal	**(1,490)**	**5**	**(273)**	**(1,758)**
AFS (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Bonds and other debt securities	-	-	(2)	(2)
subtotal	**-**	**-**	**(2)**	**(2)**
Loan commitments and financial guarantee contracts				
Loan commitments	-	-	(1)	(1)
Provisions (financial guarantees)	(2)	-	-	(2)
subtotal	**(2)**	**-**	**(1)**	**(3)**
Total	**(1,492)**	**5**	**(276)**	**(1,763)**

F.2.2.5. Derivatives and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from financing activities. However, not all instruments qualify for hedge accounting in accordance with IAS 39/IFRS 9. For derivative instruments where hedge accounting is not applied, any gain or loss on derivatives is recognised immediately in the statement of comprehensive income as net gains/losses on financial assets and liabilities.

Policy applied since 1 January 2018

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective.

The Group applies fair value and cash flow hedges against exposures to changes in fair value of recognised assets or liabilities or unrecognised firm commitments or against variability of cash flow attributable to the particular risk associated with a recognised asset or liability.

At inception of the hedging relationship the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Where a derivative is designated as a hedge of the variability in fair value attributable to an interest rate risk associated with a recognised asset at FVOCI, the effective portion of changes in the fair value of the asset is recognised in profit or loss. Any ineffective portion of changes in the fair value of the asset remains recognised as other comprehensive income in equity. If the hedging relationship no longer meets the criteria for hedge accounting, or the designation is revoked, hedge accounting is discontinued.

Policy applied before 1 January 2018

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

- there was compliance with the Group's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there was formal designation and documentation of the hedging relationship which included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity would 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 was expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge could be reliably measured; and
- changes in the fair value or cash flows of the hedged item were almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results were within a range of 80% to 125%.

Hedging derivatives were accounted for according to the type of hedging relationship, which could 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 was attributable to a particular risk and that could affect profit or loss (fair value hedge); or
- a hedge of an exposure to variability in cash flows that was 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 was designated and qualified as a cash flow hedge and that proved to be highly effective in relation to hedged risk were recognised in OCI and they were transferred to the income statement and classified as income or expense in the periods during which the hedged assets and liabilities affected the income statement.

On that basis, the Group hedged the interest rate risk and foreign currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge was regularly tested through prospective and retrospective tests on a quarterly basis. If the hedge no longer met the criteria for hedge accounting, the hedging instrument expired or was sold, terminated or exercised, the entity revoked the designation and the hedge accounting was discontinued prospectively.

Financial derivatives representing economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 were treated as derivatives held for trading.

An embedded derivative was a component of a combined instrument that also included a non-derivative host contract – with the effect that some of the cash flows or other characteristics of a combined instrument varied in a way similar to a stand-alone derivative. An embedded derivative might have been separated from the host contract and accounted for as a separate derivative if, and only if:

- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract;
- a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

the host instrument was not measured at fair value with changes in fair value recognised in profit or loss or the host instrument was measured at fair value, but changes in fair value were recognised in the statement of financial position.

F.2.3. Net machinery income

Revenues from machinery business, shown net of value added tax, comprise revenues from goods for resale, services rendered and revenues from machinery construction contracts (finished goods).

Revenues from goods for resale representing notably new rail vehicles and spare parts are recognised at a point in time, when the customer obtains control of the goods and to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The customer obtains control when the goods are delivered and accepted by the customer. Any relevant costs are recognised at the same time as the revenues.

For sales with multiple components in one contract, the Group determines whether the contract contains more than one transactions, performance obligations. Once certain criteria are met, for example the good brings benefit to the customer on its own, the Group applies recognition criteria for the distinct identifiable components in order to reflect the substance of the transaction. For the revenue recognition, two or more transactions can be analysed together, if it is not possible to understand their commercial substance without consideration of series of transactions as a whole, i.e. the unique transaction is not distinct within the context of the contract.

Revenues from services rendered and related costs are recognised at the moment the services are provided. For the long term service contracts, the revenues and the associated costs are recognised over time based on the percentage of completion method.

F.2.3.1. *Revenues from machinery construction contracts*

Finished goods in machinery business represent specialised assets built to a customer's specifications. If a contract for these goods is terminated by the customer, the Group is, under usual contract terms, entitled to reimbursement of the costs incurred to date, including reasonable margin. Therefore, revenues from these contracts and the associated costs are recognised over time, i.e. before the goods are delivered to the customer's premises.

For the consolidation purposes (intercompany sales and purchases eliminations), the contract revenues and the associated costs are aggregated to the project level by the Group. The percentage of completion and related revenues and losses recognition is re-evaluated at the Group level.

