CABLE COMMUNICATIONS SYSTEMS

Parent Company of

RCS & RDS

Annual Report

For the year ended December 31, 2014

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1. IMPORTANT INFORMATION

FORWARD-LOOKING STATEMENTS

Certain statements in this report are not historical facts and are forward-looking. To the extent the statements in this report are not recitations of historical facts, such statements could constitute forward-looking statements. Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, and the trends we anticipate in the industries and the political and legal environments in which we operate and other information that is not historical information.

Words such as “believe,” “anticipate,” “estimate,” “target,” “potential,” “expect,” “intend,” “predict,” “project,” “could,” “should,” “may,” “will,” “plan,” “aim,” “seek” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this report are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions are expressed in good faith and reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. In evaluating these forward-looking statements you should consider the risks and uncertainties discussed in “*Risk Factors”, “Business”* and *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”* sections of this report. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include, but are not limited to:

- currency exchange rate fluctuations;
- a prolonged economic downturn or volatile credit markets;
- a systems failure or shutdown in our networks;
- our ability to use Intelsat’s and Telenor’s satellites to broadcast our DTH services and failure to find a commercially acceptable alternative in a reasonable amount of time;
- our ability to attract and retain key personnel without whom we may not be able to manage our business effectively;
- difficulty of obtaining adequate managerial and operational resources as a result of our rapid growth and expansion;
- our ability to attract new customers and retain existing customers if we do not maintain or improve our reputation for quality of service;
- continued demand for cable and telecommunications products and services in Romania and Hungary;
- our ability to retain or increase our subscriber base and increasing costs of operations if we cannot acquire or retain content or programming rights or do so at competitive prices;
- rapid technological changes leading to increased competition and the rendering of our technologies or services obsolete;
- our ability to generate sufficient cash flow to fund our requirements in order to make significant capital expenditures to maintain our competitive position;
- our capital expenditure not being able to generate a positive return or a significant reduction in costs or promote the growth of our business;
- a decrease in our ARPU figures as a result of our business strategy, which could have an adverse effect on our financial performance and operating margin;

- significant and intense competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenues and profitability;
- failure to control customer churn;
- our insurance not covering all potential losses, liabilities and damage related to our business and certain risks being uninsured or not insurable;
- operating in several markets in which we do not have a long history;
- problems with and interruptions to our billing and credit control systems that our business relies upon;
- our dependence on various intellectual property rights that we license from or that may be claimed by third parties to provide commercially viable telecommunications services;
- discontinuing of products or services by terminating contracts with, or charging of non-competitive prices by our current hardware, software and service suppliers;
- concerns about health risks relating to the use of mobile handsets which may adversely affect our mobile telephony business;
- leakage of sensitive customer data in violation of laws and regulations, and any other failure to fully comply with applicable data protection legislation, resulting in fines, loss of reputation and customer churn;
- undertaking future acquisitions on an opportunistic basis, which may increase our risk profile;
- varying degrees of reliability of the information available to market analysts;
- claims relating to breaches of competition law and investigations by competition authorities to which we may have been and may continue to be subject;
- our failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, which could result in substantial additional compliance costs or various sanctions or court judgments;
- disruption of service and additional expenses incurred as a result of being required to move some of our networks which are based on contracts and which may be terminated or otherwise;
- our reliance on intellectual property, some of which is owned by third parties, and any inadvertent infringement of the intellectual property rights of others, which would lead to liability for information disseminated through our network, loss of access to transmission technology or content, and damage to third-party interests;
- payments related to copyrights;
- adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations;
- difficulty in obtaining required licenses and permits, and any subsequent amendment, revocation, suspension, or termination of licenses and permits obtained;
- our dependence on our interconnection arrangements with other telecommunications operators and third party network providers, over which we have no direct control, to provide commercially viable mobile and fixed-line telecommunications services;
- litigation with the Antena Group and other parties and unfavorable court decisions;
- failure to comply with anti-corruption laws;
- other contractual claims, complaints, litigation and publicity;
- failure to comply with applicable laws and regulations on employment matters resulting in potential claims against us;
- difficult business climate as a result of corruption in some of the markets where we operate;
- military and political conflict in Ukraine may negatively affect our business
- fluctuations in the global economy;
- downgrading of Romania's credit ratings by an international rating agency;

- rapid or unforeseen economic or political changes in the emerging markets where we operate;
- difficulty of service of process in, and enforcement of judgments rendered by courts of, the United States and the United Kingdom;
- less developed legal and judicial systems in some of our markets of operation;
- difficulties related to the integration of Romanian with the European Union;
- our substantial leverage and debt servicing obligations;
- debt covenants that restrict our ability to finance our future operations and capital needs and to pursue business opportunities and activities;
- impairment of our ability to draw funds under the New Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement;
- the significant amount of cash required to service our debt and sustain our operations and the fact that our ability to generate cash depends on many factors beyond our control and we may not be able to generate sufficient cash to service our debt;
- our inability to refinance maturing debt on terms that are as favorable as those from which we previously benefited or on terms that are acceptable to us or at all;
- our exposure to unexpected risk and potential losses relating to derivative transactions;
- the other factors discussed in more detail under "*Risk Factors*"; and
- factors that are not known to us at this time.

This list of important factors and the other factors discussed in "*Risk Factors*" is not exhaustive. Other sections of this report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this report. Accordingly, we do not intend, and we expressly disclaim any undertaking and any obligation, to update or to disseminate any such updates or revisions to any forward-looking statements set forth in this report, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this report. As a result, you should not place undue reliance on such forward-looking statements.

PRESENTATION OF FINANCIAL AND OTHER DATA

Cable Communications Systems N.V. ("**CCS**", the "**Company**") is a holding company which holds the majority of the outstanding shares of RCS & RDS S.A. ("**RCS&RDS**", the "**Guarantor**"). CCS has no operations, except for holding and financing activities related to the CCS group of companies (CCS Group) and its primary asset is the ownership of RCS&RDS. CCS Group ("**CCS**" or "**the Group**") comprises Cable Communications Systems N.V. and its subsidiaries.

OPERATING AND MARKET DATA

In this report, we refer to persons who subscribe to one or more of our services as customers. We use the term revenue generating unit ("**RGU**") to designate a subscriber account of a customer in relation to one of our services. An individual customer may represent one or several RGUs depending on the number of our services to which it subscribes.

More specifically:

- for our cable TV and DTH services, we count each basic package that we invoice to a customer as an RGU, without counting separately the premium add-on packages that a customer may subscribe for;
- for our fixed internet and data services, we consider each subscription package to be a single RGU;

- for our fixed-line telephony and mobile telephony businesses, we consider each phone line that we invoice to be a separate RGU, so that a customer will represent more than one RGU if it has subscribed for more than one phone line (whether fixed-line or mobile); and
- for our mobile internet and data business, we consider each mobile internet and data subscription that we invoice and each mobile internet and data package sold in a bundle with our fixed internet and data subscriptions to be a separate RGU.

Since RGUs can be defined differently by different companies within our industry, you should use caution in comparing our RGU figures to those of our competitors.

We use the term average revenue per unit ("**ARPU**") to refer to the average monthly revenue per RGU in each business line or geographic segment and we calculate it by dividing the total revenue per business line or country for that month, by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services an individual customer subscribes for. As our definition of RGU is different for our different business lines, you should use caution when trying to compare ARPU between our business lines. In addition, because we calculate ARPU differently from some of our competitors, you should use caution when comparing our ARPU figures with those of other telecommunications companies.

Where information has been sourced from a third party, such information has been accurately reproduced and as far as we are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, you should keep in mind that we have not independently verified information we have obtained from industry and government sources. These information and statements from our internal estimates and surveys have not been verified by any independent sources.

Information regarding macroeconomic trends, market position, growth rates and other industry data pertaining to our business contained in this report consists, with certain exceptions, of estimates based on data compiled by professional organizations and analysts, of data from other external sources and of our knowledge of our market. These data are subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. In particular, we have cited the following sources in this report: the European Commission, the Romanian National Institute of Statistics, National Authority for Administration and Regulations in Communications ("ANCOM"), the National Media and Infocommunications Authority ("NMHH"), which, in each case, are independent sources. The analysts compiling these reports base their estimates and conclusions on a variety of different sources, some of which may be more accurate or reliable than others. Therefore, you should use caution in analyzing these estimates and should not place undue reliance on them. See *"Risk Factors—Risks relating to our business—The information available to market analysts varies in its degree of reliability."*

We also obtained Romanian, Hungarian, Slovak, Serbian, Czech and Croatian foreign exchange data from the National Bank of Romania's website (www.bnro.ro), the Hungarian Central Bank's website (www.mnb.hu), the National Bank of Slovakia's website (www.nbs.sk), the National Bank of Serbia's website (www.nbs.rs), the Czech National Bank's website (www.cnb.cz), the Croatian National Bank's website (www.hnb.hr) and the European Central Bank's website (www.ecb.int). None of these websites or their content has been incorporated by reference in this report, and we do not assume liability for any changes in the content of these websites after the date of this report.

NON-GAAP FINANCIAL MEASURES

In this report, we present certain financial measures that are not defined in and, thus, not calculated in accordance with IFRS, U.S. GAAP or generally accepted accounting principles in any other relevant jurisdiction. This includes EBITDA and Adjusted EBITDA (each as defined below). Because these measures are not standardized, companies can define and calculate these measures differently, and therefore we urge you not to use them as a basis for comparing our results with those of other companies.

We calculate EBITDA by adding back to consolidated operating profit/(loss) our charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is defined as EBITDA adjusted for the effect of extraordinary and one-off items. EBITDA and Adjusted EBITDA under our definition may not be comparable to similar measures presented by other companies and labelled "EBITDA". We believe that EBITDA and Adjusted EBITDA are useful analytical tools for presenting a normalized measure of cash flows that disregards temporary fluctuations in working capital, including due to fluctuations in inventory levels and due to timing of payments received or payments made. Since operating profit and actual cash flows for a given period can differ significantly from this normalized measure, we urge you to consider these figures for any period together with our data for cash

flows from operations and other cash flow data and our operating profit. You should not consider EBITDA or Adjusted EBITDA a substitute for operating profit or cash flows from operating activities.

We define EBITDA margin as the ratio of revenues and other income to EBITDA (for both December 31, 2013 and December 31, 2014, Adjusted EBITDA).

The EBITDA and Adjusted EBITDA presented in this report differs from the EBITDA as defined under the Notes or EBITDA as defined under the New Senior Facilities Agreement as disclosed in the *"Key Ratios"* section.

The covenants computation for the Notes and for the New Senior Facilities Agreement uses EBITDA which may be different from the EBITDA/Adjusted EBITDA presented in this report.

ROUNDING

Certain amounts that appear in this report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

OPERATING AND FINANCIAL DATA PRESENTATION

All operating and financial information included in this report represent actual data. In case proforma information is presented, it will be clearly identified thus.

GLOSSARY OF TECHNICAL TERMS

Term	Definition
2G	Second generation cellular telecom networks were commercially launched on the GSM standard in Finland in 1991. Three primary benefits of 2G networks over their predecessors were that phone conversations were digitally encrypted; 2G systems were significantly more efficient on the spectrum allowing for far greater mobile phone penetration levels; and 2G introduced data services for mobile, starting with SMS text messages.
3G	Third generation mobile telephony standard providing the ability to transfer simultaneously both voice data, such as telephone calls, and non-voice data, such as information downloads, exchanges of emails, instant messaging and video telephony.
4G	Fourth generation of mobile phone mobile communication technology standards as a successor of the third generation (3G) standards. A 4G system provides mobile ultra-broadband Internet access, for example to laptops with USB wireless modems, to smartphones, and to other mobile devices. Conceivable applications include amended mobile web access, IP telephony, gaming services, high-definition mobile TV, video conferencing, 3D television and Cloud Computing. Two 4G candidate systems are commercially deployed: the Mobile WiMAX standard, and the first-release Long Term Evolution (LTE) standard.
BRAS	A Broadband Remote Access Server routes traffic to and from broadband remote access devices on an Internet Service Provider's network. BRAS can also be referred to as BNG (Broadband Network Gateway).
Broadband	A general term used to describe wide bandwidth equipment or systems which can carry a large proportion of the electromagnetic spectrum. Broadband communications systems can deliver multiple channels and other services.
Cable TV	A broadband network employing radio-frequency transmission over coaxial and/or fiber optic cable to transmit multiple channels carrying images, sound and data between a central facility and individual customers' television sets.

CLIP .... Calling line identification presentation is a telephone service, available in analog and digital phone systems and most VoIP applications, that transmits a caller's number to the called party's telephone equipment during the ringing signal, or when the call is being set up but before the call is answered.

CLIR .... Calling line identification restriction is a telephone service, available in analog and digital phone systems and most VoIP applications, that blocks calling party address information from being presented to the called party's telephone equipment.

CPE .... Customer premises equipment is any terminal or associated equipment located at a subscriber's premises and connected with a carrier's telecommunication channel(s) at the demarcation point. The demarcation point is a point established in a building or complex to separate customer equipment from the telecommunication company equipment. CPE includes satellite dishes, satellite receivers, decoders, cable modems, fixed-line phone terminals, smartcards, 3G mobile telephony handsets and mobile data devices.

Digital .... A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. Compared to analog networks, digital networks allow for greater capacity, more precise reproduction, lower interference, protection against eavesdropping and automatic error correction. Signals are encoded into digits for transmission.

DNS .... Domain Name System is a hierarchical distributed naming system for computers, services or any resource connected to the internet or a private network, which associates various information with domain names assigned to each participant.

DOCSIS .... Data Over Cable Service Interface Specification is an international telecommunications standard that permits the addition of high-speed data transfer to an existing cable TV system. It is employed by many cable television operators to provide internet access over their existing hybrid fiber coaxial infrastructure.

DTH .... Direct to home satellite television. The reception of satellite programs with a personal dish in an individual home.

DTT .... Digital Terrestrial Television is an implementation of digital technology to provide a greater number of channels and/or better quality of picture and sound through a conventional antenna (or aerial) instead of a satellite dish or cable connection.

DWDM .... Dense wavelength division multiplexing is an optical technology used to increase bandwidth over existing fiber optic backbones, by putting data from different sources together on an optical fiber, with each signal carried at the same time on its own separate light wavelength.

E1 .... Digital transmission format used in telecommunications which allows network operators to provide time-division multiplexing circuit between customers. The E1 format has a capacity of 32 digital channels, each being allocated 8 bits in turn, the resulting signal being transmitted at a 2.048 Mbps rate (upstream and downstream).

E3 .... Multiplexing frame structure based on the E1 format with a 34.368 Mbps rate (upstream and downstream).

Fiber optic cable .... Cable that uses optical glass fibers to transmit signals over long distances with minimal signal loss or distortion. Fiber optic cable has good broadband frequency characteristics and noise immunity and is

	capable of managing very high capacity, high speed transmissions. It is immune to electrical interference and environmental factors that affect copper wiring and satellite transmission.
FTTB	Fiber To The Building. Fiber optic cable, carrying network data, connected from a communications service provider to a customer's physical building.
FTTH	Fiber To The Home is a broadband telecommunications system based on fiber optic cables and associated optical electronics for delivery of multiple advanced services such as the triple-play of telephony, broadband internet and television.
Gbps	Gigabytes per second; 1 Gbps = 1 thousand Mbps. Gbps stands for thousands of bits or kilobits per second. It is a measure of bandwidth (the total information flow over a given time) in a telecommunications medium.
GHz	The gigahertz is a unit of alternating current (AC) or electromagnetic (EM) wave frequency equal to one thousand million hertz (1,000,000,000 Hz). The GHz is used as an indicator of the frequency of ultra-high-frequency (UHF) and microwave EM signals and also, in some computers, to express microprocessor clock speed.
GPON	Gigabit-capable Passive Optical Networks is a point-to-multipoint, fiber to the premises network architecture in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises and covers systems with nominal line rates of 2.488 Gbps in the downstream direction and 1.244 Gbps in the upstream direction.
GSM	Global system for mobile communication. A widely adopted technical standard for digital mobile telephony.
HD / HDTV	High Definition Television is a high-quality video standard developed to replace older video formats often referred to as SD / SDTV (standard definition television). While HDTV's video quality is one of the most noticeable improvements over SDTV, HDTV includes a number of other important improvements as well: digital signal to eliminate analog interference caused by electrical currents and magnetic fields, and more realistic image due to using a ratio of 16:9.
Interconnection	The linking of telecommunications networks used by the same or different persons in order to allow the users of the services or networks of one person to communicate with the users of the services or networks of the same person or of another person, or to access services provided by another person.
IP	Internet Protocol. Data oriented protocol used in the internet for communication among multiple networks in which data is sent in packets and routed according to traffic density.
IP Backbone	IP Backbone is a part of network infrastructure that interconnects various pieces of network, providing a path for the exchange of information between different MANs (Metropolitan Area Networks) or sub-networks. A backbone can tie together diverse networks over wide areas. Normally, the backbone's capacity is greater than the networks connected to it.
IP Peering	IP Peering is a voluntary interconnection of administratively separate Internet networks for the purpose of exchanging traffic between the customers of each network. The pure definition of peering is settlement-free or "sender keeps all", meaning that neither party pays the other for the exchanged traffic; instead, each derives revenue from its own customers.
IP Transit	IP Transit is the service of allowing network traffic to cross a transit network, usually used to connect a smaller Internet Service Provider

	(ISP) to the larger Internet.
IPTV	Internet Protocol Television. A system where digital television service is delivered by using internet Protocol over a network infrastructure, which may include delivery by a broadband connection.
IPv4	Internet Protocol version 4 is the fourth version in the development of Internet Protocol (IP) and the first version of the protocol to be widely deployed. It is one of the core protocols of standards-based internetworking methods of the Internet, and routes most of the traffic in the Internet.
IPv6	Internet Protocol version 6 is the latest revision of the Internet Protocol (IP), the communications protocol that provides an identification and location system for computers on networks and routes traffic across the Internet. IPv6 was developed by IETF (Internet Engineering Task Force) to deal with long-anticipated problem of IPv4 address exhaustion.
ISP	Internet Service Provider. A company providing access to internet and other computer-based information networks through its servers.
IXP	Internet eXchange Point is a physical infrastructure through which Internet Service Providers (ISP) exchange Internet traffic between their networks. IXPs reduce the portion of an ISP’s traffic which must be delivered via their upstream transit providers, thereby reducing the average per-bit delivery cost of their service. Furthermore, the increased number of paths learned through the IXP improves routing efficiency and fault-tolerance.
Local loop	Network element used to connect a subscriber to the nearest switch or concentrator. The local loop is commonly referred to as the “last mile” because it is the part of the network that is connected directly to the subscriber.
LTE	Long-Term Evolution, marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals. It is based on the GSM/EDGE and UMTS/HSPA network technologies, increasing the capacity and speed using a different radio interface together with core network improvements.
MB	Megabyte. A measure of data volume representing one million bytes. Each byte is equal to eight bits.
Mbps	Megabytes per second. A data transfer speed measured by the number of millions of bits per second. A bit is the smallest unit of data in a computer network.
MVNO	Mobile virtual network operator is a company that provides mobile phone service but does not have its own licensed frequency allocation of radio spectrum, nor does it necessarily own the entire infrastructure required to provide mobile telephone service.
Node	A network element that provides a point at which key telecommunications equipment or computers can access the network. In circuit networks, nodes are switching systems. In packet-switched networks, they are often computers.
OTT	Over-The-Top Content describes broadband delivery of video and audio without a multiple system operator being involved in the control and distribution of the content itself. The provider may be aware of the contents of the IP packets but is not responsible for, nor able to control, the viewing abilities, copyrights, and/or other redistribution of the content.

Penetration rate	The total number of subscribers for a service provider divided by the population that it serves, expressed as a percentage.
POTS Line	Plain Old Telephone Service is the voice-grade telephone service that remains the basic form of residential and small business service connection to the telephone network in many parts of the world. POTS is generally restricted to about 52 Kbps.
PPPoE	Point to Point Protocol over Ethernet is a network protocol for encapsulating PPP frames inside Ethernet frames.
PRI E1s	Primary Rate Interface is a standardized telecommunications service level within the ISDN (Integrated Services Digital Network) specification for carrying multiple DS0 (Digital Signal 0) voice and data transmissions between a network and a user. PRI is the standard for providing telecommunication services to offices. It is based on the E-carrier (E1) line in Europe. The E1 line consists of 32 channels.
Router	An inter-network device that relays data packets to networks connected to the router based upon the destination address contained in those data packets being routed.
SDH	Synchronous Digital Hierarchy; international high-speed baseband digital transport standard specifying incrementally increasing data stream rates for movement across digital optical links.
SMS	Short Message Service. Also commonly referred to as text messaging. SMS features enable a user to send a short message to another user using a simplified key-pad. SMS capabilities among the latest user devices are capable of sending music and video messages, in addition to alphanumeric messages. SMS is a service available on most digital mobile phones that permits the sending of short text messages between mobile phones, other handheld devices and even landline telephones.
Smartcard	A smartcard is any pocket-sized card with embedded integrated circuits which can process data. This implies that it can receive input which is processed—by way of integrated circuit cards applications—and delivered as an output.
STM1 (Synchronous Transport Module)	The basic rate of transmission of the SDH fiber optic network transmission standard. It has a bit rate of 155.52 Mbit/s.
Switch	A device used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.
TDM	Time Division Multiplexing. Time Division Multiplexing is a type of digital multiplexing in which two or more apparently simultaneous channels are derived from a given frequency spectrum (*i.e.*, bit stream) by interleaving pulses representing bits from different channels.
UMTS	The Universal Mobile Telecommunications System is a third generation mobile cellular system for networks based on the GSM standard. UMTS uses wideband code division multiple access (W-CDMA) radio access technology to offer greater spectral efficiency and bandwidth to mobile network operators. UMTS specifies a complete network system, which includes the radio access network, the core network and the authentication of users via SIM (subscriber identity module cards).
VoIP	Voice over Internet Protocol. Protocol in which voice traffic is carried in IP packets (rather than a circuit switched network) that allows people to use the internet to make telephone calls.

2. RISK FACTORS

Investing in the Notes involves a high degree of risk. Investors should carefully consider the risks described below, together with the other information contained in this annual report, before making any investment decision relating to the Notes. The occurrence of any of the following events could have a material adverse effect on our business, prospects, results of operations and financial condition and impair our ability to fulfill our obligations in respect of the Notes, potentially causing a loss of all or part of the investment made when purchasing the Notes.

RISKS RELATING TO OUR BUSINESS

Currency exchange rate fluctuations could have a material adverse effect on our results of operations and financial condition.

In recent years, the values of local currencies in the principal countries where we operate have fluctuated significantly relative to the euro, our presentation currency, and the U.S. dollar, to which we have significant exposure. In the year ended December 31, 2014, the Romanian leu declined 0.6% relative to the euro and the U.S. dollar, and the Hungarian forint declined 3.9% relative to the euro and the U.S. dollar. In the year ended December 31, 2013, the Romanian leu appreciated 0.9% relative to the euro and 4.6% relative to the U.S. dollar, and the Hungarian forint declined 2.7% relative to the euro but appreciated 1.2% relative to the U.S. dollar. In the year ended December 31, 2012, the Romanian leu declined 5.1% relative to the euro and 13.8% relative to the U.S. dollar, and the Hungarian forint declined 3.6% relative to the euro and 12.1% relative to the U.S. dollar.

Appreciations in the euro and U.S. dollar against the Romanian leu and Hungarian forint in 2014 have resulted in foreign exchange losses for us as we pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenues generated in the Romanian leu and Hungarian forint. This effect was partially mitigated by the by the fact that in the year ended December 31, 2014, 23.4% of our revenues were generated in euro. The translation effect of the euro's appreciation against Hungarian forint has caused lower increases in certain financial results and operating indicators presented in euros in our consolidated financial statements as compared to the results originally recorded in Hungarian forints. For example, our revenues in Hungary for the year ended December 31, 2014 increased by 4.0% compared to the prior year, when using constant currency terms (using 2013 average exchange rates), but stagnated on a reported basis.

Depreciation of the Romanian leu and the Hungarian forint in relation to the euro and, to a lesser extent, the U.S. dollar, could have a material impact on our business, results of operations and reported consolidated financial results. In addition, we set prices for some of our services in euros and bill the respective customers in local currencies converted at the exchange rate prevailing on the date of the invoice. As such, depreciation of local currencies in relation to the euro will cause prices for such services in local currency terms to increase and this may result in customer losses and an adverse effect on our revenues.

Additionally, our ability to repay or refinance our euro financial indebtedness, including the Notes, could be adversely impacted. Further increases in the strength of the euro against other currencies could markedly reduce our financial results as reported in euro and, potentially, result in a breach of certain financial covenants under the New Senior Facilities Agreement and the ING Facilities Agreement and other existing credit facilities, thereby requiring us to seek waivers from these creditors or causing the acceleration of these credit facilities. While we generally do not hedge against foreign exchange rate fluctuations, we hedged the interest payments amounts due on the Proceeds Loan until the first call date in 2016. We may also consider hedging the remaining half of the interest payments or a portion of the principal amount of the Notes consistent with our historical approach if we believe a beneficial opportunity arises. However, any such hedging arrangements we enter into may not adequately offset the risks of foreign exchange rate fluctuations and may even result in losses. In addition, further appreciation of the euro could require us to offset the impact of such exchange rate fluctuations by price increases in local currencies, which could cause a reduction in the number of RGUs and negatively affect our business, prospects, results of operations and financial condition.

A prolonged economic downturn or volatile credit markets could have a material adverse effect on our business, prospects, results of operations and financial condition.

Continued concerns about the systemic impact of potential long-term and wide-spread recession, the availability and cost of credit, diminished business and consumer confidence, inflation and increased unemployment have contributed to increased market volatility and diminished expectations for European and emerging economies, including the jurisdictions in which we operate. The deterioration in the markets for sovereign debt of several countries, including Greece, Italy, Ireland, Cyprus, Spain and Portugal, together with the risk of contagion to other countries, has exacerbated the global economic crisis. This situation has also raised a number of uncertainties regarding the stability of the European Monetary Union. The uncertainty surrounding the Eurozone crisis has

resulted in frequent and significant disruptions in financial markets.

Our business is affected by general economic conditions in Romania, Hungary, Spain and Italy. There are many factors that influence global and regional economies which are outside of our control. The recent global financial and economic crisis has resulted in a deterioration of economic conditions in our operating areas generally.

Some of the effects of the recent economic crisis, including increased unemployment and decreases in disposable income, and official sector responses to the economic crisis such as austerity measures and increases in tax rates have had, and may continue to have, a negative impact on our business and results of operations. During the years 2010 through 2014, the Romanian government implemented a series of austerity measures. On July 1, 2010, Romania instituted a five percentage point increase in VAT (from 19% to 24%) and decreased state pensions. For the years 2010, 2011 and partially for 2012, the Romanian government cut public sector wages. Such measures have led to a decrease in consumption spending.

In November 2013, the Romanian Government introduced a number of fiscal measures to increase budget revenues, including a new tax on special constructions, including telecommunication networks. The tax was applicable starting with January 1, 2014 and amounted to an annual rate of 1.5% applicable to the gross inventory value as at 31 December of the previous year of certain constructions pertaining to telecommunication networks including, without limitation, pillars, circuits, cables, connections, platforms and towers. Starting with January 1, 2015, the tax was reduced to 1%. Although deductible for the purposes of calculating corporate income tax, this new tax has lead to an increase in our costs and has negatively affected our cash flow. For 2014, total expenditure related to this tax was approximately 0.9% of our revenues in Romania.

In addition, several dramatic changes to the Romanian tax legislation (both the fiscal and the fiscal procedure code) are currently under the scrutiny of the Romanian Parliament. The changes aim at reducing the level of some fiscal burdens (such as the progressive cut of the VAT level, the reduction of the social security taxation for employees, the decrease of the corporate income tax, etc.), while planning to cover the anticipated fiscal deficit with an extension of the tax base and the increase of several other taxes (e.g., the projects plans to make the social security taxes mandatory for all types of individual revenues in Romania, including intellectual property rights, which are currently exempted from this tax in certain conditions; the increase of the real estate taxation, etc.). On the other hand - according to the Government who is the initiator of this draft - such tax cuts would be accompanied by mechanisms meant at better detecting and fighting the tax evasion, while much higher sanctions would be applied for failure or late payment of tax duties. While being endorsed by the Senate in late April 2015, before becoming applicable, this project legislation still needs to be approved by the Chamber of Deputies. Once entered into force, on a medium/long term run, this new legislation - despite some tax benefits - would most likely lead to an overall higher tax liability and even more cumbersome fiscal procedures.

Governments may also introduce exceptional one-off taxes to compensate for decreasing budget revenues. For example, in October 2010, the Hungarian Parliament passed a law imposing a special crisis tax on certain sectors, including telecommunications, implemented retroactively to January 1, 2010. Consequently, we had to pay an additional tax of approximately 6% on our revenues in Hungary for the years ended December 31, 2010, 2011 and 2012. This tax was contested by the European Commission before the European Court of Justice ("**ECJ**"). Should the ECJ rule for the European Commission, the Hungarian government would need to repay all such taxes levied on us between 2010 and 2012. At the end of 2012, this tax was replaced by two lower taxes, one on infrastructure and the other on financial transactions. In addition to these taxes, a new tax, in effect since July 2012, was introduced in Hungary. The new tax is paid monthly and is levied on a per minute basis on voice calls and per each SMS/MMS sent. These taxes amounted to approximately 1.5% of our revenues in Hungary in 2014 and we expect the same level also for the future.

The implementation of other similar measures in countries in which we operate could have a negative impact on our business and results of operations.

Reduced availability of credit has had, and may continue to have, an indirect negative effect on our business by reducing overall spending in the countries in which we operate, causing or helping to cause significant decreases in the value of certain asset classes and, therefore, decreases in the overall wealth of our customers and, together with the overall economic climate, increasing the number of payment defaults and insolvencies among our customers.

In addition, volatile credit markets have also affected us in the past, and may affect us in the future, through increases in interest rates under our floating rate debt, including among other financial obligations, the New Senior Facility Agreement, the ING Facilities Agreement and the Citi Facilities Agreement. Lack of easily available credit may also restrict our ability to grow at a pace commensurate with the business opportunities we can identify. All these factors and other effects of a continued economic downturn that we may fail to predict could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our success is closely tied to general economic developments in Romania and Hungary and cannot be offset by developments in other markets. Our multiple offering strategy is based on an increase in penetration and on our ability to cross-sell our products and services to existing and new customers. Negative developments in, or the

general weakness of, the Romanian and Hungarian economies, in particular increasing levels of unemployment, may have a direct negative impact on the spending patterns of retail consumers, both in terms of subscribed services and usage levels. Because a substantial portion of our revenue is derived from residential subscribers who may be impacted by these conditions, it may be (i) more difficult to attract new subscribers, (ii) more likely that certain of our subscribers will downgrade or disconnect all or part of the services they subscribe to and (iii) more difficult to maintain ARPUs at existing levels. In addition, we can provide no assurances that a further deterioration of the economy will not lead to a higher number of non-paying customers or generally result in service disconnections. Therefore, a weak economy and negative economic development may jeopardize our growth targets and may have a material adverse effect on our business, prospects, results of operations and financial condition.

If a systems failure or shutdown in our networks occurs, our results of operations and financial condition may be significantly adversely affected.

Our cable TV, internet and data, fixed-line telephony and mobile telecommunications services are currently carried through our transmission networks composed primarily of fiber optic cables. In addition, as of December 31, 2014, we also had more than 1,600 base stations in place for our mobile telecommunications services. Our business is dependent on the continued and uninterrupted performance of our network. Our ability to deliver services may be subject to disruptions of our systems from communications failures that may be caused, among other things, by computer viruses, power failures, natural disasters, software flaws, transmission cable cuts, sabotage, acts of terrorism and vandalism and unauthorized access. In addition, we lease certain components of our network from third-parties that have the right to terminate those leases subject to notice periods and/or upon the occurrence of certain events (*e.g.,* a change of control). Any such disruption or other damage that affects our network could result in substantial losses for which we are not adequately covered by our existing insurance policies. Disaster recovery, security and service continuity protection measures that we have undertaken or may in the future undertake, and our monitoring of network performance, may be insufficient to prevent losses. Our network may be susceptible to increased network disturbances and technological problems, and such difficulties may increase over time. Such disruptions may affect our provision of new or existing services and may affect our reputation and lead to costly repairs and loss of customers. For so long as the disruption continues, our revenues could be significantly impacted, and could in turn materially and adversely affect our operating cash flows, business, prospects, results of operations and financial condition.

If we cannot use Intelsat's and Telenor's satellites to broadcast our DTH services and fail to find a commercially acceptable alternative in a reasonable amount of time, our results of operations and financial condition may be significantly adversely affected.

We currently broadcast programming for our DTH services using 12 transponders, of which 10 are located on a satellite operated by Intelsat, and the other 2 are leased through Intelsat on a Telenor satellite. Our lease of transponders expires in November 2017. There can be no assurance that an extension of the term of the agreement can be agreed on similar financial terms. As DTH is a competitive, price-sensitive business, we may not be able to pass an increase in satellite transmission costs, in whole or in part, to our DTH subscribers.

A material increase in our costs under the agreement with Intelsat or under another agreement with an alternative satellite operator would have a material adverse impact on our results of operations and financial condition.

Satellite broadcasts may also be disrupted for various reasons, including:

- transponder failure or other degradation of satellite electronics;
- exhaustion of fuel for maintaining satellites on station;
- premature ageing of the solar cells that power the satellite;
- malfunctions in ground control stations that cause the satellite to drift off its station and therefore become unable to transmit signals to the designated area;
- damage from space debris and solar flares;
- faulty systems, software, mechanical devices or latent faults in construction; and
- faulty operation or other causes.

Furthermore, the amount of satellite capacity that we are able to obtain is limited by the amount of efficient transmission spectrum allocated by the relevant national, regional and international regulatory bodies to the satellite operators that provide satellite coverage over our areas of operations. Intelsat is not contractually obligated to increase the satellite capacity it makes available to us.

Should the satellites we use significantly degrade, or become unavailable for regulatory reasons or any other reason, we may not be able to secure replacement capacity on an alternative satellite on a timely basis or at the same or similar cost or quality. Our ability to recoup losses related to service failures from Intelsat or Telenor may also be limited. Even if alternative capacity were available on other satellites, the replacement satellites may need to be

repositioned in order to be co-located with the satellites. If such replacement satellites could not be thus co-located, we would be required to repoint all our existing subscribers' receiving dishes to enable them to receive our signal. Accurate repointing requires specialist tools and expertise, and we believe that there could be substantial costs of repointing all of our existing subscribers' receiving dishes in the event the satellite networks we currently use fail. Moreover, the time needed to repoint our dishes to alternative satellites would vary depending on the market. Accordingly, the inability to use Intelsat's or Telenor's satellites or otherwise to obtain access to sufficient levels of satellite bandwidth on a timely basis and at commercially acceptable prices, or any system failure, accident or security breach that causes interruptions in our operations on the satellite networks we use could impair our ability to provide services to our subscribers, resulting in liability to our customers, and materially and adversely affect our, business, prospects, results of operations and financial condition.

We depend on our ability to attract and retain key personnel without whom we may not be able to manage our business effectively.

We depend on the availability and continued service of a relatively small number of senior managers. Our senior managers are heavily involved in the daily operation of our business and are, at the same time, required to make strategic decisions, ensure their implementation and manage and supervise our development. The loss of any key employee could significantly impede our financial plans, product development, network expansion, marketing and other plans, which could in turn affect our ability to comply with the financial maintenance covenants under the New Senior Facilities Agreement, and the ING Facilities Agreement. In addition, competition for qualified executives in the telecommunications industry in the markets in which we operate is intense. Our future operating results depend, in significant part, upon the continued contributions of our existing management and our ability to expand our senior management team by adding highly skilled new members, who may be difficult to identify and recruit. If any of our senior executives or other key personnel ceases their employment with us, our business, results of operation, financial position and prospects could be materially and adversely affected.

Rapid growth and expansion may make it difficult to obtain adequate managerial and operational resources, thus restricting our ability to expand our operations.

We have experienced substantial growth and development in a relatively short period of time, and our business may continue to grow in the future. The operational complexity of our business as well as the responsibilities of our management have increased as a result of this growth, placing significant strain on the relatively limited resources of our senior management. We will need to continue to improve our operational and financial systems and managerial controls and procedures to keep pace with our growth. We will also have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Managing our growth will require, among other things:

- the ability to integrate new acquisitions into our operations;
- continued development of financial and management controls and IT systems and their implementation in newly acquired businesses;
- increased marketing activities;
- hiring and training of new personnel; and
- the ability to adapt to changes in the markets in which we operate, including recent changes in legislation, incurrence of additional taxes, increased competition and demand for our services.

Our inability to ensure appropriate managerial resources and to successfully manage our growth could have a material adverse effect on our business, prospects, results of operations and financial condition.

If we do not maintain or improve our reputation for the quality of our service, our ability to attract new customers and retain existing customers may be harmed.

Our ability to retain users and to attract new users depends in part on our brand recognition and our reputation for the quality of our service. Our reputation and brand may be harmed if we encounter difficulties in the provision of new or existing services, whether due to technical faults, lack of necessary equipment, changes to our traditional product offerings, financial difficulties, or for any other reason. Damage to our reputation and brand may materially and adversely affect our business, prospects, results of operations and financial condition.

Our growth prospects depend principally on continued demand for cable and telecommunications products and services in Romania and Hungary.

Our growth and profitability depend on a continued demand for our cable and telecommunications products and

services and growth in our RGUs as a result of cross-selling services to our existing customers, churn experienced from our competitors, or otherwise. If demand for our services in general does not increase, if we are unable to further maximize revenues generated from existing customers through cross-selling, or if we are unable to gain new customers from our competitors or otherwise, our business, prospects, results of operation and financial condition could be materially and adversely affected.

If we cannot acquire or retain content or programming rights or do so at competitive prices, we may not be able to retain or increase our subscriber base and our costs of operations may increase.

The success of our business depends on, among other things, the quality and variety of the television programming delivered to our subscribers. We depend substantially on third parties to provide us with programming TV content and we license rights to broadcast certain high interest sports events and movies on our own premium channels in Romania and Hungary. See "*Business—Operations— Programming*." Our programming agreements generally have terms ranging from one to five years (including options to extend their term) and contain various renewal, cancellation and annual price adjustment provisions. We cannot assure you that we will succeed in renewing our rights for channels or content upon the expiry of currently applicable contractual terms on competitive terms or at all. Generally, our programming agreements may be terminated if we fail to make any of our payments or breach our obligations to keep our transmission signal secure or within agreed technical parameters and we fail to cure any such breaches within a certain time period, typically between 10 and 30 days.

The ability to broadcast certain sports competitions, especially football matches, is integral to our ability to attract and retain customers. We cannot assure you that we will succeed in renewing our broadcasting rights for sporting competitions when current contractual terms expire. For example, we currently have the right to broadcast most of the matches from the UEFA Champions League and the UEFA Europa League (until May 2015). We have not succeeded in renewing our broadcasting rights for these sporting competitions in Romania for the following three seasons starting 2015/2016. We have lost the right to broadcast both these competitions against Dolce Sport (part of the Telekom Group), our main competitor on the sport tv channel market in Romania. On the other hand, since January 2015, we are able to broadcast all the matches of the Romanian Football League and the Romanian Football Cup (until, including, the return of the 2018/2019 season). Our right to broadcast the Romanian Football League and the Romanian Football Cup has not been obtained directly from the Romanian Football League, but has been sub-licenses by Intel Sky Broadcast Ltd. (a company established in Malta). We are therefore dependent upon Intel Sky Broadcast Ltd. continuing to own these broadcast rights until 2019. The Competition Council is currently investigating the circumstances under which the Romanian Football League has granted to Intel Sky Broadcast Ltd. the broadcast rights with respect to these two sporting competitions. We might lose the right to broadcast the Romanian Football League and the Romanian Football Cup should, for example, the Competition Council decide to annul the ongoing agreement between the Romanian Football League and Intel Sky Broadcast Ltd.

We believe that, in order to compete successfully, we must continue to obtain attractive content and deliver it to our subscribers at competitive prices. When we offer new content, or upon the expiry of existing programming agreements or broadcast licenses, our content suppliers may decide to increase the rates they charge for content, thereby increasing our operating costs. Regulatory requirements in some jurisdictions, such as Hungary, affect content suppliers by, for example, requiring them to produce channels in high definition, and may lead them to increase the rates they charge us. Increases in programming fees or license fees or changes in the way programming fees or license fees are calculated could force us to increase our subscription rates, which in turn could cause subscribers to terminate their subscriptions or lead potential new subscribers to refrain from subscribing. In addition, if we were to breach the terms of the applicable agreements or licenses content providers could decide to withhold certain content or we could lose the right to retransmit certain programs or broadcast certain competitions. In addition, program providers and broadcasters may elect to distribute their programming through other distribution platforms, such as Internet-based platforms, or may enter into exclusive arrangements with other distributors. If we cannot pass on any increased programming or license fees to our subscribers, or if we lose rights to transmit certain programming or broadcast certain competitions, our reputation, competitive position, business, prospects, results of operations and financial condition could be materially and adversely affected.

Rapid technological changes may increase competition and render our technologies or services obsolete.

Given the fast pace of technological innovation in our industry, we face the risk of our technology becoming obsolete. We may need to make substantial additional investments to upgrade our networks or to obtain licenses for and develop and install new technologies to remain competitive. There is no assurance that the services enabled by new technologies will be accepted by customers to the extent required to generate an acceptable rate of return. In addition, we face the risk of unforeseen complications in the deployment of these new services and technologies and there is no assurance that our original estimates of the necessary capital expenditure to offer such services will be accurate. New services and technologies may not be developed and/or deployed according to expected schedules or

may not achieve commercial acceptance or be cost effective. Should our services fail to achieve commercial acceptance, this could result in additional capital expenditures or a reduction in profitability. Any such change could materially and adversely affect our business, prospects, results of operations and financial condition.

Rapid technological change makes it difficult to predict the extent of our future competition. For example, new transmission technologies and means of distributing content, such as IPTV, DTT, OTT and video on demand services, or increased consumer demand for and affordability of products based on new mobile communication technologies, such as 4G LTE, could trigger the emergence of new competitors or strengthen the position of existing competitors. There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. Any failure to do so could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our financial condition and results of operation. Conversely, we may overestimate the demand in the marketplace for certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenues, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology or service. Our future success depends on our ability to anticipate and adapt in a timely manner to technological changes. Responding successfully to technological advances and emerging industry standards may require substantial capital expenditure and access to related or enabling technologies to introduce and integrate new products and services successfully, which could negatively affect our competitive position, business, prospects, results of operations or financial condition.

We may be required to make significant capital expenditure to maintain our competitive position, but may not generate sufficient cash flow to fund our requirements.

The expansion and operation of our networks, as well as the costs of sales and marketing of our products and services, require substantial upfront financing. In addition to our significant investments in our recently upgraded network, we have ongoing capital requirements relating to, among other things, the following:

- the expansion of our fiber optic networks;
- payments for the acquisition of television content rights and licenses;
- the acquisition of CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE by other members of our industry), and other equipment such as set-top boxes, mobile data devices, fixed-line telephone handsets, satellite dishes and satellite receivers and smartcards;
- the build-up and expansion of our mobile telecommunications network in Romania and Hungary
- payments under telecommunication licenses.

Our ability to expand our networks and fund our ongoing operations depends on our ability to generate cash and access financing. In addition, our liquidity and capital requirements may increase if we expand into additional areas of operation or if we make future acquisitions. We may not generate sufficient cash flow or have access to sufficient funding to meet these requirements.

In addition, we require information technology enhancements in order to continue providing high-quality customer service. Failure to implement such enhancements may result in reduced quality of customer service, leading to an increase in customer churn, which may in turn result in decreases in revenue, otherwise negatively impact our financial condition and make it more difficult for us to fund our operations and meet our debt obligations.

If we fail to meet these requirements, our operations could be significantly adversely affected and future growth could be significantly curtailed.

Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.

The television, broadband, telephony and mobile markets in which we operate are capital intensive. We have undertaken significant capital expenditure to attract and retain customers to our networks, including expenditures for equipment and installation costs and the implementation of new technologies such as GPON. In an effort to reduce or offset our future energy costs, we have also invested in renewable energy by acquiring several companies developing solar energy projects in the past eighteen months. Most of these projects started producing energy in 2013. However, no assurance can be given that any recent or future capital expenditures will generate a positive return, a significant reduction in costs, or promote the growth of our business. If our investments fail to generate the expected positive returns or cost reductions, our operations could be significantly adversely affected and future growth could be significantly curtailed.

Our business strategy may cause our ARPU figures to decrease, which could have an adverse effect on our financial performance and operating margin.

In our core markets of Romania and Hungary, our subscriber base for services other than DTH is located primarily in more affluent urban population centers. However, as we expand into less affluent demographic segments of our geographic markets, our ARPU figures may decline depending upon changes in our mix of subscribers and the prices at which our packages are offered. For example, our "Popular" cable TV package in Romania, targeted at rural subscribers, offers less content and generates less revenue than our "Analog" or "DIGI" packages. See "*Business—Our Service Offerings*." Further, our reported ARPU may be affected by fluctuations in exchange rates. See "*Risk factors relating to our business—Currency exchange rate fluctuations could have a material adverse effect on our results of operations and financial condition*." As our number of telephony RGUs increases, our telephony ARPU figures may further decrease as a result of an increase in the number of own-network calls which are free of charge under most of our packages. A material decrease in ARPU from current levels could negatively affect our results of operations and financial performance.

We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenues and profitability.

We face significant competition in the markets in which we operate. Competition is expected to intensify and may increase churn and continue to drive prices for services lower. For example, in Romania, our most important market, we face intense competition across all our business lines from Telekom Romania, the new brand name under which operates Romtelecom, the incumbent fixed-line telephony operator, and Cosmote, a mobile telephony company, both of which are majority owned by OTE and ultimately by Deutsche Telekom. The rebranding and unification of the services took place in September 2014 and as a result, we expect increased competition, especially to the extent they are able to realize important cost synergies. In 2013, Orange Romania started providing DTH services in Romania. We also face competition from UPC across all our business lines (except mobile telephony and mobile internet and data) in Romania and Hungary UPC is owned by Liberty Global, the largest cable operator in Europe, and therefore has significantly more resources than we do.

These competitors, as well as certain of our other competitors that were formerly controlled by states or in which states continue to hold significant shareholding stakes or are part of large international groups, such as UPC, Deutsche Telekom, Vodafone and Orange, may enjoy certain competitive advantages that we do not, such as having greater economies of scale, easier access to financing, access to certain new technologies, more comprehensive product offerings in certain business lines or segments, greater personnel resources, greater brand name recognition, fewer regulatory burdens and more experience or longer-established relationships with regulatory authorities, customers and suppliers.

We also face potential competition from new entrants and new technologies that, despite not being our traditional competitors, develop and provide services that may converge and compete with ours, including alternative sources for the content we provide, such as services which allow for the legal or illegal downloading of movies and television programs, as well as other online content providers, and services such as Skype and Google Voice which may compete with our telephony services.

In addition, the introduction of number portability requirements in Romania, which enable customers to switch their telecommunications services provider without changing their phone number, has allowed greater movement of customers between telecommunications services providers, an effect known as "churn," which could increase our marketing, distribution and administrative costs, slow the growth of the number of our subscribers and reduce our ARPU or prospects for ARPU growth.

Competition between mobile and fixed-line telephony operators in Romania has increased in parallel with the increase in mobile penetration levels, and we expect that this competition will further intensify in the future. This may result in slower growth or even a decrease in fixed-line telephony penetration as subscribers may migrate from fixed to mobile networks, a market in which our main competitors, such as Vodafone, Orange and Telekom Romania, have stronger positions and development prospects. Alternative fixed-line telephony operators using, for example, voice over internet protocol ("**VoIP**") technology could also, in the future, launch low-price telephony products that may affect our competitive position.

Our success in the marketplace is affected by the actions of our competitors. In particular, our business may be adversely affected if our competitors:

- offer lower prices, more attractive bundled services or higher quality services, features or content;
- more rapidly develop and deploy new or improved products and services; or
- more rapidly enhance their networks.

Our market position will also depend on effective marketing initiatives and our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors and

changes in consumer preferences and economic, political and social conditions in the markets in which we operate. Any failure to compete effectively or inability to respond to or effectively anticipate consumer sentiment, including in terms of pricing of services, acquisition of new subscribers and retention of existing subscribers, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Failure to control customer churn may adversely affect our financial performance.

The pay TV, broadband internet, fixed and mobile telephony industries all experience churn as a result of, among other things, high levels of competition. In particular, our DTH service has experienced relatively high levels of churn in recent years. Customer churn is a measure of customers who stop using our services. We do not actively track churn rates and do not focus on churn as a key measure of our business performance. Instead, we focus on growth in the total number of RGUs, revenues and EBITDA as key indicators.

Customer churn could increase as a result of:

- the availability of competing services, some of which may, from time to time, be less expensive or technologically superior to those offered by us or offer content or features that we do not offer;
- customers moving to areas where we cannot offer services;
- customer dissatisfaction with the quality of our customer service, including billing errors; and
- interruptions in the delivery of services to customers over our network and poor fault management.

Our inability to control customer churn or an increase in customer churn, particularly in relation to our DTH service, as a result of any of these factors can lead to a reduction in revenue and RGUs or increased costs to retain these customers, which may have a material adverse effect on our business, financial condition and results of operations.

Our insurance does not cover all potential losses, liabilities and damage related to our business and certain risks are uninsured or are not insurable.

We maintain an insurance policy in respect of our critical communications equipment at our data centers in Bucharest and at certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. Our insurance may not be adequate to cover all of our potential losses or liabilities. Moreover, apart from mandatory third party liability insurance and casualty and collision insurance for our car fleet, we do not maintain insurance policies for our Hungarian operations. We also can provide no assurance that insurance will continue to be available to us on commercially reasonable terms. At present, we have no coverage for business interruption or loss of key management personnel or professional liability of our management and a substantial part of our assets is not insured. In the event that a significant event were to affect one of our facilities or networks, we could experience substantial property loss and significant disruptions in the provision of our services for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages may have a material adverse effect on our business, prospects, results of operations and financial condition.

We operate in several markets in which we do not have a long history.

Some of the countries where we have operations, such as Spain and Italy, represent relatively new operating environments for us, which are located, in some instances, a great distance from our Romanian headquarters and which have regulatory regimes, markets and competitors different from those of the countries in which we have historically operated. We may therefore face more uncertainties with respect to the operational and financial needs of these businesses and any new markets we enter into, and we may experience difficulties in exercising the same level of control over activities in these new markets as in those located in our traditional markets. In addition, Romanians living in Spain and Italy often return to Romania for their summer vacations, which can have a negative seasonal impact on our businesses in Spain and Italy in the third quarter of the year. These factors may have a material adverse impact on our business, prospects, results of our current and future operations in these countries, financial condition and the reputation of our company generally.

Moreover, most of our business in Spain and Italy focuses on the strong presence of the Romanian expatriate communities in these countries. The Spanish government has imposed restrictions on the free movement of Romanian workers which expired on December 31, 2013. Further restrictive legislation aimed at the Romanian communities in Italy or Spain, which are the focus of our business in these markets, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our business relies on sophisticated billing and credit control systems, and any problems with these systems could interrupt our operations.

Sophisticated billing and credit control systems are critical to our ability to increase revenue streams, avoid revenue losses, monitor costs and potential credit problems and bill our customers properly and in a timely manner. New technologies and applications are expected to increase customers' expectations and to create increasing demands on billing and credit control systems. Any damage, delay or interruptions in our systems or failure of servers or back-up servers that are used for our billing and credit control systems could disrupt our operations, and this in turn could materially and adversely affect our reputation, business, prospects, results of operations and financial condition.

Our ability to provide commercially viable telecommunications services depends in part upon various intellectual property rights that we license from or that may be claimed by third parties.

We rely on third-party licenses and other intellectual property arrangements to enable us to carry on our business. Network elements and telecommunications equipment including hardware, software and firmware deployed on our network are licensed or purchased from various third parties, including from vendors holding the intellectual property rights to use these elements and equipment. Although these respective agreements provide warranties, indemnities and the right of termination in the event of any breach or threatened breach of any intellectual property rights, we cannot assure you that competitors or other third parties will not challenge or circumvent the intellectual property rights we own or license or that the relevant intellectual property rights are valid, enforceable or sufficiently broad to protect our interest or will provide us with any competitive advantage. Any loss or withdrawal of those intellectual property rights could affect our ability to provide our services.

Our current hardware, software and service suppliers may choose to discontinue their products or services, seek to charge us prices that are not competitive or choose not to renew contracts with us.

We have important relationships with certain suppliers of hardware, software and services (such as Alcatel, ECI, Ericsson Television, Huawei, Kaon, Nagravision, Nokia, ZTE, Telecom Italia and Vodafone Romania). See "*Business— Equipment Suppliers* and "*Business—Service Suppliers*." These suppliers may, among other things, extend delivery times, supply unreliable equipment, raise prices and limit or discontinue supply due to their own shortages, business requirements or otherwise. In many cases, we have made substantial investments in the equipment or software of a particular supplier, making it difficult for us to find replacement suppliers quickly in the event that a supplier refuses to offer us favorable prices, ceases to produce the equipment we use or fails to provide the support that we require. In the event that hardware or software products or related services are defective, or if the suppliers are insolvent, it may be difficult or impossible to enforce claims against suppliers, in whole or in part. Further, our contractual obligations to our customers may exceed the scope of the warranties we have obtained from suppliers.

In addition, there can be no assurances that we will be able to obtain the quality and quantity of hardware, software or services we need for the operation of our business in a timely manner or at competitive terms. The occurrence of any of these risks may create technical problems, damage our reputation, result in the loss of customers and have a material adverse effect on our business, prospects, results of operations and financial condition.

We are also exposed to risks associated with the potential financial instability of our suppliers, some of whom have been adversely affected by the global economic downturn. If our suppliers were to discontinue certain products, were unable to provide equipment to meet our specifications or interrupt the provision of equipment or services to us, whether as a result of bankruptcy or otherwise, our business and profitability could be materially adversely affected.

Concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunications base stations may materially and adversely affect prospects of our mobile telephony business.

Media and other reports have linked radio frequency emissions from mobile handsets and mobile telecommunications base stations to various health concerns, including cancer, and interference with various electronic medical devices, including hearing aids and pacemakers. Concern over radio frequency emissions may discourage the use of mobile handsets or may create difficulties in the procurement of base station sites for our mobile telecommunications business, which could have a material adverse effect on the prospects of such business. Research and studies on these potential risks are ongoing, and further research and studies could demonstrate a link between radio frequency emissions and health concerns. If such a link is proven or if concerns about such health risks increase in the countries in which we do business, the prospects and results of operations of our mobile telecommunications services business could be materially and adversely affected.

Sensitive customer data is an important part of our daily business and leakage of such data may violate laws and regulations. Any such data security breach, as well as any other failure to fully comply with applicable data protection legislation could result in fines, loss of reputation and customer churn and adversely affect our business.

We accumulate, store and use in our operating business data which may be protected by data protection laws. Although we take precautions to protect customer data in accordance with the applicable privacy requirements, it is possible that there may be data leakages in the future. We work with third-party service providers, such as certain software companies, which may not fully comply with the relevant contractual terms and all data protection obligations imposed on them. We may also be subject to consumer data leakage from cyber-attacks on our data systems. We have been sanctioned by the Romanian National Supervisory Authority for Personal Data Processing for breaches of general data protection legislation, especially in relation to the type of data that we process, and we have not yet completely aligned our practice with the requirements of the Romanian National Supervisory Authority For Personal Data Processing. Violation of data protection laws may result in fines, claims for damages, prosecution of relevant employees and managers, loss of reputation and customer churn and may have an adverse effect on our business, prospects, results of operation and financial condition.

We may undertake future acquisitions on an opportunistic basis, which may increase our risk profile.

Our historical growth has been due in part to our acquisitions of smaller cable operations. We may undertake, on an opportunistic basis, additional acquisitions in the future. See "*Business—Strategy*." Our ability to acquire new businesses may be limited by many factors, including availability of financing, the debt covenants of our financing agreements, the prevalence of complex ownership structures among potential targets, government regulation and competition from other potential acquirers. If acquisitions are made, there can be no assurance that we will be able to maintain the customer base of businesses we acquire, generate expected margins or cash flows or realize the anticipated benefits of such acquisitions, including growth or expected synergies. Although we analyze acquisition targets, those assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations. There can be no assurance that our assessments of and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations.

Even if we are successful in acquiring new businesses, the integration of new businesses may be difficult for a variety of reasons, including differing languages, cultures, management styles and systems, inadequate infrastructure and poor records or internal controls. In addition, integrating any potential new acquisitions may require significant initial cash investments and present significant costs, which may result in changes in our capital structure, including the incurrence of additional indebtedness, tax liabilities or regulatory fines. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our operating results as a result of costs, challenges, difficulties or risks, including: realizing economies of scale in interconnection, programming and network operations; eliminating duplicative overhead expenses; integrating personnel, networks, financial systems and operational systems; unforeseen legal, regulatory, contractual and other issues; unforeseen challenges from operating in new geographic areas; and the diversion of management's attention from our day-to-day business as a result of the need to deal with the foregoing challenges, disruptions and difficulties.

Furthermore, even if we are successful in integrating our existing and new businesses, expected synergies and cost savings may not materialize as anticipated or at all, resulting in lower than expected profit margins. There is no assurance that we will be successful in acquiring new businesses or realizing any of the anticipated benefits of the companies that we may acquire in the future. If we undertake acquisitions but do not realize these benefits, our business, prospects, results of operations and financial condition could be materially adversely affected.

The information available to market analysts varies in its degree of reliability.

This annual report contains information regarding market position, growth rates and other industry data pertaining to our business drawn from reports compiled by independent professional organizations and analysts and reports published by our competitors. The analysts compiling these reports base their estimates and conclusions on a variety of sources, some of which may be more accurate or reliable than others. These sources may include:

- official information published by national regulators,
- reports published by exchange-listed companies with public reporting obligations,
- information offered voluntarily by privately-held companies, and
- analysts' own estimates based on information obtained in conversations with competitors, suppliers, customers and other market participants.

The data presented in analysts' reports are subject to change and cannot be verified with certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical

survey. Although our industry uses these reports as a standard source of market data, we cannot determine the level of reliability the data in the reports.

The analysts' estimates and conclusions can vary materially from the true figures and as a result their reports can under- or overstate market size, market share, growth rates and other important industry data. Accordingly, you should use caution in using these estimates and any information regarding market position or shares contained in this annual report and you should not place undue reliance on such estimates or information.

RISKS RELATING TO REGULATORY MATTERS AND LITIGATION

We have been and may continue to be subject to claims related to breaches of competition law and investigations by competition authorities.

We have been in the past and may continue to be subject to claims of various parties regarding the use of our position on the cable TV market to restrict competition and limit consumer choice.

In February 2011, the Romanian Competition Council launched an investigation into the interconnection tariffs charged by all four mobile telecommunication companies in Romania (Orange, Vodafone, Telekom Romania and RCS&RDS). In April, 2015, we submitted our firm and final commitments to the Romanian Competition Council not to discriminate between the tariff applied to on-net (internal) and the tariff applied to off-net call The procedure is pending. See "*Business—Litigation and Legal Proceedings—Telecommunications market interconnection investigation.*"

Separately, we have been accused, among other things, of abuse of dominant position by Antena TV Group S.A. which alleges that we acted in an anticompetitive manner by refusing to transmit one of its channels. The Romanian Competition Council opened an investigation on this matter in August 2011. The Competition Council decided in March 2015 to close the investigation and to reject Antena TV Group S.A.'s complaint. This decision has been appealed by Antena TV Group S.A. In February 2013, Discovery Networks also brought a complaint against us with the Romanian Competition Council, claiming that we acted anti-competitively by removing their channels from our programming package. The antitrust authority rejected this complaint in May 2013, without opening an investigation. The decision is final. See "*Business—Litigation and Legal Proceedings—Discovery Networks complaint*."

We are fully cooperating with the Romanian Competition Council in these proceedings, but such proceedings are typically lengthy and could take several years to be resolved. There is no assurance that the Romanian Competition Council will not impose sanctions on us as a result of the investigations it is currently conducting on us. There is also no assurance that the Romanian Competition Council will not conduct further investigations on us or, if it does, will not impose sanctions on us as a result of such investigations. Such sanctions may include fines of up to 10% of our total turnover in the year prior to the decision per individual violation of competition law, which may have a material adverse effect on our business, prospects, results of operations and financial condition.

Some of our agreements with certain partners, including suppliers, and agreements for or in relation to the acquisition of cable TV operators or internet and data service providers, include clauses that could be interpreted to be non-compliant with applicable competition legislation. If any competition authority determines any such agreements or clauses to be non-compliant with applicable competition legislation, they could impose sanctions or significant fines on us up to the amount discussed in the preceding paragraph.

In April 2013, the Romanian Competition Council opened a sector inquiry regarding electronic communication services offered both in packages of services (also known as multiple-play services) and individually. The same sector inquiry analyzes the segment of the services regarding the access to electronic communications infrastructure in Bucharest, and possibly more generally in Romania, for the purpose of evaluating the market power of the companies active in this sector. Sector inquiries are not targeted at particular companies and are concluded with reports describing the markets analyzed and including recommendations for better market functioning. The Romanian Competition Council cannot apply fines as a result of sector inquiry proceedings for anticompetitive conduct, but may decide to open new investigations targeted at particular companies which may result in the imposition of fines. See "*Business—Litigation and Legal Proceedings—Discovery Networks complaint*."

Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions or court judgments.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as ongoing compliance with, among other things, telecommunications, audiovisual, environmental, health and safety, building and urban

planning, personal data protection and consumer protection laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and monitoring licensees' compliance with the terms thereof. We may sometimes disagree with the way legal provisions are interpreted or applied by regulators and we may, from time to time, challenge or contest regulatory decisions in the course of our business, which may affect our relations with regulators. The competent authorities in the countries where we carry out our activity have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may result in the conclusion that we or our subsidiaries have violated laws, decrees or regulations. We may be unable to refute any such conclusions or remedy the violations.

Moreover, regulatory authorities may, from time to time, decide to change their interpretation of the applicable legal or regulatory provisions, their policies or views of our businesses in ways that can significantly impact our operations. For instance, we are subject to certain obligations as an operator with significant market power in the market of access to fixed-line telephony and mobile telephony and, as our market share increases or market conditions change, we could become subject to significant additional restrictions in the future, such as being made to comply with higher technical standards. Such restrictions may decrease or eliminate our competitive advantage and, to a certain extent, negatively affect our business, prospects, results of operations and financial position. To the extent these obligations are deemed to be insufficient and the regulator concludes that we dominate the retail market, particularly in Romania, to the degree where there is no competition, we may even become subject to user tariff control measures.

Because we are subject to a large number of changing regulatory requirements and market and regulatory practices, we are not currently in compliance (or our compliance status may be uncertain), and from time to time may not be, in compliance with certain requirements under telecommunications and media laws, consumer protection laws, personal data protection laws and regulations or regulatory decisions. For instance, we have not always complied in a timely fashion with obligations relating to interconnection, including the obligation that our interconnection agreements comply with ANCOM Decisions 89/2012 and 106/2012, and the obligation that we pay our regulatory fees. We were in breach of certain technical obligations/parameters relating to our network and the provision of our services (*e.g.*, level of noise/radiation above the threshold, poor TV signal in certain villages/towns, etc.) for which ANCOM warned us without applying any fines to date. We have generally remedied such breaches after receiving such warnings from ANCOM. From time to time, our satellite spectrum license may not cover some of our channels or up-link connections and our retransmission endorsements may not cover some of our channels or may cover certain channels that we are not currently broadcasting. Additionally, we may not have complied with our "must carry" obligations in the past and may have differing interpretations of such obligations than public authorities. We are currently challenging a decision by the National Audiovisual Council of Romania (the "**NAC**"), the media regulatory authority in Romania, that we have breached the "must carry" obligations by refusing to carry GSP TV. See "*Business—Litigation and Legal Proceedings—Intact Media Group Litigation—The must carry related litigation*" and "*Business—Litigation and Legal Proceedings—Intact Media Group Litigation—Litigation against decisions of the NAC*." Our failure to comply with existing laws and regulations (including conducting part of our operations without the required licenses) or the findings of government inspections may result in the imposition of fines (of up to 5% of our total turnover in the event of repeated violations of regulatory obligations under current law in Romania or other sanctions, including the suspension, amendment or termination of relevant licenses, permits, approvals and authorizations). To the extent certain clauses in our agreements with natural persons are deemed abusive, a court may decide that such clauses must be removed from the agreements and we may face minor administrative fines. In certain cases, some agreements may be terminated. In addition, we could be required to cease certain of our business activities and our officers could be subject to administrative and criminal penalties. Moreover, an agreement made or transaction executed in violation of a law may be invalidated and unwound by a court decision. For example, certain of our solar energy projects are developed on land secured on the basis of agreements entered into with municipalities without observing certain requirements of applicable law. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, prospects, results of operations and financial condition.

Many components of our network are based on contracts which may be terminated or otherwise cancelled, and we may be required to move some of our networks, which may disrupt service and cause us to incur additional expenses.

In Romania, we currently provide our cable, fixed-line telephony and fixed internet and data services through networks that are mostly above-ground and for which we lease the right to use poles from electricity and public transportation companies. In Hungary, we provide our cable fixed-line telephony and fixed internet and data services through networks that are mostly below-ground. In Romania and Hungary, market participants, including RCS&RDS, may not always be able to obtain or use the necessary permits for developing, building and completing networks in a timely manner or at all, and this may result in such networks (including base stations) not being fully authorized. Since 2011 (and earlier with respect to certain towns and cities), we have faced regulatory pressure in

Romania to stop building above-ground networks and to bury our existing networks. We are burying our networks in cities where local authorities have been able to grant us the required authorizations sufficiently quickly or where the necessary infrastructure was available. However, we may not be in compliance in all instances with obligations to bury our networks or we may have differing interpretations on the existence of such obligations from public authorities. If we were forced to place our networks underground pursuant to plans of authorities that contemplate impractical solutions, our costs for providing services may increase and our customer satisfaction may be adversely affected. In addition, if we are found to be non- compliant with such obligations, or otherwise be found to be in violation of other restrictive covenants, easements or rights of way, we may face fines or we may face service interruptions while we relocate our networks.

Certain agreements for the lease of poles from third parties are continuing on an undocumented basis, increasing the risk that the long-term continuation of these agreements could be endangered.

Additionally, certain of the agreements in which we have entered for the purposes of developing our networks, including some of the agreements entered with electricity distribution companies and public authorities for the lease of most of the poles that support our above-ground fiber optic networks, have been entered into with persons whose title to the leased assets or authority and capacity of entering into such agreements were not fully verifiable or clear at the time they entered into the agreement, among other reasons, because of unclear and constantly changing legislation. Moreover, some of the agreements were entered into without observing applicable formalities (e.g. on public tender). Therefore, we cannot rule out the possibility that such agreements would be subject to a risk of cancellation. We are not aware of any claim with regards to irregularities related to such leases. If such claims were to arise and to be successful, re-locating our network or developing additional suitable base-station sites would entail significant costs and expenses and could cause service interruptions. Additionally, some of our agreements with third parties with respect to our network (including base stations) were not executed in authenticated form in accordance with Romanian law and, as such, they, or the building permits obtained on their basis, may be invalidated. Finally, certain of our lease agreements have provisions allowing the lessor to terminate the lease at their option, subject to prior notice ranging from 10 to 90 days.

Termination of the agreements concluded in relation to the location of our various network components may result in additional costs for re-execution of such agreements or for the implementation of an alternative solution, or in the worst case in a loss of business if there is no adequate alternative or there is a delay in securing such an alternative.

Any of these network-related risks could materially and adversely affect our business prospects, results of operations and financial condition.

Our business relies on intellectual property, some of which is owned by third parties. If we inadvertently infringe the intellectual property rights of others, or if we are otherwise liable for information disseminated through our network, we could lose access to transmission technology or content and damage third-party interests.

The communications industry and related service businesses, such as internet and data, are characterized by the existence of a large number of patents and trademarks. Objections to the registration of new trademarks from third parties or litigation based on allegations of patent and/or trademark infringement or other violations of intellectual property rights is common. For instance, Discovery Communications Inc. filed oppositions to the registration with the State Office for Inventions and Trademarks (*i.e.*, the Romanian intellectual property office) of five of our trademarks that we use to brand some of our own TV channels. Their objection is grounded on the alleged similarity existing between the relevant trademarks and trademarks held by Discovery. Three out of these five objections against RCS&RDS have been admitted by the State Office for Inventions and Trademarks. As the number of entrants into the Romanian and Hungarian markets increases and the overlap of product function expands, the possibility of an intellectual property infringement claim against us increases as well. Such lawsuits, whether with or without merit, could be time-consuming, costly, operationally cumbersome and a diversion of senior management and technical personnel. As a result, we may be forced to develop non-infringing technology or to enter into royalty or licensing agreements, which may not be available on commercially reasonable terms or at all. If an infringement claim against us were successful or we could not develop or license the required non- infringing technology, our business and results of operations could be materially adversely affected.

The infringement of patents and proprietary rights of others may also lead to the loss of access to transmission technology or programming content and damage third-party interests, which could adversely affect our business and results of operations. In the event that access to transmission technology is lost, alternative technology would need to be purchased, which may result in an interruption of services and increases in costs.

We may also be subject to claims for defamation, negligence, copyright or other legal claims relating to the programming content or information that we broadcast through our network or publish on our websites. Any such claims could include actions under the censorship and national security laws of countries in which we broadcast. In the event that we receive a valid and substantial infringement claim we would need to cease broadcasting the infringing content or information.

We are subject to payments related to copyright which may vary.

We are required under the law of some of the countries in which we operate, including Romania and Hungary, to make payments to various collective copyright protection organizations as compensation for the use of copyrighted content in the programming delivered by us through our cable TV and DTH businesses. These amounts are not fixed and are determined by negotiation in accordance with a methodology based on certain legal provisions and relevant European practices. Our expenses incurred in relation to such obligations for the years 2013 and 2014 in Romania, Hungary and the Czech Republic (disposed of in April 2015) were approximately €8.2 million and €8.3 million, respectively. There cannot be any assurance that amounts payable to various collective copyright protection organizations will not increase in the future or that additional claims could not arise in relation to our past activity or that we will not be subjected to penalties or fines for delaying payments. Since we may not be able to pass on such increases in costs to our customers, such increases, penalties or fines may adversely affect our results of operations and financial condition.

Adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations could have a material adverse effect on our results of operations and cash flow.

The tax laws and regulations in Romania, Hungary and The Netherlands may be subject to change and there may be changes in interpretation and enforcement of tax law. As a result, we may face increases in taxes payable if tax rates increase, or if tax laws or regulations are modified by the competent authorities in an adverse manner.

In addition, such authorities may periodically examine our subsidiaries. We regularly consider the likelihood of assessments and have established tax allowances which represent management's best estimate of the potential assessments. The resolution of any of these tax matters could differ from the amount reserved, which could have a material adverse effect on our cash flows, business, prospects, results of operation and financial condition for any affected reporting period.

Required licenses and permits may be difficult to obtain, and once obtained may be amended or revoked or may not be renewed. Suspension or termination of our communications licenses could have a material adverse effect on our business and results of operations.

The operation of telecommunications networks and the provision of related services are regulated to varying degrees by national, state, regional or local governmental and/or regulatory authorities in the countries where we operate. Our operating licenses or authorizations specify the services we can offer and the frequency spectrum we can utilize for mobile operations. The operating licenses are subject to review, interpretation, modification or termination by the relevant authorities and the regulatory framework applicable to them may also be amended. There is no assurance that the relevant authorities will not take any action that could materially and adversely affect our operations. Our operating licenses are generally renewable upon expiration. However, there is no assurance that licenses will be renewed. If we fail to renew any of our licenses, we may lose the ability to continue to operate the affected business and the realizable value of our relevant network infrastructure and related assets may be materially and adversely affected. Moreover, if we fail to comply with the requirements of the applicable legislation or we fail to meet any of the terms of our licenses, our licenses and other authorizations necessary for our communications operations may be suspended or terminated. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operations.

Further, the deployment of our networks requires various approvals or permits from national, state, regional or local governmental and/or regulatory authorities, particularly in relation to establishing base station sites for our mobile telephony service. These approvals and permits may include building, construction and environmental permits, antenna and mast deployment approvals and various other planning permissions. We are not in full compliance, and from time to time may not be in full compliance, with applicable laws and regulations regarding permitting the construction of various components of our network. For example, for part of our base stations we have not obtained the necessary building permits and we could be required to remove such network components. In addition, we have not obtained all required permits and approvals for the construction and operation of our solar energy projects and some of the permits we have obtained may not be compliant with the applicable laws and regulations. We have experienced, and may continue to experience, difficulties in obtaining some of these approvals and permits, which has led us to operate without necessary licenses in some instances and may require us to exert considerable effort and incur considerable expenses in order to implement suitable alternatives or result in fines or other penalties being imposed by regulators. This could materially adversely affect our business, prospects, results of operations and financial condition.

Our ability to provide commercially viable mobile and fixed-line telecommunications services depends, in part, upon our interconnection arrangements with other telecommunications operators and third party network providers over which we have no direct control.

Our ability to provide commercially viable mobile and fixed-line telecommunications services depends, in part, upon our interconnection arrangements with other telecommunications operators. In particular, we are dependent, in certain regions, on interconnection with our competitors' mobile and fixed-line networks and associated infrastructure for the successful operation of our business. In Romania and Hungary, ANCOM and NMHH, respectively, regulate the frameworks governing interconnection charges in an effort to facilitate access to other networks. In Romania, ANCOM sets price caps on the interconnection charges that major telecommunications operators, including us, may charge, while in Hungary, NMHH regulates termination rates for interconnection. We are also dependent on third party network providers for the provision of MVNO services in Spain and Italy, resale of mobile and internet data services in Hungary and international roaming services. Although we have interconnection and other agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnection and other services they provide. There can be no assurance that interconnection agreements or our agreements with third party network providers will be easy to conclude or that any renewal on new terms will be commercially acceptable or that ANCOM or NMHH will not take any action that could materially and adversely affect our operations. If we were to fail to maintain such agreements on commercially acceptable terms, our business, prospects, results of operations and financial condition may be materially and adversely affected.

We are subject to litigation with the Antena Group and other parties; unfavorable court decisions may have a material negative impact on our financial condition.

We are engaged in litigation with the Antena Group, a leading media group in Romania, and related litigation with the NAC. Litigation commenced in April 2011 and involves several proceedings. The Antena Group is requesting, in principal, the following: (i) approximately €100 million in damages for alleged breaches by us of audiovisual legislation (among others, the "must carry" rules), and other remedies that would principally require us to provide the channels broadcast by the Antena Group free of charge to our subscribers; (ii) approximately €40 million in damages for alleged breaches by us of Antena Group's intellectual property rights, (iii) RCS&RDS to be obliged by the court to conclude a pay-tv carriage arrangement with the Antena Group channels under the same conditions as agreed by RCS&RDS with Pro TV S.R.L. (part of the CME Group) in 2013 and (iv) other contractual claims amounting to approximately €2 million. To date, we have won various court decisions in relation to these proceedings and other past litigation initiated by Antena Group, including the irrevocable dismissal of all insolvency petitions. We have also filed counter suits against the Antena Group members alleging damages for breach of contract of €2.6 million and for reputational and other indirect damages of €1.2 million. In addition, we have challenged a number of NAC decisions on "must carry" rules and are appealing an adverse decision issued by the court of first instance. We have further requested the national courts to refer this issue to the Court of Justice of the European Union. We are confident in the merits of our defense and believe that an unfavorable outcome in the courts is unlikely, but should we face adverse judgments in some or all of these proceedings, we may be forced to change our business model in respect of providing must carry channels to our customers, which may include a requirement to offer a package of must carry channels at no cost to our subscribers. In addition, we may be required to pay significant damages to the Antena Group. See "*Business—Litigation and Legal Proceedings—Intact Media Group Litigation*."

Failure to comply with anti-corruption laws could have an adverse effect on our reputation and business.

While we are committed to doing business in accordance with applicable anti-corruption laws, we face the risk that members of our Group or their respective officers, directors, employees, agents or business partners may take actions or have interactions with persons that violate such anti-corruption laws, and may face allegations that they have violated such laws.

For example, our complaint to the National Anti-Corruption Directorate of Romania about a potential criminal offense perpetrated against one of our directors also brought to the attention of the Directorate an agreement we entered into in 2009 and its compliance with Romanian anti-corruption laws. The agreement was entered into with Bodu SRL ("**Bodu**"), which is controlled by the former President of the Romanian National Football League. Bodu owns and operates a large events hall in Bucharest. We invested approximately €3.1 million necessary for the completion of the property and the start of operations in exchange for the right to receive a share of Bodu's profits from events organized at that venue and the right to promote our services at the venue through various publicity means. We do not believe that our transaction with Bodu violated applicable anti- corruption laws and we are not aware of any proceedings alleging that it has. The former President of the Romanian National Football League has recently been accused of illegal use of funds, money laundering and tax fraud in relation to the payment of a

commission to an alleged intermediary that the Romanian National Football League made in relation to amounts received from us as price for the acquisition of TV rights. We do not have and never had any relation with the alleged intermediaries and we are not accused of any wrongdoing in relation to the matter If we are alleged or found to have violated applicable anti-corruption laws, any such allegations or violation may have an adverse effect on our reputation and business.

We may be adversely affected by other contractual claims, complaints, litigation and publicity.

We may be adversely affected by other contractual claims, complaints and litigation, including from counterparties with whom we have contractual relationships, customers, competitors or regulatory authorities, as well as any adverse publicity that we may attract. Any such litigation, complaints, contractual claims, or adverse publicity could have a material adverse effect on our business, reputation, financial condition or operating results. See "*Business—Litigation and Legal Proceedings*."

Failure to comply with applicable laws and regulations on employment matters could result in potential claims against us which, if successful, may have a material negative impact on our financial condition.

Upon acquiring various businesses, we have not generally complied with applicable legislation on the protection of rights of employees upon transfer of undertakings. Failure to comply with such legislation may entitle current or former employees of the companies from which we acquired various businesses to sue us for damages and for recognition of their position as employees of RCS&RDS. If a substantial number of such persons sue us and their claims are successful, our results of operations and financial condition may be affected.

In addition, we have not always fully complied with certain provisions of the collective labour bargaining agreement applicable at the national level in Romania. Failure to comply with this agreement may entitle our employees to claim damages.

RISKS RELATING TO INVESTMENTS IN EMERGING MARKETS

Corruption could create a difficult business climate in some of the markets where we operate.

Corruption is one of the main risks confronting companies with business operations in some of the markets where we operate. Reports of international bodies and the local and international media continue to warn about the high level of corruption in the region and in countries where we conduct our business. In the 2014 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranked countries from 1 (least corrupt) to 177 (most corrupt), Romania and Hungary, the two largest markets where we operate, were ranked 69th and 47th respectively.

Corruption has also been reported to affect the judicial systems and some of the regulatory or administrative bodies of the countries where we operate which may be relevant for our businesses. The effects of corruption on our operations are difficult to predict. However, under certain circumstances, corruption could have a material adverse effect on our business, prospects, results of operations and financial condition and on the trading price of the Notes.

The military and political conflict in Ukraine may have consequences which may negatively affect our business

Starting with February 2014, Ukraine, one of the main neighbours of Romania and Hungary, our core markets, has been confronting a severe internal crisis in which the Russian Federation is also alleged to be heavily involved. During this crisis, Ukraine lost control over the peninsula of Crimea to the Russian Federation and lost control over a significant part of its other eastern territories to pro-Russian separatists. The conflict was initially mainly political but has escalated into military confrontation.

In response to the perceived heavy intervention (including military intervention) by the Russian Federation in Ukraine, the United States of America and the European Union have imposed several sets of economic sanctions and are threatening further sanctions in the future. The Russian Federation has denied its involvement and has imposed certain retaliatory economic sanctions.

Although we are not currently directly or significantly affected by this crisis, in the event it escalates, it has the potential to cause materially adverse economic conditions or, in a worse case, military confrontation in the region. Effects are to a large extent unpredictable, but may include further economic sanctions which may negatively affect the economies of our countries of operation, significant currency fluctuations, increases in interest rates, decreases in the availability of credit and increases in energy prices. These and other unforeseen negative effects of the crisis may materially adversely affect our business, financial condition and results of operations.

Fluctuations in the global economy could materially adversely affect the economies of the countries in which we operate and the value of the Notes.

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. The impact of global economic developments is often felt more strongly in emerging markets such as Romania and Hungary than it is in more mature markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the countries where we operate and their economies could face severe liquidity constraints, causing them to, among other things, raise tax rates or impose new taxes, with a significant impact on our activities. See "*Risks relating to our business—A prolonged economic downturn or volatile credit markets could have a material adverse effect on our business, prospects, results of operations and financial condition.*" In addition, the market value of the Notes may be impacted by developments in Romania, Hungary or elsewhere in the emerging markets, including by developments that do not relate to us.

Any downgrade of Romania's credit ratings by an international rating agency could have a negative impact on our business.

The long-term foreign and domestic currency debt of Romania is currently rated BBB- by S&P, Baa3 by Moody's and BBB-/BBB by Fitch. Any adverse revisions to Romania's credit ratings for domestic or international debt by such or similar international rating agencies may adversely impact the credit rating of our Notes, our ability to raise additional financing and the interest rates and other commercial terms under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which would have a material adverse effect on our business, prospects, results of operations and financial condition.

We operate mainly in emerging markets that may experience rapid or unforeseen economic or political changes, either of which may adversely impact our financial performance and results of operations.

We operate mainly in emerging markets. In recent years these countries have undergone substantial political, economic and social change. As is typical of emerging markets, they do not possess the full business, legal and regulatory infrastructures that would generally exist in more mature free market economies. In addition, the tax, currency and customs legislation in the markets in which we operate are subject to varying interpretations and changes, which can occur frequently.

Moreover, some of these countries have experienced periods with significant political instability. In particular, until December 2012, the political environment in Romania, our primary market, has been unstable and dominated by political conflict and lack of consensus between the President on the one hand, and the government supported by the parliamentary majority on the other. During 2012-2014, there have been several changes of government, while the political conflicts inflated. Once with the election of a new liberal president in December 2014, further changes in the government (currently populated by member of the social-democrat party) are expected. The appointment of a new government could slow down the economic and regulatory reforms in Romania.

In Hungary, our other core market, the ruling party, which has been in power from 2010 and has been re-elected in 2014 for a new four year term, introduced various policies and measures that raised certain concerns about the rule of law, including taxes with retroactive application and a new constitution that has been scrutinized by international organizations (including the EU Commission). In addition, legislation passed in 2013 has led to a significant increase in the cost of judicial enforcement against non-paying subscribers.

Any disruption of the reform policies and recurrence of political or governmental instability could have a material effect on us and the value of investments related to Romania and Hungary, including the Notes.

The future economic direction of the markets in which we operate remains largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by their respective governments, together with tax, legal, regulatory, and political developments. Our failure to manage the risks associated with our operations in emerging markets could have a material adverse effect on our results of operations.

Investors may be unable to effect service of process or enforce foreign judgments against us or our assets in the jurisdictions in which we operate or our executive officers reside.

Our presence outside of the United States and the United Kingdom may limit your legal recourse against us. The Guarantor is incorporated under the laws of Romania and the Company is incorporated under the laws of The Netherlands. All of our directors and executive officers reside outside the United States and the United Kingdom, principally in Romania for the Guarantor or The Netherlands for the Company, with the exception of Mr. Bogdan

Ciobotaru who is a resident of the United Kingdom. All or a substantial portion of the assets and the assets of our directors and executive officers are located outside of the United States and the United Kingdom, principally in Romania for the Guarantor or The Netherlands for the Company.

Romanian law may make it difficult to enforce judgments against us that were entered into in foreign courts. The laws of Romania permit an action to be brought before a court of competent jurisdiction in Romania for the recognition and enforcement of a final and conclusive judgment in personam rendered by a court from an EU member state, provided that the relevant conditions set forth in EC Regulation No. 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters ("**EC Regulation No. 1215/2012**"), are met. Under EC Regulation No. 1215/2012, an EU member will recognize a judgment rendered in another EU jurisdiction unless, among other things: (i) such recognition is manifestly contrary to public policy in the EU member state in which recognition is sought; (ii) where it was given in default of appearance, if the defendant was not served with the document that instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable it to arrange for its defense, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for him to do so; (iii) it is irreconcilable with an earlier judgment given in a dispute between the same parties in the EU member state in which recognition is sought; (iv) it is irreconcilable with an earlier judgment given in another EU member state or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfills the conditions necessary for its recognition in the EU member state addressed or (v) in other cases expressly set out by EC Regulation No. 1215/2012, such as cases when the judgment has been ruled without the observance of the cases of exclusive jurisdiction. Other conditions may be applicable with respect to specific matters, under special Romanian legislation or international conventions.

Judgments rendered by courts in the United States are subject to different requirements, and may be more difficult to enforce than judgments rendered by courts in EU member states. Subject to special internal legislation (including ratified international conventions) regulating the recognition and enforcement of foreign judgments on specific matters, the laws of Romania permit an action to be brought before a court of competent jurisdiction in Romania for the recognition and enforcement of a final and conclusive judgment in personam rendered by a court of a non-EU member state, provided that the relevant conditions in respect of recognition and enforcement of foreign judgments set out under the Romanian Civil Procedure Code are met, which includes without limitation the following: (i) the judgment is final and enforceable (*executorie*) according to the law of the state where it was rendered; (ii) the judgment must have been rendered by a competent court and such competence did not derive exclusively from the defendant's presence in the country of the court's jurisdiction or the presence of assets of the defendant located in the country of the court's jurisdiction, which do not have a direct connection to the case in which the judgment was rendered; (iii) there is reciprocity with respect to the effects of foreign judgments, between Romania and the respective state; (iv) where the judgment was given in the absence of the losing party, there must be evidence that such party was served with the summons for the court hearing and with the document which instituted the court proceedings in due course and that such party was given the opportunity to arrange for its defense and challenge the judgment; and (v) the enforcement of such judgment is not time barred according to the Romanian law statute of limitation rules. A judgment shall not be recognized in any of the following cases: (i) it is manifestly contrary to the Romanian private international law public order (such incompatibility is evidenced by taking into account, in particular, the criterion of the strength of the link between the specific case and the Romanian jurisdiction, as well as the gravity of the consequences of such incompatibility) and the enforcement of such judgment would be inconsistent with or contrary to the Romanian private international law public order; (ii) the judgment in a matter of law where entities/individuals cannot freely dispose of their rights has been obtained with the sole purpose to avoid the applicable laws of the jurisdiction designated in accordance with the Romanian private international law public order; (iii) the claim has been settled between the same parties through a decision of Romanian courts (even if not final) or is pending before Romanian courts at the date when the foreign court is vested; (iv) the judgment is irreconcilable with a prior foreign judgment susceptible of being recognized in Romania; (v) the claim falls within the exclusive jurisdiction of the Romanian courts; (iv) the right to defense has not been observed during trial or (vii) the judgment is subject to an appeal judged under the laws of the jurisdiction in which it has been given. The recognition and enforcement of foreign judgments in administrative, customs, criminal or other public law related matters is subject to special legislation and certain conditions may need to be fulfilled. There is no treaty between the United States and Romania providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, under Romanian law reciprocity is presumed to exist in fact (*de facto*) unless there is proof to the contrary, such proof to be determined by the Romanian Ministry of Justice, in consultation with the Romanian Ministry of Foreign Affairs. The limitations set out above may deprive you of effective legal recourse for claims related to your investment in the Notes.

All of our directors and executive officers reside outside the United States. As a result, investors may not be able to serve process on such persons or us in the United States or enforce judgments obtained in U.S. courts against them or us based on the civil liability provisions of U.S. federal securities laws against us, our directors or executive officers in U.S. courts. It is unclear if original actions of civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the United States. Any enforcement action in a court outside the United States

will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction, and requirements relating to the service of process.

The legal and judicial systems in some of our markets of operation are less developed than other European countries, which makes an investment in the Notes more risky than investments in securities of an issuer that operates in a more developed legal and judicial system.

The legal and judicial systems in Romania and Hungary are less developed than those of other European countries. Commercial law, competition law, securities law, company law, bankruptcy law and other areas of law in these countries are relatively new areas of law to local judges while such related legal provisions have been and continue to be subject to constant changes as new laws are being adopted in order to keep pace with the transition to a market economy and EU legislation. In this regard, the insolvency laws of some of the jurisdictions where we operate may not be as favorable to investors' interests as the laws of the United States, the United Kingdom or other jurisdictions with which prospective investors may be familiar. Existing laws and regulations in our countries of operation may be applied inconsistently or may be interpreted in a manner that is restrictive and non-commercial. It may not be possible, in certain circumstances, to obtain legal remedies in a timely manner in these countries. The relatively limited experience of a significant number of the magistrates practicing in these markets, specifically with regard to capital markets issues, and the existence of a number of issues relating to the independence of the judiciary system may lead to ungrounded decisions or to decisions based on considerations that are not grounded in the law.

In addition to the foregoing, resolving cases in the judiciary system of some of the markets where we operate may at times involve very considerable delays. The court systems in some of the markets where we operate are underfunded relative to those of other European countries. The enforcement of judgments may also prove difficult, which means that the enforcement of rights through the respective court systems may be laborious, especially where such judgments may lead to closure of businesses or job losses. This lack of legal certainty and the inability to obtain effective legal remedies in a timely manner may adversely affect our business, and may also make it difficult for you to address any claims you may have as an investor.

Romania may experience difficulties related to its integration with the European Union.

Romania entered the European Union in January 2007. Romania has undergone and continues to undergo changes in legislation due to its accession to, and its continued integration with, the EU. As part of the EU accession process, the European Union has established a series of measures for new member states to adhere to in order to fulfill basic EU membership requirements. Similarly, the European Commission progress report on the Co-operation and Verification Mechanism with Romania approved and published by the Commission on January 28, 2015, indicated that despite progress in some areas (the progressing fight against the high-level corruption, increased professionalism in the judicial system, etc.), Romania is still required to make further progress with respect to the rule of law, independence of justice, the inconsistency of some court judgments, the fight against the general corruption and the behavior of public officials (with particular focus on setting mechanism allowing prosecutors to treat parliamentarians like other citizens). The Commission will reassess further progress at the beginning of 2016. Unless satisfactory actions are taken, Romania could face EU sanctions, which could have a material adverse effect on our business, reputation, financial condition or operating results, as well as on the trading price of the Notes. Such sanctions may take the form of a temporary suspension of the application of relevant provisions governing the relations of Romania with any other EU member state or member states, for example, or the suspension of member states' obligation to recognize and execute, under the conditions laid down in EU law, Romanian judgments and judicial decisions.

RISKS RELATING TO OUR FINANCIAL POSITION

Our substantial leverage and debt servicing obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Guarantee.

As of December 31, 2014, in accordance with the terms of our Notes, our Consolidated Total Indebtedness is €713.0 million, our EBITDA is €233.0 million and our Consolidated Leverage Ratio (gross) is 3.1x. In accordance with the terms of the New Senior Facilities Agreement, our Consolidated Total Net Indebtedness is €675.3 million, our EBITDA is €233.0 million and our Leverage Ratio (net) is 2.9x.

Our leverage can have important consequences for our business and operations, including:

- making it more difficult for us to satisfy our obligations with respect to the Notes and our other debt and liabilities;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thus reducing the availability of our cash flow to fund internal growth through working capital and capital expenditures

and for other general corporate purposes;
- increasing our vulnerability to a downturn in our business or economic or industry conditions;
- placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry;
- negatively impacting credit terms with our creditors;
- restricting us from exploiting certain business opportunities; and
- limiting, among other things, our and our subsidiaries' ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including under the Notes and the Guarantee.

In addition, our debt under the New Senior Facilities Agreement bears interest at a variable rate which is based on EURIBOR plus a 4.35% margin and certain additional costs (as defined in the New Senior Facilities Agreement). Fluctuations in EURIBOR, or the occurrence of a market disruption event (as defined in the New Senior Facilities Agreement) may increase our overall interest burden and could have a material adverse effect on our ability to service our debt obligations.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and the New Senior Facilities Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, the Indenture and the New Senior Facilities Agreement are not preventing us from incurring obligations that do not constitute indebtedness under those agreements.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

Among other things, the Indenture limits our ability to:
- incur or guarantee additional indebtedness;
- pay dividends or make other distributions, purchase or redeem our stock or prepay or redeem subordinated debt;
- make investments or other restricted payments;
- sell assets and subsidiary stock;
- enter into certain transactions with affiliates;
- create liens;
- consolidate, merge or sell all or substantially all of our assets;
- enter into agreements that restrict our restricted subsidiaries' ability to pay dividends; and
- engage in any business other than a permitted business.