F.2.4. Contract assets

The contract assets are financial assets that relate to the Group's rights to considerations for work completed but not invoiced at the reporting date on machinery business production, and, in telecommunication business, financial assets that represent the difference between the revenue recognised and the transaction price when there is no legal right to invoice the amount at contract inception. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

F.2.5. Contract liabilities

The contract liabilities are financial liabilities that relate to the advance considerations received from customers under the contracts for machinery business production for which revenues are recognised over time, and, in telecommunication business, financial liabilities that represent customer prepayments for wireless and wireline services related to mobile or fixed originated revenues recognised over time.

F.3. Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's financial statements

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 30 June 2018, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its financial statements.

IFRS 16 Leases (effective from 1 January 2019)

In January 2016 IASB issued a new Standard on leases. The standard requires companies to bring most leases on-balance sheet, recognising new assets and liabilities. IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset (the 'lease asset') at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new Standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying IAS 17. IFRS 16 includes two exemptions from recognising assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less) and (b) leases of low-value items (such as personal computers).

Applying IFRS 16, a lessee will:

- recognise lease assets (as a separate line item or together with property, plant and equipment) and lease liabilities in the balance sheet;
- recognise depreciation of lease assets and interest on lease liabilities in the income statement; and
- present the amount of cash paid for the principal portion of the lease liability within financing activities, and the amount paid for the interest portion within either operating or financing activities, in the cash flow statement.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. This standard is expected to have some impact on the Group's financial statements considering the extent of operating leases of the Group.

IFRS 17 Insurance Contracts (effective from 1 January 2021)

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 has not yet been adopted by the EU.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

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

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

These Amendments have been adopted by the EU.

These amendments are not expected to have 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 have not yet been adopted by the EU.
These amendments are not expected to have 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 significant impact on the Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective from 1 January 2019)

In February 2018 the IASB issued narrow-scope amendments to pension accounting. The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. These Amendments are not expected to have significant impact on the Group's financial statements.

These Amendments have not yet been adopted by the EU.

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

IFRIC 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

This interpretation has been adopted by the EU.

The Group currently analyses the possible impact on its consolidated financial statements.

Amendments to References to Conceptual Framework (effective from 1 January 2020)

The IASB decided to revise the Conceptual Framework because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

These amendments have not yet been adopted by the EU.

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

G. Subsequent events

G.1. Closing of the Telenor deal

In July 2018, the Group completed the acquisition of Telenor telecommunications assets in Central and Eastern Europe, specifically in Hungary, Bulgaria, Serbia and Montenegro. The transaction signed in March 2018 was subject to the relevant regulatory approvals (refer to B.2.6).

G.2. Repayment of the PAG loan

In August 2018, the Group and PAG Asia Capital Limited (“PAG”) agreed to discontinue their partnership, and the Group returned PAG’s investment which had been made in the form of an interest bearing long term loan in 2017 in the amount of MCNY 2,311 (MEUR 299).

G.3. Full acquisition of Cytune Pharma

During July and August 2018, the Group completed the acquisition of a 96% effective stake in Cytune Pharma SAS, a French biotech company dealing with research and development of new therapies for patients suffering from cancer and infectious diseases. Until the transaction the Group held a 23.94% effective stake. The consideration paid amounted to MEUR 28, the total consideration also consists of a contingent deferred payment dependent of the fulfilment of the project milestones and revenue in future.

G.4. Operation of the Czech toll system

In September 2018, the Group, through its subsidiary CzechToll s.r.o. was announced as the winner of the tender for the new toll system operator in the Czech Republic initiated by the Transport Ministry. The company placed its offer in consortium with Slovak toll operator SkyToll, which will supply technical solution of the new system in the Czech Republic. The new toll system should operate for the next 10 years starting on 1 January 2020.

G.5. Deal with Moneta

In October 2018, Home Credit Group B.V. (“Home Credit Group”), the Group’s subsidiary, and MONETA Money Bank, a.s. (“Moneta”) entered into non-binding and preliminary agreement on the sale of Air Bank a.s. and Home Credit’s Czech and Slovak businesses to Moneta. Moneta is a retail and expanding SME bank in the Czech Republic, listed on the Prague Stock Exchange. As part of this transaction, Home Credit Group will become a significant shareholder of new business with a shareholding of 24.48%. According to the terms of the intended transaction, Moneta is expected to acquire 100% shareholding in Air Bank and in the Czech and Slovak businesses of Home Credit. As a consideration, Home Credit Group is expected to subscribe 165.6 million of shares newly-issued by Moneta, priced at approx. BEUR 0.5. Thus, Home Credit Group is expected to acquire 24.48% shareholding in the combined business and become a significant shareholder. Additionally, Moneta is expected to pay to Home Credit Group a cash consideration of MEUR 260.

The transaction is expected to close on 1 July 2019 and is subject to the satisfactory due diligence findings and prior approvals of the relevant regulatory authorities.

29 October 2018

Board of Directors:

Aleš Minx
Chairman of the Board of Directors

Jan Cornelis Jansen
Member of the Board of Directors

Rudolf Bosveld
Member of the Board of Directors