In addition, the New Senior Facilities Agreement and the ING Facilities Agreement contain covenants limiting our ability to incur and assume debt and/or requiring us to maintain a certain debt to consolidated EBITDA ratio and a certain consolidated EBITDA to total interest ratio. Further, the New Senior Facilities Agreement and the ING Facilities Agreement limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Obligations*."

All of these limitations are subject to significant exceptions and qualifications. These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

If we fail to comply with any of these covenants, we will be in default under the Indenture and the relevant facility agreements, as the case may be, and the Trustee, holders of the Notes or the applicable lenders could declare the principal and accrued interest on the Notes or the applicable loans due and payable, after any applicable cure period. These restrictions could materially adversely affect our ability to finance future operations or capital needs or engage in other business activities that may be in our best interest.

Any impairment of our ability to draw funds under the New Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement could adversely and negatively impact our business operations.

Currently, our operations are primarily financed using cash generated in our operations and funds drawn from our existing credit facilities. We rely on our senior revolving credit facility under our New Senior Facilities Agreement, the Citi Facilities Agreement and the ING Facilities Agreement to fund our business operations and for various other purposes. Further, if we were unable to draw funds under our senior revolving credit facility, we may need to

find alternative sources of funds which may be at higher interest rates. In addition, the overdraft facilities under the ING Facilities Agreement and the Citi Facilities Agreement are provided on an uncommitted basis and can be withdrawn at any time. There also can be no assurance that we will have sufficient cash resources on hand at any given time to meet our expenses or debt servicing requirements. Our ability to draw on the New Senior Facilities depends on, among other things, our ability to maintain certain ratios, and our ability to meet these financial ratios and other required conditions to drawing could be affected by a number of factors, including by events beyond our control. In addition, our inability to maintain these financial ratios may also result in an event of default under the New Senior Facilities Agreement or the ING Facilities Agreement, which would prohibit us from drawing funds under those facilities and potentially trigger a cross-default under the Notes. See "*—Risks related to our financial profile—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.*" This inability to draw funds under the New Senior Facilities Agreement, the ING Facilities Agreement or the Citi Facilities Agreement or to maintain our operations due to a lack of cash flow would materially and adversely affect our business.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate sufficient cash to service our debt.

Our ability to make payments on and to refinance our indebtedness, and to fund working capital and to make capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends on the success of our business strategy and on economic, financial, competitive, market, legislative, regulatory and other factors, as well as the factors discussed in these "*Risk Factors*," many of which are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations or that future debt or equity financings will be available to us to pay our debt, including payments due under the Notes and the Guarantee, when due or to fund our other capital requirements or any operating losses. If our future cash flows from operations and other capital resources (including borrowings under the New Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities or capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or part of our debt, including the Notes, on or before maturity; or
- forgo opportunities such as acquisitions of other businesses.

We cannot assure you that we will be able to accomplish these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, the New Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement, limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business and adversely affect our financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

We may not be able to refinance maturing debt on terms that are as favorable as those from which we previously benefited or on terms that are acceptable to us or at all.

Our ability to refinance our debt depends on a number of factors, including the liquidity and capital conditions in the credit markets, and we may not be able to do so on satisfactory terms, or at all. In the event that we cannot refinance our debt, we may not to be able to meet our debt repayment obligations. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including additional restrictions on our operations and higher interest rates, could have an adverse effect on our results of operations and financial condition.

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various cross-default and cross-acceleration provisions, resulting in the acceleration of a substantial portion (if not all) of our debt, including the Notes, and materially adversely affect our business, prospects, results of operations and financial condition.

Derivative transactions may expose us to unexpected risk and potential losses.

From time to time, we may be party to certain derivative transactions, such as interest rate swap contracts, with financial institutions to hedge against certain financial risks. Changes in the fair value of these derivative financial instruments that are not cash flow hedges are reported in income, and accordingly could materially affect our reported income in any period. Moreover, in light of current economic uncertainty and potential for financial institution failures, we may be exposed to the risk that our counterparty in a derivative transaction may be unable to perform its obligations as a result of being placed in receivership or otherwise. In the event that a counterparty to a material derivative transaction is unable to perform its obligations thereunder, we may experience losses that could materially adversely affect our financial condition, financial returns and results of operations.

RISKS RELATING TO THE NOTES AND THE GUARANTEE

The Notes and the Guarantee are structurally subordinated to the indebtedness and other obligations of our non-guarantor subsidiaries.

Only RCS&RDS provides a Guarantee for the benefit of holders of the Notes on the Issue Date. Our other subsidiaries may guarantee the Notes in the future, but until then, any claim by us or any of our creditors, including holders of the Notes, against any such non-guarantor subsidiaries will be structurally subordinated to all of the claims of creditors of such subsidiaries. The Indenture does not limit the transfer of assets to, or the making of investments in, any of our Restricted Subsidiaries (as defined herein), including our subsidiaries that do not provide guarantees for the Notes, which subsidiaries could account for a higher portion of our assets, liabilities, net revenues and net income in the future. As of December 31, 2014, our subsidiaries that do not guarantee the Notes did not have any material financial indebtedness outstanding. Our subsidiaries not guaranteeing the Notes generated 28.8% of our consolidated total revenue and 23.3% of our consolidated EBITDA for the year ended December 31, 2014. In the event of insolvency, liquidation or other reorganization of any of these non-guarantor subsidiaries, creditors of such non-guarantor subsidiaries will generally be entitled to payment in full from their respective assets before the Company or the Guarantor is entitled to receive any distribution from such assets as equity holders. Except to the extent that the Company or the Guarantor may itself be a creditor with recognized claims against a non-guarantor subsidiary, claims of creditors of such non-guarantor subsidiary will have priority with respect to the assets and earnings of that subsidiary over the claims of the Company or the Guarantor as equity holders, although there is no assurance that the claims of the Company or the Guarantor as a creditor against a non-guarantor subsidiary may not be reduced, limited or extinguished as a result of applicable insolvency rules (such as the doctrine of equitable subordination or the rules regarding the potential avoidance of transactions concluded with related persons within a certain hardening period). See "*Risk Factors—Risks relating to the Notes and the Guarantee—The Company may not be able to recover any amounts under the Proceeds Loan because its right to receive payments under the Proceeds Loan is subordinated to all third party liabilities of the Guarantor*." Our non-guarantor subsidiaries are also subject to liabilities to other creditors as a result of obligations incurred in the ordinary course of business, which liabilities are also effectively senior to the Notes and the Guarantee.

Holders of the Notes may not control certain decisions regarding the Collateral.

The Notes are secured by the same Collateral securing the obligations under our New Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and certain hedging obligations. In addition, under the terms of the Indenture, we are permitted to incur significant additional indebtedness and other obligations that may be secured by the same Collateral.

As a result of the voting provisions set forth in the Intercreditor Agreement, certain amendments and waivers under the Intercreditor Agreement and in relation to the Collateral will have to be consented to by the required majority of creditors under the relevant *pari passu* indebtedness, including the Notes, the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and any outstanding hedging obligations. The required majority will vary with the type of amendment or waiver being sought and may in certain circumstances be a requirement for unanimity. The Intercreditor Agreement provides that a common security agent will serve as the Security Agent for all the secured parties with respect to the shared Collateral. The Security Agent will act with respect to the shared Collateral only at the direction of those senior secured creditors the aggregate of whose unpaid amounts and undrawn commitments under the senior secured liabilities at that time aggregate to 50% of the total aggregate amount of all of the senior secured liabilities at that time the ("**Majority Senior Secured Creditors**"). Before giving any instructions to the Security Agent to enforce the Collateral or take any enforcement action, a 15 day consultation period among the representatives of creditors is triggered, subject to certain exceptions. Only following the expiry of a consultation period will the Majority Senior Secured Creditors be entitled to give any instruction to the Security Agent to enforce the Collateral or take any other enforcement action.

These arrangements could result in the enforcement of the Collateral in a manner that results in lower recoveries by holders of the Notes. Furthermore, other creditors not subject to the Intercreditor Agreement could commence enforcement action against the Company or its subsidiaries during such period, the Company or one or more of its

subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain Collateral could otherwise be impaired or reduced in value.

Pursuant to the Intercreditor Agreement, if the Security Agent sells Collateral comprising the shares of any of our subsidiaries as a result of an enforcement action, claims under the Notes and the Guarantee and the liens over any other assets of such subsidiaries securing the Notes and the Notes Guarantees may be released.

The proceeds of the Collateral sold in any enforcement sale may not be sufficient to repay the Notes.

Our obligations with respect to the Notes and the Guarantee are secured by a first-ranking security interest in the Collateral, as more fully described under "Offering Memorandum—*Description of the Notes—Security—The Collateral*." The Collateral is shared with the lenders under the New Senior Facilities Agreement, the creditors with respect to any *pari passu* indebtedness (including the ING Facilities Agreement and the Citi Facilities Agreement), and certain hedge counterparties. The Indenture and the New Senior Facilities Agreement permits the Company and its subsidiaries to use the Collateral to secure certain additional indebtedness on a *pari passu* or subordinated basis in the future. Not all of our assets secure the Notes, and in the event of an enforcement of the Collateral, the proceeds from the sale of such assets may not be sufficient to satisfy our obligations under the Notes, the Guarantee and the other indebtedness secured on a *pari passu* basis by the Collateral. To the extent that the claims of holders of the Notes and creditors of our other debt secured by the Collateral exceed the value of the Collateral, those claims will constitute unsecured obligations.

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the Collateral securing such Guarantee, in the event of competing enforcement claims or a sale of assets in bankruptcy under Romanian law, any such amounts will rank junior to certain specified categories of existing and future indebtedness of the Guarantor, including, without limitation, trade payables (*creanţe*) and bank loans (including the New Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement, and related interest and expenses). Accordingly, the holders of the Notes' potential recovery in certain events of enforcement or in bankruptcy liquidation under Romanian law may be limited. See "*—The Notes and the Guarantee are secured only to the extent of the value of the assets that have been granted as Collateral. In addition, under Romanian bankruptcy law, certain preferential claims, including claims of creditors of bank loans and trade payables (creanţe), would rank ahead of claims of the holders of the Notes under the Guarantee to the extent such claims exceed the value of the Collateral securing such Guarantee*."

As a result, if the value of the Collateral is less than the value of the claims of holders of the Notes and creditors of our other debt secured by the Collateral, those claims may not be satisfied in full before the claims of certain unsecured creditors are paid.

The Notes and the Guarantee are secured only to the extent of the value of the Collateral.

Holders of the Notes have an unsecured claim for any portion of the claims under the Notes and the Guarantee that are not covered by the value of the Collateral. In the event of competing claims or a sale of assets in bankruptcy, the unsecured portion of the claim is subject to the mandatory distribution order set out by Romanian law. The unsecured portion of the claims of the holders of the Notes ranks junior to, among others, bank loans (including related expenses and interest) and trade payables (*creanţe*) (*i.e.*, claims arising out of the delivery of products, provision of services or other works and leases). However, certain creditors of our bank loans (including creditors under the New Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement) became parties to the Intercreditor Agreement that regulated the application of proceeds received from enforcement of the Collateral and certain distressed disposals among the remaining creditor groups. In addition, the Intercreditor Agreement contains an equalization provision that operates to equalize any losses among the secured creditors based on their exposure. Accordingly, holders of the Notes thus need to rely on the contractual arrangements with those bank creditors party to the Intercreditor Agreement to benefit from their contractual status, and share in the proceeds from sales of assets that are not included in the Collateral in the event of competing enforcement or a sale of assets in bankruptcy of the Guarantor. Nevertheless, suppliers of goods and services to the Guarantor are not be party to the Intercreditor Agreement. As a result, the ability of holders of the Notes to obtain recovery against the Guarantor on any portion of their claim that exceeds the value of the Collateral may be limited.

It may be difficult to realize the value of the Collateral.

No appraisal of the value of the Collateral securing the Notes and the Guarantee has been made in connection with the Offering. The fair market value of the Collateral securing the Notes and the Guarantee is subject to fluctuations based on many factors including, among others, whether or not our business is sold as a going concern, the ability to sell the assets (including the shares that constitute part of the Collateral) in an orderly sale, the availability of buyers

and whether telecommunications, media and other licenses required to operate our business and approvals required to purchase our business would be available to a buyer of the assets. The book value of the assets securing the Notes should not be relied on as a measure of realizable value for such assets. In addition, the security interest of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the Security Agent may need to obtain the consent or approval of a third party or governmental authority to create, perfect or enforce a security interest in a contract or permit or transfer or sell certain assets. See "*—Enforcing pledges over certain Collateral may be prohibited or subject to special authorization*" and "*—Risks relating to the Notes and the Guarantee— The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defenses*." Thus, we cannot assure you that these assets will be saleable and, even if saleable, that there will not be substantial delays in the liquidation thereof or loss of value associated with the difficulty or inability to sell them as a going concern. Each of these factors could reduce the likelihood of an enforcement action as well as reduce the amount of any proceeds from an enforcement action.

In addition, the condition of the Collateral may deteriorate in the period leading up to bankruptcy or foreclosure. In the event that a bankruptcy case is commenced by or against us, if the value of the Collateral is less than or equal to the amount of principal and accrued and unpaid interest, if any, on the Notes and all other obligations secured by the Collateral, interest may cease to accrue on the Notes from and after the date of the bankruptcy petition is filed. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay our obligations under the Notes.

The Collateral securing the Notes and the Guarantee is subject to casualty risks.

Some of the Collateral securing the Notes and the Guarantee is either uninsured, uninsurable or not economically insurable, in whole or in part. Consequently, we may not be fully compensated by insurance proceeds for any losses we may suffer. See "*Risks relating to our business—Our insurance does not cover all potential losses, liabilities and damage related to our business and certain risks are uninsured or are not insurable.*" If there is a complete or partial loss of any of the pledged Collateral, our insurance proceeds may not be sufficient to satisfy all of the secured obligations including the Notes. In addition, even if there is sufficient insurance coverage, if there is a total or partial loss of certain Collateral, there may be significant delays in obtaining replacement Collateral.

We have control over the Collateral, and the sale of particular assets could reduce the pool of assets securing the Notes and the Guarantee.

The security documents governing the granting of the Collateral, subject to the terms of the New Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and the Indenture, allows us to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes, the Guarantee, Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement. So long as no default or event of default under the New Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement or the Indenture would result therefrom, we may, among other things, without any release or consent by the Trustee or Security Agent, conduct ordinary course activities with respect to the Collateral such as selling, factoring or otherwise disposing of the Collateral and making ordinary course cash payments, including repayments of indebtedness.

Rights of holders of Notes in the Collateral may be adversely affected by the failure to perfect or maintain security interests in certain Collateral (including any Collateral acquired in the future).

The Collateral includes certain tangible and intangible assets. Applicable law requires that a security interest in certain tangible and intangible assets can only retain its priority if it is properly perfected. Perfection is attained through certain actions (including filings or registration) undertaken by the secured party or the relevant security grantor, as the case may be. Such actions may also require the consent or cooperation of third parties. For example, in Romania, registration of security interests must be performed in various specific registers, depending on the nature of the specific movable asset over which security is granted. Generally, security interests over movable assets must be registered with the Electronic Archive for Registrations of Security Interests over Movable Assets (the "**Electronic Archive**"). Certain movable assets are subject to other or additional publicity formalities. Security interests over shares in a private company must be registered with RCS&RDS's shareholders' register and security interests over listed shares must be registered with the Central Depositary. In addition, security over intellectual property rights must additionally be registered with the register kept by the relevant IP authority (e.g. the State Office for Inventions and Trademarks, the World Intellectual Property Organization or the Office of Harmonization for the Internal Market). Romanian law also provides for the concept of "control over bank accounts" which ensures a preference for the controlling creditor. Control over a bank account may be obtained in several ways and, in the case of those bank accounts which secure the Notes and the Guarantee, this includes obtaining the written consent

of the account bank. We may not make one or more of the registrations required by applicable laws or obtain all the necessary consents in a timely manner. As a result, the security interests in the Collateral may not be perfected, and their priority may not be created or retained, with respect to the obligations under the Notes.

Applicable law (including Romanian law) requires that security interests over certain property and rights acquired after the grant of such security interest can only be perfected at the time such respective property and rights are acquired, subject to the proper identification of such property or rights. The Trustee does not monitor the Collateral and there can be no assurance that the Security Agent will monitor, or that the Guarantor or the Company will inform the Trustee or the Security Agent of the future acquisition of property and rights that constitute Collateral (although the security documents will impose an obligation on us to do so). As a result, the Trustee, the Security Agent and we may not take the required action to perfect the security interest. Such failure may result in the loss of the security interest therein.

Registrations of security interests may be subject to renewal or confirmation from time to time. For instance, in Romania, renewals of security interests registered with the Electronic Archive must be made by, or on behalf of, the Security Agent before the expiry of a five year period from the date of initial registration. If we (despite our obligation to do so under the relevant security documents) or the Security Agent do not renew such registration before the elapse of the aforementioned five-year period, holders of the Notes may lose their priority status with respect to certain Collateral to the extent other secured indebtedness over the same assets has been perfected by that time. Failure to ensure renewal may trigger the application of new hardening periods in the event that the relevant security is re-registered.

Under Dutch law, a right of pledge on bank accounts is commonly a disclosed right of pledge. Such disclosed pledge does not need to be registered with Dutch tax authorities, but requires that the account bank be notified. According to the general banking conditions (*algemene bankvoorwaarden*) of any member of the Dutch Bankers' Association (*Nederlandse Vereniging van Banken*), Dutch account banks have a first ranking right of pledge on the account receivables. To create a first ranking right of pledge on the Dutch bank account, a waiver of any right of pledge on the account receivables which that account bank may have is required.

There are circumstances other than repayment or discharge of the Notes under which the Collateral will be released automatically and under which the Guarantee will be released without your consent or the Trustee or the Security Agent obtaining your further consent.

Under various circumstances, Collateral securing the Notes and the Guarantee will be released automatically, including:

(1) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Notes;
(2) upon release of a Guarantee (with respect to the Liens granted by such Guarantor) in accordance with the Indenture;
(3) in connection with any disposition of Collateral, directly or indirectly, to any Person other than the Company or any of its Restricted Subsidiaries (but excluding any transaction subject to "Offering Memorandum—*Certain Covenants—Merger and Consolidation*") that is not prohibited by the Indenture (with respect to the Lien on such Collateral);
(4) as described under "Offering Memorandum—*Description of the Notes—Amendment, Supplement and Waiver*;"
(5) if the Company designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of Liens on property and assets and Capital Stock of such Restricted Subsidiary;
(6) as described in the second paragraph under "Offering Memorandum—*Description of the Notes—Certain Covenants—Limitation on Liens;*" and
(7) as otherwise provided in the Intercreditor Agreement or any additional intercreditor agreement in connection with an enforcement action; and
(8) as described under "Offering Memorandum—*Description of the Notes—Certain Covenants—Impairment of Security Interest.*"

Additionally, under various circumstances, the Guarantee will be released automatically, including:

- in connection with any sale, disposition, exchange or other transfer of all or substantially all of the assets of the Guarantor to a person that is not the Company or a Restricted Subsidiary in a transaction that is permitted by the Indenture;
- in connection with any sale, disposition, exchange or other transfer of Capital Stock of RCS&RDS as or such other a Guarantor to a person that is not the Company or a Restricted Subsidiary in a transaction that is permitted by the Indenture and RCS&RDS or such Guarantor ceases to be a Restrictive Subsidiary as a result of the sale or other disposition;
- upon the release of the guarantee or security or the discharge of the indebtedness that gave rise to the obligation to

guarantee the Notes, so long as no other indebtedness of the Company or a Restricted Subsidiary is at that time guaranteed by such other Guarantor in a manner that would require the granting of a guarantee under the Indenture;

- if the Company designates such Guarantor (other than RCS&RDS) to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture; and

as described under "Offering Memorandum—*Description of the Notes—Amendment, Supplement and Waiver*."

The Indenture also permits us to designate one or more restricted subsidiaries as unrestricted subsidiaries. If we designate a restricted subsidiary as an unrestricted subsidiary for purposes of the Indenture, all the liens on the Collateral owned by such subsidiary and on such subsidiary's capital stock will be released under the Indenture and such subsidiary will cease to be a Guarantor. Designation of an unrestricted subsidiary will reduce the aggregate value of the Collateral securing the Notes to the extent that liens on the assets of the unrestricted subsidiary that constitute Collateral are released. The Collateral and the Guarantee may also be released with the consent of holders of at least 90% of the aggregate principal amount of the Notes then outstanding.

Certain categories of property are excluded from the security.

Certain categories of assets, such as real estate properties, are excluded from the security securing the Notes and the Guarantee. In addition, the Indenture permits us to grant liens over such other assets to secure other indebtedness without also granting lien over such assets to secure the Notes. If an event of default occurs and the indebtedness in respect of the Notes is accelerated, the Notes and the Guarantee rank equally with all of our other unsecured indebtedness with respect to such excluded property, except for certain creditors that are mandatorily preferred under local law. See "— *The Notes and the Guarantee are secured only to the extent of the value of the Collateral.*

The security interests in the Collateral are granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce the Collateral may be restricted by local law.

The security interests in the Collateral that secure our obligations under the Notes and the Guarantee are not granted directly to the holders of the Notes but are granted only in favor of the Security Agent. The Security Agent entered into the relevant security documents in its own name for the benefit of the Trustee and the holders of the Notes. Each holder, by accepting a Note, appoints the Security Agent as its agent for the security documents and authorizes it to act as such. Neither the Trustee nor the holders of the Notes may, individually or collectively, take any direct action to enforce any rights in their favor under the security documents. The Indenture provides that only the Security Agent has the right to enforce the security documents. The Security Agent will agree to any release of the security interest created by the security documents that is in accordance with the Indenture without requiring any consent of the holders. As a consequence, in certain jurisdictions, the holders of the Notes do not have direct security interests and are not entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee who will (subject to the provisions in the Indenture) provide instructions to the Security Agent in respect of the Collateral. In the case of enforcement of the Spanish security, the Security Agent shall be required to prove in Spain the capacity to represent the holders and the Trustee for the purposes of the Spanish security document and to accept them on their behalf, by means of a power of attorney granted in favor of the Security Agent by each of the creditors. Holders of the Notes will be deemed to have granted certain powers of attorney to the Security Agent pursuant to the Indenture. However, according to Article 1,280 of the Spanish Civil Code, any such power of attorney has to be granted in a public document (which has to be an *escritura*), duly notarized, and, if necessary, bear the Apostille of the Hague Convention of October 5, 1961. In addition, although both the power of attorney and the relevant security document will be notarized, there is a risk that the Spanish courts may find such power of attorney to be unenforceable due to the fact that the Trustee was not in the presence of the Spanish notary when the notarization occurred and the holders of the Notes are not parties to the Indenture.

Any instructions given to the Security Agent must be in compliance with the majority provisions of the Intercreditor Agreement. In the event that the Collateral secures additional indebtedness on a *pari passu* basis with the Notes pursuant to the Intercreditor Agreement, rights of the holders of the Notes (acting through the Trustee) to instruct the Security Agent to enforce will be diluted. In certain circumstances, as may be provided under the Intercreditor Agreement, the rights of the holders of the Notes to instruct the Security Agent to enforce may be limited or restricted notwithstanding any default under the Notes.

In Romania and The Netherlands the security interests in the Collateral is granted in favor of the Security Agent, as beneficiary of parallel debt obligations (the "**Parallel Debt**"). The Parallel Debt is in the same amount and payable at the same time as the obligations of the Company under the Indenture and the Notes (the "**Principal Obligations**"). Any payment in respect of the Principal Obligations discharges the corresponding Parallel Debt and any payment in

respect of the Parallel Debt discharges the corresponding Principal Obligation, in each case, by the amount of such payment. Although the Security Agent has, pursuant to the Parallel Debt, a claim against the Company for the full principal amount of the Notes, holders of the Notes bear the risk of a possible insolvency or bankruptcy of the Security Agent or a breach of its obligations as Security Agent towards the secured creditors. The Parallel Debt obligations referred to above are contained in the Intercreditor Agreement, which is governed by English law. There is no assurance that such a structure will be effective before courts in the jurisdiction in which the Collateral is located as there is no judicial or other guidance as to its efficacy, and therefore the ability of the Security Agent to enforce the Collateral may be restricted.

Parallel debt structures have been used in Romania due to certain limitations of Romanian law which (i) require that the pledgee and the creditor be the same person and (ii) prescribe that the security interest cannot be held and registered on behalf of third parties who do not hold the secured claim.

The new Romanian Civil Code (which entered into force in October 2011) has introduced the possibility that a movable mortgage may be created either in favor of the creditor of the secured obligation or a third party designated by it. Such third party is entitled to exercise all the rights of the relevant creditor and is bound by all of its obligations. The movable mortgage created in favor of several creditors may be registered in the name of an agent appointed by those creditors. Such agent is entitled to exercise all the rights of the creditors who appointed him. This new structure is recent, has seen limited use in practice and has not been tested in court. Moreover, the provisions regulating this new structure and the nature of the agency relationship are not clearly explained and characterized under Romanian law.

Although the enforceability in Romania of certain rights (particularly in insolvency proceedings) of a security agent benefiting from a parallel debt was recognized in the past, there is no assurance that such structure will be effective in other cases in Romanian courts, especially in the case of parallel debt structures created after the entry into force of the new Romanian Civil Code. Thus, there is a risk that a Romanian court may not recognize the claim held by the Security Agent under the parallel debt structure and that consequently, the security interest securing the respective claim could be deemed invalid and/or unenforceable.

The Intercreditor Agreement provides for the creation of a parallel debt structure. On the basis of this structure, the Security Agent becomes the holder of a claim equal to each amount payable to the Company by an obligor under the Indenture and the Intercreditor Agreement. The security interest over the Collateral governed by Romanian and Dutch law directly secure the parallel debt obligations, not the obligations under the Notes.

To the extent that the security interests in the Collateral created under the parallel debt structure are successfully challenged (including by other creditors of the Guarantor), the security interest in the Collateral may be invalidated and/or unenforceable and the holders of the Notes may not recover any amounts from the enforcement of the Collateral.

In Hungary, the security interests in the Collateral are granted in favor of the Security Agent, acting as a beneficiary of a joint and several creditorship who is entitled to enforce any claim under the Collateral in its own name. Any payment made towards the Security Agent discharges the total debt of the Company and the Guarantor under the Notes and the Guarantee, respectively, by the amount of such payment. The joint and several rights of the Security Agent referred to above are contained in the Intercreditor Agreement, which is governed by English law. There is no assurance that such a structure will be effective before Hungarian courts and enforceable under Hungarian law.

The granting of the security interests in connection with the issuance of the Notes may create hardening periods for such security interests in accordance with the law applicable in certain jurisdictions.

The granting of new security interests (including the extension of existing security interests) in connection with the issuance of the Notes may create hardening periods for such security interests in certain jurisdictions. The applicable hardening period for these new security interests runs from the moment each new security interest has been granted or perfected. The granting of shared security interests to secure future permitted indebtedness may restart or reopen such hardening periods, in particular, as the Indenture permits the release and retaking of security granted in favor of the Notes in certain circumstances including in connection with the incurrence of future indebtedness. The applicable hardening period for these new security interests can run from the moment each new security interest has been granted or perfected. Each time, subject to specific avoidance rules, if the security interest granted or reconfirmed were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective or it may not be possible to enforce it.

The market value of the Collateral may depend on economic conditions in Europe and emerging markets.

The market value of the Collateral may be affected to varying degrees by economic and market conditions in Europe and emerging market countries. International financial markets have experienced volatility in the past due to a combination of

international political and economic events. There can be no assurance that any future negative political or economic developments in such other countries will not adversely affect the market value of the Collateral.

Enforcing pledges over certain Collateral may be prohibited or subject to special authorization or require the payment of stamp duties.

Our business is subject to regulations and permitting requirements and requires a variety of national and local permits and licenses. The continued operation of properties that are part of the Collateral depend on the maintenance of such permits and licenses. If we are unable to comply with existing regulations or requirements or changes in applicable regulations or requirements, our business and the value of the Collateral would be adversely affected.

In Romania, permits and licenses generally may not be transferred without the consent of the issuing authority. In the event of enforcement on the Collateral, the transfer of such permits and licenses may be prohibited (such as our general authorization issued by ANCOM for the provision of electronic communications networks and services or our retransmission endorsements issued by the NAC) or if permitted, be subject to certain conditions and restrictions. For example, our audio visual authorization can only be transferred together with the audio visual licenses issued by the NAC. Our other telecom licenses can generally be transferred to third parties but subject to certain conditions, including (i) that the transferee is also a regulated entity, (ii) the prior consent of the relevant regulator or (iii) the incurrence of significant costs and expenses. The relevant regulator is also entitled to add specific requirements to license issuers. We cannot assure you that the relevant regulators will consent to the transfer of such permits or licenses or that such consent, if obtained, will be unconditional or granted on terms which are appropriate in an enforcement context. If the regulatory approvals required for such transfers are not obtained or are delayed, the enforcement may be delayed or prevented, our operations may be subject to a temporary shutdown, the value of the Collateral may significantly decrease and we may be subject to regulatory fines or other sanctions.

In certain circumstances, the transfer of certain of our permits and licenses may only be made if accompanied by the related portion of our business (e.g. certain networks) and the parties to whom such permits and licenses are transferred must undertake all obligations arising therefrom. Any such transfer may also require competition approval, which may make enforcement very difficult or impossible or lead to a significant decrease in the value of our business and the Collateral. Furthermore, if any such transfer occurs without the requisite competition approval, then such transfer may ultimately be rendered void.

Additional requirements and limitations apply for certain changes in our shareholding structure of business. Any person acquiring 10% or more of the share capital or voting rights in the Guarantor or the equity controlling the Guarantor (*i.e.*, the Company) must notify the NAC of the acquisition within one month of its occurrence. With respect to the general mortgage on movable assets of the Guarantor, the transfer of a significant portion of all of our assets (pursuant to any enforcement of the Collateral) relating to the access network to any person controlled by a third party is subject to a prior notification to ANCOM within a reasonable time. ANCOM is entitled to add, amend or terminate any underlying obligation of the buyer. In the event of enforcement, there is no control over what actions the regulator may take and how such actions may impact on the realizable value of the Collateral.

In addition, under Spanish law, if upon the enforcement of the security there is a change of control of the Spanish subsidiary, the Markets and Competition National Commission (*Comisión Nacional de los Mercados y la Competencia*) must be informed. Also, if the control of the Spanish subsidiary were acquired by a dominant operator, authorization of the authorities will be requested. In addition, there are certain By-law limitations under Spanish law which prohibit transfers of shares in favor of (i) persons carrying out the same corporate purpose as RCS&RDS within the Spanish territory; (ii) certain persons set out in a list published by the Ministry of Foreign Affairs of Romanian government or the competent European Union bodies; and (iii) persons from countries with whom persons from the European Union are forbidden to carry out commercial activities. To the extent that such persons seek to enforce the Spanish share pledge, the transfer of shares would be invalid.

In addition, a substantial number of our material contracts, including content agreements for our own channels and carriage agreements pursuant to which we carry channels produced by third parties contain anti-assignment provisions. Such anti-assignment provisions may significantly limit the ability of the Security Agent to enforce its rights and remedies under such contracts. We cannot assure you that the Security Agent will be able to obtain the consent or approval of our counterparties to such contracts or that such consents and approvals, if obtained, will be granted on terms that will facilitate enforcement in a timely or commercial manner.

In some cases, enforcement of the Collateral may be subject to a requirement to pay stamp duty or other procedural charges and fees, which may be substantial and reduce any recovery of amounts due under the Notes. For example, if the share pledge over the shares of the Hungarian subsidiary is enforced by means of a public auction or private sale, stamp duty may apply.

The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defenses.

The Guarantor guarantees the payment of the Notes on a senior secured basis. The Guarantee and the related security interests provide the holders of the Notes with a direct claim against the assets of the Guarantor. However, such Guarantee and security interests is limited to the maximum amount that can be guaranteed by, or secured by assets of, the Guarantor without rendering the Guarantee or security interest voidable or otherwise ineffective under applicable laws, and enforcement of the Guarantee and security interest against the Guarantor would be subject to certain defenses available to guarantors and security providers generally or, in some cases, to limitations designed to ensure full compliance with statutory requirements applicable to the Guarantor. These laws and defenses include those that relate to corporate benefit, corporate purpose and fraudulent conveyance or similar laws, regulations or defenses affecting the rights of creditors generally (such as those relating to bankruptcy, insolvency, liquidation ad-hoc mandate, preventive concordat, moratorium or reorganization). As a result, the Guarantor's liability under the Guarantee and the Collateral could be materially reduced or eliminated, depending upon the amounts of its other obligations and upon applicable laws. In particular, under Romanian law, a guarantee issued or security provided by a company that is not in the company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. In addition, Romanian law also contains provisions on fraudulent conveyance outside of a bankruptcy scenario. Thus, a creditor holding a receivable for a sum certain (*creanţă certă*) evidencing that it suffered damage may bring an action (*acţiune revocatorie*) against any fraudulent acts concluded by its debtor towards such creditor, thereby creating or enhancing the debtor's insolvency (*insolvabilitate*) status towards such creditor.

Under the laws of certain jurisdictions, the validity and enforceability of guarantees (including security interests) are conditional upon the validity and enforceability of the guaranteed obligations. Notwithstanding the fact that certain jurisdictions may recognize independent guarantees, to the extent the Parallel Debt claim and/or the obligations of the Company in relation to the Notes are invalidated, the obligations of the Guarantor under the Guarantee and the Collateral may also be invalidated.

In addition, Romanian law requires, as a condition to the validity of the security interests, that the secured amount be reasonably determined or determinable based on the security document. Any increase of the secured amount beyond that contemplated by the original signed security documents requires the amendment of the security documents in order to reflect such increase and the performance of related perfection formalities. There may be circumstances where a prohibition on the creation of a security interest (*i.e.*, a negative pledge) or a prohibition on the disposal of assets may be unenforceable under Romanian law. To the extent the security interest granted for the benefit of the Noteholders violates any of the foregoing laws, the holders of the Notes would cease to have a valid claim in respect of the Collateral or the Collateral may be unenforceable.

To the extent a Romanian court deems the description of future property included in the Collateral as insufficiently precise, the holders of the Notes and Security Agent may be unable to enforce against such assets or property. Furthermore, the enforcement of the security interests created over future movable property may encounter difficulties; in particular, the enforcement of the Collateral created by the Guarantor over all present and future movable assets is limited to those assets that comprise the mortgaged property at the date of enforcement, which could be significantly less in value than the mortgaged property on the date that such mortgage was first granted.

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the Collateral securing such Guarantee, in the event of competing enforcement claims or a sale of assets in bankruptcy under Romanian law any such amounts ranks junior to certain specified categories of existing and future unsecured indebtedness of the Guarantor, including, without limitation, trade payables (*creanţe*) and bank loans (including related interest and expenses).

Payments by the Guarantor under the Proceeds Loan and the Guarantee may be subject to Romanian withholding tax.

In general, interest payments on borrowed funds made by a Romanian entity to a non-resident entity are subject to Romanian withholding tax, currently at a rate of 16%, unless the withholding tax is reduced or eliminated pursuant to the provisions of an applicable tax treaty or Directive of the European Union. If any such Romanian withholding tax is imposed, the Guarantor would not be obliged to pay additional amounts with respect to such payment made to the Company under the Proceeds Loan as a result of the imposition of such Romanian withholding tax. Based on professional advice we have received, we believe that interest payments made by the Guarantor to the Company under the Proceeds Loan should not be subject to withholding tax under the terms of the double tax treaty between Romania and The Netherlands or under Council Directive 2003/49/EC (the "**EU Interest & Royalty Directive**"). However, there can be no assurance that such relief will always be available.

Romanian law is currently unclear on the withholding tax treatment of payments made by Romanian residents to non-residents under guarantees. Based on the professional advice we have received, we believe that the nature of any payment made by the Guarantor to the holders of the Notes under the Guarantee would be determined by the

Romanian tax authorities by reference to the nature of the payment owed by the Company under or in respect of the Notes in relation to which such payment under the Guarantee was made. As such, any payments of interest under the Guarantee would be subject to Romanian withholding tax, currently at a rate of 16%. However, under the terms of the Guarantee, the Guarantor would be obliged to pay any such additional amounts as would result in receipt by the holders of the Notes of such amounts as would have been received by them had no such Romanian withholding tax been imposed.

We may not be able to obtain the funds required to repurchase the Notes upon a change of control.

The Notes contain provisions relating to certain events constituting a "change of control" in relation to the Company. Upon the occurrence of a change of control, the Company is required to make an offer to purchase all outstanding Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to the date of purchase, and the Guarantor will prepay the Proceeds Loan to the extent necessary to finance the purchase by the Company. In addition, each lender under the New Senior Facilities Agreement may, at each lender's option, require repayment of all amounts due to it and a cancellation of its commitment under the New Senior Facilities Agreement upon the occurrence of a change of control thereunder. If a change of control were to occur, we cannot assure you that we will have sufficient funds to pay the purchase price of the outstanding Notes, and repay amounts outstanding under the New Senior Facilities Agreement.

In addition, our other indebtedness may contain restrictions or repayment requirements with respect to certain events or transactions that could constitute a change of control under the terms of the Indenture and the New Senior Facilities Agreement. The inability to purchase the Notes or loans under the New Senior Facilities Agreement upon the occurrence of a change of control would constitute an event of default under the terms and conditions governing the Notes or the New Senior Facilities Agreement, which would trigger a cross-default under the Notes and vice-versa. See "*Description of the Notes—Change of Control*."

The insolvency laws of The Netherlands may not be as favorable to prospective investors as insolvency laws of other jurisdictions.

The Company is incorporated in The Netherlands and has its statutory seat (*statutaire zetel*) in The Netherlands. Therefore, The Netherlands is presumed to be the center of main interests of the Company and the Company can be subjected to insolvency proceedings in this jurisdiction. Such insolvency proceedings applicable to the Company will be governed by Dutch insolvency laws, subject to certain exceptions as provided for in the EU Insolvency Regulation. Dutch insolvency laws are different from the insolvency laws of other jurisdictions, and this may limit a prospective investor's ability to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws. In addition, under Dutch insolvency laws, the validity of an appointment of an agent for service of process granted by a Dutch entity, such as the appointment by the Company of agents for service of process under New York and English law under the Indenture and under English law under the Intercreditor Agreement, is uncertain. Furthermore, such appointments will terminate automatically in the case of an insolvency of the Company. As such, your ability to bring suit against the Company in New York or England may be limited.

Enforcement of the Guarantor's obligations under the Guarantee and of certain Collateral granted in relation to the Notes is subject to local rules of civil procedure which may delay, cause difficulties in, or endanger such enforcement.

The Guarantor is located in Romania and the Company is located in The Netherlands. The Collateral is located in several jurisdictions, including The Netherlands, Romania, Spain and Hungary. Enforcement of the Collateral is governed by local laws and regulations. Such laws and regulations may require additional acts to be performed in a specific manner within a specific period of time. Failing to comply with such local applicable rules may also result in enforcement requests having to be resubmitted, delayed or even irrevocably rejected. In addition, third parties have a right to intervene or to contest the enforcement actions of the Trustee.

Rules governing the enforcement of security interests are included in the Romanian Civil Code and the law for its application, as well as in the New Code of Civil Procedure. Due to the recent enactment of this legislation (in force in 2011 and 2013, respectively), there is some uncertainty as to how certain provisions on enforcement measures set out in each of them should be interpreted and applied in correlation with each other. These matters may create procedural difficulties in enforcing the Guarantee and the Collateral.

On 28 June 2014, Law no. 85/2014 regarding the insolvency prevention procedures and the insolvency procedure (the "New Insolvency Law") entered into force. As a result certain of the risk factors set out in the Annual Report have suffered changes and we updated the text of the related risk factors.

The proceeds of the Collateral sold in any enforcement sale may not be sufficient to repay the Notes.

Our obligations with respect to the Notes and the Guarantee are secured by a first-ranking security interest in the Collateral, as more fully described under "*Offering Memorandum—Description of the Notes—Security—The Collateral.*" The Collateral is shared with the lenders under the New Senior Facilities Agreement, the creditors with respect to any *pari passu* indebtedness (including the ING Facilities Agreement and the Citi Facilities Agreement), and certain hedge counterparties. The Indenture and the New Senior Facilities Agreement permits the Company and its subsidiaries to use the Collateral to secure certain additional indebtedness on a *pari passu* or subordinated basis in the future. Not all of our assets secure the Notes, and in the event of an enforcement of the Collateral, the proceeds from the sale of such assets may not be sufficient to satisfy our obligations under the Notes, the Guarantee and the other indebtedness secured on a *pari passu* basis by the Collateral. Claims of holders of the Notes and creditors of our other debt secured by the Collateral are subordinated to secured receivables incurred as part of the insolvency proceedings. To the extent that the claims of holders of the Notes and creditors of our other debt secured by the Collateral exceed the value of the Collateral or the value of the Collateral less the value of secured receivables incurred as part of the insolvency proceedings, as the case may be, those claims will constitute unsecured obligations.

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the Collateral securing such Guarantee or the value of the Collateral less the value of secured receivables incurred as part of the insolvency proceedings, as the case may be, in the event of competing enforcement claims or a sale of assets in bankruptcy under Romanian law, any such amounts will rank junior to certain specified categories of existing and future indebtedness of the Guarantor, including, without limitation, new unsecured financing accessed during the insolvency proceedings, wages claims, claims resulting from the continuation of the debtor's activity after the commencement of the insolvency proceedings and budgetary claims. Accordingly, the holders of the Notes' potential recovery in certain events of enforcement or in bankruptcy liquidation under Romanian law may be limited. See *"—The Notes and the Guarantee are secured only to the extent of the value of the assets that have been granted as Collateral*". In addition, under Romanian bankruptcy law, certain preferential claims would rank ahead of claims of the holders of the Notes under the Guarantee to the extent such claims exceed the value of the Collateral securing such Guarantee.

As a result, if the value of the Collateral is less than the value of the claims of holders of the Notes and creditors of our other debt secured by the Collateral, those claims may not be satisfied in full before the claims of certain unsecured creditors are paid.

The Notes and the Guarantee are secured only to the extent of the value of the Collateral.

Holders of the Notes have an unsecured claim for any portion of the claims under the Notes and the Guarantee that are not covered by the value of the Collateral or the value of the Collateral less the value of secured receivables incurred as part of the insolvency proceedings, as the case may be. In the event of competing claims or a sale of assets in bankruptcy, the unsecured portion of the claim is subject to the mandatory distribution order set out by Romanian law. The unsecured portion of the claims of the holders of the Notes ranks junior to, among others, new unsecured financing accessed during the insolvency proceedings, wages claims, claims resulting from the continuation of the debtor's activity after the commencement of the insolvency proceedings and budgetary claims. As a result, the ability of holders of the Notes to obtain recovery against the Guarantor on any portion of their claim that exceeds the value of the Collateral may be limited.

It may be difficult to realize the value of the Collateral.

No appraisal of the value of the Collateral securing the Notes and the Guarantee has been made in connection with the Offering. The fair market value of the Collateral securing the Notes and the Guarantee is subject to fluctuations based on many factors including, among others, whether or not our business is sold as a going concern, the ability to sell the assets (including the shares that constitute part of the Collateral) in an orderly sale, the availability of buyers and whether telecommunications, media and other licenses required to operate our business and approvals required to purchase our business would be available to a buyer of the assets. The book value of the assets securing the Notes should not be relied on as a measure of realizable value for such assets. In addition, the security interest of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the Security Agent may need to obtain the consent or approval of a third party or governmental authority to create, perfect or enforce a security interest in a contract or permit or transfer or sell certain assets. See "Annual Report 2013—*Enforcing pledges over certain Collateral may be prohibited or subject to*

special authorization" and "*—Risks relating to the Notes and the Guarantee— The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defenses.*" Thus, we cannot assure you that these assets will be saleable and, even if saleable, that there will not be substantial delays in the liquidation thereof or loss of value associated with the difficulty or inability to sell them as a going concern. Each of these factors could reduce the likelihood of an enforcement action as well as reduce the amount of any proceeds from an enforcement action.

In addition, the condition of the Collateral may deteriorate in the period leading up to bankruptcy or foreclosure. In the event that a bankruptcy case is commenced by or against us, if the value of the Collateral is less than or equal to the amount of principal and accrued and unpaid interest, if any, on the Notes and all other obligations secured by the Collateral, interest may accrue on the Notes until the date of realization of the Collateral, but may be recovered only to the extent of the value of the Collateral. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay our obligations under the Notes.

The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defenses.

The Guarantor guarantees the payment of the Notes on a senior secured basis. The Guarantee and the related security interests provide the holders of the Notes with a direct claim against the assets of the Guarantor. However, such Guarantee and security interests is limited to the maximum amount that can be guaranteed by, or secured by assets of, the Guarantor without rendering the Guarantee or security interest voidable or otherwise ineffective under applicable laws, and enforcement of the Guarantee and security interest against the Guarantor would be subject to certain defenses available to guarantors and security providers generally or, in some cases, to limitations designed to ensure full compliance with statutory requirements applicable to the Guarantor. These laws and defenses include those that relate to corporate benefit, corporate purpose and fraudulent conveyance or similar laws, regulations or defenses affecting the rights of creditors generally (such as those relating to bankruptcy, insolvency, liquidation ad-hoc mandate, preventive concordat, moratorium or reorganization). As a result, the Guarantor's liability under the Guarantee and the Collateral could be materially reduced or eliminated, depending upon the amounts of its other obligations and upon applicable laws. In particular, under Romanian law, a guarantee issued or security provided by a company that is not in the company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. In addition, Romanian law also contains provisions on fraudulent conveyance outside of a bankruptcy scenario. Thus, a creditor holding a receivable for a sum certain (*creanţă cert*ă) evidencing that it suffered damage may bring an action (*acţiune revocatorie*) against any fraudulent acts concluded by its debtor towards such creditor, thereby creating or enhancing the debtor's insolvency (*insolvabilitate*) status towards such creditor.

Under the laws of certain jurisdictions, the validity and enforceability of guarantees (including security interests) are conditional upon the validity and enforceability of the guaranteed obligations. Notwithstanding the fact that certain jurisdictions may recognize independent guarantees, to the extent the Parallel Debt claim and/or the obligations of the Company in relation to the Notes are invalidated, the obligations of the Guarantor under the Guarantee and the Collateral may also be invalidated.

In addition, Romanian law requires, as a condition to the validity of the security interests, that the secured amount be reasonably determined or determinable based on the security document. Any increase of the secured amount beyond that contemplated by the original signed security documents requires the amendment of the security documents in order to reflect such increase and the performance of related perfection formalities. There may be circumstances where a prohibition on the creation of a security interest (*i.e.*, a negative pledge) or a prohibition on the disposal of assets may be unenforceable under Romanian law. To the extent the security interest granted for the benefit of the Noteholders violates any of the foregoing laws, the holders of the Notes would cease to have a valid claim in respect of the Collateral or the Collateral may be unenforceable.

To the extent a Romanian court deems the description of future property included in the Collateral as insufficiently precise, the holders of the Notes and Security Agent may be unable to enforce against such assets or property. Furthermore, the enforcement of the security interests created over future movable property may encounter difficulties; in particular, the enforcement of the Collateral created by the Guarantor over all present and future movable assets is limited to those assets that comprise the mortgaged property at the date of enforcement, which could be significantly less in value than the mortgaged property on the date that such mortgage was first granted.

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the Collateral securing such Guarantee or the value of the Collateral securing such Guarantee less the value of secured receivables incurred as part of the insolvency proceedings, as the case may be, in the event of competing enforcement claims or a sale of assets in bankruptcy under Romanian law any such amounts ranks junior to certain specified categories of existing and future unsecured indebtedness of the Guarantor, including, without limitation,

new unsecured financing accessed during the insolvency proceedings, wages claims, claims resulting from the continuation of the debtor's activity after the commencement of the insolvency proceedings and budgetary claims.

Romanian insolvency laws may not be as favorable to prospective investors as other insolvency laws, and the Company's ability to recover any amounts due under the Proceeds Loan may be limited.

The Guarantor and several of its subsidiaries are organized under the laws of Romania.

On 28 June 2014, Law no. 85/2014 regarding the insolvency prevention procedures and the insolvency procedure (the "New Insolvency Law") entered into force, repealing former insolvency Law no. 85/2006. The new insolvency law has made improvements in a few key sectors of the former insolvency legislation without changing the entire structure or process of the insolvency proceedings. Due to the novelty of the new insolvency law there is still no substantial doctrine, case law, general interpretation or market practice in relation to its interpretation and application and this may create additional legal risk pending the development of a consistent court practice.

The insolvency laws of Romania may not be as favorable to holders of the Notes with respect to the Guarantee and the security granted by the Guarantor in relation to it as the laws of the United Kingdom, the United States or other jurisdictions with regard to creditors' rights, priority of creditors, voidable acts and hardening periods, the ability to obtain post-petition interest and the duration of the insolvency proceeding. In the event that we experience financial difficulty, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

In the event of insolvency of a Romanian company, persons (such as holders of the Notes) in whose favor such company has pledged or mortgaged its property or part thereof will be secured creditors of such company and will, on liquidation, receive the realization of proceeds of the assets subject to the security interest in priority to all other claims other than (i) taxes, stamp duties and other expenses, costs and considerations relating to the sale of the said assets, including expenses with the conservation and administration of the said assets including receivables of utility providers; (ii) the consideration payable to the judicial administrator, liquidator and other experts involved in the proceedings; and (iii) secured receivables incurred as part of the insolvency proceedings. Secured financings granted to the debtor during the observation period (the period of no more than 12 months starting with the opening of the insolvency proceedings and ending on the date of approval or rejection of the reorganization plan) for the purposes of carrying out current activities, with the approval of the creditors' assembly, will also enjoy such priority in the case of a distribution of proceeds in liquidation. In principle, such financing will be secured with previously uncharged assets. If these are not sufficient, security can extend over charged assets with the consent of the existing secured creditors. If such consent is not granted, a *pari passu* rank in reimbursement would be granted to such new financing and the proceeds of enforcement would be split on a pro-rata basis with respect to all secured assets and rights of the debtor. In the event of the Guarantor's insolvency, third parties providing financing during the observation period, which are not parties to the Intercreditor Agreement, may be entitled to benefit from the Collateral and share in the proceeds of the Collateral on a *pari passu* basis with the holders of the Notes thus diluting the ability of the holders of the Notes to recover amounts due to them.

Secured claims will continue to accrue interest after the insolvency proceedings commence until full payment thereof, within the limit of the market value of the Collateral. However, if the realization proceeds of the secured assets are insufficient to meet the debt, as far as the balance between the debts secured by such assets and the proceeds resulting from the sale of such secured assets is concerned, a secured creditor will be treated as an unsecured creditor. See "*—The Notes and the Guarantee are secured only to the extent of the value of the Collateral.*" Payment of unsecured creditors' claims would rank behind, *inter alia*, the costs and expenses incurred in the liquidation in accordance with the prescribed priority, as well as other preferential claims (including secured claims, claims resulting from financing accessed as part of the insolvency process, claims resulting from the continuation of the debtor's activity after the commencement of the proceedings, administration costs, tax claims, unsecured bank debt, unsecured bond debt and trade debt and some wage claims) admitted by the liquidator. The New Insolvency Law changed the order of distribution in case of bankruptcy so as to allow unsecured bond debt to be repaid *pari passu* with bank debt and trade debt, with priority over other unsecured creditors.

Moreover, in case of unsecured claims, applicable law prohibits the accrual and payment of any interest, penalties or any ancillary costs after the commencement of insolvency. In the event of bankruptcy of the Guarantor, the Proceeds Loan (being granted by a shareholder), will be an unsecured claim subordinated in right of payment to all other indebtedness (except for claims resulting from transactions without consideration and claims of a bad-faith third party acquirer returning the assets or the value of the assets following the annulment of a transfer in the context of the proceedings or, respectively, of the subsequent third party acquirer of the assets (in Romanian, *tertul subdobanditor*) who did not pay an adequate consideration for the asset or it was aware or had to be aware of the fact that the transfer may be subject to annulment) of the Guarantor towards creditors who (i) are not shareholders or (ii) are shareholders and hold less than 10% of, or voting rights in the share capital of the Guarantor. Therefore, in the event of insolvency of the Guarantor, the Company may not be able to recover any amounts under the

Proceeds Loan, and consequently the Company may not be able to make payments on the Notes.

The commencement of insolvency proceedings mandates the automatic stay of all judicial actions or measures of enforcement for the purpose of recovering the receivables against the debtor or its assets, from which derogation can be obtained by certain secured creditors only if approved by the insolvency judge (*judecatorul sindic*). As an exception, the New Insolvency Law allows a creditor holding a certain and liquid receivable of more than 60 days overdue, with a value exceeding RON 40,000 and arising after the opening of the proceedings, to request the opening of bankruptcy proceedings against the debtor. This may result in such creditors causing enforcement over assets encumbered by security interest in favor of the Notes, while the Security Agent is prevented from acting outside the insolvency proceedings. This, however, does not alter the distribution preference of the secured creditor (*i.e*., Security Agent on behalf of the holders of Notes). The New Insolvency Law regulates additional exceptions to the stay of all judicial actions or measures of enforcement, such as (i) the right to make claims aimed at ascertaining the existence and/or amount of receivables resulting after the commencement of the insolvency; payment of such claims may be requested during the observation and reorganisation periods and is verified by the judicial administrator; (ii) the right to receive amounts resulting from enforcement proceedings finalised prior to the commencement of the insolvency proceedings (such amounts are directly payable); or (iii) the right of creditors secured with a moveable mortgage over account monies or a cash collateral to request the release of the money available in the relevant accounts upon commencement of the insolvency, in order to satisfy their outstanding receivables; amounts existing in escrow accounts may be released only following verification of the escrow conditions by the syndic judge.

Another effect of insolvency is the prohibition on the debtor to independently perform the management of its business starting from the commencement date of the insolvency proceedings, which will be taken over by a judicial administrator/liquidator appointed by the court. However, if general insolvency proceedings are commenced, a debtor may continue to perform the management of its business, under the supervision of the judicial administrator in the event that the debtor itself has introduced the insolvency request and asked to be allowed to enter into judicial reorganization and to continue to manage its business, subject to the approval of the creditors' assembly and the insolvency judge. Certain measures regarding the estate of the debtor, as well as those intended to lead to its reorganisation, including operations which fall under the ordinary course of business, require also the prior authorisation by the judicial administrator on the basis of a report of the special administrator.

Romanian law may not recognize the validity of clauses which trigger the acceleration of the Notes in the event of insolvency of the Guarantor.

The New Insolvency Law provides that any contractual clauses which link the termination of an agreement, the loss of benefit of a term by the debtor or early acceleration of an obligation due to the opening of the procedure are null and void. In addition, any delay, limitations, prohibitions or similar measures contractually agreed to be triggered upon the opening of insolvency proceedings cannot be applied until the entry into bankruptcy. The law also provides that upon the opening of bankruptcy proceedings, all receivables become due and payable (*scadente* in Romanian) by operation of law (except for those resulting from qualified financial agreements, netting operations based on qualified financial agreements and netting arrangements). To the extent a Romanian court would find these provisions to pertain to Romanian public order under private international law, it may refuse to recognize the validity of these types of clauses under the Notes and their effects. This may result in the unenforceability of such clauses in the event of an insolvency of the Guarantor, which may limit or deny the ability of the holders of the Notes to exercise their rights under the Notes in such an event.

Hungarian insolvency law may not be as favorable to prospective investors as insolvency laws of other jurisdictions.

Enforcing the Collateral under Hungarian law in the course of insolvency proceeding requires preceding judicial ruling(s) and the participation of third parties (*i.e.*, a liquidator). This, combined with the possibility of further preferential claims may limit a prospective investor's ability to recover its claims from the Collateral.

The market value of the Notes could decrease if our creditworthiness worsens.

The market value of the Notes will suffer if the market perceives us to be less likely to fully perform all obligations under the Notes when they fall due. This could occur, for example, because of the materialization of any of the risks listed above. Even if our ability to fully perform all obligations under the Notes when they fall due has not actually decreased, market participants could nevertheless have a different perception. In addition, market participants' estimation of the creditworthiness of corporate debtors in general or debtors operating in the same business as us could adversely change, causing the market value of the Notes to fall. If any of these risks occurs, third parties

would only be willing to purchase Notes for a lower price than before the materialization of these risks. Under these circumstances, the market value of the Notes will decrease.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, the market, other risk factors discussed in this annual report and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if in its judgment circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

Many of the covenants in the Indenture will be suspended if the Notes are rated investment grade.

Many of the covenants contained in the Indenture will be suspended if the Notes are rated investment grade by both Standard & Poor's Ratings Services and Moody's Investors Services, provided at such time no default under the Indenture has occurred and is continuing. These include covenants that restrict, among other things, our ability to pay dividends, to incur debt and to enter into certain other transactions. There can be no assurance that the Notes will ever be rated investment grade, or that if they are rated investment grade, the Notes will maintain such ratings. Suspension of these covenants, however, would allow us to engage in certain transactions that would not be permitted while these covenants were in force.

Early redemption of the Notes may reduce an investor's expected yield.

The Notes may be redeemed at the option of the Company as more fully described in "Offering Memorandum–*Description of the Notes*." In the event that the Company exercises the option to redeem the Notes, you may suffer a lower than expected yield and may not be able to reinvest the funds on the same terms.

Transfer of the Notes are subject to certain restrictions.

The Company has not agreed to register and does not intend to register the Notes under the U.S. Securities Act or any U.S. state securities laws. You may not offer to sell the Notes, expect pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. The Company has not undertaken to register the Notes or to effect any exchange offer for the Notes in the future. Furthermore, the Company has not registered and does not intend to register the Notes under any other country's securities laws. It is your obligation to ensure that your subscription for or subsequent offers, sales or transfers of the Notes within the United States and other countries comply with any applicable securities law.

There can be no assurance that holders of the Notes will be able to sell them.

We have listed the Notes on the Official List of the Irish Stock Exchange but cannot guarantee the liquidity of any market that may develop for the Notes, your ability to sell the Notes or the price at which you may be able to sell the Notes. Liquidity and future trading prices of the Notes depend on many factors, including, among other things, prevailing interest rates, results of operations, the market for similar securities and general economic conditions. The Initial Purchasers have informed us that they intend to make a market in the Notes after completing the Offering. They are not, however, obligated to do so. Any market-making that is commenced may be halted at any time. In addition, changes in the overall market for high yield securities and changes in our financial performance in the markets in which we operate may adversely affect the liquidity of any trading market in the Notes that does develop and any market price quoted for the Notes. As a result, we cannot ensure that an active trading market will actually develop for the Notes.

Historically, markets for non-investment grade debt such as the Notes have been subject to disruptions that have caused substantial volatility in the prices of such debt. Any market for the Notes may be subject to similar disruptions. Any such disruptions may affect the liquidity and trading of the Notes independent of our financial

performance and prospects and may have an adverse effect on the holders of the Notes.

The Notes may not remain listed on the Irish Stock Exchange.

Although the Company, in the Indenture, agrees to use its reasonable efforts to maintain the listing on the Official List on the Global Exchange Market of the Irish Stock Exchange as long as the Notes are outstanding, the Company cannot assure you that the Notes will remain listed. If the Company cannot maintain the listing on the Official List on the Global Exchange Market of the Irish Stock Exchange or it becomes unduly burdensome to maintain such listing, the Company may cease to maintain such listing on the Official List on the Global Exchange Market of the Irish Stock Exchange, provided that it will use reasonable best efforts to obtain and maintain the listing of the Notes on another recognized listing exchange for high yield issuers, although there can be no assurance that the Company will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List on the Global Exchange Market of the Irish Stock Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, the delisting of the Notes from the Official List on the Global Exchange Market of the Irish Stock Exchange or another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell Notes in the secondary market.

Prospective investors may face foreign exchange risks by investing in the Notes.

The Notes are denominated and payable in euros. If prospective investors measure their investment returns by reference to a currency other than the euro, an investment in the Notes entails foreign exchange related risks due to, among other factors, possible significant changes in the value of the euro, relative to the currency by reference to which such prospective investors measure their returns because of economic, political or other factors over which we have no control. Depreciation of the euro against the currency by reference to which prospective investors measure a prospective investor's investment returns could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return of the Notes is translated into the currency by reference to which such investors measure their investment returns. There may be tax consequences for prospective investors as a result of any foreign exchange gains or losses for any investment in the Notes.

The interests of our shareholders may not always coincide with those of the holders of the Notes.

Most of our share capital is privately held by Zoltan Teszari, Wayne Grant Quasha, Sfetozar Bugarski and Nicusor-Dorel Schelean. As a result, certain of these shareholders have and will continue to have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as the ability to elect and change our management board and to approve or prevent any other changes to our operations. There may be circumstances in which our shareholders may have different objectives from the holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. Our shareholders could also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, although such transactions might involve risks to you as a holder of the Notes. In addition, we might not be aware of all related party transactions, which may involve risks of conflicts of interest that result in concluding transactions on less favorable terms than could be obtained in arm's length transactions.

Even if our current shareholders make divestitures such that they control less than a majority of our equity, they may still be able to effectively control or strongly influence our decisions. Such divestitures may not trigger a change of control under the Indenture.

Holders of the Notes may be subject to the EU Savings Directive.

Under Council Directive 2003/48/EC (as amended by Council Directive 2006/98/EC) on the taxation of savings income (the "**EU Savings Directive**"), each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State.

A proposal for amendments to the EU Savings Directive has been published, including a number of suggested changes that, if implemented, would broaden the scope of the rules described above.

Holders of the Notes who are individuals should note that, should any payment in respect of the Notes be subject to withholding or deduction imposed and required to be made pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive, no

Additional Amounts (as defined in "Offering Memorandum—*Description of the Notes—Taxation—Additional Amounts*") would be payable by the Company or any other person with respect to any Note as a result of the imposition of such withholding or deduction. The Company is required to maintain a Paying Agent having a specified office in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the merits and risks of investing in the Notes;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect their investment and their ability to bear the applicable risks.

Potential investors should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. The investment activities of investors are subject to applicable investment laws and regulations and/or review or regulation by certain authorities and each potential investor should consult its legal advisers or the appropriate regulators.

3. BUSINESS

OVERVIEW

Introduction

We are a leading provider of pay TV and telecommunications services in Romania and Hungary. In addition, we provide mobile services as an MVNO to the large Romanian communities living in Spain and Italy. Our service offerings include cable TV, fixed internet and data, fixed-line telephony, mobile telephony, mobile internet and data and DTH satellite television services. We offer our own TV channels and pay TV services, which carry premium sports content and movies, as well as channels produced by third parties to our customers in Romania, Hungary, and the Czech Republic (disposed of in April 2015) through our cable TV and DTH satellite television platforms. At December 31, 2014, we had a total of approximately 11.46 million RGUs, of which approximately 3.01 million were cable TV RGUs, approximately 2.18 million were fixed internet and data RGUs, approximately 1.77 million were fixed-line telephony RGUs, approximately 1.87 million were mobile telephony RGUs, approximately 1.43 million were mobile internet and data RGUs and approximately 1.19 million were DTH RGUs.

Since 2002, we have grown mainly organically from 0.66 million RGUs at December 31, 2002 to approximately 11.46 million RGUs at December 31, 2014. During this period we have grown from being a cable TV provider to a provider of multiple-play services, including cable TV, fixed internet and data, fixed-line telephony, mobile telephony, mobile internet and data services and DTH television services. We have generated and continue to generate consistently strong revenue streams. We generated €622.8 million of revenue in the year ended December 31, 2013 and €661.6 million of revenue in the year ended December 31, 2014. Our EBITDA margin has decreased, amounting to 41.9% for the year ended December 31, 2013 and 34.9% for the year ended December 31, 2014.

As at December 31, 2014 we had operations in five countries: Romania—our home market, Hungary—our second core market, Spain, the Czech Republic (disposed of in April 2015) and Italy. We offer six principal types of services, which we divide between our network-based services (in which we also include mobile telephony and mobile internet and data) and DTH television:

- Our ***cable TV*** is our original line of business and our most stable source of revenues. Our market position is 1st in Romania and 3rd in Hungary, based on Company estimations. At December 31, 2014, we had approximately 2.6 million Romanian RGUs and approximately 411,000 Hungarian RGUs for cable TV services. Cable TV services accounted for 28.7% of our revenue in the year ended December 31, 2014.

- Our ***fixed internet and data*** services are primarily offered through our FTTB/FTTH networks using GPON or comparable technology in Romania and Hungary. At December 31, 2014, we had approximately 1.83 million fixed internet and data RGUs in Romania and approximately 347,000 RGUs in Hungary. Fixed internet and data services accounted for 26.9% of our revenue in the year ended December 31, 2014.

- We ***offer fixed-line telephony*** services through our networks in Romania and Hungary. At December 31, 2014, we had approximately 1.47 million Romanian fixed-line telephony RGUs and approximately 301,000 Hungarian fixed-line telephony RGUs. Fixed-line telephony services accounted for 5.8% of our revenue in the year ended December 31, 2014.

- ***We provide mobile telephony services*** using our 3G network in Romania, and as an MVNO targeted at the Romanian communities in Spain and Italy. We began offering mobile telephony services in Romania in October 2007, and as of December 31, 2014, our network coverage extended to approximately 83% of the population. In 2012, we won the tender for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum in Romania valid for a period of 15 years commencing in April 2014. This new license allows us to increase our existing coverage at a lower cost and to further increase and vary our service offerings by establishing a 3G network over the 900 MHz spectrum. We currently offer mobile telephony services primarily to our existing customer base. As of April 2014 we have access to Vodafone's network in Romania allowing our users to benefit from national roaming services. This agreement was signed for a period of two years. Starting with June 2014we began to expand our focus. As at December 31, 2014, we had approximately 1.39 million mobile telephony RGUs in Romania, approximately 423,000 RGUs in Spain and approximately 63,000 RGUs in Italy. Mobile telephony services accounted for 11.0% of our revenue in the year ended December 31, 2014.

- We provide ***mobile internet and data services*** using our 3G network in Romania, as an MVNO in Spain and Italy (starting with the end of December 2013), and we resell such services to our customers in Hungary. We offer mobile data services targeted primarily at our existing customer base as an add-on to our other services. As at December 31, 2014, we had approximately 1.22 million mobile internet and data RGUs in Romania, approximately

187,000 RGUs in Spain and approximately 19,000 RGUs in Hungary (where we operate as a reseller, selling services which utilize the Telenor network under our "Digi" brand). Mobile data services accounted for 4.2% of our revenue in the year ended December 31, 2014.

• Our ***DTH satellite television*** services are offered in Romania, Hungary and the Czech Republic. According to Company, as at December 31, 2014, we were the second largest DTH provider in Romania and the market leader in Hungary. Our DTH services are transmitted via Intelsat and Telenor satellites. As at December 31, 2014, we had approximately 1.19 million DTH RGUs. DTH services accounted for 13.5% of our revenue in the year ended December 31, 2014.

To streamline our operations, we have sold a number of our subsidiaries in certain non-core markets. In March 2013, we sold our Croatian subsidiary. In May 2013, we sold 76% of our interest in our Serbian subsidiary. We also completed the sale of our Slovak subsidiary on August 31, 2013. In April 2015 we sold our Czech Republic subsidiary which had 134,000 RGUs as at December 31, 2014.

The following table shows our RGUs per service line and per country as at December 31, 2014:

	Romania	**Hungary**	**Spain** [3]	**Czech Republic**[4]	**Italy**[3]	**Total RGUs per service**
Cable TV	2,599	411				**3,010**
Fixed Internet and Data	1,834[1]	347				**2,181**
Fixed-line Telephony	1,470[1]	301				**1,771**
Mobile Telephony	1,388	-	309		63	**1,874**
Mobile Internet and Data	670	19[2]	187		3	**1,432**
DTH	725	330		134		**1,189**
Total RGUs per country	**9,239**	**1,408**	**610**	**134**	**66**	**11,457**

(1) Includes both residential and business lines.

(2) As a reseller.

(3) As an MVNO.

(4) Disposed of in April 2015

The following table shows the evolution of our RGUs by service line since 2010:

	2010	**2011**	**2012***	**2013**	**2014**
			in thousands		
Cable TV	2,205	2,471	2,763	2,855	3,010
Fixed internet and data	1,401	1,640	1,870	2,012	2,181
Fixed-line telephony	1,745	1,780	1,814	1,807	1,771
Mobile telephony	1,488	1,506	1,466	1,458	1,874
Mobile internet and data	302	474	642	794	1,432
DTH	2,120	1,977	1,780	1,319	1,189
Total	**9,261**	**9,848**	**10,335**	**10,245**	**11,457**

*Number of RGUs for the sold operations (Croatia, Serbia and Slovakia) was 335,000 as of December 31, 2012

Key Strengths

We consider our key strengths to include the following:

• ***Market leadership in our core markets.*** We are a leading provider of pay TV services in our core markets, Romania and Hungary. During recent years, we believe we gained market share in Cable TV and internet and data services), outperforming our major competitors in Romania and Hungary. We continue to focus on increasing market penetration in our existing markets by cross-selling multiple service offerings (cable TV, fixed and mobile internet and data, fixed-line and mobile telephony services) to our current and new subscribers. We believe that we have achieved substantial organic growth over the past ten years mainly due to a combination of factors including our high-quality technical infrastructure, competitive pricing and attractive content.

• ***Advanced infrastructure allowing for an efficient cost structure and low marginal customer acquisition costs.*** Our existing networks are some of the most modern and technologically advanced in our principal markets and allow us to add additional subscribers and offer high-quality and competitively priced services, thus providing the potential for increasing our revenues and cash flow with relatively low additions to our cost base. Approximately 90% of our Romanian and Hungarian FTTB/FTTH networks have been upgraded to GPON or comparable technology, with transmission rates of up to 1 Gbps for internet and data services. The current technological state of our Romanian and Hungarian networks allows us to offer a wide range of high-quality

services to our customers while maintaining low infrastructure operating expenses. In both Romania and Hungary we provide the fastest internet service available to residential users, 1 Gbps. In Romania this service was launched in October 2013 and in Hungary in August 2014. In Romania, as of December 31, 2014, our 3G mobile telephony and mobile internet and data services were comprised of more than 1,600 base stations and covered approximately 83% of the Romanian population and over 5,000 kilometers of coverage along main roads.

• ***Integrated strategy for multiple service offerings.*** The technical capabilities and wide coverage of our networks and the offering of multiple services, including mobile services, allow us to provide our customers with a wide range of services at attractive prices. Our ability to offer multiple services is a central element of our strategy and allows us to attract new customers who wish to benefit from our varied offerings, to expand the uptake of our service offerings within our existing customer base and increase customer loyalty by offering multiple services at value-for-money prices.

• ***Premium content for more attractive television services.*** We have developed our own TV channels which carry premium content to our customers in Romania and Hungary. Our premium sports channels own exclusive rights for Romania and Hungary over certain major sports competitions, such as the the English Premier League (Hungary), Serie A and Ligue 1 (Romania and Hungary), Spanish La Liga (Romania), the ATP 1000 Master series & World Tour Finals, the WTA Premier, Wimbledon and Moto GP (Romania and Hungary) competitions. Furthermore, we are one of providers with co-exclusive rights for the Romanian Football League (Romania) and for the UEFA Champions League and the UEFA Europa League (Hungary) . Our pay TV movie channels carry content from leading studios including Disney, Paramount, Sony Pictures and Universal. As part of our basic packages, we also offer three premium documentary channels, several music channels and, in Romania, an independent news channel (declared as must carry at the beginning of February 2014). In October 2014 we launched Digi Play, a video on demand service as part of our OTT platform (Digi Online). We believe the quality of our content has increased the attractiveness of our offerings relative to our competitors.

• ***Diversified revenue streams.*** We have generated and continue to generate strong revenue streams, diversified across our geographic markets and service offerings. We generated €661.6 million of revenue in the year ended December 31, 2014. As divided by geographic market, for the year ended December 31, 2014, Romania accounted for 71.0% of our revenues, Hungary accounted for 18.0% of our revenues, Spain accounted for 8.2% of our revenues and Italy and the Czech Republic together accounted for 2.9% of our revenues. As divided by business line, for the year ended December 31, 2014, cable TV accounted for 28.7% of our revenues, fixed internet and data accounted for 26.9% of our revenues, fixed-line telephony accounted for 5.8% of our revenues, mobile telephony services accounted for 11.0% of our revenues, mobile internet and data services accounted for 4.2% of our revenues, DTH accounted for 13.5% of our revenues and other revenues accounted for 10.0%.

• ***Track record of strong operating performance.*** Our business generally produces positive cash flows from operations that have historically been relatively stable. Despite the recent condition of the economy, we have managed to achieve stable local currency revenues during 2013 and 2014, and have continued to grow our business by adding approximately 1,212,000 RGUs in 2014. These results have been realized during a period of significant investment in technological upgrades, new services (including developing our own exclusive content) and footprint expansion.

• ***Experienced management team.*** Our senior management team has been involved in the Romanian pay TV sector since pay TV was first offered in 1991. Our management has overseen our substantial organic growth over the past ten years as well as the acquisition and integration of numerous smaller cable networks and internet and data service providers across Romania and Hungary in the same period. We believe that the local knowledge and expertise of our senior management cannot be easily replicated. Certain key members of our senior management are also investors in our company and are thus highly motivated to ensure our continued success.

Strategy

Our mission is to provide our customers with high-quality pay TV and communications services at competitive prices. Specific components of our strategy include the following:

• ***Continue to grow our RGU base and top line organically, through product cross-selling, increasing the penetration of our services, and through making acquisitions on an opportunistic basis.*** Our primary goal is to achieve continued organic growth by increasing the penetration of our cable TV, fixed and mobile internet and data, fixed-line and mobile telephony services through multiple service offers, especially in Romania and Hungary. We have seen strong growth in RGUs over the last ten years, from 0.66 million as of December 31, 2002 to 11.46 million as of December 31, 2014. This was mainly due to the expansion of the footprint of our fiber optic networks and cross-selling of additional services to our existing customers. In addition, we have historically grown partly by acquiring cable companies and internet service providers. We intend to pursue acquisitions on an opportunistic basis, particularly in Romania and Hungary.

• ***Offer premium and exclusive content to increase the attractiveness of our product offerings.*** We intend to maintain and increase the attractiveness of our cable TV and DTH services by continuing to offer sports, film and other premium and exclusive content through our existing own channel lineup, which may be further developed or expanded in the future. Our large number of cable TV and DTH RGUs enables us to acquire new content at a lower cost per customer.

• ***Offer high-quality service while maintaining competitive prices.*** We intend to maintain our leadership in the pay television and telecommunications services market by continuing to offer high-quality services at competitive prices. Our high-quality service offering is made possible by our technologically advanced fiber optic networks. Our ability to offer high-quality services at competitive prices is supported by our relatively low cost base arising from the recent upgrade of our fiber optic networks and the significant scale of our operations.

• ***Focus on Romania and Hungary—core markets with room for further development.*** We intend to focus on Romania and Hungary, our core markets. We have disposed of our operations in Croatia, Serbia and Slovakia in 2013, and the Czech Republic in April 2015. Our technologically advanced fiber optic networks allow us to efficiently deliver multiple services in the areas they cover and we believe there is scope for increase in uptake of our services in these areas with relatively low additional investment. Our large and growing customer base creates significant economies of scale. For example, it allows us to make use of common infrastructure design and centralized “headend” facilities, as well as exploit centralized purchasing opportunities with respect to programming, equipment, TV broadcast rights and other assets and services. In addition, we see potential for growth of our mobile telephony and internet and data services as we believe the Romanian mobile market still offers opportunities for us to expand. We intend to continue to increase our mobile network coverage by using our newly acquired license for a frequency block of 5 MHz bandwidth in the 900 MHz spectrum.

HISTORY

Cable TV Services

Our cable TV business was started in 1992 by a group of Romanian individuals, including Mr. Zoltan Teszari, when they founded a company named TVS Holding Brasov and started to build cable networks and offer cable TV services in Timisoara and Brasov, two of Romania’s main cities.

In 1993, the company named Kappa was founded, with Mr. Zoltan Teszari, who owned a 50% interest, being one of the founders. Kappa built and operated one of the most important and modern cable TV networks in Bucharest at that time.

In 1996, the shareholders of Kappa decided to split the company’s network in Bucharest into two equal parts. Mr. Teszari desired a more dynamic development and the expansion of operations throughout the country, while the other shareholders wished to limit it to the city of Bucharest. After the split, Mr. Teszari contributed his half of the original Kappa network and all of his interests in the company into a merger process with the company Analog CATV, another important cable operator in Bucharest and, in doing so, founded our current company. In 1997, Analog CATV changed its name to Romania Cable Systems S.A.

Since 1996, we have invested heavily in the modernization of existing networks and the expansion of our coverage through the further roll-out of cable networks in undercovered areas, and we have also acquired numerous fixed internet and data networks in Romania and Hungary.

In 2005, the company TVS Holding Brasov, which financially and operationally supported our development throughout this period, and functioned as a member of the Group, merged with us.

Diversification and development

Simultaneously with the rapid development of our cable TV services business, we pursued an ambitious diversification strategy. In 1997, we set up an internet and data subsidiary, Romania Data Systems S.A. Our initial strategy was to target business users with professional internet and data services offered through our fiber-coaxial network. In 2001, we began rolling out residential internet services over our cable network, and, by 2002, we had grown to become the leading ISP in Romania in terms of sales. We started offering limited fixed- line telephony services to business and international customers in 2003, immediately following the liberalization of the Romanian fixed-line telephony market. In 2004, after completing an interconnection agreement with Telekom Romania, we launched mass-market fixed-line telephony services. We merged Romania Data Systems S.A. into Romania Cable Systems S.A. in 2005 and changed the surviving company’s name to RCS&RDS.

Following the upgrade of much of our cable network to FTTB in 2006, we re-branded our retail internet offering as the FiberLink service. We have completed the upgrade of approximately 90% of our FTTB/FTTH

networks in Romania and Hungary to GPON or comparable technology, allowing us to grow organically through increased multiple-play penetration among our customers and cross-selling additional services to our existing customers.

International Expansion

We have pursued an international expansion strategy in parallel with our expansion and diversification within Romania. We began our international expansion at the end of 1998 by commencing operations in Hungary through the acquisition of 15 small to medium networks in Budapest and three other cities in Hungary. Through these acquisitions, we offered services to subscribers in Hungary's four main cities, with a significant focus on the capital, Budapest. In addition, we established a smaller footprint in Slovakia, starting in 1999 with the acquisition of 10 small and medium operators. In December 2004, we launched DTH services in Romania under the brand name "DIGI" and, in 2006, started to provide this service to other central and eastern European countries that fall within the satellite footprint: Hungary, Slovakia, the Czech Republic, Serbia and Croatia. We also launched MVNO services in Spain (in 2008) and Italy (in 2010), targeting the large Romanian communities in those countries.

To streamline our operations, we have sold a number of our subsidiaries in non-core jurisdictions. In March 2013, we sold our Croatian subsidiary. In May 2013, we sold 76% of our interest in our Serbian subsidiary. We also completed the sale of our Slovak subsidiary on August 31, 2013. In April 2015 we sold our Czech Republic subsidiary which had 134,000 RGUs as at December 31, 2014.

Mobile Telephony and Data

Following a public tender process, we won, in January 2007, a license to offer 3G mobile telephony services in Romania. We commenced the provision of these services in October 2007 and, as of December 31, 2013, covered approximately 78% of the Romanian population. Mobile telephony and mobile internet and data services are offered in Romania along with the terrestrial network-based services. We also offer MVNO services in Spain and Italy.

In September 2012, following another public tender process, we won an additional license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum. The license will be valid for 15 years beginning in April 2014.

Following a public tender process, at the end of September 2014, we won one frequency block in the 1800 MHz spectrum in Hungary. The license fee (HUF 10 billion meaning approximately EUR 32.2 million) was paid at the beginning of October 2014.

Own TV Channels

Since July 2009, we have offered our own TV channels to our customers and persons that subscribe to certain other cable operators in Romania and Hungary (from whom we receive fees). Our first such channel was the premium content sports channel, DIGI Sport. Our own channel offerings now include sports channels (DIGI Sport 1, DIGI Sport 2 and DIGI Sport 3 (each in Romania) and DIGI Sport 1 and DIGI Sport 2 (each in Hungary)), a pay TV movie channel (DIGI Film), a news channel (DIGI 24) (declared as must carry at the beginning of February 2014 and offered solely in Romania), documentary channels (DIGI World, DIGI Life and DIGI Animal World). We also own an interest in U Televiziune Interactiva, Music Channel and Hora TV (Hora TV is offered solely in Romania). All of our own channels are broadcast in standard and high definition. Our premium sports channels own exclusive rights for Romania and Hungary over certain major sports competitions, such as the Romanian Football League (Romania), the English Premier League (Hungary), Spanish La Liga (Romania), the ATP 1000 Master series & World Tour Finals, the WTA Premier, Wimbledon and Moto GP (Romania and Hungary) competitions. Furthermore, we are one of providers with co-exclusive rights for Romania and Hungary over the UEFA Champions League and the UEFA Europa League, Serie A in Romania, Ligue 1 in Romania. We use this premium content to increase the attractiveness of our services.

AREAS OF OPERATIONS

We operate in Romania, Hungary, the Czech Republic, Spain and Italy. The scope of our services offered in each country varies from country to country.

The table below shows the services provided in each country where we operate:

	Cable TV	Fixed Internet and Data	Fixed-Line Telephony	Mobile Telephony	Mobile Internet and Data	DTH	TV Broadcasting (includes the DIGI channels)
Romania	✓	✓	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓(1)	✓	✓	✓
Spain				✓(2)	✓(2)		
Czech Republic(3)						✓	
Italy				✓(2)	✓(2)		

(1) As a reseller.

(2) As an MVNO.

(3) Disposed of in April 2015

Our core markets are Romania and Hungary.

We offer our entire service line in Romania and realized approximately 71.0% of our revenues from our Romanian operations in the year ended December 31, 2014. As of December 31, 2014, our fiber optic network reached approximately 4.57 million homes in Romania, and our 3G network covered approximately 83% of the Romanian population. At that date we had approximately 2.60 million RGUs in Romania for cable TV services, approximately 1.83 million RGUs for fixed internet and data services, approximately 1.47 million RGUs for fixed-line telephony services, approximately 1.39 million for mobile telephony services, approximately 1.22 million RGUs for mobile data services and approximately 725,000 DTH RGUs.

In Hungary, our second largest market where we realized approximately 18.0% of our revenues in the year ended December 31, 2014. As at December 31, 2014, our fiber optic network reached approximately 898,000 homes in Hungary. At that date we had approximately 411,000 RGUs in Hungary for cable TV services, approximately 347,000 RGUs for fixed internet and data services, approximately 301,000 RGUs for fixed-line telephony services, approximately 19,000 RGUs for mobile data services and approximately 330,000 DTH RGUs.

In the other countries where we operate, we offer a more limited range of services.

In Spain, we operate as an MVNO using the Telefónica Moviles Espana S.A ("TME") network, and focus on the country's large Romanian population. Approximately 8.2% of our revenues in the year ended December 31, 2014 were generated by our operations in Spain. As at December 31, 2014, we had approximately 423,000 mobile telephony RGUs and approximately 187,000 mobile internet and data RGUs in Spain.

In the Czech Republic, we offer DTH services. Approximately 2.1% of our revenues in the year ended December 31, 2014 were generated by our operations in the Czech Republic. As at December 31, 2014, we had approximately 134,000 DTH RGUs in the Czech Republic. This subsidiary was sold in April 2015.

In Italy, we operate as an MVNO using the H3G network, and focus on the country's large Romanian population. Approximately 0.8% of our revenues in the year ended December 31, 2014 were generated by our operations in Italy. As at December 31, 2014, we had approximately 63,000 mobile telephony RGUs in Italy.

OUR SERVICE OFFERINGS

We offer six principal types of services. To customers whose homes or businesses are covered by our fiber optic network, we offer cable TV, fixed internet and data and fixed-line telephony services, either individually or in combination. In Romania, we offer mobile telephony and mobile internet and data services primarily alongside our other services, but also on a standalone basis. In Hungary, we resell Digi branded mobile internet and data access on the Telenor Hungary network to our customers in Hungary. We also offer DTH services to customers located in all the markets where we operate, with the exception of Spain and Italy, where we offer only MVNO mobile telephony services.

The table below shows the number of RGUs per service and per country as at December 31, 2014:

	Romania	**Hungary**	**Spain** [(3)]	**Czech Republic** [(4)]	**Italy**[(3)]	**Total RGUs per service**
Cable TV	2,599	411				**3,010**
Fixed Internet and Data	1,834[(1)]	347				**2,181**
Fixed-line Telephony	1,470[(1)]	301				**1,771**
Mobile Telephony	1,388	-	309		63	**1,874**
Mobile Internet and Data	670	19[(2)]	187		3	**1,432**
DTH	725	330		134		**1,189**
Total RGUs per country	**9,239**	**1,408**	**610**	**134**	**66**	**11,457**

(1) Includes both residential and business lines.

(2) As a reseller.

(3) As an MVNO.

(4) Disposed of in April 2015

Multiple Offerings

A majority of our customers subscribe to two or more of our services. This is particularly true in relation to our network-based services, which use the same infrastructure in the delivery of all our services. Accordingly, we divide our customers between customers who utilize our network-based services ("network customers"), in which we include cable TV, internet, fixed telephony, mobile telephony and mobile internet and data, and customers who subscribe to our DTH service.

As the geographical coverage of our mobile network has increased, so has the number of customers who subscribe to multiple services. In Romania, the average number of services per network customer was 2.7 and the percentage of customers using more than one service was 75% as at December 31, 2014. In Hungary, the average number of services per network customer was 2.3 and the percentage of customers using more than one service was 78% as at December 31, 2014.

The table below shows the percentage of customers that subscribe to multiple services in Romania and Hungary as a percentage of our base subscribers (does not include DTH services) as at December 31, 2014:

	Romania	**Hungary**
Single-play	25%	22%
2 or more	75%	78%
3 or more	50%	49%
4 or more	30%	1%
5-play	14%	—

Our services are usually offered on a standalone basis, with just a few exceptions.

In Romania, we offer mobile internet and data services using USB dongles primarily as a package with our "Fiberlink 200", "Fiberlink 500" and "Fiberlink 1000" fixed internet subscriptions. Also, a certain mobile data traffic is included in our "Optim" and "Complet" mobile telephony subscriptions.

Our clients may receives a discount for one of our "Optim" mobile telephony subscriptions in Romania in case he has other fixed network services.

In Hungary if a client acquires all three fixed services (cable TV, internet and fixed telephony) there is a 15% discount to the standard packages' price in case of a 12 months' contract and there is a 30% discount to the standard packages' price in case of a 24 months' contract.

Although we focus on increasing the number of services each customer subscribes to and develop our infrastructure with this objective in mind, we also analyze our business on the basis of our six distinct service lines. We believe that customers who subscribe to multiple services are less likely to leave our services.

Cable TV Services

Our cable TV services consist of distributing local and international programming content to mostly urban residential subscribers through our cable TV networks. We offer cable TV services mainly in Romania, where we are the largest operator by number of subscribers at December 31, 2014, and Hungary, where we are the third

largest operator by number of subscribers in each case, according to the Company.

As at December 31, 2014, we had approximately 2.60 million cable TV RGUs in Romania and approximately 411,000 in Hungary and a combined number of homes passed in the two countries of approximately 5.5 million. The total number of cable TV RGUs increased by 5.4% from approximately 2.86 million at December 31, 2013 to approximately 3.01 million at December 31, 2014. Since 2009 we have also expanded our services into areas that were already covered by the cable TV networks of our competitors or were not covered by cable TV or internet and data networks. This has generated most of our growth in this period as our competitive prices, our multiple-service offerings, the quality of our services provided through technologically advanced networks and our ability to offer premium programming content have proved to be attractive to customers.

The infrastructure built for cable TV services forms the basis on which we provide fixed-line telephony and internet and data services to our customers. Our cable TV services generally generate stable revenue, have low maintenance and other operational costs due to our recent investment in the fiber network and provide a stable and growing base of customers. In 2014, cable TV services generated revenue of €190.1 million, representing 28.7% of total revenues. In 2013, the revenue generated by cable TV services was €184.2 million, representing 29.6% of our total revenues.

Cable TV product packages

Our packages of cable TV services vary from country to country.

In Romania, we offer two main packages – an analog package and a digital package. These packages each have two further versions: standard, which is addressed to all customers and includes more than 59 channels for the analog version and more than 89 channels for the digital version, and “Popular”, which is addressed mainly to certain rural customers, is lower in cost and includes more than 36 channels for the analog version and more than 68 channels for the digital version. At December 31, 2014, approximately 59% of our cable TV customers were subscribed to the analog package and approximately 41% of our cable TV customers were subscribed to the digital package. We believe that our standard packages are typically the most or among the most attractive in the market in terms of range of content offered for the price, allowing access to our own channels (other than Digi Film, our pay TV channel) for no additional fee. In combination with both the standard and “Popular” versions of the digital package, we offer premium movie channels such as Digi Film, HBO and Cinemax at competitive prices. This product structure is available in all of our cable TV markets in Romania, with certain local variations regarding the number and composition of channels included in each package.

In Hungary, we offer four packages of cable TV services. Firstly, due to local “must carry” regulations, we offer a limited package, including any channels we are required to carry under the “must carry” regulations, with a minimum of 4 national channels, plus local channels of public interest. Secondly, we offer a “Mini” package consisting of between 10 to 18 channels, for a monthly fee. Thirdly, we offer two variations of basic package “DIGI+” and “DIGI”, which are made up of over 50 local and international channels, for a monthly fee. Typically, our “DIGI” packages are among the most attractive in the market in terms of range of content offered for the price, allowing access to our own sports channels for no additional fee. In combination with either the “DIGI” or “DIGI +” package, we offer premium movie channels such as Digi Film, HBO and Cinemax at competitive prices. This product structure is available in all of our cable TV markets in Hungary, with certain local variations regarding the number and composition of channels included in each package.

Cable TV pricing

We have adopted a strategy of offering high-quality services at competitive prices. The prices for our packages are generally in line with, or lower than, the prices offered by our competitors for comparable content. We also generally structure our prices to encourage subscription to our value-added services and pursue a multiple service strategy. We apply this approach throughout our service offerings because we believe this encourages our customers to subscribe to more of the services we offer.

Our prices for cable TV services are different in Romania and Hungary. This price difference is primarily a consequence of the differences between the relative disposable income per capita in these two countries, the costs related to the number and type of channels included in our packages and the local competitive environment. We believe that we are recognized as a “low-price high-quality service” cable TV provider in the markets in which we operate.

We bill our cable TV services in local currencies. The table below sets out the prices in local currencies of our cable TV packages in the relevant markets as at December 31, 2014 (inclusive of VAT):

Romania	RON (VAT included)	Hungary	HUF (VAT included)
Analog	25	Mandatory Package	980(1)
Analog—Popular	20	Digi Mini	1,400
Digital	29	DIGI	2,800
Digital—Popular	25	DIGI +	3,100
Digi Film	3	Digi Film	300
HBO	8(3)	HBO	1,700
Cinemax	7	Cinemax	—(2)
Max Pack	10(3)	Max Pack	2,000

(1) Approximate amount. Prices may vary in certain cities due to different program offerings.
(2) Provided only as part of the Max Pack
(3) Starting with May 1, 2015 the price will be RON 14 / month for Max Pack and RON 13 / month for HBO. The price will include also access to HBO GO for no additional charge

Fixed Internet and Data

We first launched our fixed internet and data services in Romania in 1998. We focused mainly on business customers until 2001, at which time we began offering our fixed internet and data services to residential customers as well. We believe that residential customers continue to offer the best growth prospects for our business.

We provide fixed internet and data services principally through our fiber optic network in Romania and Hungary to both corporate and residential users in a variety of packages. We offer fixed internet and data access by subscription to all our network customers as part of our multiple service offerings in Romania and Hungary as well as on a standalone basis.

In the year ended December 31, 2013, we generated €167.5 million from fixed internet and data services (representing around 26.9% of our revenues), of which €138.0 million was generated in Romania. In the year ended December 31, 2014, we generated €178.1 million from fixed internet and data services (representing around 26.9% of our revenues), of which €147.7 million was generated in Romania. At December 31, 2014, we had approximately 1.83 million fixed internet and data RGUs in Romania (including business subscribers) and approximately 347,000 in Hungary. We see the fixed internet and data business as a premium service and a potential source of growth for our business.

Business subscribers represent an important part of our fixed internet and data business in Romania, as they generate a meaningful part of our revenue streams, although they are much fewer in number than residential subscribers. At December 31, 2014, we had approximately 89,000 business internet and data RGUs.

Fixed internet and data product packages

We offer several residential fixed internet and data services packages at competitive prices mainly in Romania and Hungary. The differentiation between our packages is based on access speed, which varies from entry level to advanced level. Our fixed internet and data package offering is designed to increase the value we provide to our customers while at the same time increasing our ARPU by leveraging our existing infrastructure.

• "Fiberlink 100", "Fiberlink 200", "Fiberlink 500" and "Fiberlink 1000" are our residential fixed internet and data offerings in Romania. "Fiberlink 100" allows unlimited traffic at up to 100 Mbps within and outside our network, while "Fiberlink 200" allows unlimited traffic at a speed of up to 200 Mbps within and outside our network. In 2014 we discountinued "Fiberlink 1" which allowed unlimited traffic at up to 50 Mbps within and outside our network and all our subscribers were migrated to "Fiberlink 100" without any additional fee. We are now in the process of migrating "Fiberlink 2" (which allowed unlimited traffic at up to 100 Mbps within and outside our network) subscribers to "Fiberlink 200" also without additional fees paid by the client. In October 2013, we launched two new offerings, "Fiberlink 500" and "Fiberlink 1000", which allow for unlimited traffic at speeds within and outside our network of 500 Mbps and 1 Gbps, respectively, the fastest internet service currently offered to residential users in Romania. We also offer a "Fiberlink Popular" package to certain of our rural customers. It allows unlimited traffic at up to 30 Mbps within and outside of our network.

• "DIGINet 50", "DIGINet 100" and "DIGINet 200" are our main residential fixed internet and data offerings in Hungary. "DIGINet 50" allows unlimited traffic at up to 50 Mbps within and outside our network, "DIGINet 100" allows unlimited traffic at a speed of up to 100 Mbps within and outside our network, while "DIGINet 200" allows unlimited traffic at up to 200 Mbps within and outside of our network. In addition, in July

2014 we launched "DIGINet 500" and "DIGINet 1000" (the fastest internet service currently offered to residential users in Hungary) which allow unlimited traffic at a speed of up to 500 Mbps respectively 1 Gbps within and outside our network.

In addition to these standard packages, we offer the following fixed premium internet and data communication services for our business users in Romania:

- fixed internet access and/or data transmission based on fiber optic network equipped with GPON, SDH or DWDM, with any bandwidth ranging from below 1 Mbps to 1 Gbps or even several Gbps; we also provide, upon request, connections with redundancy based also on our fiber network, our fixed wireless network or our 3G network;
- leased lines, national or international, protected or unprotected, SDH or DWDM, with any capacity from E1, E3, STM1 up to 10 Gbps; and
- other value added services such as managed services, collocation, DNS and web hosting.

Fixed internet pricing

In both Romania and Hungary, we offer an array of attractively priced fixed internet service offerings. We constantly aim to adapt our service offerings to changes in subscribers' preferences, bandwidth requirements and pricing trends.

We bill our fixed internet and data services in local currencies. The table below sets out the prices in local currencies of our fixed internet and data services in the relevant markets as at December 31, 2014 (inclusive of VAT):

Romania			**Hungary**		
	Download Speed	**Price (VAT included) RON**		**Download Speed**	**Price (VAT included) HUF**
FiberLink Popular	30 Mbps	15	DIGINet 50	50 Mbps	2,700
FiberLink 100	100 Mbps	29	DIGINet 100	100 Mbps	3,700
FiberLink 200	200 Mbps	39(1)	DIGINet 200	200 Mbps	4,700
FiberLink 500	500 Mbps	45	DIGINet 500	500 Mbps	5,700
Fiber Link 1000	1 Gbps	55(2)	DIGINet 1000	1 Gbps	6,700

(1) included in the price is also a free mobile data dongle
(2) 45 RON (VAT included) if the client subscribes to a Cable TV Digital package and fixed or mobile telephony

We generally offer high speed and an affordable means of fixed internet access for residential users in Romania and Hungary. The table below sets out our subscription prices and speed of access in these countries, as at December 31, 2014 (prices are in EUR, at the exchange rate published by the relevant central bank on its website, at December 31, 2014, VAT inclusive).

Broadband Internet	**Romania RCS&RDS**	**Hungary DIGI HU**
Minimum Package	Fiberlink Popular	DIGINet 50
Price (VAT included)	3.35	8.57
Download speed	Up to 30 Mbps (not guaranteed)	Up to 50 Mbps (not guaranteed)
Small Package	Fiber link 100	DIGINet 100
Price (VAT included)	6.47	11.75
Download speed	Up to 100 Mbps (not guaranteed)	Up to 100 Mbps (not guaranteed)
Medium Package	Fiber Link 200	DIGINet 200
Price (VAT included)	8.70	14.93
Download speed	Up to 200 Mbps (not guaranteed)	Up to 200 Mbps (not guaranteed)
Large Package	Fiber link 500	DIGINet 500
Price (VAT included)	10.04	18.10
Download speed	Up to 500 Mbps (not guaranteed)	Up to 500 Mbps (not guaranteed)
Extra Large Package	Fiber link 1000	DIGINet 1000
Price (VAT included)	12.27	21.28
Download speed	Up to 1 Gbps (not guaranteed)	Up to 1 Gbps (not guaranteed)

Fixed-Line Telephony

We started offering business fixed-line telephony services in Romania in 2003 and expanded to residential fixed-line telephony services in June 2004. We began to see the number of our fixed-line telephony subscribers gain momentum in 2005 simultaneous with the start of the upgrade of our cable networks to the FTTB/FTTH standard (which has recently been upgraded to GPON technology). As at December 31, 2014, according to our estimates, we were the second largest fixed-line telephony operator after Telekom Romania, which is the largest fixed-line telephony operator in Romania (based on the figures published by the OTE group as at December 31, 2014). We also started to offer fixed-line telephony services in Hungary in 2007 and we have around 301,000 RGUs as at December 31, 2014.

In the year ended December 31, 2013, we generated €45.9 million from fixed telephony services (representing around 7.4% of our revenues), of which €35.9 million was generated in Romania. In the year ended December 31, 2014, we generated €38.1 million from fixed telephony services (representing around 5.8% of our revenues), of which €29.8 million was generated in Romania. At December 31, 2014, we had approximately 1.47 million fixed line telephony RGUs in Romania (including business subscribers) and approximately 301,000 in Hungary.

Fixed-line telephony product packages

We offer fixed-line telephony services in Romania and Hungary in the form of service plans structured to meet the needs of our subscribers. We primarily offer our fixed-line telephony services alongside our cable TV, internet and data services and mobile telephony in order to encourage customers to subscribe to multiple services and increase customer retention. We also believe our fixed-line telephony services offering helps make our other business lines as well as our mobile telephony and mobile internet and data services more attractive. We offer two main types of packages in Romania:

- ***Digi Tel Family.*** Digi Tel Family is our basic package with a monthly fee of €1 plus VAT that targets customers who prefer a lower monthly fee. It includes unlimited free minutes for calls with our other fixed-line and 3G mobile telephony subscribers and 100 minutes for calls to other national fixed networks.
- ***Digi Tel National.*** Digi Tel National is a package with a monthly fee of €2 plus VAT. It includes a fixed-line telephony subscription and unlimited free minutes for calls with our other fixed-line and 3G mobile telephony subscribers as well as other national fixed-line telephony networks and 100 minutes for calls to other national mobile operators.

In addition to these standard packages, we offer a wide range of services and tariff plans for our business users in Romania, including optional, value-added services to all our fixed-line telephony customers, over POTS lines but also over PRI E1s, which includes extended numbering, preferred numbers, short numbering, CLIP/ CLIR, call barring, call forward and call on hold services. We had approximately 124,000 fixed-line telephony business RGUs in Romania as of December 31, 2014.

In Hungary, we offered throughout 2014 two main types of packages:

- ***Digifon.*** Digifon is a package that is available to customers that also subscribe to cable TV and fixed internet and data. It is available for a monthly fee of 200 HUF (VAT included) and includes unlimited free minutes for calls within our own network. We charge 6.25 HUF per minute (VAT included) for calls with subscribers of other fixed- line telephony networks and 29.5 HUF per minute (VAT included) for domestic calls with subscribers of other mobile telephony networks.
- ***Digifon 900.*** Digifon 900 is a package that is available to all our customers in Hungary. It is available for a monthly fee of 900 HUF (VAT included) and includes unlimited free minutes for calls within our own network. We charge 6.25 HUF per minute (VAT included) for calls with subscribers of other fixed-line telephony networks and 29.5 HUF (VAT included) per minute for domestic calls with subscribers of other mobile telephony networks.

Starting with April 1, 2015, as a result of decrease in the national mobile interconnection rates from 7.06 HUF/min to 1.71 HUF/min, we launched the next new packages, which replaced the ones described above:

- ***Digitel 200.*** Digitel 200 is a package that is available to customers that also subscribe to cable TV and fixed internet and data. It is available for a monthly fee of 200 HUF (VAT included) and includes unlimited free minutes for calls within our own network in Hungary and our fixed network in Romania. We charge 6.25 HUF per minute (VAT included) for calls with subscribers of other fixed- line telephony networks and 15 HUF per minute (VAT included) for domestic calls with subscribers of other mobile telephony networks.
- ***Digitel 500.*** Digitel 500 is a package that is available to customers that also subscribe to cable TV and fixed internet and data. It is available for a monthly fee of 500 HUF (VAT included) and we charge 2 HUF per

minute (VAT included) for calls within our network and to our fixed network in Romania, 3 HUF per minute (VAT included) for calls with subscribers of other fixed- line telephony networks and 6 HUF per minute (VAT included) for domestic calls with subscribers of other mobile telephony networks.

- ***Digitel 900.*** Digitel 900 is a package that is available to all our customers in Hungary. It is available for a monthly fee of 900 HUF (VAT included) and includes unlimited free minutes for calls within our own network in Hungary and our fixed network in Romania. We charge 6.25 HUF per minute (VAT included) for calls with subscribers of other fixed-line telephony networks and 15 HUF per minute (VAT included) for domestic calls with subscribers of other mobile telephony networks.

Fixed-line telephony pricing

In Romania, in addition to flat monthly subscription fees, we charge our fixed-line telephony service subscribers a per-minute fee for certain calls outside of our fixed-line and mobile telephony networks. Digi Tel Family subscribers are not charged a fee for in network calls and for the first 100 minutes in other fixed networks, are charged a fee of €0.0062 per minute for calls to network fixed-line networks and a fee of €0.0248 per minute for calls to other national mobile networks. Digi Tel National subscribers are not charged fees for in network calls or for calls to other network fixed-line networks and for the first 100 minutes to other national mobile networks, and they are charged a fee of €0.0124 per minute for calls to other national mobile networks. The fees for international calls vary on a country-by-country basis, starting with €0.0124 per minute for the main fixed networks in EU, SUA, Canada and China.

We set prices for our fixed-line telephony services in euros and bill our customers in local currencies converted at the exchange rate prevailing on the date of the invoice. The table below sets out the flat fees for our residential fixed-line telephony services per each type of package, based on call destination (inclusive of VAT):

Destination of calls (in eurocents, VAT included)	**Digi Tel Family**	**Digi Tel National**
Own network (fixed-line and mobile)	0	0
Other network (fixed-line)	0.62	0
Mobile Networks: Orange, Vodafone, Telekom Romania	2.48	1.24
Fixed-line networks: UE	1.24	1.24
Fixed-line networks: S.U.A., Canada and China	1.24	1.24
EU Mobile Networks:	2.48 - 4.96	2.48 - 4.96
Mobile Network: Digi Mobil Italy	2.48	2.48
Mobile Network: Digi Mobil Spain	2.48	2.48
Mobile Network: S.U.A., Canada and China	1.24	1.24

Note: Tariffs per minute in eurocents, VAT included.

For our business fixed-line telephony services we offer several packages, with prices from €5 to €500 (VAT excluded). All business subscriptions include unlimited calls in our fixed and mobile networks and in Telekom Romania's fixed network, and between 40 and 4,990 free minutes in other national mobile networks.

Mobile Telephony Services

As of December 31, 2014, we were one of four licensed providers of mobile services in Romania.

In January 2007, following a public tender organized by the Romanian General Inspectorate for Communications and Information Technology, we were one of two operators awarded a 2100 MHz mobile communications license in Romania, for the purpose of developing a 3G network. The 2100 MHz license has a 15-year term, beginning on January 5, 2007. The licensing fee of US$35 million has been paid in full and it can be extended with 6 months prior notice for an additional 10 years (without additional license fees). The 2100 MHz license can also be used to establish other services like 4G-LTE.

We launched our 3G mobile telephony services in October 2007 under the brand name Digi Mobil and gradually expanded the area covered by our services in order to reach more potential subscribers and meet our 2100 MHz license obligations. We fulfilled both of our 2100 MHz license obligations for 2008 and 2009, which were subject to review by ANCOM. As of December 31, 2014, we had in place more than 1,600 base stations, covering approximately 83% of the Romanian population and more than 5,500 kilometers of coverage alongside the main roads.

In September 2012, following a public tender organized by ANCOM, we were awarded one frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum valid for a period of 15 years commencing in April

2014. Under the new license, we have to expand our 900 MHz coverage to include a number of small cities by April 5, 2016, increase voice coverage using 900 MHz technology to 98% (from a current coverage of approximately 78%) of the Romanian population by April 5, 2019, ensure data coverage through the 900 MHz spectrum of 60% of the Romanian population by April 5, 2021 and allow access to MVNOs. The new 900 MHz license allows us to increase our existing coverage at low cost and to further increase and vary our service offerings by establishing a 3G network over the 900 MHz spectrum.

On March 27, 2014 we concluded a frequency SWAP agreement with Vodafone through which in exchange of allowing them to use our 5MHz frequency in the 900 MHz spectrum we receive access in one of their 5 MHz frequency in the 900 MHz spectrum and also receive national roaming access for voice and data services for all our customers on Vodafone network. The contract became active starting with April 7, 2014 and is signed for 2 years.

Starting with June 2014 we have launched several campaigns aiming to increase our mobile customer base in Romania. The campaigns promote an attractive offer targeted at new and existing clients including a variety of mobile phones for purchase on spot or in installments. The campaigns are supported by nationwide media advertising (TV, radio, outdoor, online).

We intend to continue to increase the coverage of our mobile telephony service and achieve growth in subscriber numbers and revenue. We currently ensure coverage to over 99% of the population through the national roaming agreement with Vodafone and also over 83% population coverage (which includes the vast majority of urban areas in Romania and, consequently, the areas where our network customers are located) through our own mobile network, allowing us to leverage our customer base through multiple service offerings. We also offer attractively priced standalone mobile telephony subscriptions and intend to use this service to develop new customer relationships.

At the end of September 2014, we won one frequency block in the 1800 MHz spectrum in Hungary. The license fee (HUF 10 billion meaning approximately EUR 32.2 million) was paid at the beginning of October 2014. As at the date of this report, we are still in the technical and operating planning stage.

Mobile telephony products and services

We offer mobile telephony services structured to meet the needs of our subscribers. The service plans offer flat rates allowing generous/unlimited number of minutes across the main networks. Starting with 2014 we offered two main types of packages, each one with several options:

- ***Digi Mobil Optim*** Digi Mobil Optim is a package that targets customers who wish to have free minutes outside of the network and free data traffic included in the monthly fee. The monthly fee range is between €2 to €10 (VAT included) depending on the voice and data traffic included. The subscription includes unlimited free minutes for calls with our other fixed-line and 3G mobile telephony subscribers. Also, depending on the fee, there are included minimum 200 minutes to other national and selected international networks. Also, we offer to our clients the possibility to acquire a range of mobile phones in up to 12 installments.

- ***Digi Mobil Complet*** Digi Mobil Complet is a package that targets customers who wish to purchase a handset at a discounted price together with a mobile subscription. The monthly fee is €2 to €3 (VAT included) depending on the voice and data traffic included. The package includes a handset for a discounted price. The subscription includes unlimited free minutes for calls with our other fixed-line and 3G mobile telephony subscribers and minimum 200 minutes to other national and selected international networks.

The per-minute tariffs we charge our 3G telephony service subscribers are the same as those we charge for fixed-line telephony. For SMS, we charge competitive tariffs. For mobile data, we charge competitive rates for unlimited usage.

At December 31, 2014, we had approximately 1.4 million mobile telephony RGUs an increase of 27.5% compared with December 31, 2013 when we had 1.1 million mobile telephony RGUs.

MVNO operations in Spain and Italy

In December 2008, we started offering voice mobile services in Spain under the brand name Digi Mobil using the TME network. The service is mainly targeted at the large Romanian community in Spain, focuses on the niche market of calls between Spain and Romania and can be contracted either on a prepaid or postpaid basis.

In November 2011, we started offering mobile data services under the brand name DIGI Naveg@, for the internet on smartphones, and DIGI net, for standalone mobile internet and data services.

We offer four main types of packages:

➢ ***Prepaid Voice & SMS tariff plans.***

• ***Classic*** and ***Renove*** are our standard prepaid tariff plans that target the Romanian community resident in Spain. Our customers have access to attractive rates for calls to our networks in Romania starting at 2 eurocents per minute. The tariff plans do not include free minutes and we charge a setup fee per call, an additional price per minute and a charge for SMS messages.

• ***DIGI 200.*** it is an extraoption on top of the prepaid tariff plan for which we charge a prepaid monthly fee of €5 (VAT included) which entitles the customer to 200 minutes worth of calls to Spain, Romania and Italy Digi Mobil numbers and fixed-line numbers, plus 50 SMS messages to Spain, Romania and Italy Digi Mobil numbers.

• **DIGI 400.** it is an extraoption on top of the prepaid tariff plan for which we charge a prepaid monthly fee of €10 (VAT included) which entitles the customer to 400 minutes worth of calls to Spain, Romania, Italy (all fixed and mobile destinations, including DIGI), and several other international destinations, plus 100 SMS messages to Spain, Romania and Italy Digi Mobil numbers.

• **DIGI 800.** it is an extraoption on top of the prepaid tariff plan for which we charge a prepaid monthly fee of €15 (VAT included) which entitles the customer to 800 minutes worth of calls to Spain, Romania, Italy (all fixed and mobile destinations, excluding DIGI), and several other international destinations, plus 2,000 minutes worth of calls to Spain, Romania and Italy (all DIGI fixed and mobile destinations), plus 100 SMS messages to Spain, Romania and Italy Digi Mobil numbers

➢ ***Postpaid Voice and SMS tariff plan.***

• ***Relax*** is our standard postpaid tariff plan that targets the Romanian community resident in Spain. The tariff plan does not include free minutes and we charge a monthly fee of €3 and a setup fee per call, an additional price per minute and a charge for SMS messages. Depending on the minimum length of the contract the customer can benefit from a subsidized 2G/3G handset.

• ***DIGI Max 20*** is a postpaid tariff plan that provides for a total monthly fee of €20 a monthly volume of 2,000 minutes worth of calls to Spain, Romania and Italy (all fixed and mobile destinations, including DIGI), and several other international destinations, 100 SMS messages to Spain, Romania and Italy Digi Mobil destinations and 500 MB worth of data consumption.

• ***DIGI Max 30*** is a postpaid tariff plan that provides for a total monthly fee of €30 a monthly volume of 2,000 minutes worth of calls to Spain, Romania and Italy (all fixed and mobile destinations, including DIGI), and several other international destinations, 100 SMS messages to Spain, Romania and Italy Digi Mobil destinations and 2 GB worth of data consumption.

➢ ***Mobile internet for smartphones tariff plans***. ***DIGI Naveg@*** is our standard prepaid and postpaid tariff plan that targets the mobile telephony customer base in Spain. We charge a monthly fee of €5 (VAT included) for 500 MB of traffic at maximum bandwidth, after which a 64kb bandwidth fair usage policy is applied. Customers may purchase the right to use an additional 200 MB of traffic at maximum bandwidth each month for €2 (VAT included).

➢ ***Standalone mobile internet services***. ***DIGI net*** is our standard prepaid and postpaid tariff plan that targets the mobile telephony customer base as an alternative to fixed broadband offers in Spain. We offer a prepaid option at a monthly fee of €10 (inclusive of VAT) for 1,000 MB of traffic at maximum bandwidth, after which a 64kb bandwidth fair usage policy is applied. Our postpaid package is charged at a monthly fee of €25 (inclusive of VAT) for 2,500 MB of traffic at maximum bandwidth, after which a 64kb bandwidth fair usage policy is applied. Customers may purchase the right to use an additional 200 MB of traffic at maximum bandwidth each month for €2 (inclusive of VAT).

In October 2010, we started offering an MVNO voice mobile service in Italy under the brand name Digi Mobil using the H3G network. The service is targeted at the large Romanian community in Italy and focuses on the niche market of calls between Italy and Romania. We started to offer mobile internet and data services in Italy at the end of December 2013. Growth of our MVNO service in Italy has been hampered by technical limitations, including the fact that the host network can only be used by 3G phones and has limited network coverage (particularly outside of urban areas), and the prices charged by the host operator. We are looking for ways to address the technical limitations of our service offerings in Italy and in March 2014 we signed a full MVNO agreement with Telecom Italia, the implementation of which we expect to finalize around June 2015. The contract is valid for 5 years starting with the moment when the services are fully available.

At December 31, 2014, we had approximately 423,000 mobile telephony RGUs and approximately 187,000 mobile internet and data RGUs in Spain generating revenues of €54.0 million for the year 2014 and approximately 63,000 mobile telephony RGUs in Italy generating revenues of €5.0 million for the year 2014.

Mobile Internet and Data services

We began offering mobile internet and data services in Romania starting with the second half of 2009. We also provide mobile internet and data services in Spain and Italy as an MVNO and we resell Digi branded mobile internet and data access on the Telenor Hungary network to our customers in Hungary.

In Romania, we offer mobile internet and data services primarily as a package with our "Fiberlink 200", "Fiberlink 500" and "Fiberlink 1000" packages of fixed internet and data services and together with our Optim and Complet mobile telephony subscription. We also offer mobile internet and data services on a standalone basis or as an additional service in Romania, Spain, Italy and Hungary.

In the year ended December 31, 2014, we generated €27.8 million from mobile internet and data services (representing around 4.2% of our revenues). At December 31, 2014, we had approximately 1.2 mobile internet and data RGUs in Romania, approximately 187,000 in Spain and approximately 19,000 in Hungary. We see the mobile internet and data business as a potential source of further growth for our business.

Our service plans for mobile internet and data are principally targeted at our existing customers, many of whom are attracted to our multiple service offerings. We see this as a way to increase customer retention and as an additional source of revenue per customer.

DTH

Our DTH services consist of distributing programming content via satellite transmission to primarily rural or small town residential subscribers that receive our services through satellite dish receivers and set-top boxes installed in their homes. To provide this service, we have entered into a contract with Intelsat, the satellite operator, that expires in November 2017.

We launched DTH services in Romania at the end of December 2004, and, in 2006, we extended our DTH services to Hungary, Slovakia, the Czech Republic, Serbia and Croatia. In 2013, we disposed our operations in Croatia, Serbia and Slovakia. Our customer base was of approximately 1.19 million RGUs in Romania, Hungary and the Czech Republic (of which approximately 725,000 are in Romania) as at December 31, 2014. We are a leading DTH operator in the main markets where we operate. In Romania, we are the second largest DTH operator.

To streamline our operations, we have sold a number of our subsidiaries which were providing DTH services to a limited number of customers in our non-core jurisdictions. In March 2013, we sold our Croatian subsidiary, which had 25,000 DTH RGUs at December 31, 2012. In May 2013, we sold 76% of our interest in our Serbian subsidiary, which had 43,000 DTH RGUs at December 31, 2012. On August 31, 2013, we also completed the sale of our Slovak subsidiary, which had 220,000 DTH RGUs at December 31, 2012. In April 2015 we sold our Czech Republic subsidiary which had 134,000 RGUs as at December 31, 2014.

In the year ended December 31, 2013, we generated €116.5 million from DTH services (representing around 18.7% of our revenues) and in the year ended December 31, 2014, we generated €89.1 million from DTH services (representing around 13.5% of our revenues). At December 31, 2014, we had approximately 725,000 DTH RGUs in Romania and approximately 330,000 in Hungary.

DTH product packages

Our product offerings include four types of packages ("Popular", "Basic", "Extra 1" or "Extra 2") for Romania and three types of packages ("Digimini", "Digi" or "Digi +") for Hungary. In combination with each of these packages, we offer premium movie channels such as DIGI Film, HBO MaxPack, HBO, Cinemax and an Adult option.

Our offers have certain local, country-specific variations regarding the number and composition of channels included in each package. These variations are mainly driven by local demand and competition.

• **Basic Packages.** Our "Basic" packages include at least 60 channels in Romania. In Hungary, our "Digi" package offers at least 71 channels. In addition, in Hungary, due to local "must carry" regulations, we also offer a limited package with a maximum of 18 channels. In Romania, we also offer a "Popular" package, which includes a minimum of 35 channels and cannot be combined with the premium movie channels offered. We believe that our Basic packages are attractive in the market in terms of range of content offered for the price. In Romania and Hungary, we provide access to our own sports channels for no additional fee as we believe this contributes to the broadening of our subscriber base. At the same time, the design of the content of the Basic packages provides an incentive for our subscribers to take up the Extra packages. The offered channels cover the main genres such as news, general entertainment, sports, movies, documentary, and children's content. Our offer includes a wide range

of local and international channels (in most cases with subtitles or dubbed, depending on the market practice).

- **Extra Packages.** Our "Extra 1" and "Extra 2" packages are currently offered in Romania and our "Digi +" package is currently offered in Hungary. They include at least 65 and 76 channels, in each market respectively. We try to structure these packages to incentivize customers who are willing to pay more for certain premium or specialized content while making sure that our Basic packages contain general channels of interest. The Extra packages are designed to increase our ARPU among targeted segments. Generally, international channels such as the History Channel, TV 1000, the Travel Channel, Viasat Nature or Viasat History and certain local niche channels are part of these packages.

- **Premium Movie Channels.** In Romania and Hungary, we offer one or both of the premium movie channels HBO and Cinemax, either individually or as a combined "MaxPack" as a separate supplemental package. HBO and Cinemax offer the latest globally distributed movies, special music and sports events as well as specially produced premium drama series and the Adult option. In Romania and Hungary, we also offer our own premium movie channel, DIGI Film.

Although availability of quality local programming is very important in the DTH business, demand for the leading international channels is relatively consistent across the markets in which we operate. Thus, a large part of the international programming content that we acquire in relation to our DTH business is used to service multiple markets. This is an important factor in maintaining a low cost base for our DTH services.

DTH pricing

We have adopted a strategy of offering high-quality services at competitive prices. Our prices per package are generally in line with or lower than the prices offered by our competitors for similar content. Our pricing policy for DTH services is established on a country-by-country basis. The main factors considered when determining price are affordability, market conditions, the local competitive environment and profitability.

We bill our DTH services in local currencies. The table below sets forth the monthly prices we charged for our DTH services as at December 31, 2014 (inclusive of VAT):

Romania (RON, VAT included)		**Hungary (HUF, VAT included)**		**Czech Republic (CZK, VAT included)[(2)]**	
Popular	15	Digi Mini	1,400	Basic	260
Extra 1	29	Digi	2,700	Film Box	60
Extra 2 Basic	29	Digi +	3,000		
Extra 2 Popular	20	Digi Film	300		
Extra Complete	33	HBO	1,700		
Digi Film	3	Cinemax	1,200		
HBO	11[(1)]	HBO Maxpack	2,000		
Cinemax	7				
HBO Maxpack	14[(1)]				
Adult	1				

(1) Starting with May 1, 2015 the price will be 14 RON / month for Max Pack and 13 RON / month for HBO. The price will include also access to HBO GO for no additional charge
(2) Disposed of in April 2015

Own TV channels

Since July 2009 we have offered our own TV channels to our customers. Our first channel was DIGI Sport, a premium content sports channel. Our own channel offerings now include other sports channels (DIGI Sport 1, DIGI Sport 2 and DIGI Sport 3 (each in Romania) and DIGI Sport 1 and DIGI Sport 2 (each in Hungary)), a pay TV movie channel (DIGI Film), a news channel (DIGI 24) (declared as must carry at the beginning of February 2014 and offered only in Romania), documentary channels (DIGI World, DIGI Life and DIGI Animal World). We also own an interest in U Televiziune Interactiva, Music Channel and Hora TV (offered only in Romania). All our channels are broadcast in standard and high definition. We own and operate these channels, and we provide them as part of our basic packages to increase the attractiveness of our cable TV and DTH service offerings.

Our premium sports channels own exclusive rights for Romania and Hungary over certain major sports competitions, such as the Romanian Football League (Romania), the English Premier League (Hungary), Spanish La Liga (Romania), the ATP 1000 Master series & World Tour Finals, the WTA Premier, Wimbledon and Moto GP (Romania and Hungary) competitions. Furthermore, we are one of providers with co-exclusive rights for Romania and Hungary over the UEFA Champions League and the UEFA Europa League, Serie A in Romania, Ligue 1 in

Romania. We use this premium content to increase the attractiveness of our services. We believe that the quality of our content contributed to our quickly achieving leading audience ratings, especially in Romania.

The table below sets forth the main broadcasting rights we had through our premium TV sport channels as at the date of this report:

Sport	Competition	Romania	Hungary	Period
Football	Romanian Football Championship	✓		2015 – 2019
Football	UEFA Champions League and UEFA Super Cup	✓	✓	2012 – 2015
Football	UEFA Europa League	✓	✓	RO: 2012 – 2015 HU: 2012 – 2015 HU: 2015 - 2018
Football	English Football Premier League		✓	2013 – 2016
Football	Spanish Football Championship “La Liga”	✓		2012 – 2015
Football	Italian Football Championship “Serie A”	✓		2012 – 2015 2015 - 2018
Football	French Football Championship “Ligue 1”	✓		2012 – 2015 2015 - 2018
Football	Qualification matches Euro 2016 and World Cup 2018	✓		2014 – 2017
Handball	EHF Champions League, Cup and Trophy	✓	✓	HU: 2012 – 2015
				RO: 2014 – 2017
Moto-racing	Moto GP	✓	✓	RO: 2014 – 2016
				HU: 2014 – 2016
Tennis	ATP 1000 Master series & World Tour Finals	✓	✓	2014 – 2016
Tennis	WTA Premier	✓	✓	2014 – 2016
Tennis	Wimbledon	✓	✓	2014 – 2016

The aggregate value of the licensing fees under these agreements is approximately €130 million, out of which approximately €50 million had been paid as at the date of this report and approximately €80 million remained outstanding. In addition to licensing fees, under some of these agreements we have the obligation to bear certain technical costs (e.g., related to up- and down-linking).

We also plan to acquire additional broadcasting rights in the future in order to renew or further upgrade our content offering.

DIGI Film

In 2011, we commenced offering in Romania a pay TV service called DIGI Film across our digital TV platforms (cable TV and DTH). This service is focused on delivering the latest movies to our customers, before they become available on regular free to air TV channels. In 2012, we also started the service in Hungary. Customers pay Romanian leu 3 per month in Romania and Hungarian forint 300 per month in Hungary to access the service.

OPERATIONS

Programming

Separately from the channels that we own, we acquire the rights to distribute channels from local and international programming content providers. In the case of all international and most local providers, we down-link and retransmit these channels as originally packaged (or with subtitles or dubbed), while with certain local providers we receive the channel via terrestrial fiber optic transmission. As at December 31, 2014, we had distribution agreements in place with more than 35 content providers. In addition, in Romania, in accordance with legal requirements, we also have retransmission authorizations with more than 150 content suppliers. In total we have the right to retransmit locally or across central and eastern Europe approximately 300 pass-through channels. Our pass-through channel providers assume full responsibility for programming content and ensuring compliance with applicable rules on the protection of minors. We also acquire the right to retransmit the pass-through channels in specific territories. We carry both leading local channels and international channels (in most cases with subtitles, or dubbed, depending on market practice). The programming content generally consists of films, sports, general entertainment, documentaries, children’s programs, news and music.

Content is generally purchased on a per-subscriber basis or on a flat fee basis. Prices paid for these channels are sometimes subject to minimum guaranteed fees that are based on a specified minimum subscriber level, with a

number of agreements providing for volume discounts in the fee per subscriber as the total number of subscribers increases.

The programming content acquired is retransmitted as part of the packages offered both through our cable TV service and our DTH service. The costs are allocated on a contract-by-contract basis between the cable TV subscribers and the DTH subscribers.

Fiber and Mobile Telephony Networks

In Romania, we own and operate an advanced, fully digitalized and two-way capable fiber optic network. The network architecture provides approximately 90% FTTB/FTTH coverage based on GPON or comparable technology, with the rest (located in areas composed primarily of single family homes) being hybrid fiber-coaxial networks.

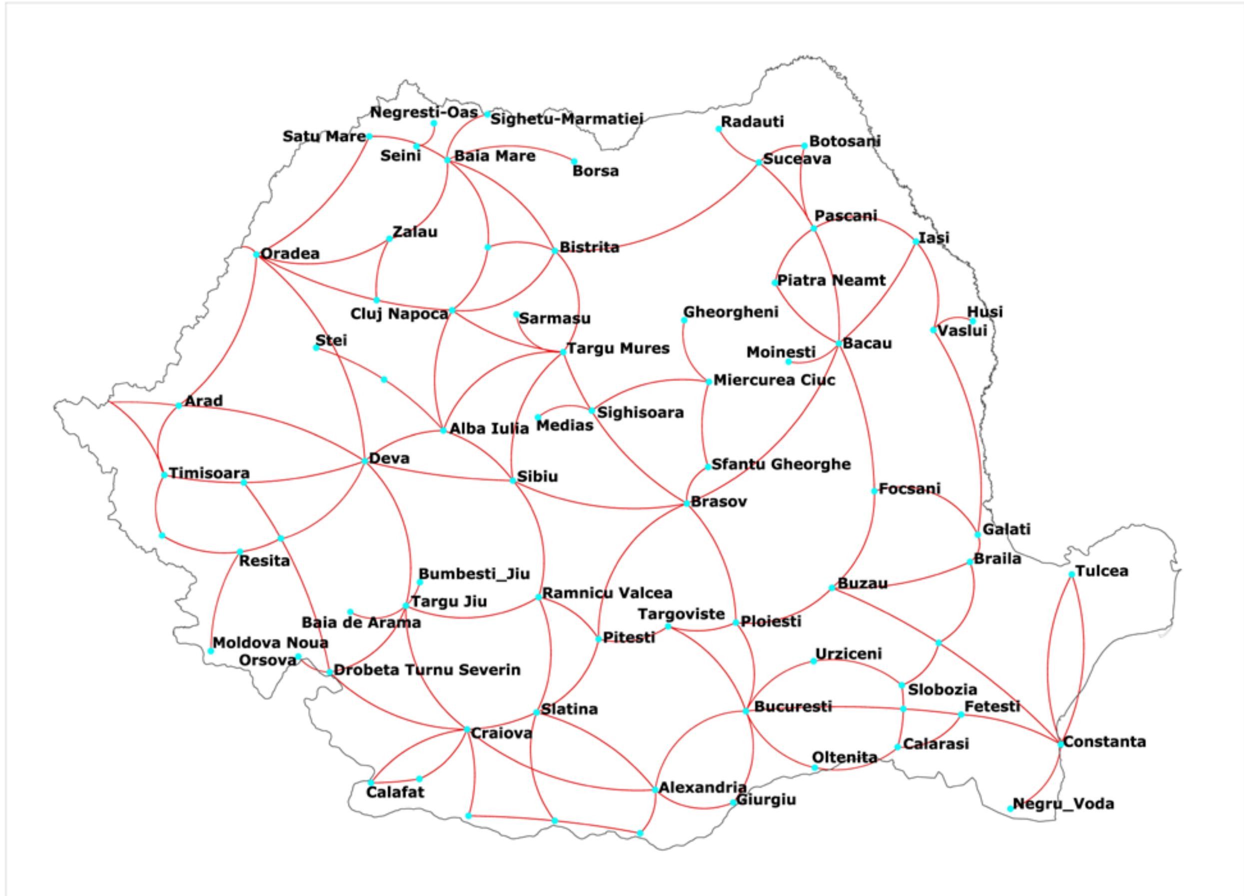
We provide TV, internet and data services and fixed telephony through our fiber optic network. Our subscribers access the internet primarily through an FTTB/FTTH connection using GPON or comparable technology. Subscribers using an FTTB/FTTH connection can reach asymmetrical transfer speeds of up to 1 Gbps download and up to 100 Mbps upload. Subscribers are connected to the network using Point-to-Point Protocol over Ethernet (PPPoE) sessions. Our BNG/BRAS system uses N+1 redundancy and is highly distributed. Approximately 1% of our internet customers still use DOCSIS modems for accessing the internet.

Our DWDM network reaches Budapest. Total IP Internet Connectivity is around 670Gbps split as IP Transit network connectivity and IP Peering network capacity. Our total IP Transit network connectivity is around 320Gbps. IP Transit connections have been deployed with two different Tier 1 providers (Teliasonera & NTT) in three different locations (Bucharest, Budapest & Frankfurt). Total IP Peering network capacity is over 350Gbps. Our own IP Peering routers have been deployed in the most important Internet Exchange Points ("IXPs") in the world: Frankfurt (DE-CIX), Amsterdam (AMS-IX), London (LINX), Ashburn, VA, USA (Equinix). Regional IP Peering routers also exist in Budapest, Sofia & Bucharest.

We have a multi-vendor policy for the IP Backbone network routers. All major city nodes in Romania are connected with multiple redundant 10 Gbps links. The national network coverage is ensured through redundant scalable rings, with transmission capacities ranging between 10 and 120 Gbps.

In Romania, we have an intercity backbone network of approximately 19,756 kilometers. Approximately 75% of this network is aerial, with the remaining approximately 25% buried underground. Most of our intercity aerial network is built along the power lines of the national electricity distribution and public transportation companies on the basis of long-term leases. For our metropolitan networks we lease poles or underground rights of way from private or state-owned transportation companies (such as Metrorex Bucuresti S.A., the Bucharest underground operator and certain overground municipal transportation operators in various locations of the country). Since 2011 (and earlier in certain towns and cities) we have faced regulatory pressure to stop building aerial networks in certain cities and to bury our existing aerial networks there. We are burying our networks in cities where local authorities have been able to grant us the required authorizations sufficiently quickly or where the necessary infrastructure was available. See "*Risk Factors—Risks relating to regulatory matters and litigation- Many components of our network are based on contracts which may be terminated by the lessor or are not concluded in the form required by applicable law, and we may be required to move some of our networks, which may disrupt service and cause us to incur additional expenses*." The underground network has also been developed on the basis of lease agreements concluded either directly with municipalities or with other operators acting on the basis of concessions from the relevant municipalities and/or acquisitions of ownership rights over the overlaying land. Our residential and business user network covers, in addition to the capital city, Bucharest, all of the 41 county capital cities and numerous smaller cities and towns. Our fiber network in Romania (including the intercity backbone) has a length of approximately 69,872 km and passes a total of approximately 4.57 million homes. We service business customers in all counties and major cities of Romania.

The map below shows our backbone in Romania as at December 31, 2014:



In Hungary, we cover 63 cities with our FTTB/FTTH network, with similar technical capabilities to Romania. Our Hungarian fiber network has a total length of 7,581 km and passes approximately 898,000 homes. We use approximately 4,000 km backbone fiber optic networks, with approximately 27% owned by us, 46% subject to long-term leases (IRU) and the remaining part of 27% subject to regular lease contracts.

The map below shows our backbone in Hungary as at December 31, 2014:

	For the year ended	
	2013	**2014**
Romania		
Number of homes passed	4,245,220	4,569,473
Percentage of homes passed(1)	57%	61%
Hungary		
Number of homes passed	872,189	897,814
Percentage of homes passed(1)	23%	24%

(1) Calculated based on the total number of households from Eurostat.

In Romania and Hungary, no large scale upgrades of our network are required at this time, but we continue to pursue technological improvements of our network as well as expansion of our coverage. We believe that our network provides the opportunity to market attractive fixed internet and data and fixed-line telephony services, offering significant growth opportunities in terms of subscribers and revenue with limited additional investment. Nevertheless, we plan to continue to expand our FTTB/FTTH network to areas not covered by our cable TV operations and to upgrade smaller networks in Romania to FTTB/FTTH standard using GPON technology to allow higher penetration of fixed internet and data and fixed-line telephony services. The peak daily internet traffic consumption of our Romanian customers amounted to approximately 650 Gbps as of December 2014 (including an estimate of 50 Gbps for business subscribers), around 20% increase compared with the previous year. We believe this figure may increase further in 2015 due to an increase in the number of subscribers and improved offerings that we may be able to provide to our subscribers.

The average internet connection speed has increased at the end of 2013 from around 40Mbps to around 80Mbps (as a result of introduction of “Fiberlink 500” and “Fiberlink 1000” packages) and has further increased at the beginning of 2015 to around 100Mbps as a result of upgrade of all our “Fiberlink 50” clients to “Fiberlink 100”, and also due to uptake of the other higher speed packages.

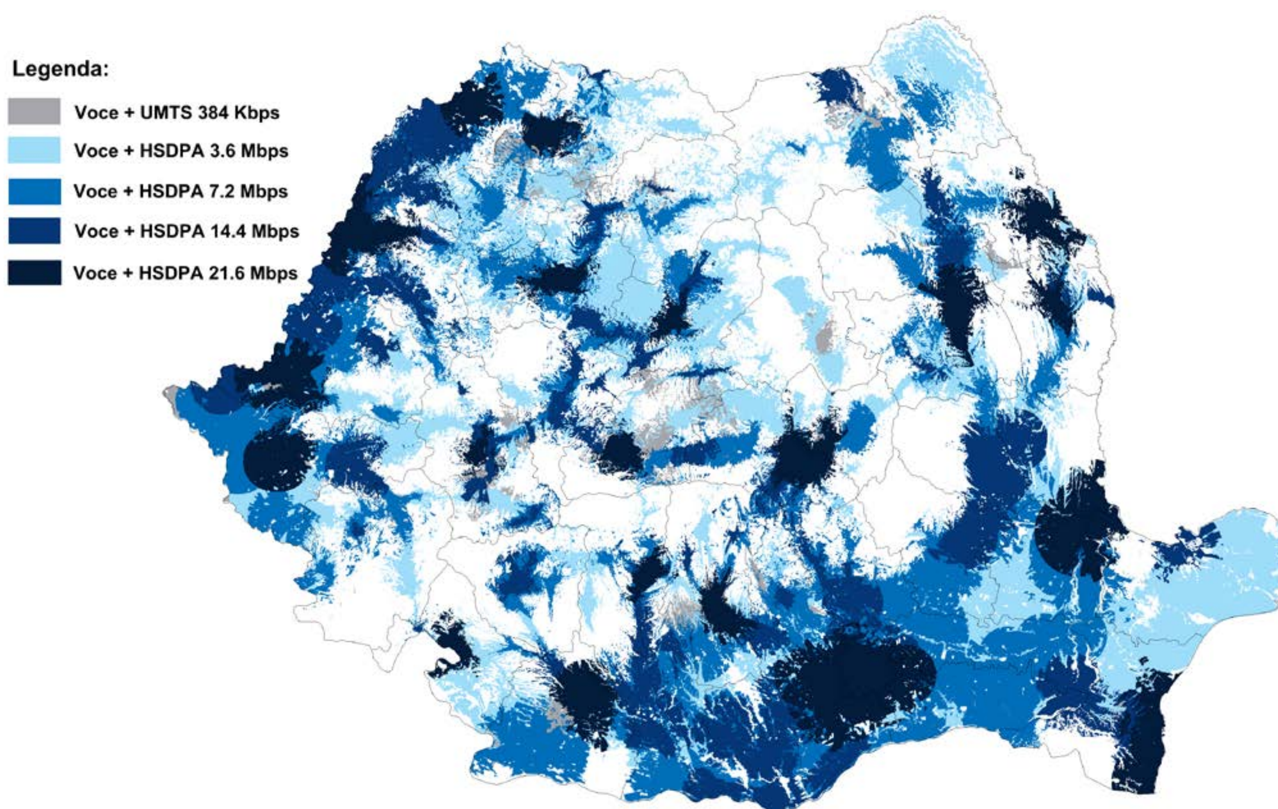
Our fixed-line telephony network in Romania is based on current technologies, combining IP (flexibility) and time division multiplexing (“**TDM**”) (quality and reliability) equipment for a better user experience and is based on Alcatel voice switches. We have more than 100 national and international points of interconnection with major carriers (including Telekom Romania, Orange, Vodafone, Telecom Italia, Belgacom, Deutsche Telekom, Telekom Austria, TeliaSonera, Turk telecom and Tata).

Our mobile telephony network in Romania is based on the equipment and solutions provided by leading vendors (Huawei and Nokia). We lease technical premises and antenna supports from a large number of land/ premises owners as well as the national radio communications operator, Societatea Nationala de Radiocomunicatii SA, on the basis of a long-term lease. In addition, we have acquired ownership rights over numerous small plots of land in order to build the necessary communication towers for the deployment of our mobile network and have also entered into long-term leases (10 to 15 years) for locations where we have installed base stations, antenna and other related equipment.

As of December 31, 2014, we had in place more than 1,600 base stations covering approximately 83% of the Romanian population and over 5,000 kilometers of coverage along main roads. The mobile network is integrated at the transmission level with our fiber optic backbone to take advantage of the high available capacity of that backbone. We have our own teams of employees that undertake the high-level radio design, set-up, operation, maintenance, network optimization and drive-test of the network. The network software is updated to the latest versions provided by the technology suppliers and allows efficient deployment of new capacity, services and other features.

Under the terms of our new 900 MHz spectrum license in Romania, we are required to expand our coverage to include a number of small cities by April 5, 2016, increase voice coverage to 98% of the Romanian population by April 5, 2019, ensure data coverage of 60% of the Romanian population by April 5, 2021 and allow access to MVNOs. We will use our existing 3G infrastructure for the purposes of this roll-out and we will also expand the network using our existing teams and resources (including our existing fiber backbone) on the basis of a development model similar to that used in the 3G network, *i.e.*, by establishing a 3G network over the 900 MHz spectrum.

The map below shows the territorial coverage of our 3G mobile network as at December 31, 2014:



In addition to our own coverage, we offer to our clients, for no additional fee, national roaming in Vodafone's mobile network through the frequency SWAP agreement signed on March 27, 2014. This agreement stipulates that in exchange of allowing them to use our 5MHz frequency in the 900 MHz spectrum we receive access in one of their 5 MHz frequency in the 900 MHz spectrum and also receive national roaming access for voice and data services for all our customers on Vodafone network. The contract became active starting with April 7, 2014 and is signed for 2 years. Also, through a separate agreement, we receive access to a maximum of 200 Vodafone locations where they will allow us to install our own equipment for a monthly fee.

In order to minimize the potential for a system failure, we maintain a system of back-up generators and spare batteries for the event of a blackout or disruption in the power lines. In addition, our redundant network operates with reserve, or back-up channels to ensure that voice and data traffic continue to flow uninterrupted in the event that one or more channels fail to function properly. For our 3G mobile network, we have agreements in place with certain of our suppliers for technical support to ensure continuous operation of the network.

The table below sets out certain details regarding our network infrastructure as of December 31, 2014:

	Romania	Hungary	Total
Homes passed (two way), in thousands	4,569	898	**5,467**
Network Nodes			
Head-ends and network nodes	289	32	**321**
Cable			
Fiber (km) (approximate)	69,872	7,581	**77,453**

DTH Operations

We operate our DTH satellite retransmission operation using the up-link infrastructure we own and house at our teleport facilities in Bucharest and Budapest. From these locations, the broadcast feed is transmitted to the geostationary satellite operated by Intelsat named IS-10-02, which is located 35,800 km above the equator at 1 degree West longitude and to the Thor 6 satellite operated by Telenor on a neighboring orbital position at 0.8 degrees West. From the satellite, the feed is transmitted back down to individual subscribers across the markets

where we operate. A dish mounted externally at subscribers' premises receives the signal. The dish is connected to a set-top box that decodes the signal and converts it into video, sound and data information.

International turnaround channels are received via our dishes, digitized and sent to the turnaround centre for further upload to the satellite that we use. Channels from some local terrestrial broadcasters are received via fiber optic cable and re-broadcast without modification. These channels are then compressed, encrypted and multiplexed (thus combining a number of channels in a single signal). The equipment required to carry out this process is collectively called the "headend." We operate two headends in Bucharest and one in Budapest. The channels are broadcast via high-power satellite up-link at our headquarters and in two other locations to the relevant satellites and then down to the subscribers' premises. We have six large-diameter satellite dishes for up- linking signals (and an additional two redundant antennas). All up-linking to (and down-linking from) the satellite is at 13,777 and 13,893 MHz frequencies (12,527 and 12,643 MHz).

Most of our subscriber management activities, including call centers and services activation and deactivation, are done in-house. These operations are currently located in Bucharest and Oradea for Romania and in each of our country headquarters and service all our DTH subscribers on a country-by-country basis.

Satellites and transponders

As of December 31, 2014 we use 12 high-powered transponders, 10 on the IS-10-02 satellite and 2 on the Thor 6 satellite, to transmit our signal. The lease agreement with Intelsat is entered into on competitive terms and is scheduled to expire towards the end of 2017. The number of television channels that can be broadcast to subscribers is dictated by the amount of transponder space available. Currently, we are using nearly all of our available transponder capacity.

The thirteen satellite transponders receive the video, audio and data signals transmitted from our up-link facilities, convert the frequency of the signals, amplify them and retransmit them back to earth in a manner that allows individual subscribers to receive the signals using a small satellite dish.

IS-10-02 was launched into orbit in 2004. It was built by EADS Astrium and is based on a high-powered Eurostar series, the E3000; it has a minimum designed service life of 13 years. Intelsat controls the IS-10-02 satellite from a telemetry, tracking and control ground station located in Washington, DC. Thor 6 was launched into orbit in 2009. It has a minimum design life of 15 years and is located at 0.8 degree West, at 35,800 km. Telenor controls the Thor 6 satellite from a telemetry, tracking and control ground station located in Norway.

If, for any reason, the IS-10-02 or Thor 6 satellites become unavailable for further service, we estimate that alternatives are available in the same orbital position, and more could become available at a later date. If the service provided by Intelsat fails, it may in its own discretion restore such service on the satellites or on another Intelsat satellite able to provide similar coverage and equivalent performance. Alternatives could also be implemented by using satellites in a different orbital position, which may however require us to repoint all our existing subscribers' receiving dishes in order to receive our signal. See "*Risk Factors—Risks relating to our business—If we cannot use Intelsat's and Telenor's satellites to broadcast our DTH services and fail to find a commercially acceptable alternative in a reasonable amount of time, our results of operations and financial condition may be significantly adversely affected*."

Disaster recovery facilities

We operate three redundant teleport stations with six large antennas (and an additional two redundant antennas) at different locations allowing up-link of our DTH signal to the Intelsat IS-10-02 and Telenor Thor 6 satellites. All active transmission equipment is fully redundant. The three teleport facilities are interconnected via our fiber optic network and have access to all programs which are distributed via satellite.

Set-top boxes and encryption

Our set-top box, which is supplied to each DTH customer, receives and decodes our encrypted signal. We currently source set-top boxes from Kaon, while in the past we also used Humax as supplier. The agreements we have with our suppliers specify, among other things, the continuous work life of the set-top boxes and the warranty period.

We use an encryption solution and smart-cards for our DTH operations supplied by Nagravision. Nagravision is a leading supplier of security solutions for the television industry. Should we be unable to continue to purchase

our encryption solution and/or smart cards from Nagravision, we believe we could acquire similar products from other suppliers without a significant increase in cost or decrease in quality. We believe the quality of the encryption technology we use is consistent with market standards.

DISTRIBUTION AND SALES

We employ three sales channels: (i) retail sales through our retail locations where we also collect payments; (ii) door-to-door sales through third-party customer sales partners which are companies or self-employed individuals, or through individuals who are our temporary or permanent employees; and (iii) inbound telesales (telephone sales initiated by the customer).

In Romania, we have 288 collection and sales points and a sales force of approximately 1,900 individuals. In Hungary, we have 38 sales points and a sales force of 39 individuals. We have approximately 2,045 external sales points in Spain and approximately 580 external sales points in Italy.

We differentiate marketing and sales depending on the target customers. We differentiate between residential customers and business customers mainly on the basis of the type of services they subscribe to, especially with regard to internet and data and fixed-line telephony services.

Residential Sales

We sell our network-based services both to new customers and through cross-selling of additional services to existing customers. Cross-selling is promoted through all sales channels and sales platforms in an attempt to increase the level of multiple service uptake amongst our customer base. The majority of the subscriptions are generated through contacts initiated by us, through either outbound telesales or direct sales through door-to-door activity. To a lesser extent, especially in relation to our cable TV services, sales are generated through passive channels, at the initiative of the potential customer, either through our retail operations (at service centers where customers make payments in person) or through inbound telesales.

In our DTH sales we also use a reseller installer network made up of third-party contractors who search for new customers, sign up subscriber agreements and install DTH equipment. The reseller network is managed by our indirect sales department. This allows us to increase our physical presence nationwide and enables us to tap into markets where we currently have no physical presence. We believe that the use of resellers is also a more cost-effective tool for acquiring subscribers for the DTH service. The functionality of the reseller network is enhanced by our proprietary call centers in all the markets where we operate. We carefully monitor client feedback with regards to the effectiveness and professionalism of our various subcontractors and adjust our partnerships accordingly.

For sales to our customers in Romania, we use various sales channels in different proportions for each of our business lines. Thus, we use the retail channel for up to 64% of our cable TV sales, 68% of our internet and data sales, 49% of our fixed-line telephony sales and 84% of our mobile telephony sales. We register between 16% and 51% of sales (depending on segment) through door-to-door sales.

Business Customers Sales

Romania is the main country in which we target business customers actively. We differentiate, on the basis of the services that our customers require, between small to medium corporate customers and large corporate customers. We have a separate acquisition and retention process for each type of corporate customer. The front sales department drives the acquisition process for small-to-medium corporate customers. A dedicated large accounts department manages acquisitions of large customers.

We employ various strategies for the acquisition of new corporate customers. We incentivize our specialized sales force to reach certain acquisition targets, and we initiate acquisition programs which can either take the form of door-to-door campaigns in areas with a large concentration of businesses or in business centers or may be focused on targeting potential customers in a specific industry, based on a telesales process.

Our internet and data and fixed-line telephony services are sold to corporate customers by the following channels: approximately 84% through direct sales, approximately 4% through retail and approximately 8% through inbound sales.

CUSTOMER SERVICE AND RETENTION

We believe that the quality of our customer service is critical to attracting and retaining customers. While we focus on providing high-quality after sale services, we also pay particular attention to other key processes, such as monitoring the overall quality of the services provided to our customers and receiving and resolving customer queries (whether commercial, financial or technical in nature).

Our customer service department in Romania consists of 1,571 employees spread across all of our physical service centers and six call centers (servicing our Romanian, Spanish and Italian clients). Our customer service department in Hungary consists of 344 employees spread across all of our physical service centers and two call centers in Budapest and Debrecen and our customer service in the Czech Republic (disposed of in April 2015) consists of 56 employees. Our subscribers in Romania and Hungary have access to customer service support 24 hours a day, seven days a week through our call centers which monitor, track and respond to customer queries. DTH subscribers in Czech Republic can reach us between 8am and 10pm (Bucharest time) each day.

Out of the total customer service department, we have a total of 1,028 call center employees, of whom 872 are in Romania, 131 are in Hungary and 25 are in the Czech Republic.

We also have after sale and service teams dedicated to our various services. Our service and after sale teams in Romania and Hungary operate a fleet of 1,998 and 377 vehicles respectively, in order to achieve promptness of service. Our mobile telephony and mobile internet and data services are serviced directly at our retail locations. We generally aim for a targeted service, and we provide different contact numbers for each type of customer. Our business customers are granted special attention as they each have designated account managers.

The inbound calls are usually related to general inquiries about the services we offer, ordering a new service or an add-on functionality to an existing service, information related to service configurations or registration of complaints about technical or financial issues. We make outbound calls from all centers in order to confirm service functionality, for collection and for telesales activities. We also use our points of sale network as a very important tool in our contact with existing and potential customers.

We actively monitor our customer satisfaction and seek customer feedback in connection with our service offerings and customer service efforts and routinely provide customers with questionnaires or other requests for feedback through which they describe their level of satisfaction with our service offerings and quality of service, provide comments and requests or order additional services.

MARKETING

We believe that we enjoy strong recognition among consumers in our traditional markets, especially in Romania and Hungary. We generally market our services under the brand “DIGI”, with variations depending on the type of service: DIGI TV for cable TV and DTH, DIGI Tel for fixed-line telephony, DIGI Net for our fixed internet and data services, DIGI Mobil for our mobile telephony services, DIGI Net Mobil for our mobile internet and data services and DIGI Animal World, DIGI Life, DIGI Sport, DIGI Film, DIGI World and DIGI 24 for our TV channels, DIGI Online for our online platform.

Our general marketing strategy aims to position us as a provider with a high-quality-to-price ratio addressing the mass-market segment. We also aim to emphasize multiple service uptake by offering competitive prices for each of our services as well as single invoices and a single point of contact for various services.

In all of the markets where we operate, we use a variety of advertising and campaigning channels to promote our services and brand names. Traditionally we have preferred to advertise through “below-the-line” marketing (*i.e.*, targeted local marketing through flyers, stickers, local billboards and local or national press), as we believe these fit better with the localized nature of most of our service offerings. However, we also use TV channels (our own and third party) to promote our service offerings. Promotions are addressed to both new and existing customers and focus on increasing the awareness of new services and bundled offers. The campaigns also emphasize our logo, brand and the high quality of our products at low prices. In the markets where we offer multiple services, we have actively promoted our image as an integrated telecommunications and media provider.

Customers can obtain information related to our services and products at our customer sales offices, through our call centers and from our website.

BILLING

Our billing system is based on invoices issued monthly. Our prices for all services provided to residential subscribers (except telephony and business internet and data services) are set in local currencies. For mobile and fixed-line telephony to residential and business customers as well as fixed internet and data and fixed-line telephony services for business customers, our prices are determined in euro or U.S. dollars. For invoices not in local currency, customers pay their invoices in local currency at the exchange rate from the date when the invoice was issued. We generally bill our services on a post-paid basis. Generally, we require individual post-paid subscribers to settle their accounts on a monthly basis. Subscribers may pay in person at our retail locations or through post offices (including by postal order in Hungary) or at ATMs of certain banks, on our website using e- commerce or by payment order. The terms of payment are by the end of the service month for services with flat subscription fees. Charges for telephone bills are due in the month ending two months after the period when the calls were made. Disconnection periods for non-payment vary by service and market depending on our customer relationship strategy.

For our multiple-service customers, we issue a single invoice for all services. The billing software is developed in-house and is used in all the countries where we operate, except for Hungary. In Hungary, we rely on a software solution provided by a third-party vendor.

In addition to maintaining financial information for each customer, our billing software keeps detailed, non-financial customer and contract related information. This information is used by our customer service representatives to address various issues and needs of our customers.

We believe our billing and collection systems are appropriate for our business needs, and we constantly seek to improve them. For example, we send notifications (via SMS, dedicated website, internet pop-up messages and TV messages for our DTH subscribers) to our customers alerting them of overdue invoices. As a result, in the year ended December 31, 2014, our bad debt rate (which we calculate as recognized impairment losses relating to trade and other receivables as a percentage of total revenues) was approximately 1.2%, which we consider to be a low percentage.

EQUIPMENT SUPPLIERS

In our cable TV segment, our principal suppliers for video receivers and modulators are Kaon and Ericsson Television.

Our satellite receivers are currently supplied by Kaon. Nagravision supplies the encryption and subscriber management system. Ericsson Television supplies our satellite up-link communication equipment.

For internet and data services, our main suppliers are Cisco and Juniper for high end routers and ECI for DWDM transmissions.

Our GPON infrastructure relies on equipment provided by Huawei and ZTE.

In our fixed-line telephony segment, our main suppliers are Alcatel for switching equipment, and Tainet for transmitting voice streams from the customer to our central switch.

The equipment for 3G mobile telephony services is provided by Nokia and Huawei. The main vendors for mobile handsets are Samsung, Huawei, Allview and Lenovo.

Most of our equipment is supplied directly by the manufacturers. In nearly all cases, we believe alternate providers are readily available and only in rare occasions would replacing such providers be a lengthy process.

SERVICE SUPPLIERS

We purchase our content from both local producers and international providers. Some of our major content suppliers are Eurosport, HBO, Universal, Disney, Viacom, and Viasat.

Our main suppliers for global internet interconnection are the leading industry operators: TeliaSonera and NTT Communications.

Our main suppliers of interconnection services in telephony are major telecommunications operators present in Romania and Europe. These include Telekom Romania, Orange, Vodafone, Telecom Italia, Belgacom, Deutsche Telekom (through Combridge SRL), Telekom Austria, TeliaSonera, Türk Telekom and Tata.

Our supplier of DTH satellite services is Intelsat.

Sub-contractors are used to install equipment for our customers.

INTELLECTUAL PROPERTY

We own a relatively large number of trademarks including verbal trademarks (protecting words) and combined trademarks (protecting both words and image), including: "RCS & RDS", "DIGI", "DIGI TV" "DIGI FILM", "DIGI SPORT", "DIGI MOBIL", "DIGI LINK", "DIGI TEL", "DIGI NET", "DIGI 24 HD", "DIGI LIFE", "DIGI WORLD" and "DIGI TV", UTV", "DIGI Oriunde", "DIGI Online", "DIGI PLAY" (for the last one in process of obtaining the licenses). These trademarks are registered for the territories in which they are used and certain trademarks are also registered for additional territories or on a national or European basis.

In all of the above cases, the protection offered by the registration of the trademarks lasts for ten years and can be extended for another ten years on the basis of a specific request. The renewal request has to be submitted with the authority having initially granted protection for the respective trademark no sooner than (i) three months, in Romania, (ii) six months, for European Community and international trademarks, and (iii) twelve months, in Hungary, prior to the expiry of the protection. Alternatively, in Hungary, the renewal request may also be submitted within six months after the expiry of the protection. We are in the process of registering in Romania certain trademarks that we use to brand some of our own TV channels. See "*Risks related to regulatory matters and litigation—Our business relies on intellectual property, some of which is owned by third parties. If we inadvertently infringe the intellectual property rights of others, or if we are otherwise liable for information disseminated through our network, we could lose access to transmission technology or content and damage third-party interests.*"

We are not parties to any license agreements in connection with any of the trademarks we own except for a temporary license of our Croatia trademark in Croatia and an obligation to provide a license for use of our Slovak trademark in Slovakia in the context of the sale of the operations in those countries.

INSURANCE

We maintain an insurance policy in respect of our critical communications equipment in data centers in Bucharest and certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. The insurance policy is provided by Asigurare Romaneasca—ASIROM Vienna Insurance Group S.A. and has an aggregate coverage of up to Romanian lei 109.5 million (€24.4 million as of December 31, 2014). We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. Apart from mandatory third party liability and casual and collision insurance for car fleet, we do not maintain insurance policies for our Hungarian operations.

We consider such insurance coverage to be adequate and in accordance with customary industry practice in the markets where we operate. However, we currently do not have coverage for business interruption and loss of key management personnel or for professional liability of our management and a substantial part of our assets are not insured. For risks relating to our insurance coverage, see "*Risk Factors—Risks relating to our business—Our insurance does not cover all potential losses, liabilities and damage related to our business and certain risks are uninsured or are not insurable*."

PROPERTIES

We lease most of the principal properties upon which we operate in Romania. We also own several floors of the building where our headquarters are located, as well as the premises we use as production studios for certain of our own channels. Outside of Romania, we lease our principal premises. See also "*—Operations—Fiber and Mobile Telephony Networks*" for a discussion of rights related to our networks.

The following table sets forth our key properties:

Country	Location	ID	Primary Function	Owned/ leased	Size (sqm)
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	owned	2,488
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	lease-back	4,493
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	leased	2,067
Romania	Bucharest		Administrative, Warehouse	leased	3,257
Romania	Bucharest	Panduri	Call Center, TV Studios	owned	5,508
Romania	Bucharest	Panduri	Call Center, Administrative	leased	4,268
Romania	Timisoara		Administrative, Head End, NOC, TV Studios	owned	470
Romania	Craiova		Administrative, Head-End, NOC, Call Center, TV Studios	owned	3,551
Romania	Arad		Administrative, Head End, NOC, Call Center	owned	804
Romania	Iasi		Administrative, Head End, TV Studios	owned	850
Romania	Iasi		Administrative, Head End, NOC, Call Center	owned	438
Romania	Constanta		Administrative, Head End, NOC, TV Studios	owned	1,156
Romania	Oradea		Administrative, NOC, Call Center, TV Studios	owned	3,806

Country	Location	ID	Primary Function	Owned/ leased	Size (sqm)
Romania	Oradea		Administrative, Head End	owned	200
Romania	Brasov		Administrative, Head End, NOC, Call Center, TV Studios	owned	2,078
Romania	Brasov		Administrative	owned	588
Romania	Targu Mures		Administrative, Head End, Noc	owned	325
Romania	Galati		Administrative, Head End, NOC, TV Studios	owned	1,601
Romania	Resita		Administrative, Head End, Warehouse	owned	1,041
Romania	Slatina		Administrative, Head End	owned	743
Romania	Dr. Turnu Severin		Administrative, Head End	owned	850
Romania	Pitesti		Administrative, Head-End, NOC, Call Center	owned	1,308
Romania	Cluj-Napoca		TV Studios	leased	831
Romania	Cluj-Napoca		Administrative, Call Center	leased	791
Romania	Cluj-Napoca		Administrative	owned	2,164
Romania	Baia-Mare		Administrative	owned	1,415
Romania	Ramnicu Valcea		Administrative	owned	930
Hungary	Budapest		Administrative, Head End, NOC	Leased	3,600
Hungary	Budapest		Administrative, Call Center	Leased	1,064
Spain	Madrid		Administrative	Leased	884
Spain	Madrid		Warehouse	Leased	383
Italy	Milano		Administrative, Sales, Warehouse	Leased	498

EMPLOYEES

As at December 31, 2014, we had 12,205 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

	Employees as at	
Country	**December 31, 2013**	**December 31, 2014**
Romania	9,390	10,772
Hungary	1,314	1,226
Czech Republic*	101	91
Spain	72	83
Italy	29	32
The Netherlands	0	1
Total	**10,906**	**12,205**

* Disposed of in April 2015

The following table sets forth the allocation of our employees per department as at the specified dates:

	Employees as at	
Departments	**December 31, 2013**	**December 31, 2014**
Customer Service	1,722	2,033
Administrative, Purchasing, Logistics	1,424	1,472
Technical	4,864	5,116
Sales and marketing	1,521	2,262
TV	1,375	1,322
Total	**10,906**	**12,205**

Our employees are not members of any trade union; however, in accordance with applicable Romanian labor regulations, we have initiated negotiations with our employees to conclude a collective labor agreement. We believe that our relationships with our employees are generally good.

ENVIRONMENTAL MATTERS

We do not believe that our activities generally have a significant environmental impact. However, we are subject to a large number of environmental laws and regulations. These laws and regulations govern, among other things, the management and disposal of hazardous materials, air emissions and water discharge, the cleanup of contaminated sites and health and safety matters. We are also required to obtain environmental permits, licenses and/or authorizations or provide prior notification to the appropriate authorities when building parts of our network, importing electronic equipment or opening new shops. Some of our sites also store small amounts of diesel fuel for

back-up power generator use and/or have a history of previous commercial operations. As a result of these activities or operations at our sites, we could incur significant costs, including fines, penalties and other sanctions, cleanup costs and third-party claims for property damages or personal injuries, as a result of violations of or liabilities under environmental laws and regulations. We believe that the principal environmental considerations arising from our operations also include the potential for electromagnetic pollution. We use various network infrastructure strategies in order to achieve radiation emission ranges that are lower than the maximum levels permitted by applicable Romanian regulations. Where requested under the relevant planning certificates, we have also obtained or are in the process of obtaining certificates from the public health authorities of each county where we install mobile telephony base stations that we are complying with accepted electromagnetic radiation standards in our mobile telephony activity.

We have not been subject to any material fines or legal or regulatory action involving non-compliance with applicable environmental regulations. We are unaware of any material non-compliance or liability with relevant environmental protection regulations.

Solar Energy

In 2012, we started to acquire several developmental stage solar energy projects as a means to reduce or partially offset our energy costs. As of December 31, 2014, the projects have an aggregate installed capacity of 15.44 MW (same as of December 31, 2013), all of them being operational.

LITIGATION AND LEGAL PROCEEDINGS

We are involved in various litigation and administrative proceedings in the countries where we operate. Our operations and properties are subject to regulation and control by various independent regulators or government authorities that exercise considerable discretion. We may sometimes disagree with the way legal provisions are interpreted or applied and in most of the cases, we are the plaintiff in claims against such regulators or government authorities. Similarly, our normal course of business may include disagreements with our partners and/or competitors that can ultimately lead to litigation. Due to the very nature of these proceedings, their results are uncertain. Most of these proceedings are in the ordinary course of business and we believe that, except as set forth below, no member of the Group is or has in the 12 months preceding the date of this annual report been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened, of which we are aware) which may have or have had significant effects on our Group's financial position and/or profitability.

Romanian Competition Council Investigations

Any of the investigations by the Romanian Competition Council described below could take several years to conclude. If we are found to have committed breaches of the Romanian and/or European Union competition law, sanctions could include fines of up to 10% of our total turnover in the year prior to the decision for each individual violation as well as cancellation of contracts or rights which contravene applicable legislation. Due to the limited information available to us, we are not able to quantify the risks related to these investigations, but we do not believe that we committed any violations of competition law. If any rulings are made against us, we would likely challenge such rulings. Challenging such ruling does not automatically suspend the payment of any applied fine, which can only be suspended by a court if certain conditions are met.

Telecommunications market interconnection investigation

In May 2010, we made a complaint to the Romanian Competition Council in relation to the interconnection tariffs applied on the Romanian telecommunications market, seeking to obtain a reduction in the tariffs charged by our competitors.

In February 2011, the Romanian Competition Council opened an investigation on the telecommunications market related to interconnection tariffs charged by all telecommunications operators. We believe this investigation was launched with the aim of reducing the relatively high interconnection tariffs charged on the Romanian market and thereby reducing the rates ultimately charged to consumers. We are fully cooperating with the Romanian Competition Council in this investigation. Immediately after the triggering of this investigation, we offered commitments to charge a tariff for call termination into our mobile telephony network of 1.00 eurocent

per minute, irrespective of the tariffs charged by the other operators (at the start date of the investigation the regulated interconnection tariff was of 3.07 eurocent per minute).

During the course of the investigation, in April 2013 ANCOM lowered the level of the interconnection tariff at 0.96 eurocent per minute. In light of this change, the Romanian Competition Council refocused the scope of the antitrust investigation from the initial target of lowering the wholesale interconnection tariffs to ensuring that no discrimination will be further made at the retail level by the operators between in-network calls versus out-of-network calls. RCS&RDS offered to undertake new commitments able to respond to this new antitrust concern. After submitting in July 2013 a first set of commitments that – although being principally accepted by the Romanian Competition Council and by the market – have not been endorsed by the European Commission, at the Romanian Competition Council's request, we offered in October 2014 a second commitment consisting in the principle undertaking not to discriminate between the level of the tariffs charged for the on-net and the off-net calls. This new commitment – that has been undertaken by the other mobile telephony operators as well – has been submitted to public consultation in November 2014. Following the considerations submitted by third parties during the public consultation, we have carried out several discussions with the Romanian Competition Council and have transmitted several updates and clarifications. The latest commitment submitted by RCS&RDS is currently pending the Romanian Competition Council's final approval. If accepted, we will need to implement this commitment for 2 years. Until final endorsement of the commitments, we expect that the Romanian Competition Council will issue a clear mechanism for the monitoring and the implementation of this commitment.

The offering of commitments does not imply any admission of wrongdoing. We expect that the competition authority will issue a final decision accepting our commitments and close the investigation without applying any fines for the alleged anticompetitive conduct.

GSP investigation

In May 2011, Antena TV Group S.A., a leading media group in Romania and a former commercial partner of RCS&RDS, made a complaint to the Romanian Competition Council based on our refusal to retransmit one of the group's channels, GSP TV. The Romanian Competition Council opened an investigation against us in relation to this matter in August 2011. We have fully cooperated with the authority during this investigation and although considering the demands of Antena TV Group S.A. to be abusive and groundless, we have retransmitted GSP TV following injunctive relief Antena TV Group S.A. has obtained against us on grounds that starting July 2011 GSP TV has become a must-carry channel.

The Romanian Competition Council issued its final decision on March 3, 2015. The antitrust authority's decision amounted to the conclusion that RCS&RDS' refusal to negotiate the carriage of GSP TV channel is not abusive and that it does not amount to a competition law infringement. The Romanian Competition Council additionally considered that such refusal was justified by the existence of multiple judicial disputes between the parties, including with respect to the application and meaning of the must-carry regime.

By reference to RCS&RDS' market power, the decision also issued a formal recommendation for RCS&RDS to set, publish and to apply its own general terms in relation to broadcasters' request for the conclusion of a carriage agreement. We believe that there are no grounds for this recommendation given the features and dynamics of the TV carriage market. Additionally, this recommendation is impractical if not impossible to implement.

The Romanian Competition Council's decision is not final and is subject to judicial review. Although the recommendation is not mandatory and the refusal by RCS&RDS to implement such recommendation is not, in itself, able to lead to financial penalties, RCS&RDS challenged this recommendation in court (on April 10, 2015) given the impossibility for RCS&RDS to follow such recommendation given the existing features of the tv carriage market. From the information at our disposal it results that the Competition Council's decision was equally challenged by Antena TV Group S.A. (on April 10, 2015). Please note that the Competition Council's decision rejecting Antena TV Group S.A.' complaint against RCS&RDS is not final and may be overturned in court. At the date of this report, both trials are in the administrative stage while no hearing has been yet scheduled.

Sector inquiry on the market of electronic communications

According to a press release issued in 2013, the Romanian Competition Council launched a sector inquiry to better understand (i) the selling of multiple-play packages and (ii) the market for access services to Bucharest's electronic communications infrastructure. Although sector inquiries are aimed at gathering information, such proceedings may end with the opening of an investigation. We have not been contacted by the Romanian

Competition Council with respect to the selling of multiple-play services. We have received requests for information regarding services of access to the electronic communications infrastructure concerning the entire country and particularly Bucharest. We have received multiple requests for information from the territorial divisions of the Romanian Competition Council and from the central headquarters of the Romanian Competition Council regarding access to the electronic communications infrastructure in relation to several of our working points in the country, including Bucharest. We have answered to these requests.

In March 2015, the Romanian Competition Council's inspectors issued a preliminary report on potential competition concerns arising on the market of access to electronic communications infrastructure in Bucharest. This preliminary report does not directly regard RCS&RDS. This report argues the need for further clarifications and amendments to the legislation on electronic communications infrastructure and performs a detailed assessment of Netcity, the electronic communications infrastructure in Bucharest.

We will continue to cooperate with the Romanian Competition Council and to provide any needed information during the course of this complex sector enquiry on the electronic communications infrastructure market.

Intact Media Group Litigation

In March 2011, the Intact Media Group initiated a series of lawsuits against us. Although we consider the Intact Media Group litigation to be, at least in a large part, abusive and vexatious, if these court claims are successful, they will generate significant adverse effects on our finances, management and business model.

The must carry related litigation

In March 2011, Antena Group (Intact Media Group) initiated three separate lawsuits in tort against us alleging that we illegally refused to carry its channels breaching, among other things, the Romanian must carry rules. They claim damages of approximately €100 million and have requested that the court impose other non-monetary remedies, such as requiring that we provide the Intact Media Group channels to our subscribers free of charge and in compliance with the highest technical standards.

In the first proceeding, Antena Group claims that we are bound by the must carry rules to provide Antena 1, the Intact Media Group's lead channel, free of charge to our subscribers in a package that only contains must carry channels. Antena Group has requested injunctive relief which would require us to offer such a package to our subscribers (neither we nor any other Romanian distributor currently offers to its customers such a package) and has sought damages amounting to €65 million for our alleged breach of the must carry rules. The initial court case was split into two proceedings as Antena Group assigned its monetary claims related to this lawsuit to First Quality Debt Recovery.

The claim regarding the €65 million monetary damages was suspended until final settlement of both the claim for injunctive relief and a lawsuit we initiated challenging the effects of an arrangement regarding the assignment of receivables from Antena Group to First Quality Debt Recovery. On April 15, 2015, the Bucharest Tribunal partially admitted RCS&RDS' claim and annulled the assignment of receivables from Antena Group to First Quality Debt Recovery. We expect this decision to have a significant positive impact on RCS&RDS' defence against Antena Group's claim regarding the €65 million monetary damages. Please note that this decision is not final as it is subject of review if either party decides to challenge it.

In the case regarding the injunctive relief request, both the court of first instance and the court of appeals ruled in our favor and dismissed Antena Group's claims. However, in February 2014, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality Debt Recovery and quashed the decisions issued by both the first instance and the appeal courts, ordering a retrial of the case by the first court. The decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case, as the retrial was ordered solely based on procedural reasons. The case remains to be resettled by the Bucharest Tribunal; the next hearing is scheduled for 15 June 2015.

Separately, Antena Group has also filed two lawsuits claiming (i) monetary damages of approximately €35 million consisting of loss of revenue due to our temporary refusal to carry the tv channels GSP TV and Antena 2 which allegedly breached, among other things, the must carry rules; and (ii) injunctive relief that would require us to provide the disputed channels to our customers in compliance with the highest technical standards. Approximately €24 million out of these claims are related to our refusal to carry GSP TV, while the remaining €11 million is related to our refusal to carry Antena 2. Because Antena Group assigned to First Quality Debt Recovery the claims regarding the €35 million monetary damages as well, First Quality Debt Recovery became

involved in these proceedings. Consequently, the court split both the GSP TV and the Antena 2 lawsuits into two: in each case, the monetary claim formed one lawsuit and the claim for injunctive relief another one. At our request, both the GSP TV and the Antena 2 claims for monetary damages were suspended until the final settlement of the lawsuit we initiated for challenging the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

The case regarding the injunctive relief sought in relation to the GSP TV channel was settled by the Bucharest Tribunal in favour of Antena Group, the court ordering us to include the channel in our network in compliance with several technical requirements. However, we have been carrying the channel as of January 2012 and therefore the decision did not impact our network. The appeal filed by RCS&RDS against the first court decision was rejected in October 2014. We filed a higher appeal against the appeal court's decision, registered with the Romanian Supreme Court. At the first hearing scheduled for 30 April 2015, the case was heard by the Romanian Supreme Court that is to make public the final decision after the date of this report.

The case regarding the injunctive relief sought in respect to Antena 2 was settled in March 2014 by the Bucharest Tribunal in our favour; Antena Group's claims were rejected in their entirety. Antena Group appealed the decision, but the appeal was rejected in October 2014. Antena Group filed a higher appeal against the appeal decision and the High Court of Cassation and Justice ordered a retrial of the appeal by the Bucharest Court of Appeal. The first hearing in the retrial of the appeal has not been established yet.

At the end of 2014, Antena Group initiated two new lawsuits requesting damages in relation to the carriage of GSP TV and Antena 2. The claims are almost identical to the ones regarding the same channels and assigned to First Quality Debt Recovery in 2012, except for the much lower amounts requested, specifically RON 500,000 in relation to GSP TV and RON 250,000 in relation to Antena 2. The lawsuit regarding the GSP TV channel is suspended since February 2015 until the final settlement of two separate files: (i) the injunctive relief case initiated in relation to this program and (ii) the trial initiated by RCS&RDS to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery. The first hearing in the case regarding the Antena 2 channel was held on 29 April 2015, when both parties discussed the suspension of the trial.

We have also challenged, but failed to overturn in court a number of NAC decisions on must carry rules and, particularly, a decision finding that we breached the obligation to provide certain must carry channels to our customers (including GSP TV). This adverse decision could be used in the monetary claims of Antena Group against us in relation to the alleged breach of the must carry rules with respect to GSP TV (such claims being approximately €24 million).

Antena Group has not yet provided any objective criteria for the determination of their claims in damages. However, there is a risk that we could be found liable for substantial sums. Moreover, should Antena Group be successful in all or part of its non-monetary claims, we may be forced to change our business model of providing must carry channels to our customers as we would be forced to provide separate, free of charge packages containing only the must carry channels. This litigation is relevant only to our cable television distribution and would not affect our DTH distribution since DTH distribution is as per current regulations expressly exempt from the must carry rules.

Claim for reputational and other indirect damages caused to us by the media campaign pursued by Intact Media Group promoting the must carry and insolvency litigation

In November 2012, we filed a counter-suit against the insolvency and must carry litigation initiated by Antena Group against us and the use of these litigations, as well of the commercial dissension in relation to the distribution of its channels through our DTH network, against our image and credibility via the media assets of the Intact Media Group. The insolvency claim filed against us has been irrevocably dismissed by the courts of law. We have mainly requested the following remedies: (i) acknowledgement by the court of the unlawfulness of the media campaigns launched against us by the Intact Media Group; (ii) monetary damages of approximately €1.2 million for reputational damages and other indirect harm; and (iii) publication by the Intact Media Group of the decision of the court through its TV channels and newspapers. Although the first court dismissed our claim, the Bucharest Court of Appeals admitted in part our appeal and (i) acknowledged the unlawfulness of the media campaigns, (ii) obliged Intact Media Group to publish the decision in certain conditions and (iii) obliged Intact Media Group to pay RCS&RDS approximately €1.2 million as moral damages. The decision was challenged by Intact Media Group with higher appeals, to be settled by the Romanian Supreme Court. The next hearing is set for 27 May 2015.

In March 2013, the NAC issued two decisions publicly reproving the media actions of two Intact Media Group channels: Antena 1 and Antena 3. Both decisions were challenged by representatives of the Intact Media Group. We have intervened in favour of the NAC in both lawsuits. The first court rejected the challenges and admitted our requests for intervention. The plaintiffs filed higher appeals against this decision; the higher appeals will be settled by the Romanian Supreme Court. The first hearing in the higher appeal file is scheduled for 22 May 2015. The decisions of the NAC represent evidence in the lawsuit initiated by us in relation to Intact Media Group's unlawful media campaigns against us.

Reciprocal contractual claims with the Intact Media Group

We have filed two lawsuits against Antena Group requesting a total amount of approximately €2.6 million resulting from the breach of several agreements. Antena Group filed counterclaims in both case files, totalizing approximately €1.7 million.

In these two proceedings, we are claiming that Antena Group must: (i) refund the fees we paid until December 2010 for retransmitting two channels of the Intact Media Group, based on the "most favored client clause" agreed by Antena Group and (ii) pay for the telecommunication services we provided in 2010 and 2011. Antena Group has filed counterclaims alleging that we are liable for: (i) retransmission fees from 2010 and 2011 for two of Intact Media Group's channels; and (ii) the contractual price of the advertising services that we requested in 2010 and that Antena Group allegedly provided.

One of the two lawsuits is pending before the first court, while in the second one, referring to the telecommunication services and the advertising services, the court of first instance rejected both our claim and the counterclaim of Antena Group. Both RCS&RDS and Antena Group appealed the decision. The first hearing in front of the Bucharest Court of Appeals is scheduled for 25 May 2015.

The copyright related litigation

In June 2014, Antena Group filed a new monetary claim against RCS&RDS, requesting approximately 40 million EUR on the grounds of an alleged breach of its copyright over the Antena 1, Antena Stars (former Antena 2), Euforia Lifestyle TV and ZU TV (former GSP TV) channels. The claimant argues that these TV programs have been carried by RCS&RDS, from June 2011 till June 2014, without Antena Group's consent and in the absence of an agreement on the fees for the use of its copyright.

RCS&RDS requested the dismissal of the claim for being submitted by a person lacking standing on the matter, as the rights invoked by Antena Group (if any) are subject to mandatory collective management, and also for being unfounded, as the carriage was performed having either legal or contractual coverage.

On 30 October 2014, the Bucharest Tribunal rejected the claim on procedural grounds and stated that Antena Group does not have legal standing in this lawsuit. The decision has not been yet communicated to the parties.

Litigation on grounds of an alleged abuse of dominant position

In July 2014, two companies of the Intact Media Group (Antena Group and Antena 3) filed another claim against RCS&RDS requesting the court to ascertain that RCS&RDS abused its dominant position by its alleged refusal to negotiate and conclude an agreement for the remunerated carriage of Antena Group channels, should Antena Group eventually choose to waive the must carry regime currently applicable to all Intact Media Group's TV channels. The claimants also requested the court to order RCS&RDS to negotiate with Antena Group in view of concluding a pay-tv based agreement under terms similar to the ones agreed by us with Pro TV S.A.

We requested the court to reject the claim as RCS&RDS's behaviour is neither abusively discriminatory nor an abusive refusal to deal. We are mainly arguing that: (i) the claimants didn't initiate good-faith negotiations, as their channels are still under must-carry regime and they didn't even issued an offer to begin with; (ii) the alleged refusal to negotiate would be justified by the abusive past conduct of the claimant; (iii) the negotiations requested by Intact Media Group are not comparable to the ones with Pro TV S.A., given the different market conditions at the moment of the negotiations and the different legal status of the TV channels of the two groups; and (iv) the conditions required by antitrust legislation are not met (e.g., the claimants are not risking exiting the market).

In March 2015, RCS&RDS requested the court to stay the proceedings until the final settlement of four other trials that may serve as a justification for the alleged refusal to negotiate with Antena Group and Antena 3. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until final settlement of

other judicial disputes between the parties. This decision is not final and is subject to superior judicial review.

If, in this litigation, the Court finally rules in favour of the plaintiffs, we risk to be forced to conclude the carriage agreement for Intact Media Group's channels on similar financial conditions to those agreed with Pro TV S.A. An unfavourable decision could also be used as argument by other broadcasters to claim similar conditions.

Litigation against decisions of the NAC

In 2011 and 2012, we challenged four decisions of the NAC in relation to alleged breaches of the audiovisual legislation, namely: (i) one decision regarding the breach of the must carry regulations by refusing to distribute GSP TV; and (ii) three decisions regarding the illegal retransmission in Romania of a Hungarian TV channel – RTL Klub. We have succeeded in overturning two of such decisions issued by the NAC, both related to the retransmission of the RTL Klub channel in Romania; these court decisions favourable to us are final and binding. The other two challenges filed by us against decisions of the NAC were dismissed by both the first and higher appeal courts.

The direct consequences of these solutions are limited—we were obliged to pay fines totalizing approximately to €23,000. However, there are also other significant indirect consequences. For example, one of the adverse decisions can be used in the monetary claims of Antena Group against us in relation to the alleged breach of the must carry rules with respect to GSP TV (such claims amounting to approximately €24 million). See *"Litigation and legal proceedings—the must carry related litigation*." In the case regarding the retransmission of the RTL Klub channel in Romania, the unfavourable decision may lead to other decisions of the NAC or other commercial litigation initiated directly by the Hungarian broadcaster to prevent us from retransmitting this channel and for damages. However, whether such proceedings could arise remains uncertain and potential monetary consequences of such proceedings cannot be assessed.

Litigation related to the decisions of the National Authority for Management and Regulation in Communications ("ANCOM")

In February 2013, we challenged a decision of the ANCOM that ordered us to negotiate an interconnection agreement with Telekom Romania for the peer-to-peer connection of our networks on certain terms set by ANCOM. This lawsuit will determine whether we have a legal obligation to negotiate the agreement requested by Telekom Romania, on the conditions set by the ANCOM. The first court rejected our challenge. We appealed this ruling and the next hearing in front of the Supreme Court of Romania is scheduled for 11 June 2015. Although we have continued to negotiate with Telekom Romania since the issuance of the ANCOM decision, there is a risk that the ANCOM will find that we have not complied with its initial decision which could result in a fine of up to 5% of our annual turnover.

Litigation between the Cluj Napoca Municipality and CFO Integrator S.R.L. (RCS&RDS's subsidiary)

In March 2015, the Cluj Napoca Municipality filed a claim against CFO Integrator S.R.L. (a company that has been taken over by RCS&RDS starting March 2014) asking for approx. RON 3.5 million as penalties for the late payment by CFO Integrator S.R.L. during 2010-2014 of the outstanding annual royalty due by CFO Integrator S.R.L. to the Cluj Napoca Municipality under the ongoing joint venture agreement on the development and management of the electronic communications infrastructure Ductcity in Cluj Napoca. The Cluj Napoca Municipality's abusive allegations for payment are grounded on several legal and local regulatory provisions that we consider not to be applicable to the joint venture agreement in place between the parties and ignores the fact that CFO Integrator S.R.L. paid in May 2014 all outstanding debts towards Cluj Napoca Municipality, including all applicable penalties for late payment as computed according to the terms of the joint venture agreement (total penalties amounting to approximately RON 220,000).

CFO Integrator S.R.L. submitted its statement of defense on April 4, 2015. The first hearing in front of the Cluj Napoca Tribunal is scheduled for July 3, 2015.

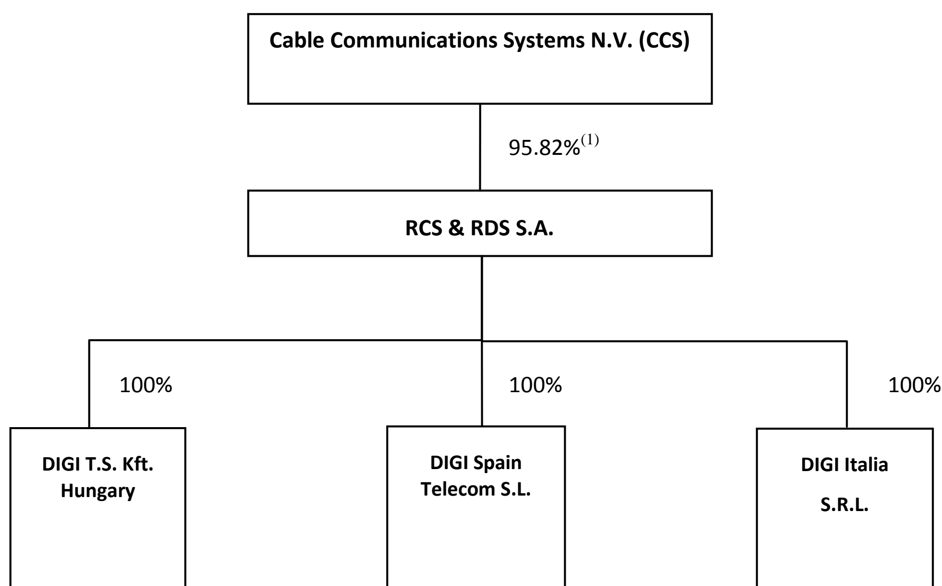
Should the court rule in whole or in part in favour of the Cluj Napoca Municipality, this approach would risk granting the Cluj Napoca Municipality excessive powers under the joint venture agreement (in place until 2028) and expose CFO Integrator S.R.L. to a greater liability towards the Cluj Napoca Municipality.

Investigation by the National Anti-Corruption Directorate of Romania and the Prosecutors' Office attached to the Bucharest Tribunal

Our complaint to the National Anti-Corruption Directorate of Romania about a potential criminal offense perpetrated against one of our directors also brought to the attention of the Directorate an agreement we entered into in 2009 with Bodu and its compliance with Romanian anti-corruption laws. Bodu is a company controlled by the former President of the Romanian National Football League and it owns and operates a large events hall in Bucharest. We invested approximately €3.1 million necessary for the completion of the property and the start of operations in exchange for the right to promote our services at the venue through various publicity means. Until the present, we have responded to several information and document provision requests coming from the National Anti-Corruption Directorate of Romanian and the Prosecutors' Office attached to the Bucharest Tribunal. We are not aware of the precise object and scope of the proceedings in which such requests have been made. The former President of the Romanian National Football League has recently been accused of illegal use of funds, money laundering and tax fraud in relation to the payment of a commission to an alleged intermediary that the Romanian National Football League made in relation to amounts received from us as price for the acquisition of TV rights. We do not have and never had any relation with the alleged intermediaries and we are not accused of any wrongdoing in relation to the matter. We do not believe that our transaction with Bodu violated applicable anti-corruption laws and we are not aware of any formal proceedings alleging that any member of our group or any of its directors had committed any criminal offense.

CORPORATE STRUCTURE

We have subsidiaries in Romania and the other countries where we operate. Typically, outside of Romania, operations in a certain jurisdiction are undertaken under one corporate vehicle. The chart below depicts a summary of our corporate structure, showing our main subsidiaries as at the date of this report:



(1) RCS&RDS holds approximately 9.01% of its shares as treasury stock. The 95.82% (effective voting rights due to the effect of holdings of treasury shares) amount held by the Company includes 0.11% of shares in RCS&RDS acquired by the Company from the purchaser of our Serbian subsidiary, which are subject to a call option that can be exercised by such purchaser over the next five years.

In addition to our holdings presented in the chart above, we hold interests of typically 100% in over 40 other subsidiaries which are not material for our business or which currently have no operations.

4. SELECTED FINANCIAL AND OTHER DATA

The tables below show summary consolidated financial information for the Group as at and for the years ended December 31, 2013 and 2014. The financial information as at and for the years ended December 31, 2013 and 2014 has been derived from our audited consolidated financial statements as at and for the years ended December 31, 2014 and 2013, included elsewhere in this annual report. You should read this summary financial information in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

Our audited consolidated financial statements have been prepared in accordance with IFRS.

The information presented below under the caption "Other operating data" is not derived from the annual consolidated financial statements.

	Year ended December 31,	
	2013	**2014**
Consolidated income statement data	**(euro in millions)**	
Revenues		
Romania	417.8	471.1
Hungary	119.0	119.1
Spain	48.5	54.8
Other[1]	23.5	18.9
Discontinued Operations[2]	18.8	-
Eliminations of intersegment revenues	(4.8)	(2.2)
Total revenues	**622.8**	**661.6**
Other income	1.2	-
Gain on sale of discontinued operations	37.6	9.6
Total revenues and other income	**661.7**	**671.2**
Operating expenses		
Romania	(221.2)	(294.1)
Hungary	(74.3)	(72.3)
Spain	(41.1)	(50.4)
Other[1]	(19.0)	(16.2)
Discontinued Operations[2]	(12.1)	-
Eliminations of intersegment expenses	4.8	2.2
Depreciation, amortization and impairment of tangible and intangible assets	(208.3)	(192.1)
Total operating expenses	**(571.1)**	**(622.9)**
Operating profit	**90.6**	**48.4**
Finance income	7.4	0.8
Finance expense	(70.2)	(61.1)
Net finance costs	**(62.7)**	**(60.3)**
(Loss) / Profit before taxation	**27.8**	**(12.0)**
Income tax (expense)/benefit	(7.5)	5.1
(Loss) / Profit for the period	**20.3**	**(6.8)**

	Year ended December 31,	
	2013	2014
	(euro in millions)	
Cash flows from operations before working capital changes	**271.0**	**232.0**
Cash flows from changes in working capital	(18.9)	(5.7)
Cash flows from operations	**252.1**	**226.3**
Interest paid	(29.6)	(46.7)
Income tax paid	(15.3)	(4.6)
Cash flow from operating activities	**207.2**	**174.9**
Cash flow used in investing activities	**(174.6)**	**(204.4)**
Cash flows from financing activities	**5.8**	**33.6**
Net increase (decrease) in cash and cash equivalents	38.4	4.1
Cash and cash equivalents at the beginning of the period	12.6	50.2
Effect of exchange rate fluctuation on cash and cash equivalent held	(0.7)	(0.0)
Cash and cash equivalents at the closing of the period	**50.2**	**54.3**
Adjusted EBITDA[3]	**261.2**	**230.8**
EBITDA margin(%)[4]	**41.9%**	**34.9%**

	Year ended December 31,	
	2013	2014
Consolidated balance sheet data	(euro in millions)	
Assets		
Non-Current assets		
Property, plant and equipment	624.7	643.1
Intangible assets	168.7	199.7
Available for sale financial assets	31.0	41.3
Investments in associates	2.3	2.5
Long term receivables	2.7	6.7
Deferred tax assets	5.0	2.9
Total non-current assets	**834.3**	**896.3**
Current assets		
Inventories	21.1	22.8
Program assets	29.4	16.8
Trade and other receivables	81.5	109.9
Income tax receivables	4.9	1.5
Other assets	11.7	9.9
Cash and cash equivalents	50.2	54.3
Total current assets	**198.7**	**215.2**
Total assets	**1,033.0**	**1,111.5**
Equity and liabilities		
Equity attributable to equity holders of the parent		
Share capital	0.1	0.1
Share premium	8.2	8.2
Treasury shares	(16.7)	(16.7)
Reserves	54.1	45.3
Retained earnings	71.4	68.3
Total equity attributable to equity holders of the parent	**117.1**	**105.1**
Non-controlling interest	3.4	2.2
Total equity	**120.5**	**107.3**
Non-current liabilities		
Interest-bearing loans and borrowings	638.9	652.7
Deferred tax liabilities	37.8	28.2
Other long term liabilities	5.3	10.6
Total non-current liabilities	**682.0**	**691.5**

Consolidated balance sheet data	Year ended December 31, 2013	2014
	(euro in millions)	
Current liabilities		
Trade and other payables	174.7	217.2
Interest-bearing loans and borrowings	11.5	45.7
Income tax payable	0.6	0.3
Derivative financial instruments	0.3	1.0
Deferred revenue	43.3	48.4
Total current liabilities	**230.4**	**312.6**
Total liabilities	**912.5**	**1,004.2**
Total equity and liabilities	**1,033.0**	**1,111.5**

	Year ended December 31, 2013	2014	% change year on year 2013 v 2014
	(euro in millions)		
Revenue (excluding intersegment revenues)			
Romania			
Cable TV	147.3	155.6	5.6%
Fixed internet and data	138.0	147.7	7.0%
Fixed-line telephony	35.9	29.8	-17.0%
Mobile telephony	19.6	24.0	22.4%
Mobile internet and data	13.3	16.3	22.6%
DTH	49.8	43.9	-11.8%
Other revenues(5)	10.1	52.4	418.8%
Hungary			
Cable TV	34.6	34.5	-0.3%
Fixed internet and data	29.1	30.4	4.5%
Fixed-line telephony	10.0	8.3	-17.0%
Mobile internet and data	1.8	1.6	-11.1%
DTH	34.0	31.4	-7.6%
Other revenues(6)	9.5	12.9	35.8%
Spain			
Mobile telephony	43.5	43.6	0.2%
Mobile internet and data	4.1	9.9	141.5%
Other revenues(7)	0.1	0.4	300.0%
Other			
Mobile telephony	6.4	5.0	-21.9%
DTH	17.0	13.7	-19.4%
Other revenues	0.0	0.1	N.M.
Discontinued Operations			
Cable TV	2.4	-	N.M.
DTH	15.7	-	N.M.
Fixed internet and data	0.4	-	N.M.
Other revenues(8)	0.4	-	N.M.
Total Revenues	**622.8**	**661.6**	**6.2%**
Other income	1.2	-	N.M.
Gain on sale of discontinued operations	37.6	9.6	-74.5%
Total revenues and total other income	**661.7**	**671.2**	**1.4%**

N.M – not meaningful

	Year ended December 31,	
	2013	2014
	(euro in millions)	
Revenues (excluding intersegment revenues)		
Romania	413.9	469.7
Hungary	119.0	119.1
Spain	47.6	54.0
Other(1)	23.5	18.9
Discontinued Operations(2)	18.8	-
Total	**622.8**	**661.6**

OTHER OPERATING DATA

	As at and for the year ended December 31	
	2013	2014
RGUs per line of business(9) (in thousands)		
Cable TV	2,855	3,010
Fixed Internet and data	2,012	2,181
Fixed-line telephony	1,807	1,771
Mobile telephony	1,458	1,874
Mobile internet and data	794	1,432
DTH	1,319	1,189
Total	**10,245**	**11,457**
ARPUs per line of business(10) (€)		
Cable TV	5.46	5.40
Fixed Internet and data residential	5.63	5.61
Fixed Internet and data business	46.99	42.99
Fixed-line telephony residential	1.89	1.57
Fixed-line telephony business	5.40	4.55
Mobile telephony	3.97	3.84
Mobile internet and data	2.19	2.18
DTH	6.23	5.95

(1) Includes our operations in Czech Republic and Italy. In April 2015 we sold our Czech Republic subsidiary.

(2) Includes our operations in Croatia, Serbia and Slovakia for the periods under review to the extent they have not been sold. In March 2013, we sold our Croatian subsidiary. In May 2013, we sold 76% of our interest in our Serbian subsidiary. We also completed the sale of our Slovak subsidiary on August 31, 2013.

(3) We calculate EBITDA by adding back to consolidated operating profit/(loss) our charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is defined as EBITDA adjusted for the effect of extraordinary and one-off items. EBITDA and Adjusted EBITDA under our definition may not be comparable to similar measures presented by other companies and labeled "EBITDA." We believe that EBITDA and Adjusted EBITDA are useful analytical tools for presenting a normalized measure of cash flows that disregards temporary fluctuations in working capital, including due to fluctuations in inventory levels and due to timing of payments received or payments made. Since operating profit and actual cash flows for a given period can differ significantly from this normalized measure, we urge you to consider these figures for any period together with our data for cash flows from operations and other cash flow data and our operating profit. You should not consider EBITDA or Adjusted EBITDA a substitute for operating profit or cash flows from operating activities.
Our calculation of EBITDA can be reconciled to our income statement as follows:

	Year ended December 31,	
	2013	2014
	(euro in millions)	
Operating profit	90.6	48.3
Depreciation, amortization and impairment	208.3	192.1
One off transactions*	(37.6)	(9.6)
Adjusted EBITDA (as defined)	**261.2**	**230.8**

* Gain on sale of discontinued operations

(4) We define EBITDA margin as the ratio between Adjusted EBITDA and the sum of total revenues and other income.

(5) Other revenues in Romania consist primarily of sale of handsets and other equipment, the advertising sold on our own music channels, fees we receive from other TV operators which carry our "Digi Sport" channel, reversal of certain payables and certain other ancillary items.

(6) Other revenues in Hungary consist primarily of fees we receive from other TV operators which carry our "Digi Sport" channel and

advertising sold on our "Digi Sport" channels and revenues from network management agreements with smaller local cable and internet providers that we sometime undertake

(7) Other revenues in Spain consists primarily of sale of mobile telephone handsets.

(8) Other revenues in Discontinued Operations consists primarily of provision of certain internet-related services to certain of our subscribers in Serbia and certain other ancillary items.

(9) RGUs, or revenue generating units, represent the number of customer accounts at period end. A single customer can account for several RGUs. See "*Presentation of Financial and Other Data—Operating and Market Data.*"

(10) We use the term ARPU to refer to the average monthly revenue per RGU in each business line or country and we calculate it by dividing the total revenue per business line or country for that month, by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is not a standardized measure and can be defined differently by different companies within our industry. You should therefore exercise caution in comparing our ARPUs with those of competitors. See "*Presentation of Financial and Other Data—Operating and Market Data.*"

	As at and for the year ended December 31	
	2013	**2014**
Group		
Total RGUs (in thousands)(1)	10,245	11,457
ARPU (EUR/RGU/Month)(2)	4.87	4.64
Continuing Operations		
Romania		
Cable TV		
RGUs (in thousands)(1) ***(market position: 1st)(3)***	2,451	2,599
ARPU (EUR/RGU/Month)(2)	5.13	5.12
Fixed internet and data		
RGUs (in thousands)(1) ***(market position: 1st)(4)***		
Residential	1,605	1,745
Business	78	89
ARPU (EUR/RGU/month)(2)		
Residential	5.19	5.22
Business	46.99	42.99
Fixed-line telephony		
RGUs (in thousands)(1) ***(market position: 2nd)(5)***		
Residential	1,403	1,346
Business	116	124
ARPU (EUR/RGU/Month)(2)		
Residential	1.67	1.41
Business	5.40	4.55
Mobile telephony		
RGUs (in thousands)(1)***(market position: 4th)(6)***	1,089	1,388
ARPU (EUR/RGU/Month)(2)	1.44	1.73
Mobile internet and data		
RGUs (in thousands)(1)	670	1,223
ARPU (EUR/RGU/Month)(2)	1.74	1.51
DTH		
RGUs (in thousands)(1)***(market position: 2nd)(6)***	821	725
ARPU (EUR/RGU/Month)(2)	4.77	4.78
Hungary		
Cable TV		
RGUs (in thousands)(1)***(market position: 3rd)(3)***	404	411
ARPU (EUR/RGU/Month)(2)	7.32	7.11
Fixed internet and data		
RGUs (in thousands)(1)***(market position: 3rd)(7)***	329	347
ARPU (EUR/RGU/Month)(2)	7.75	7.55
Fixed-line telephony		
RGUs (in thousands)(1)***(market position: 4th)(7)***	288	301
ARPU (EUR/RGU/Month)(2)	3.03	2.36
Mobile internet and data (8)		
RGUs (in thousands)(1)	21	19
ARPU (EUR/RGU/Month)(2)	6.73	6.54

	As at and for the year ended December 31	
	2013	2014
DTH		
RGUs (in thousands)[1] ***(market position: 1st)***[3]	341	330
ARPU (EUR/RGU/Month)[2]	7.97	7.75
Spain [9]		
Mobile telephony		
RGUs (in thousands)[1]	309	423
ARPU (EUR/RGU/Month)[2]	13.32	9.99
Mobile internet and data		
RGUs (in thousands)[1]	103	187
ARPU (EUR/RGU/Month)[2]	4.96	5.54
Italy [10]		
Mobile telephony		
RGUs (in thousands)[1]	60	63
ARPU (EUR/RGU/Month)[2]	9.61	7.13
Mobile internet and data		
RGUs (in thousands)[1]	0	3
ARPU (EUR/RGU/Month)[2]	0.00	5.01
Czech Republic [11]		
DTH		
RGUs (in thousands)[1]	157	134
ARPU (EUR/RGU/Month)[2]	8.29	7.88
Discontinued Operations		
Slovakia [12]		
Cable TV		
RGUs (in thousands)[1]	0	0
ARPU (EUR/RGU/Month)[2]	7.10	0.00
DTH		
RGUs (in thousands)[1]	0	0
ARPU (EUR/RGU/Month)[2]	8.49	0.00
Internet and data		
RGUs (in thousands)[1]	0	0
ARPU (EUR/RGU/Month)[2]	7.90	0.00
Serbia (DTH) [13]		
DTH		
RGUs (in thousands)[1]	0	0
ARPU (EUR/RGU/Month)[2]	4.43	0.00
Croatia (DTH) [14]		
DTH		
RGUs (in thousands)[1]	0	0
ARPU (EUR/RGU/Month)[2]	4.67	0.00

Sources: Company data

(1) RGUs, or revenue generating units, represent the number of customer accounts at period end. A single customer can account for several RGUs. See "*Presentation of Financial and Other Data—Operating and Market Data.*"

(2) We use the term ARPU to refer to the average monthly revenue per RGU in each business line or country and we calculate it by dividing the total revenue per business line or country for that month, by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is not a standardized measure and can be defined differently by different companies within our industry. You should therefore exercise caution in comparing our ARPUs with those of competitors. See "*Presentation of Financial and Other Data—Operating and Market Data.*"

(3) According to our estimates, calculated using our internal RGU records and RGU published data of our competitors

(4) According to our estimates, calculated using our internal RGU records and RGU published data of our competitors

(5) According to our estimates, calculated using our internal RGU records and RGU published data of our competitors

(6) According to our estimates, calculated using our internal RGU records and RGU published data of our competitors

(7) According to our estimates, calculated using our internal RGU records and RGU published data of our competitors

(8) Services provided as a reseller, selling services which utilize the Telenor network under our “Digi” brand.

(9) Services provided as an MVNO in Spain.

(10) Services only provided as an MVNO in Italy.

(11) Our operations in Czech Republic were sold in April 2015.

(12) We completed the sale of our operations in Slovakia on August 31, 2013.

(13) A 76% interest in our Serbian subsidiary was sold in May 2013.

(14) Our operations in Croatia were sold in March 2013.

5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for the year ended December 31, 2014

The following discussion and analysis of the financial condition and results of operations of the Cable Communications Systems (the Company) and its subsidiaries should be read in conjunction with "Presentation of Financial and Other Data" and "Selected Financial and Other Information" elsewhere in this annual report. The following discussion should also be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at and for the year ended December 31, 2014 (which includes comparative information as at and for the year ended December 31, 2013), prepared in accordance with IFRS and included elsewhere in this annual report.

The following discussion includes forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those contained in these forward-looking statements as a result of many factors, including but not limited to those described under "Forward-Looking Statements and ''Risk Factors" elsewhere in this financial report.

OVERVIEW

We are a leading provider of pay TV and telecommunications services in Romania and Hungary, and of mobile services as an MVNO to the large Romanian communities in Spain and Italy. We also provide DTH satellite services in the Czech Republic. Our service offerings include cable TV, fixed internet and data, fixed- line telephony, mobile telephony, mobile internet and data and DTH satellite television services. We offer our own TV channels and pay TV services, which carry premium movies and sports content, as well as channels produced by third parties to our customers in Romania, Hungary, and the Czech Republic through our cable TV and DTH satellite television platforms.

For the year ended December 31, 2014, we had total revenues of €661.6 million, net loss of €6.8 million and Adjusted EBITDA of €230.8 million.

RECENT DEVELOPMENTS

At the end of September 2014, we won one frequency block in the 1800 MHz spectrum in Hungary. The license fee (HUF 10 billion meaning approximately €32.2 million) was paid at the beginning of October 2014.

On January 15, 2015 we acquired the rights for the Romanian Football League for the period February 2015 – May 2019.

At the beginning of April 2015 we signed a contract for the sale of our Czech subsidiary. The closing took place on April 21, 2015. Out of the total selling price of €26.14 million, €25.39 million were received at the closing, and the remaining €0.75 will be received after 13 months, subject to certain conditions.

On April 30, 2015 we signed a new facility agreement which will refinance our New Senior Facilities Agreement and convert the current EUR exposure into RON. The total amount of this facility is the equivalent in RON of €235 million at the exchange rate of 4.4 RON/EUR (RON 1,034 million), with the possibility of increasing it to €260 million (the same, equivalent in RON) in the next three months. Out of the total €235 million, €226 million represents a term loan, with equal repayments every 6 months and final maturity in 5 years time from signing and the remaining €9 million represents a Revolver credit facility with a maturity of three years. We expect to draw the new facility and to finalize the refinancing on May 15, 2015.

Starting with the beginning of 2015, we launched an offer for energy supply to business clients. The energy sold is from our own production capacities and/or purchased on the open market.

On December 22, 2014 we signed the contract for the acquisition of two radio stations in Romania. In February 2015 the National Audiovisual Council approved the transfer of the radio licenses. Until the date of this report the closing has not taken place as the conditions precedent have not been fulfilled.

Alexandru Oprea, has resigned from the position of CEO of RCS&RDS starting with April 14, 2015. A new CEO will be appointed on May 4, 2015 in the General Shareholders' Meeting.

BASIS OF FINANCIAL PRESENTATION

The Company prepares its consolidated financial statements in accordance with IFRS. For the periods analyzed in this report, the Company's presentation currency was the euro.

Functional Currencies and Presentation Currency

Each of our Group entities prepares its individual financial statements in the currency of the primary

economic environment in which it operates; this local currency is the functional currency of the entity.

The Company presents its consolidated financial statements in euros. The Company uses the euro as the presentation currency of its consolidated financial statements under IFRS because management analysis and reporting is prepared in euros and the euro is used as a reference currency in the telecommunications industry in the European Union.

Segments

Our board of directors evaluates business and market opportunities and considers our results primarily on a country by country basis. As such, we report our results of operations in accordance with four geographic segments: Romania, Hungary, Spain and Other, which includes our operations in the Czech Republic (disposed in April 2015) and Italy. During the periods under review, our Other segment also included our operations in Croatia, Serbia and Slovakia. We have disposed of our operations in Croatia and in Slovakia, and sold a 76% interest in our operations in Serbia.

The revenue for each of our reporting segments in the year ended December 31, 2014 was as follows:

- Romania: In the year ended December 31, 2014, our Romania segment generated €469.7 million (excluding intersegment revenues of €1.4 million) of revenue, or 71.0% of our total revenue
- Hungary: In the year ended December 31, 2014, our Hungary segment generated €119.1 million of revenue, or 18.0% of our total revenue.
- Spain: In the year ended December 31, 2014, our Spain segment generated €54.0 million (excluding intersegment revenues of €0.7 million) of revenue, or 8.2% of our total revenue.
- Other: In the year ended December 31, 2014, our Other segment generated €18.9 million of revenue, or 2.9% of our total revenue.

In addition, we present revenues and certain other financial information in accordance with our six business lines: cable TV, fixed internet and data, fixed-line telephony, mobile telephony, mobile internet and data and DTH.

TRENDS AND OTHER FACTORS IMPACTING OUR RESULTS OF OPERATIONS

The following are the key factors that have significantly affected our results of operations and financial condition during the periods under review, or which we expect will significantly affect our operations in the future.

General Economic Environment in Our Key Markets

Given the economic history of the regions of central and eastern Europe that we serve, our television, data and telephony services are generally viewed as desirable but not indispensable in times of economic difficulty, such as the recent global economic crisis. By contrast, we believe that basic television, internet and telephony services are now perceived as necessities rather than discretionary items**.**

Some of the markets in which we operate were adversely and materially impacted by the recent economic crisis in the past few years. The following table shows the real gross domestic product ("**GDP**") growth in each of Romania, Hungary and Spain for the period beginning January 1, 2009 and ending December 31, 2014:

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
	Real GDP growth/(contraction) in %					
Romania	-7.1	-0.8	1.1	0.6	3.4	3.0*
Hungary	-6.6	0.8	1.8	-1.5	1.5	3.3*
Spain	-3.6	0.0	-0.6	-2.1	-1.2	1.4*

**forecast*
Source: European Commission - http://ec.europa.eu

The effect of the global economic downturn on our business was primarily related to the impact of the depreciation of our main functional currencies in relation to the euro, our presentation currency. See "*Exchange Rates.*" The economic crisis also increased the competitive pressures we face in our core jurisdictions as our competitors reduced prices they charge to their subscribers. In addition, the economic crisis increased the difficulty of obtaining external financing. Partially as a result of this, we decreased capital expenditures on our DTH services, and instead focused on maintaining and increasing capital expenditures for the upgrade and expansion of our fiber optic network in Romania and Hungary.

In recent years, governments in all of the jurisdictions where we operate have increased VAT or similar taxes and introduced new taxes in order to compensate for the decrease in revenues to the state budgets caused by the

economic crisis. Outside of Romania, Spain and Italy, we have made the commercial decision not to change our prices (which are VAT inclusive) for cable TV, DTH and internet and data services, thus effectively decreasing them to compensate for the effect of the VAT increase. In Spain, the tariffs per minute for voice services are exclusive of VAT and consequently, the increases in VAT resulted in an automatic increase of the amount paid by the customers. In 2010, the Hungarian government, in addition to increasing VAT, imposed a "special crisis tax" on certain sectors, including telecommunications, which required us to pay an additional tax of approximately 6% on our revenues in Hungary for the years ended December 31, 2010, 2011 and 2012 and introduced additional new taxes on telephone calls and text messages in July 2012. We have increased our tariffs in Hungary to pass along the cost of the new taxes on telephone calls and text messages to subscribers. The "special crisis tax" was replaced by two lower taxes, one on infrastructure and the other on financial transactions, at the end of 2012. In addition to these taxes, a new tax, in effect since July 2012, was introduced in Hungary. The new tax is paid monthly and is levied on a per minute basis on voice calls and per each SMS/MMS sent. These taxes amounted to approximately 1.5% of our revenues in Hungary starting in 2013 and we expect the same level also for the future.

In Romania, in November 2013, the Government introduced a number of fiscal measures to increase budget revenues, including a new tax on special constructions, including telecommunication networks. The tax was applicable starting with January 1, 2014 and amounted to an annual rate of 1.5% applicable to the gross inventory value as at 31 December of the previous year of certain constructions pertaining to telecommunication networks including, without limitation, pillars, circuits, cables, connections, platforms and towers. Starting with January 1, 2015, the tax was reduced to 1%. Although deductible for the purposes of calculating corporate income tax, this new tax has lead to an increase in our costs has negatively affect our cash flow. For 2014, total expenditure related to this tax was approximately 0.9% of our revenues in Romania. In addition, several dramatic changes to the Romanian tax legislation (both the fiscal and the fiscal procedure code) are currently under the scrutiny of the Romanian Parliament. The changes aim at reducing the level of some fiscal burdens (such as the progressive cut of the VAT level, the reduction of the social security taxation for employees, the decrease of the corporate income tax, etc.), while planning to cover the anticipated fiscal deficit with an extension of the tax base and the increase of several other taxes (e.g., the projects plans to make the social security taxes mandatory for all types of individual revenues in Romania, including intellectual property rights, which are currently exempted from this tax in certain conditions; the increase of the real estate taxation, etc.). On the other hand - according to the Government who is the initiator of this draft - such tax cuts would be accompanied by mechanisms meant at better detecting and fighting the tax evasion, while much higher sanctions would be applied for failure or late payment of tax duties. While being endorsed by the Senate in late April 2015, before becoming applicable, this project legislation still needs to be approved by the Chamber of Deputies. Once entered into force, on a medium/long term run, this new legislation - despite some tax benefits - would most likely lead to an overall higher tax liability and even more cumbersome fiscal procedures.

Despite the relatively adverse global economic conditions, our results remained resilient during the period under review. On a constant currency basis, our revenues increased from €622.8 million in the year ended December 31, 2013 to €669.3 million in the year ended December 31, 2014 (by reference to 2013 average exchange rates) mainly as a result of sale of handsets and other equipment in Romania. In our main two territories, Romania and Hungary, on a constant currency basis, our revenues increased from €536.8 million in the year ended December 31, 2013 to €597.0 million in the year ended December 31, 2014 (by reference to 2013 average exchange rates). The number of RGUs for services using our fiber optic networks in our core jurisdictions of Romania and Hungary grew, from 6.7 million at December 31, 2013 to 7.0 million at December 31, 2014.

Technical Capabilities and Limitations of Our Networks

Our ability to expand our physical reach, to attract new customers and to migrate existing customers to higher levels of service is dependent on the capabilities and limitations of our physical networks. In the past three years, we have continued to pursue an expansion strategy with respect to our cable TV, broadband and fixed telephony network in Romania and Hungary and have also focused on upgrading our physical networks in our main areas of coverage to GPON or comparable technology. The upgrade has been completed for approximately 90% of our Romanian and Hungarian networks.

As a result of the upgrades, we anticipate that our network will require relatively low maintenance capital expenditure over the near and medium term. We believe that growth from cable TV, broadband and fixed telephony services will come principally from increasing penetration in the areas already covered by us, the expansion of our fiber optic networks to areas not currently covered, cross-selling services to existing customers, and migrating our existing customers to higher levels of service. We have also grown partly by acquiring existing operations of relatively small cable companies and we may continue our acquisition strategy in the future if attractive opportunities arise. Such growth by acquisition would contribute to increases in our number of RGUs.

We started construction of our 3G mobile telephony infrastructure in Romania at the beginning of 2007 and

launched our 3G mobile telephony service in October 2007. Our 3G networks generally share the backbone of our existing fiber optic national network covering the territory of Romania. We have gradually expanded the area covered by our services in order to reach more potential subscribers and meet the coverage obligations under our 2100 MHz license. As of December 31, 2014, we had more than 1,600 base stations in place covering approximately 83% of the Romanian population and over 5,000 kilometers of coverage along main roads. We intend to continue to increase the coverage of our 3G mobile telephony service. Given the current penetration rates for mobile telephony in Romania (approximately 122% at June 30, 2014 according to ANCOM) and the established customer bases of some of our competitors, our primary goal is to achieve growth in RGUs and revenues as a complement to our other business lines by leveraging our existing customer relationships and, secondarily, to expand our mobile telephony and mobile internet data businesses on a standalone basis, in particular using our recently acquired license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum in Romania.

Our MVNO businesses in Spain and Italy currently rely on the Telefónica Moviles Espana S.A ("**TME**") network and H3G network infrastructures, respectively. While we believe that the TME network is sufficient to support the operation and development of our MVNO business in Spain, growth of our MVNO service in Italy has been hampered by technical limitations, including the fact that the host network can only be used by 3G phones and has limited network coverage (particularly outside of urban areas), and the prices charged by the host operator. In March 2014 we signed a full MVNO agreement with Telecom Italia and we expect to finalize its implementation around June 2015. The contract is valid for 5 years starting with the moment when the services are fully available.

Our DTH satellite television services are not constrained geographically in the same manner as our other services, as the footprint of our existing satellite coverage encompasses the entire territories of Romania, Hungary and the Czech Republic. Only in rare circumstances are customers unable to install the equipment necessary to receive our satellite signal, typically where no alternative position for the antenna facing south-west can be found.

Exchange Rates

Our operating subsidiaries record their financial results in their respective functional currencies (principally the Romanian leu and the Hungarian forint) which are then translated into euros in preparing our consolidated financial statements. In addition, because the mix of currencies in which our operating expenses are incurred differs significantly from the mix of currencies in which we generate revenue, we are also exposed to significant currency transactional risk.

In recent years, the values of local currencies in the principal countries where we operate have fluctuated significantly relative to the euro, our presentation currency, and the U.S. dollar. We have significant exposure to both currencies as we purchase certain content for our cable TV and DTH businesses in U.S. dollars and euros. In the year ended December 31, 2014, the Romanian leu declined 0.6% relative to the euro and the U.S. dollar, and the Hungarian forint declined 3.9% relative to the euro and the U.S. dollar.

While our operations in Spain and Italy generate revenues exclusively in euros, and for the years ended December 31, 2013 and 2014 approximately 25.3% and 23.4% of our revenues were generated in euros, respectively (corresponding to our mobile telephony, mobile internet and data, and business subscribers utilizing our fixed internet and data services), we pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenues generated in local currencies. As a result, the euro and the U.S. dollar's appreciation resulted in transactional losses from foreign exchange rates in relation to our operations in Romania, Hungary and Czech Republic.

The table below sets out a comparison of our revenues as recorded in our consolidated financial statements (and therefore affected by the currency exchange fluctuations) against revenues calculated on a constant currency basis.

Revenues (euro in millions)	**For the year ended December 31,**		
	2013	**2014**	**2014**[(1)]
	Actual	**Actual**	**Constant currency**
Romania	417.8	471.1	473.3
Hungary	119.0	119.1	123.7
Spain	48.5	54.8	54.8
Other	23.5	18.9	19.7
Discontinued Operations	18.8	-	-
Eliminations of intersegment revenues	(4.8)	(2.2)	(2.2)
Total	**622.8**	**661.6**	**669.3**

(1) By reference to 2013 average exchange rates.

In the discussion of changes in our results of operations from period to period set forth below, we present certain revenues data on a constant currency basis.

Going forward, we plan to continue to present our consolidated financial results in euros. Any significant appreciation of the euro against our other functional currencies in coming periods could have the effect of significantly reducing our financial results as reported in euro.

The following table sets out the period end and average exchange rates for the years 2011, 2012 and 2013 of the euro against each of our local functional currencies, in each case as reported by the relevant central bank on its website (unless otherwise stated):

	As at and for the year ended December 31		
	Value of one euro in the relevant currency		
	2012	**2013**	**2014**
Romanian leu (RON)			
Period end rate	4.43	4.48	4.48
Average rate	4.46	4.42	4.44
Hungarian forint (HUF)			
Period end rate	291.29	296.91	314.89
Average rate	289.34	297.01	308.66
Czech koruna (CZK)			
Period end Rate	25.14	27.43	27.73
Average rate	25.14	25.99	27.53
Serbian dinar (RSD)			
Period end rate	113.72	111.61(1)	N.R.
Average rate	113.13	111.50(1)	N.R.
Croatian kuna (HRK)			
Period end rate	7.55	7.58(1)	N.R.
Average rate	7.52	7.58(1)	N.R.
United States Dollar (USD)(2)			
Period end rate	1.32	1.38	1.21
Average rate	1.28	1.33	1.33

(1) For RSD and HRK the rates presented for the period ending 31 December 2013 and average for the year 2013 are the rates valid as of and up until the dates the Serbian and Croatian subsidiaries were disposed of.

(2) According to the exchange rates published by the European Central Bank.

In 2014, we had a net foreign exchange loss of €2.6 million. In 2013, we had an overall net foreign exchange gain of €2.6 million. In each of those periods, our net foreign exchange loss/gain was due to the depreciation/appreciation of the Romanian leu against the euro and the U.S. dollar, the currencies in which our borrowings are generally denominated. See "*—Liquidity and Capital Resources—Financial Obligations.*" Borrowings in foreign currencies are recorded in the functional currency of the relevant entity at the rate of exchange prevailing on the date of the transaction and re-evaluated to reflect changes in the exchange rate each month.

Competition

Our results of operations are affected by competition, as we operate in intensely competitive industries and compete with a growing number of companies that provide a broad range of communications products and services and entertainment, news and information content to consumers. In some instances, we compete against companies with greater scale, easier access to financing, more comprehensive product offerings, greater personnel resources, greater brand name recognition and experience or longer-established relationships with regulatory authorities and customers. Technological changes are further intensifying and complicating the competitive landscape and consumer behavior. We also face potential competition from new entrants and new technologies that, despite not being our traditional competitors, develop and provide services that may converge and compete with ours, including alternative sources for the content we provide, such as services which allow for the legal or illegal downloading of movies and television programs, as well as other online content providers, and services such as Skype and Google Voice which may compete with our telephony services. See "*Risk Factors— We face significant and intense competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenues and profitability*" and "*Industry Overview*."

Growth in Business, RGUs and ARPU

Our revenues are most directly a function of the number of our RGUs and ARPU. Neither of these terms is a measure of financial performance under IFRS, nor have these measures been reviewed by an outside auditor, consultant or expert. Each of these measures is derived from management estimates. As defined by our management, these terms may not be comparable to similar terms used by other companies. Throughout this report we refer to persons who subscribe to one or more of our services as customers. We use the term RGU to designate a subscriber account of a customer in relation to one of our services. As our definition of RGU is different for our different business lines, you should use caution when trying to compare ARPU between our business lines. We use the term ARPU to refer to the average monthly revenue per RGU in each business line or country and we calculate it by dividing the total revenue per business line or country for that month by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services for which an individual customer subscribes. ARPU is a measure we use to evaluate how effectively we are realizing potential revenues from customers.

Our customer base has grown from approximately 9.3 million RGUs at December 31, 2010 to approximately 11.46 million RGUs at December 31, 2014. The increase in RGUs during that period was principally due to the expansion of our fiber optic network coverage, increases in the quality of our services as a result of upgrades to our fiber optic network and our strategy of acquiring premium content for our own channels. Growth in RGUs is the primary driver of growth in revenues. Increases in the number of customer accounts are dependent on network development and investments made for subscriber acquisition. These investments consist of CPE (such as GPON terminals, set-top boxes, mobile data devices and fixed-line phones handsets, satellite dishes and satellite receivers and smartcards), network build-up and upgrade costs and installation costs. Due to periods of high investment in network equipment, the depreciation charges associated with these investments can result in decreases in our operating profit even when our revenues and EBITDA increase during the same period.

The following table shows our RGUs and monthly ARPU by segment and business as at and for the years ended December 31, 2013 and 2014. ARPU figures are not shown on a constant currency basis.

	RGUs (in thousands)			**ARPU (EUR/RGU/month)**		
	As at and December 31		**% change**	**For the year ended December 31**		**% change**
	2013	**2014**		**2013**	**2014**	
Romania						
Cable TV	2,451	2,599	6.0%	5.13	5.12	-0.2%
Fixed Internet and data						
Residential	1,605	1,745	8.7%	5.19	5.22	0.6%
Business	78	89	14.1%	46.99	42.99	-8.5%
Fixed-line telephony						
Residential	1,403	1,346	-4.1%	1.67	1.41	-15.6%
Business	116	124	6.9%	5.40	4.55	-15.7%
Mobile telephony	1,089	1,388	27.5%	1.44	1.73	20.1%
Mobile internet and data	670	1,223	82.5%	1.74	1.51	-13.2%
DTH	821	725	-11.7%	4.77	4.78	0.2%
Hungary						
Cable TV	404	411	1.7%	7.32	7.11	-2.9%
Fixed internet and data	329	347	5.5%	7.75	7.55	-2.6%
Fixed-line telephony	288	301	4.5%	3.03	2.36	-22.1%
Mobile internet and data[(1)]	21	19	-9.5%	6.73	6.54	-2.8%
DTH	341	330	-3.2%	7.97	7.75	-2.8%
Spain						
Mobile telephony[(2)]	309	423	36.9%	13.32	9.99	-25.0%
Mobile internet and data[(2)]	103	187	81.6%	4.96	5.54	11.7%
Other						
DTH[(3)]	157	134	-14.6%	8.29	7.88	-4.9%
Mobile telephony[(4)]	60	63	5.0%	9.61	7.13	-25.8%
Mobile internet and data[(2)]	0	3	N.M.	0	5.01	N.M.
Discontinued Operations						
Cable TV[(5)]	0	0	N.M.	7.10	0	N.M.
Fixed internet and data[(5)]	0	0	N.M.	7.90	0	N.M.
DTH[(6)]	0	0	N.M.	7.97	0	N.M.

(1) As a reseller, selling services which utilize the Telenor network under our "Digi" brand.

(2) As an MVNO.

(3) Includes services provided in Czech Republic, the subsidiary being disposed in April 2015.

(4) As an MVNO. Services only provided in Italy.

(5) Services only provided in Slovakia. We completed the sale of our operations in Slovakia in August 31, 2013.

(6) This includes services were provided by our Slovak, Serbian and Croatian operations. A 76% interest in our Serbian subsidiary was sold in May 2013, and our operations in Croatia and in Slovakia were sold in March 2013 and in August 2013, respectively.

N.M – not meaningful

Our total revenues may not always grow in direct proportion with the increase in number of RGUs. In part, these variations reflect the fact that ARPU differs from business line to business line. In addition, our business strategy for the past three years focused, and currently continues to focus, on increasing the number of services we sell to each customer (therefore increasing RGUs) while maintaining our EBITDA margin rather than on maximizing ARPU per business line. For example, we provide access to our mobile internet and data services for no additional charge to customers who subscribe to our "Fiberlink 200" or higher fixed internet and data service packages. We try to ensure increased profitability in each business line by careful management of costs (through negotiation of content fees, interconnection costs and similar expenses, use of newer technologies for improved results of operations and, where possible, by conducting certain operations and investment related activities in-house to achieve cost efficiencies) rather than relying on a strategy of regular price increases to increase revenue.

Our approach reflects the relatively wide range of our business and our ability to offer multiple services to our customer base. As of December 31, 2014, our residential customers in Romania (excluding DTH customers) subscribed to an average of 2.70 of our services (out of five services), an increase compared with 2013, when the average was 2.6.

The following table shows the evolution of our RGUs by service line since 2010:

	2010	2011	2012(1)	2013	2014(2)
			in thousands		
Cable TV	2,205	2,471	2,763	2,855	3,010
Fixed internet and data	1,401	1,640	1,870	2,012	2,181
Fixed-line telephony	1,745	1,780	1,814	1,807	1,771
Mobile telephony	1,488	1,506	1,466	1,458	1,874
Mobile internet and data	302	474	642	794	1,432
DTH	2,120	1,977	1,780	1,319	1,189
Total	**9,261**	**9,848**	**10,335**	**10,245**	**11,457**

(1) Number of RGUs for the sold operations (Croatia, Serbia and Slovakia) was 335,000 as of December 31, 2012

(2) Number of RGUs for the sold operations (Czech Republic) was 134,000 as of December 31, 2014

Cable TV RGUs increased from 2.2 million RGUs at December 31, 2010, to 3.0 million RGUs at December 31, 2014, an increase of 36.4% between 2010 and 2014. Fixed internet and data RGUs increased from 1.4 million RGUs at December 31, 2010 to 2.2 million RGUs at December 31, 2014, an increase of 57.1% between 2010 and 2014.

Churn

One factor which could negatively affect our growth in RGUs and revenues is churn. The pay TV, fixed internet and fixed-line and mobile telephony industries exhibit churn as a result of high levels of competition. In addition to competitive alternatives, churn levels may be affected by changes in our or our competitors' prices, our level of customer satisfaction and the relocation of subscribers. Increases in churn may lead to increased costs and reduced revenues. We believe that the following factors help to reduce our level of churn:

- we believe our network services, particularly in the cable TV, fixed internet and fixed-line telephony services and DTH business lines, tend to be viewed by our customers as basic services rather than luxuries and, therefore, are among the last expenses customers eliminate in times of decreasing disposable income;
- we believe that customers who subscribe to multiple services are less likely to leave our services. In Romania, the average number of services per residential customer in Romania was 2.70 (excluding DTH) and the percentage of customers using more than one service was 75% as at December 31, 2014. In Hungary, the average number of services per network customer was 2.25 and the percentage of customers using more than one service was 77% as at December 31, 2014; and
- our attractive pricing and relatively advanced technology compared to our competitors in Romania and Hungary and our premium content offerings often make it unattractive to replace our services with those offered by our competitors.

We do not actively track churn rates and do not focus on churn as a key measure of our business performance. Instead, we focus on growth in total number of RGUs, revenues and EBITDA as key indicators.

Capital Expenditure

Historically, we have pursued an ambitious growth strategy that required us to undertake substantial capital expenditure. The focus of our investment spending over the last few years has been (i) the upgrade and expansion of our fiber optic network in Romania and Hungary (approximately 90% of our Romanian and Hungarian FTTH/ FTTB networks have been upgraded to GPON or comparable technology), (ii) the expansion of our 3G network coverage in Romania (including the acquisition of a license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum in Romania for a period of 15 years commencing in April 2014, which should allow us to increase our existing coverage at low cost and to further increase and vary our service offerings by establishing a 3G network over the 900 MHz spectrum), (iii) the creation and development of our own television channels, (iv) the creation and expansion of our MVNO services in Spain (which began operating in 2008) and Italy (which began operating in 2010) and (v) the associated subscriber acquisition costs for all our business lines. Consequently, during this rapid growth phase, our capital expenditures have been significant. In 2014, we had capital expenditure of €214.8 million, which was lower than our Adjusted EBITDA by €16.0 million. In 2013, we had capital expenditure of €215.6 million, which was lower than our Adjusted EBITDA by €45.6 million.

As a result of this investment program, we have established a modern and technologically advanced fiber optic network in Romania and Hungary, which allows us to offer high-quality and competitively priced services, and provides the potential for increasing our revenues and cash flows with relatively low additions to our cost base. We have also developed our own sports and film channels which provide premium content to our customers in Romania and Hungary, increasing the attractiveness of our offerings. The cost of acquiring content distributed through our own channels is accounted for as a capital expenditure because we acquire such rights primarily to attract and retain customers.

Our capital expenditure consists principally of amounts that we pay for:

- the expansion of our fiber optic networks;
- payments for the acquisition of television content rights and licenses;
- the acquisition of CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE by other members of our industry), and other equipment such as set-top boxes, mobile data devices and fixed-line telephone handsets, satellite dishes, satellite receivers and smartcards;
- the build-up and expansion of our 3G mobile telecommunications network in Romania; and
- payments under telecommunication licenses.

Due to the recent upgrade of our fiber optic network, our network-related capital expenditure is expected to be lower in the near to medium term compared to the year ended December 31, 2013 and 2014 and additional network capital expenditures are expected to be largely discretionary. To the extent that we decide to grow our business further by expanding our fiber optic network or the coverage of our mobile telecommunications services, or by making investments in CPE or by acquiring or renewing retransmission rights for additional sporting events or films, we may require significant additional capital expenditures. However, most of these capital expenditures (with the exception of certain obligations under content agreements that we have already entered into) are discretionary and we have the ability to revise these plans as necessary. We believe that our ability to finance our capital expenditures largely from internal resources has strongly improved as our investment plan for the short to medium term is largely discretionary, thus giving us significant flexibility to adjust our capital expenditure plan.

Acquisitions and Divestitures

On August 31, 2013, we completed the sale of our Slovak subsidiary for €53 million, subject to adjustments and the occurrence of certain other events. After certain adjustments, the price was reduced to €51.3 million out of which €50.3 million was paid to us to date. The balance of €1 million, is expected to be paid until August 31, 2015, subject to the occurrence of certain other events.

On May 29, 2013, we sold a 76% interest in our Serbian subsidiary to one of our minority shareholders for €0.6 million.

In March 2013, we sold our Croatian subsidiary for €0.9 million pursuant to an agreement dated February 19, 2013.

In aggregate, the total revenues generated from these subsidiaries was €18.8 million and the EBITDA generated from these subsidiaries was €6.7 million in the year ended December 31, 2013.

At the beginning of April 2015 we signed a contract for the sale of our Czech subsidiary. The closing took place on April 21, 2015. Out of the total selling price of €26.14 million, €25.39 million were received at the closing, and the remaining €0.75 will be received after 13 months, subject to certain conditions.

These disposals were intended to streamline our operations and further focus our business on our core markets of Romania and Hungary.

During the years ended December 31, 2013 and 2014, we acquired a number of small telecommunications operators in Romania. See "*—Liquidity and Capital Resources—Historical Cash Flows—Cash used in investing activities*."

REVENUE AND COST STRUCTURE OF OUR PRINCIPAL LINES OF BUSINESS

In addition to our geographic segments, we provide certain data by business line. In general, for each of our lines of business, we earn revenues from subscription fees received from our customers and incur costs that include licensing, programming and content fees, customer service, network operation and maintenance expenses. However, the structure of our revenues and expenses differs in each of our principal lines of business.

In Romania, subscribers pay for our services other than DTH primarily through our collection points. Since our DTH customers in Romania are generally located in rural areas, we collect DTH subscription fees primarily through third party collection agents. In Hungary, we collect subscription fees mainly through local post offices and banks. In Czech Republic, subscribers pay for services primarily through banks, and local post offices and, in Spain and Italy third parties through which we sell access to our mobile telephony and mobile internet and data services. Overall, only a small proportion of customers pay for services via bank transfer. We have a network of 288 collection and sales points in Romania and 38 in Hungary. In addition to collecting subscription fees, our collection point operators also assist customers in signing new agreements, modifying their subscription choices or terminating their subscriptions. Our cash collection points accept payments for all of the services that we offer in each market.

Cable TV Services

For our cable TV business, we purchase programming that we receive by satellite or via terrestrial fiber optic links at our receiving stations in Romania. We then retransmit this programming on a local basis via fiber optic network to the homes or workplaces of our customers. Our cables are directly connected to television sets without any need for decoder boxes. The upgrade to digital service, however, requires decoder boxes. We lend these boxes to customers who subscribe to our digital services for the duration of their subscriptions.

The revenue we receive for cable TV services consists principally of flat-rate monthly subscription fees in local currencies. The price of this flat-rate service varies, depending on the programming package the customer chooses.

The costs we record for cable TV services consist principally of fees that we pay to providers of programming, license fees that we pay for content of the television channels we operate, and personnel expenses (consisting in large part of the salaries we pay to personnel that operate and maintain our network, personnel used to operate of our own channels and our sales personnel). We also record significantly smaller amounts for copyright payments to the national bodies representing collective artists' rights under the laws of the countries in which we operate; rights of way for our cables, which we record as "network rents"; maintenance and repair of our network; transportation and fuel expenses of our cable TV staff; and other miscellaneous amounts. We capitalize the cost of installing and upgrading our network (except for maintenance and repairs). We depreciate the recorded assets of our fiber optic network over 15 years and we depreciate the recorded costs of other equipment and devices over 3 to 12 years.

We capitalize the cost of acquiring programming for our own channels and amortize those assets over the period they relate to on a straight line basis. Costs for acquiring content programming distributed through our own channels are accounted for as a capital expenditure because such rights are generally either exclusive or shared with one other party and we acquire such rights to attract and retain customers. Our programming costs that are accounted for as operating expenses generally vary directly with our number of RGUs, as a significant part of our programming agreements link programming fees paid to content owners to the number of our subscribers in the relevant territory.

In recent years we have significantly expanded our fiber optic network into areas we did not previously cover, including areas already covered by the networks of our competitors. We plan to focus on increasing penetration of

our services in the areas served by our existing fiber optic networks. We may achieve increases in the results of our cable operations driven by:

- increased penetration among households currently passed by our network;
- continued expansion of our fiber optic network to areas that we do not currently cover;
- migration of some existing customers to more expensive, higher level subscription packages;
- switch-over from customers of our competitors;
- acquisition of small operators on an opportunistic basis; and
- cross-selling – uptake of more services by our existing customers.

Fixed Internet and Data Services

The revenues we receive for internet and data services consist principally of monthly connection fees. We service both residential and business customers. Residential customers generally sign contracts with fees in local currencies, while business customers generally sign contracts with fees in euros. The market for business customers is more competitive, and, as a result, average revenue per subscriber for our business customers can vary significantly over time. We offer various levels of internet and data services according to customers' needs. See "*Business—Our Services Offerings—Fixed Internet and Data.*" Some of our business customers purchase data transmission services that allow several offices within their organizations to communicate with each other. We are able to provide these services effectively since we operate national fiber optic networks of approximately 69,872 km in Romania, connecting almost all cities in Romania, and approximately 7,581 km in Hungary, providing international connectivity between our networks in Romania and Hungary and neighboring countries.

Costs recorded for internet and data services consist principally of personnel expenses and related expenses of our service and maintenance staff (recorded as "salaries and related taxes"), as well as interconnection and transmission fees (collectively recorded as "internet connection and related services"). We also record substantially smaller amounts for maintenance and repair of the network and rights of way for the network, energy costs related to the operation of the network and collection costs.

Fixed-Line Telephony Services

We provide fixed-line telephony services mainly through our fiber optic network, which interconnects with the land-line and mobile systems of other domestic and international service providers in Romania. Most of our customers connect with our network through an FTTB/FTTH connection that does not require additional transmission equipment. We also offer fixed-line telephony services in areas not serviced by our fiber optic network via a wireless connection with our 3G network.

The revenues we receive for fixed-line telephony services consist principally of per-minute telephone charges. In Romania, charges are set in euro and customers are invoiced in Romanian leu. In Hungary, charges are set and customers are invoiced in Hungarian forint. We also derive revenue from monthly service fees and interconnection fees that we receive from other service providers whose customers call our customers. We do not charge for calls to other telephone numbers within our fixed-line and mobile telephony networks in the same country.

Costs incurred in relation to fixed-line telephony services consist principally of interconnection fees paid to other service providers whose customers are called by our customers. We also record smaller expenses for personnel expenses.

Mobile Telephony and Mobile Internet and Data

The revenues that we receive for mobile telephony services in Romania consist of a monthly subscription fee in set euros (customers are invoiced in Romanian leu), per-minute telephone charges, and to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers and charges for SMS messages. We do not charge for calls to other telephone numbers within our fixed-line and mobile telephony networks in the same country. For the Spanish and Italian MVNO services, revenues consist mainly of the price of pre-paid SIM cards.

The revenues that we receive for mobile internet and data services in Romania consist of subscription fees, which are set and connected in Romanian leu. Our mobile internet and data services are primarily sold without additional charge as part of a bundle with our fixed internet and data services to subscribers who purchase our

"Fiberlink 200" package or higher. A portion of the revenues we receive from "Fiberlink 200" or higher subscribers is attributed to mobile internet and data. To a lesser extent, our mobile internet and data services are sold on a standalone basis. We provide mobile internet and data services through our MVNOs in Spain and Italy and as a reseller, selling services which utilize the Telenor network under our "Digi" brand, in Hungary.

Costs recorded in connection with our mobile telecommunications services consist principally of interconnection fees paid to other network operators whose customers are called by our customers. Mobile telephony interconnection fees charged by operators during the periods under review by geography are shown in the below table:

Mobile interconnection fees	**Year ended December 31,**	
	2013	**2014**
Romania	3.07	3.07 – 0.96
Spain	3.16 - 1.09	1.09

Our costs also include rental of sites necessary for the operation of our radio network; energy consumed by the network; personnel expenses and related costs of our maintenance and customer service staff; radio spectrum fees payable to the Romanian communications authorities; in Spain, service carry fees that we pay to TME and, in Italy, service carry fees that we pay to H3G Italia, a subsidiary of Hutchison Whampoa Limited. We capitalize the cost of mobile phones, dongles used to connect certain devices to our mobile internet and data services and other CPE that we provide to subscribers in custody. We also capitalize the construction cost of our mobile telephony network and subsequently amortize it over the useful life of the relevant assets (a period of five to nine years for core radio network equipment and radio networks). We offer our mobile telephony and mobile internet and data services on both a post-paid and a pre-paid basis. In Romania, the bulk of our mobile telephony and mobile internet and data RGUs subscribe to our services on a post-paid basis. In Spain, the bulk of our mobile telephony and mobile internet and data RGUs access our services on a pre-paid basis.

DTH

For our DTH services, we purchase programming that we receive by satellite or via terrestrial fiber optic links at our receiving stations in Bucharest and Budapest. Programming reception facilities are shared by our cable TV and DTH operations. This programming is then retransmitted to the IS-10-02 and Thor 6 satellites owned and operated by Intelsat and Telenor, respectively, on which we have rented transmission capacity. Those satellites then convert the frequency of the signals, amplify them and retransmit them to Earth in a manner that allows individual subscribers to receive signals using a satellite receiver. After the customer establishes an account with us, we provide the customer with, and activate, a satellite receiver and a decoding smartcard.

The revenue we receive for DTH services consists principally of monthly subscription fees from customers and, to a lesser extent, activation and other fees in local currencies. The level of subscription fees depends on the programming package chosen by the customer.

In general, we retain ownership of the receiver and decoder, providing this equipment to our customers free of charge or for a monthly rental fee for the duration of their subscription. Customers are obligated to return the receiver and decoder upon termination of their contracts. We also sell DTH equipment, generally at cost, to subscribers who choose to buy the equipment.

Costs recorded in connection with DTH services consist principally of the cost of the programming content offered to our subscribers, license fees paid to the holders of transmission/retransmission rights for sporting events that are broadcasted on our premium sports channels, the expense of operating customer care call centers and the rental costs relating to transmission capacity on the Intelsat and Telenor satellites. The cost of equipment that we provide to subscribers is capitalized as CPE together with the cost of installation services provided by third parties. These are subsequently depreciated over the period that we estimate to be the useful life of the assets, currently five years. We have made limited investments in DTH CPE in recent years.

Our per-transponder satellite costs are denominated in U.S. dollars and fixed until November 2017. Those costs are not subject to any inflation escalation clauses. If we were to require increased transmission capacity (for example, due to increases in the number of programs or the amount of high definition content that we broadcast) satellite costs would increase as that would entail an increase in the number of transponders on which we lease capacity. Our programming costs may increase in connection with an increase in our RGUs, as a significant part of our programming agreements link programming fees paid to content owners to the number of our subscribers in the relevant territory.

The footprint of our present satellite coverage encompasses all of Romania, Hungary and the Czech Republic.

HISTORICAL RESULTS OF OPERATIONS

Results of Operations for the years ended December 31, 2014 and 2013

Revenues

Our revenues for the year ended December 31, 2014 were €661.6 million, compared with €622.8 million for the year ended December 31, 2013, an increase of 6.2%. On a constant currency basis (by reference to 2013 average exchange rates), our revenues would have grown by an additional €7.7 million to €669.3 million for the year ended December 31, 2014, leading to an increase of 7.5%.

The following table shows the distribution of revenues by country and business line for the year ended December 31, 2013 and 2014:

	For the year ended December 31,		% change
	2013	2014	
	(euro in millions)		
Romania			
Cable TV	147.3	155.6	5.6%
Fixed internet and data	138.0	147.7	7.0%
Fixed-line telephony	35.9	29.8	-17.0%
Mobile telephony	19.6	24.0	22.4%
Mobile internet and data	13.3	16.3	22.6%
DTH	49.8	43.9	-11.8%
Other revenues	10.1	52.4	418.8%
Total	**413.9**	**469.7**	**13.5%**
Hungary			
Cable TV	34.6	34.5	-0.3%
Fixed internet and data	29.1	30.4	4.5%
Fixed-line telephony	10.0	8.3	-17.0%
Mobile internet and data	1.8	1.6	-11.1%
DTH	34.0	31.4	-7.6%
Other revenues	9.5	12.9	35.8%
Total	**119.0**	**119.1**	**0.1%**
Spain			
Mobile telephony	43.5	43.6	0.2%
Mobile internet and data	4.1	9.9	141.5%
Other revenues	0.1	0.4	300.0%
Total	**47.6**	**54.0**	**13.4%**
Other			
Mobile telephony	6.4	5.0	-21.9%
DTH	17.0	13.7	-19.4%
Other revenues	0.0	0.1	N.M.
Total	**23.5**	**18.9**	**-19.6%**
Discontinued Operations			
Cable TV	2.4	-	N.M.
Fixed internet and data	15.7	-	N.M.
DTH	0.4	-	N.M.
Other revenues	0.4	-	N.M.
Total	**18.8**	**-**	**N.M.**
Total	**622.8**	**661.6**	**6.2%**

N.M – not meaningful

Revenues (euro in millions)	For the year ended December 31,		
	2013	**2014**	**2014[(1)]**
	Actual	**Actual**	**Constant currency**
Romania	417.8	471.1	473.3
Hungary	119.0	119.1	123.7
Spain	48.5	54.8	54.8
Other	42.3	18.9	19.7
Eliminations of intersegment revenues	(4.8)	(2.2)	(2.2)
Total	**622.8**	**661.6**	**669.3**

(1) By reference to 2013 average exchange rates.

Revenues in Romania (including intersegment revenues) for the year ended December 31, 2014 were €471.1 million (including intersegment revenues of €1.4 million) compared with €417.8 million (including intersegment revenues of €3.9 million) for the year ended December 31, 2013, an increase of 12.8%. On a constant currency basis (by reference to 2013 average exchange rates), our revenues in Romania would have been higher by €2.2 million meaning €473.3 million in the year ended December 31, 2014, an aggregate increase of 13.3% compared to the year ended December 31, 2013. Revenue growth in Romania on a constant currency basis was driven primarily by sale of handsets and other equipment, increase in our cable TV, fixed internet and data RGUs and increase in mobile telephony ARPU and RGUs. Our cable TV RGUs increased from 2,451,000 at December 31, 2013 to 2,599,000 at December 31, 2014, an increase of 6.0%, and our fixed internet and data RGUs increased from 1,683,000 at December 31, 2013 to 1,834,000 at December 31, 2014, an increase of 9.0%. Mobile telephony RGUs increased from 1,089,000 at December 31, 2013 to 1,388,000 at December 31, 2014, an increase of 27.5%. This increase is the result of launching a new offer with competitive tariffs and also the possibility of acquiring a mobile handset. As a result, also the ARPU from mobile telephony increased in the year ended December 31, 2014 to 1.73 €/month compared with 1.44 €/month in the year ended December 31, 2013, an increase of 20.1%. Other revenues increased mainly as a result of revenues from sales of handsets together with mobile telephony subscriptions and sales of other equipment to our customers for retention purposes. Growth in our cable TV, fixed internet and data, mobile telephony and other revenues were partially offset by a decrease in our number of DTH RGUs and a decrease in residential fixed telephony RGUs and ARPU. DTH RGUs decreased from 821,000 at December 31, 2013 to 725,000 at December 31, 2014, a decrease of 11.7%. That decrease was driven by low levels of investment in CPE, which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment, such as satellite receivers and decoders, and DTH subscriber leaving our services for financial reasons, moving to our competitors or migrating from our DTH services to our cable TV services. Residential fixed telephony RGUs decreased from 1,403,000 at December 31, 2013 to 1,346,000 at December 31, 2014, a decrease of 4.1% and fixed telephony ARPU decreased from 1.67 €/month for the year ended December, 2013 to 1.41 €/month for the year ended December 31, 2014, a decrease of 15.6%. The decrease in ARPU is mainly the result of decrease in regulated interconnection rates starting with April 1, 2014 from 0.67 €/month to 0.14 €/month.

Revenues in Hungary for the year ended December 31, 2014 were €119.1 million compared with €119.0 million for the year ended December 31, 2013, an increase of 0.1%. On a constant currency basis (by reference to 2013 average exchange rates), our revenues in Hungary would have grown by an additional €4.7 million to €123.7 million in the year ended December 31, 2014, an aggregate increase of 3.9% compared to the year ended December 31, 2013. The increase in revenues was principally due to an increase our cable TV RGUs, fixed internet and data RGUs and other revenues. Our cable TV RGUs increased from 404,000 at December 31, 2013 to 411,000 as at December 31, 2014, an increase of 1.7%, our fixed internet and data RGUs increased from 329,000 at December 31, 2013 to 347,000 at December 31, 2014, an increase of 5.5% and our fixed-line telephony RGUs increased from 288,000 at December 31, 2013 to 301,000 at December 31, 2014, an increase of 4.5%. Despite the increase in the fixed-line telephony RGUs, the revenues decreased as a result of lower fixed-line interconnection rates by approximately 60%, starting with 2014. All these increases were driven primarily by our investments in expanding and upgrading our fiber optic network. Other revenues increased as a result of additional revenues from network management agreements with smaller local cable and internet providers that we sometime undertake. Our mobile internet and data RGUs decreased by 9.5% from 21,000 RGUs at December 31, 2013 to 19,000 RGUs at December 31, 2014, due primarily to decrease in our DTH subscribers as this service is addressed mainly to them. In Hungary, we act as a reseller of mobile internet and data services, selling services which utilize the Telenor network under our "Digi" brand. Our DTH RGUs decreased from 341,000 at December 31, 2013 to 330,000 at December 31, 2014, a decrease of 3.2%. That decrease was driven by low levels of investment in DTH CPE which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment, such as satellite receivers and decoders and DTH subscribers leaving our services for financial reasons or migrating to our competitors.

Revenues in Spain (including intersegment revenues) for the year ended December 31, 2014 were €54.8 million (including intersegment revenues of €0.7 million) compared with €48.5 million (including intersegment revenues of €0.9 million) for the year ended December 31, 2013, an increase of 13.0%. The increase in revenues was principally due to an increase in the number of our mobile telephony RGUs from 309,000 at December 31, 2013 to 423,000 at December 31, 2014, an increase of 36.9% and an increase in the number of our mobile internet RGUs from 103,000 at December 31, 2013, to 187,000 at December 31, 2013, an increase of 81.6%

Revenues in Other for the year ended December 31, 2014 were €18.9 million compared with €23.5 million for the year ended December 31, 2013, a decrease of 19.6%. On a constant currency basis (by reference to 2013 average exchange rates), our revenues in Other would have been higher by €0.8 million meaning €19.7 million in the year ended December 31, 2014, an aggregate decrease of 16.2% compared to the year ended December 31, 2013. The decrease in revenues was principally due to a decrease in the number of DTH RGUs in the Czech Republic from 157,000 as at December 31, 2013 to 134,000 DTH RGUs as at December 31, 2014. The decrease in Czech Republic was driven by the competitive pressure as well as low levels of investment in DTH CPE which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment, such as satellite receivers and decoders, and DTH subscribers leaving our services for financial reasons.

Other income (***Gain from sale of discontinued operations***) for the year ended December 31, 2013 of €37.6 million and for the year ended December 31, 2014 of €9.6 million represents mainly the result of the disposal of Slovakia.

Total operating expenses

Our total operating expenses for the year ended December 31, 2014 were €622.9 million compared with €571.1 million for the year ended December 31, 2013, an increase of 9.1%.

The table below sets out the expenses per segment (which excludes depreciation and amortization) as a percentage of revenues (including intersegment transactions) for the years ended December 31, 2013 and 2014.

Segment	**Year ended 31 December, 2013**	**2014**
	Expenses as % of revenues	
Romania	52.93%	62.43%
Hungary	62.40%	60.74%
Spain	84.69%	91.94%
Other	81.13%	85.89%
Discontinued Operations	64.16%	-

Operating expenses in Romania (including intersegment expenses) for the year ended December 31, 2014 were €294.1 million compared with €221.2 million for the year ended December 31, 2013, an increase of 33.0%. This increase comes mainly from sales of handsets and other equipment at cost (€42.8 million in the year ended December 31, 2014 compared with €1.8 in the year ended December 31, 2013), increase in salaries, the new tax on special constructions (of approximately 1% of our revenues in Romania), an additional spectrum costs for the new 900 Mhz license and larger telephony interconnection charges associated with our new mobile offerings.

Operating expenses in Hungary for the year ended December 31, 2014 were €72.3 million compared with €74.3 million for the year ended December 31, 2013, a decrease of 2.7%. This decrease was principally due to the renegotiation of certain programming agreements for lower prices and the termination of others.

Operating expenses in Spain (including intersegment expenses) for the year ended December 31, 2014 were €50.4 million compared with €41.1 million for the year ended December 31, 2013, an increase of 22.6%. The increase in operating expenses was principally due to is the result of an increase in interconnection charges as a result of an increase in our RGU number and higher traffic per user.

Operating expenses in Other for the year ended December 31, 2014 were €16.2 million compared with €19.1 million for the year ended December 31, 2013, a decrease of 15.2%. The decrease in operating expenses was due mainly to the decrease of our number of RGU's in Czech Republic.

Depreciation, amortization and impairment of tangible and intangible assets

Depreciation, amortization and impairment of tangible and intangible assets	**For the year ended December 31,**	
	2013	**2014**
Continuing Operations	**(euro in millions)**	
Depreciation of property, plant and equipment	122.3	124.2
Amortization of non-current intangible assets	18.9	20.1
Amortization of programme assets	63.0	46.2
Impairment of property, plant and equipment	1.6	1.5
Total	**205.7**	**192.1**
Discontinued Operations	**2.5**	**-**
Total	**208.3**	**192.1**

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment was €124.2 million for the year ended December 31, 2014 compared with €122.3 for the year ended December 31, 2013, an increase of 1.6%. This increase was the result of higher additions especially in the Customer Premises Equipment (CPE) category.

Amortization of non-current intangible assets

Amortization of non-current intangible assets was €20.1 million for the year ended December 31, 2014 compared with €18.9 million for the year ended December 31, 2013, an increase of 6.3% as a result of additions of mobile telephony licenses.

Amortization of programme assets

Amortization of program assets was €46.2 million for the year ended December 31, 2014 compared with €63.0 million for the year ended December 31, 2013, a decrease of 26.7%. This was mostly due to the fact that for the second part of 2014 we didn't have the Football Rights for the Romanian territory.

Operating profit

For the reasons set forth above, our operating profit was €48.4 million for the year ended December 31, 2014 compared with €90.6 million for the year ended December 31, 2013.

Net finance income (expense)

We recognized net finance expense of €60.3 million in the year ended December 31, 2014 compared with €62.7 million in the year ended December 31, 2013, a decrease of 3.8%. This increase was primarily due to a decrease in our other financial expenses from €23.6 million in the year ended December 31, 2013 to €5.8 million in the year ended December 31, 2014. The other financial expenses recorded in the year ended December 31, 2013 resulted primarily from the refinancing of substantially all of our financial liabilities, which took place on November 4, 2013. The decrease in other financial expenses was partially offset by the increase in the interest expense (which includes also the amortization of borrowing costs) for our financial debt from €38.8 million in the year ended December 31, 2013 to €49.9 million in the year ended December 31, 2014, and also by a change in foreign exchange differences (net) from a net gain of €2.6 million in the year ended December 31, 2013 to a net loss of €2.6 million in the year ended December 31, 2014, which resulted primarily from the depreciation of the RON in relation to the Euro.

Profit / (Loss) before taxation

For the reasons set forth above, our loss before taxation was €12.0 million for the year ended December 31, 2014 compared with a profit of €27.8 million for the year ended December 31, 2013.

Income tax expense

An income tax gain of €5.1 million was recognized in the year ended December 31, 2014 compared to a tax expense of €7.5 million recognized in the year ended December 31, 2013. The tax gain comes mainly from the deferred tax asset recognized for losses and for expenses which will become deductible in the future at the level of the Romanian subsidiary.

Profit/ (loss) for the year

For the reasons set forth above, our net loss for the year ended December 31, 2014 was €6.8 million compared with a profit of €20.3 million for the year ended December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows as well as debt financing. Going forward, we expect to fund our cash obligations and capital expenditures primarily out of our operating cash flows, supplemented in part by the ING Facilities Agreement, the Citi Facilities Agreement, other letter of guarantee facilities and other credit agreements. We believe that our strong and, in local currency, relatively predictable operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

All of our businesses generally produce positive operating cash flows that are relatively constant from month to month. Due to the recent upgrade of our fiber optic network, our network-related capital expenditure is expected to be lower in the near to medium term than in the years ended December 31, 2013 and 2014 and any additional network capital expenditures are expected to be largely discretionary. Variations in our aggregate cash flow during the periods under review principally represented increased or decreased cash flow used in investing activities and cash flow from financing activities.

We have made and intend to continue to make significant investments in the growth of our businesses by acquiring new and renewing existing content rights, expanding our mobile telecommunications network (including making payments under and complying with obligations under our newly acquired license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum) and our fiber optic networks and procuring CPE which we lend free of charge to our customers for the duration of their subscriptions. We believe that we will be able to continue to regulate our cash flow needs by the acceleration or deceleration of our growth and expansion plans.

We also believe that, for the coming 12 months, our operating cash flows will be adequate to fund our working capital requirements.

Key Ratios

In accordance with the terms of our financial obligations, we are required to compute and present certain ratios.

In accordance with the terms of the Notes, we are required to compute the Consolidated Leverage Ratio if certain events take place. The Consolidated Leverage Ratio means the ratio of (i) the aggregate amount of Consolidated Total Indebtedness outstanding on such date to (ii) the aggregate amount of EBITDA (computed in accordance with the terms of the Notes) for the most recent four full consecutive fiscal quarters for which internal consolidated financial statements of the Company are available at the time of such determination. Consolidated Total Indebtedness is €713.0 million and EBITDA computed in accordance with the terms of Notes is €233.0 million, leading to a gross Consolidated Leverage Ratio of 3.1x.

In accordance with the terms of the New Senior Facilities Agreement, we have to compute and present for each quarter the Leverage Ratio and the Interest Cover Ratio. The Leverage Ratio is the ratio of Consolidated Total Net Indebtedness to EBITDA (computed in accordance with the terms of the New Senior Facilities Agreement). Consolidated Total Net Indebtedness is €675.3 million and EBITDA computed in accordance with the terms of New Senior Facilities Agreement is €233.0 million, leading to a Consolidated Leverage Ratio of 2.9x. Interest cover is the ratio of EBITDA computed in accordance with the terms of New Senior Facilities Agreement to Net Total Interest. Net Total Interest for the year ended December 31, 2014 is €46.6 million, leading to an Interest Cover Ratio of 5.0x.

EBITDA computed in accordance with the terms of Notes and EBITDA computed in accordance with the terms of New Senior Facilities Agreement (both €233.0 million) differ from the Adjusted EBITDA presented in our financial statements (€230.8 million). The variance is caused by different definitions used in each of the financial instruments. The main adjustment comes from the fact that both EBITDA computed in accordance with the terms of Notes and EBITDA computed in accordance with the terms of New Senior Facilities Agreement are adjusted upward with the value of Stock Option Shares granted to the management (€2.4 million);

Historical Cash Flows

The following table sets forth, for the years ended December 31, 2013 and 2014 our consolidated cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

	Year ended December 31,	
	2013	**2014**
	(euro in millions)	
Cash flows from operations before working capital changes	**271.0**	**232.0**
Cash flows from changes in working capital	(18.9)	(5.7)
Cash flows from operations	**252.1**	**226.3**
Interest paid	(29.6)	(46.7)
Income tax paid	(15.3)	(4.6)
Cash flow from operating activities	**207.2**	**174.9**
Cash flow used in investing activities	**(174.6)**	**(204.4)**
Cash flows from financing activities	**5.8**	**33.6**
Net increase (decrease) in cash and cash equivalents	38.4	4.1
Cash and cash equivalents at the beginning of the period	12.6	50.2
Effect of exchange rate fluctuation on cash and cash equivalent held	(0.7)	(0.0)
Cash and cash equivalents at the closing of the period	**50.2**	**54.3**

Cash flows from operations before working capital changes were €232.0 million in the year ended December 31, 2014 and €271.0 million in the year ended December 31, 2013 for the reasons discussed above under "*—Results of Operations for the Years Ended December 31, 2014 and 2013* "

The following table shows changes in our working capital:

	Year ended December 31,	
	2013	**2014**
Changes in:	**(euro in millions)**	
Trade receivables and other assets	(5.3)	(33.5)
Inventories	5.8	(4.5)
Trade payables and other current liabilities	(21.6)	28.5
Deferred revenue	2.2	3.8
Total	**(18.9)**	**(5.7)**

We had a net working capital requirement of €5.7 million in the year ended December 31, 2014. This requirement comes mainly from an increase in trade receivables and other assets balances of €33.5 million primarily as a result of sale of customer equipment in installments and/or with a subsidy to our subscribers but it is compensated by the increase in trade payables related mainly to the same equipment. The increase in inventories comes also from equipment to be sold to our clients. These were partially offset by an increase in deferred revenue of €3.8 million as a result of increase in the services where we usually invoice the clients in advance (such as cable TV, Internet and mobile telephony subscription fees).

We had a net working capital requirement of €18.9 million in the year ended December 31, 2013. This net working capital requirement reflected a decrease in trade payables and other current liabilities of €21.6 million, primarily due to (i) decrease in our third party expenses (mainly programming and telephony expenses) and shorter payment cycles and (ii) an increase in trade receivables and other assets of €5.3 million mainly due to increase in the advances given to suppliers for services. These were partially offset by a decrease in our inventories of €5.8 million as we reverted to the level from the beginning of 2012 and an increase in deferred revenue of €2.2 million as a result of increase in the services were we usually invoice the clients in advance (such as cable TV and Internet).

Cash flows from operating activities were €174.9 million in the year ended December 31, 2014 and €207.2 million in the year ended December 31, 2013. Included in these amounts are deductions for interest paid and income tax paid, which were €51.4 million in 2014 and €44.9 million in 2013.

Interest paid was €46.7 million in the year ended December 31, 2014 compared with €29.6 million in the year ended December 31, 2013 mainly as a result higher interest rate for the Notes issued on November 4, 2013. Income tax paid was €4.6 million in the year ended December 31, 2014 compared with €15.3 million in the year ended

December 31, 2013 mainly as a result of lower income tax paid in Romania, Spain and Czech Republic, and no tax paid for our subsidiary from Slovakia (disposed at the end of August 2013).

As at December 31, 2014, in Hungary we had a deferred tax asset of €5.3 million coming from carried forward fiscal losses of €27.8 million (the income tax rate is 19%), and in Romania, we had a deferred tax asset of €1.8 million coming from carried forward fiscal losses of €11.0 million (the income tax rate is 16%), which we can use to reduce the amount of current income taxes payable in future periods. In addition, in Romania we have interest expenses of €27.2 million which may become deductible in the future if the debt to equity ratio (computed for fiscal purposes) falls below 3. The related deferred tax asset recognized as at December 31, 2014 is €4.4 million.

As at December 31, 2013, we had in Hungary a deferred tax asset of €7.6 million coming from carried forward fiscal losses of €40.0 million and part of this was used to reduce the income tax paid in 2014.

Cash flows used in investing activities were €204.4 million in the year ended December 31, 2014, and €174.6 million in the year ended December 31, 2013.

Purchases of property, plant and equipment were €214.8 million in the year ended December 31, 2014 and €215.6 million in the year ended December 31, 2013. The following table shows a reconciliation between additions and payments for our Property, plant and equipment, Intangible assets and Programme Assets for the years ended December 31, 2013 and 2014:

	For the year ended December 31,	
	2013	**2014**
	(euro in millions)	
Network and equipment(1)	85.0	85.8
Customer Premises Equipment (CPE)(2)	19.8	39.0
Program assets – content for our own channels(3)	53.7	33.8
License and software(4)	16.4	39.2
Customer relationships(5)	2.0	5.8
Other additions to tangible assets(6)	12.3	14.9
Other additions to intangible assets(7)	2.0	4.6
Total additions to tangible and intangible assets	**191.3**	**223.1**
Differences between capital expenditures for tangible and intangible assets and additions to tangible and intangible assets(8)	21.8	(22.2)
Capital expenditures for the acquisition of tangible and intangible assets	213.0	200.9
Acquisitions of shares(9)	2.6	13.9
Total capital expenditures	**215.6**	**214.8**

(1) Composed primarily of costs incurred for additions of materials and equipment to expand and upgrade our fiber optic networks; costs incurred for our personnel and subcontractors related to the expansion and upgrade of our fiber optic and mobile networks; costs incurred for materials and equipment to expand and maintain our mobile networks; and costs incurred for equipment needed to operate our own channels

(2) Composed of costs incurred for additions to CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE by other members of our industry), and other equipment such as, set-top boxes, mobile data devices, mobile and fixed-line telephone handsets, satellite dishes and satellite receivers and smartcards

(3) Composed of costs incurred for additions of content for our own network

(4) Composed primarily of advance payments for our 900 Mhz license in Romania (in 2013) and payment for our 1800 Mhz license in Hungary (in 2014) and software and licenses for our fiber optic and mobile networks

(5) Composed primarily of costs incurred when acquiring customer contracts from other companies directly by purchasing the assets of those companies

(6) Composed primarily of costs incurred for additions to our land, buildings, vehicles and furniture

(7) Composed primarily of costs incurred for the use of third parties who resell our services to new clients in Hungary, Spain and Italy

(8) This is primarily composed of changes in trade payables owed to fixed asset suppliers. Changes in trade payables owed to fixed asset suppliers is composed of payments for additions to tangible and intangible assets recognized in prior periods, advance payments for additions to tangible and intangible assets which we expect will be recognized in future periods and accruals for additions to tangible and intangible assets for which we are obligated to make payments in future period periods.

(9) Composed of cash spent to acquire a non-controlling interest in subsidiaries and associates and to make payments for shares acquired in current or prior periods.

During the year ended December 31, 2014, we had acquisitions of tangible and intangible assets of €223.1 million. We had €85.8 million of additions to our network and equipment, primarily to expand and upgrade our fiber optic networks. We had €33.8 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions in 2014 and 2015 for contracts entered into in prior

years. We had €39.2 million of additions to our intangible assets, primarily to recognize a €32.2 million payment for a frequency block of 5 MHz of bandwidth in the 1800 MHz frequency spectrum in Hungary and certain software licenses for equipment for our fiber optic and mobile networks. In addition, we had additions of €39.0 million to acquire CPE, primarily set-top boxes and GPON terminals (which may not generally be treated as CPE by other members of our industry). We also had additions to customers' relationships of €5.8 million, reflecting amounts incurred for the acquisition of customers from other cable and internet providers in Romania. Capital expenditures for the acquisition of tangible and intangible assets were €22.2 million lower than additions to tangible and intangible assets in the year ended December 31, 2014. This was primarily due to longer payment terms especially for part of the network and equipment and CPE additions.

Out of the payments made for acquisition of shares, €1.2 million are payments made by CCS for the acquisition of shares in RCS Management. Out of the remaining €12.8 million, €9.8 are related to share acquisitions and €2.9 to acquisition of non controlling interests while retaining control.

During the year ended December 31, 2013, we had acquisitions of tangible and intangible assets of €191.3 million. We had €85.0 million of additions to our network and equipment, primarily to expand and upgrade our fiber optic networks. We had €53.7 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions in 2013 and 2014 for contracts entered into in prior years. We had €16.4 million of additions to our intangible assets, primarily to recognize a €14.0 million advance payment for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum and certain software licenses for equipment for our fiber optic and mobile networks. In addition, we had additions of €19.8 million to acquire CPE, primarily set-top boxes and GPON terminals (which may not generally be treated as CPE by other members of our industry) and for our cable TV customers. We also had additions to customers' relationships of €2.0 million, reflecting amounts incurred for the acquisition of customers from other cable and internet providers in Romania. Capital expenditures for the acquisition of tangible and intangible assets were €21.8 million higher than additions to tangible and intangible assets in the year ended December 31, 2013. This was primarily due to payments made for acquisitions from prior periods, as the level of our investments has decreased in 2013.

Out of the payments made for acquisition of shares, €0.9 million are payments made by CCS for the acquisition of shares in RCS Management. The remaining €1.7 million are related to certain acquisitions from prior periods.

Cash flows from financing activities are €33.6 million in the year ended December 31, 2014 and €5.8 million in the year ended December 31, 2013.

On June 19, 2014 we drew the remaining portion of €45 million under the term loan under our New Senior Facilities Agreement. We also paid financing costs of €6.8 million, dividends of €1.7 million, settlement of derivative transactions of €2.2 million and installments under our finance leases of €0.9 million.

In the year ended December 31, 2013 we drew new financings of €675.5 million mainly from the Bond Proceeds and our New Senior Facilities Agreement and we repaid €635.7 million representing substantially all of our financial indebtedness. We also paid financing costs and early prepayment fees of €25.6 million, dividends of €3.1 million, settlement of derivative transactions of €4.3 million and installments under our finance leases of €1.0 million.

Planned Cash Requirements and Capital Expenditure Plan

We anticipate that our cash requirements in the near to medium term will consist principally of expenditures to purchase further broadcasting rights for our premium TV channels, to expand our mobile telecommunications services, upgrade and build limited expansions to our fiber optic network, and to service our debt. In addition, we will consider from time to time purchasing cable TV or internet and data services operations in Romania and Hungary. The following discussion sets out our principal cash needs based, among other things, on our existing capital expenditure plan, our outstanding bank loans and other contractual commitments.

Beyond our contractually committed capital expenditures (relating to broadcasting rights) and our expected network-related capital expenditures (relating to maintenance capital expenditures), our investment plan for the near to medium term is largely discretionary. These expenditures could include:

- acquisition of additional sports, film and other broadcasting rights;
- renewal of certain existing broadcast rights;
- expansion of our fiber optic network; and
- costs associated with CPE and the acquisition of new customers.
- expanding and developing our mobile networks

As at December 31, 2014, our commitments to incur additional capital expenditures (consisting primarily of payments for content rights, and commitments to purchase of equipment and CPE) amounted to approximately €38.4 million. Due to the recent upgrade of our fiber optic network, our network-related capital expenditure is expected to be lower in the near to medium term than in the years ended December 31, 2013 and 2014 and any additional network capital expenditures are expected to be largely discretionary.

Contractual Obligations

Our principal contractual obligations consist of our obligations in respect of financial indebtedness that is owed under our credit facilities, our contractual obligations for the lease of satellite capacity from Intelsat, the annual radio spectrum fees for our mobile licenses in Romania and Hungary, the remaining payments for certain broadcasting rights, operational leasing arrangements, financial leasing arrangements for part of our headquarters in Bucharest and a parcel of land outside of Bucharest and financial leasing arrangements used to purchase cars for our fleet.

The following table sets forth our payment obligations as at December 31, 2014 based on the agreements in place as at that date. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in this table:

	TOTAL	**2015**	**2016 - 2017**	**2018 - 2019**	**2020 and after**
			(euro in millions)		
Interest bearing loans and borrowings, including short term facilities	929.4	86.8	223.6	140.7	478.3
Finance lease obligations[(1)]	8.0	1.3	4.5	0.7	1.5
Overdraft facilities	4.0	4.0	-	-	-
Capital expenditure and operating expenditure contractual commitments[(2)]	195.7	65.8	65.0	26.4	38.5
Acquisition of subsidiaries	2.6	2.6	-	-	-
Trade and other payables[(3)]	228.5	217.0	11.5	-	-
Interest rate swaps used for hedging	1.0	1.0	-	-	-
Total	**1,369.2**	**378.5**	**304.6**	**167.8**	**518.3**

(1) Includes estimated interest. Interest was estimated by using 3-month EURIBOR or a fixed rate as of December 31, 2014 for all future periods.

(2) Includes mainly payments for premium content, satellite usage, spectrum fee payments, open orders for purchases of equipment and obligations under agreements to lease real property or movable property that are enforceable and legally binding and that specify all significant terms (*e.g.*, object of the lease, pricing terms and duration).

(3) Includes trade payables, other long-term liabilities and income tax.

Financial Obligations

Bond (the Notes)

On October 25, 2013, CCS entered into a Purchase Agreement through which on November 4, 2013 issued Notes with a value of €450 million. The Notes, are secured, by (i) substantially all of the movable assets of RCS&RDS, including bank accounts, receivables, intellectual property rights, networks, equipment, inventories, insurance and proceeds related to any of the foregoing, (ii) certain shares of the Company's material subsidiaries and its own treasury shares, in each case, held by the Company and (iii) certain assets of the Company, including the shares it holds in RCS&RDS, certain bank accounts and receivables under the Proceeds Loan (collectively, the "Collateral"). The Collateral is shared with the New Senior Facilities Agreement, ING Facilities Agreement and the Citi Facilities Agreement on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement. The Proceeds Loan is the loan provided by CCS to its subsidiary, RCS&RDS on 4 November 2013.

In 2014 we concluded coupon swaps for the entire Proceeds Loan's value (€450 million), all with a termination date of 23 September 2016.

New Senior Facilities Agreement

On October 21, 2013 we entered into a committed facility agreement, as borrower, with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the repayment of our existing facilities and for general corporate purposes (the "**New Senior Facilities Agreement**"). The New Senior Facilities Agreement is unconditionally guaranteed by CCS on a senior secured basis, and shares in the Collateral pursuant to the terms of the Intercreditor Agreement.

The New Senior Facilities Agreement consists of a term loan facility with a capacity of €250 million and a revolving credit facility with a capacity of €50 million. The interest rate under the New Senior Facilities Agreement is floating at a margin of 4.35% per annum plus EURIBOR. Interest is payable every three or six months with respect to the term loan (as at this moment we have a three month interest period), and one, three or six months with respect to the revolving credit facility.

The New Senior Facilities Agreement contains certain financial covenants, including maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 4.25.

The New Senior Facilities Agreement contains certain other covenants, including a cross-default provision pursuant to which an event of default occurs if any financial obligation of the Group is not paid when due or becomes payable or is capable of becoming payable before its due date or any facility under which financial obligations arise ceases to be available or becomes capable of early termination.

On November 4, 2013 we drew €205 million of the term loan facility on the Issue Date to repay certain of our existing credit facilities and on June 19, 2014 we drew the remaining €45 million under the term loan. The revolving credit facility remains available until October 21, 2016.

The following table sets out the repayment schedule in respect of the €250 million term loan:

Repayment date	Amount EUR (in millions)
October 21, 2015	35.7
April 21, 2016	35.7
October 21, 2016	35.7
April 21, 2017	35.7
October 21, 2017	35.7
April 21, 2018	35.7
October 21, 2018	35.7
Total	**250.0**

ING Facilities Agreement

On November 1, 2013, we entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the New Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of (i) an uncommitted overdraft facility of up to €5.0 million, of which up to €1.0 million can also be used for letters of guarantee (starting with March 16, 2015, through the signing of an addendum to the ING Facilities Agreement, the sublimit is removed) and (ii) an uncommitted facility for letters of guarantee with an initial amount of €9.675 million and Romanian lei 8.1 million.

As of December 31, 2014, we had €4.0 million drawn and €0.9 million Letters of Guarantee issued under the overdraft facility. Out of the (ii) uncommitted facility for letters of guarantee, as of December 31, 2014 total amount of the Letters of Guarantee issued is €1.375 million and Romanian lei 1.3 million

Citi Facilities Agreement

On October 25, 2013, we entered into, as borrower, the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes. On October 25, 2013, the Company entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group.

On November 4, 2013 we repaid the Citi Facilities Agreement using the proceeds from the Bond and the New Senior Facilities Agreement. Following the repayment, the maximum amount made available under the Citi Facilities Agreement was decreased. Thus amended, the Citi Facilities Agreement consists of (i) an uncommitted overdraft/bank guarantee facility in the amount of US$5.0 million and (ii) an uncommitted bank guarantee facility with an initial amount of US$8.1 million and €500,000. On November 25, 2014 the (i) uncommitted overdraft/bank

guarantee facility was increased to US$7.0 million.

As of December 31, 2014, overdraft/bank guarantee facility utilised was (i) US$1.9 million all of them being letters of guarantee, and (ii) we had letters of guarantee issued in the amount of US$5.9 million and €500,000.

BRD Letters of Guarantee Facility

As of December 31, 2014 we had letters of guarantee issued by BRD with a value of €1.0 million.

Santander Facility

On November 4, 2014, we entered into a new short-term facility agreement with Banco Santander for €1.5 million, which consolidates and replaces all the previous facilities. The maturity date for this new facility is November 4, 2015 and the amount provided decreased to €1 million starting with March 4, 2015. As of December 31, 2014, the balance drawn under the Santander Facility was €420,000.

Caixa Facility

On February 6, 2014, we entered into a reverse factoring facility agreement with Caixabank, S.A. (the "Caixa Facility") through which Caixa pays in advance DIGI Spain's suppliers. On January 30, 2015, we renewed the reverse factoring facility agreement. The term of the Caixa Facility is indefinite and the maximum amount which can be used is €500,000. As of December 31, 2014, the balance drawn under the Caixa Facility was €417,000

Unicredit cash collateral agreement

On October 5, 2010, we entered into a cash collateral agreement with UniCredit Tiriac Bank S.A., for €59,484 for issuance of a letter of counter guarantee, which is valid until January 31, 2017 (the "**Unicredit Cash Collateral Agreement**"). The agreement entered into force on October 8, 2012, and is secured with a moveable mortgage over a cash collateral account opened with UniCredit Tiriac Bank S.A.

Banca Transilvania credit agreement

On July 14, 2014 we signed two credit agreements with Banca Transilvania, with a total value of RON 29.300 million (€6.5 million using the exchange rate from December 31, 2014). *Banca Transilvania credit agreement* is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement. As of the date of this report *Banca Transilvania credit agreement* has expired without being drawn.

Financial Leasing Agreements

As at December 31, 2014, we had two leasing agreements in place with a total outstanding value of approximately €7.0 million.

One of these leasing agreements is a sale-leaseback arrangement entered into on May 11, 2009 for part of our headquarters in Bucharest with ING Lease Romania IFN SA, with a financed amount (including interest) of US$12.5 million. ING Lease Romania IFN SA has sold all its assets to Raiffeisen Leasing IFN SA at the end of January 2014. As at December 31, 2014, the outstanding amount under the sale-leaseback agreement was US$5.4 million.

We have also entered into a leasing agreement for a parcel of land in Poiana Brasov city, Brasov County, with a financed amount of €3.2 million (excluding VAT). As at December 31, 2014, the outstanding amount under this leasing agreement was €2.6 million.

Pension Obligations

Under the regulatory regimes applicable in our countries of operation, employers are required to make payments to a national social security fund for the benefit of employees. Other than these social security payments, we do not maintain any pension plans for employees and incur no pension obligations.

Contingent Obligations

Apart from the commitments described above, we have no material contingent obligations.

OFF-BALANCE SHEET ARRANGEMENTS

Other than commitments included under the caption “capital expenditure and operating expenditure contractual commitments” in “—*Contractual Obligations*” we do not have any material off-balance sheet arrangements.

ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND DISCRETION

We prepare our financial statements in accordance with IFRS. Certain financial reporting standards under IFRS require us to make judgments or to use our discretion in determining the values to be recorded, as described in the notes to our audited financial statements included elsewhere in this annual report. There were no changes in our accounting policy during the year ended December 31, 2014

CABLE COMMUNICATIONS SYSTEMS NV

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

as of and for the year ended 31 December 2014

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GENERAL INFORMATION

Directors:
Zoltan Teszari, President of the Board of Directors
Marius Catalin Varzaru
Monique Charlotte Rosenkotter-Donker
Parveen Chantal Soebrati

Registered Office:
Cable Communications Systems N.V.

Naritaweg 165, 1043 BW, Amsterdam, Netherlands

Auditors:
Ernst & Young Assurance Services S.R.L.

Building a better working world

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Cable Communications Systems NV

We have audited the accompanying consolidated financial statements of Cable Communications Systems NV and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

As disclosed in Note 2.1 (b) to the consolidated financial statements, these statements have been prepared as part of the filing obligations of the Company stated in the Offering Memorandum dated 4 November 2013. These consolidated financial statements are not intended for statutory filing purposes in any jurisdiction.

30 April 2015

On behalf of
Ernst & Young Assurance Services SRL

Anamaria Cora
Partner

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	5	643,079	624,672
Intangible assets	6a	199,741	168,653
Available for sale financial assets (AFS)	7	41,296	30,982
Investment in associates		2,492	2,280
Long term receivables		6,748	2,666
Deferred tax assets	19	2,933	5,008
Total non-current assets		**896,289**	**834,261**
Current assets			
Inventories	8	22,828	21,065
Programme assets	6b	16,838	29,387
Trade and other receivables	9	109,862	81,484
Income tax receivable		1,466	4,857
Other assets	10	9,927	11,680
Cash and cash equivalents	11	54,288	50,234
Total current assets		**215,209**	**198,707**
Total assets		**1,111,498**	**1,032,968**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	12	51	51
Share premium		8,247	8,248
Treasury shares		(16,703)	(16,703)
Reserves		45,287	54,094
Retained earnings		68,261	71,397
Total equity attributable to equity holders of the parent		**105,143**	**117,087**
Non-controlling interest		2,197	3,396
Total equity		**107,340**	**120,483**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings, including bonds	13	652,732	638,933
Deferred tax liabilities	19	28,204	37,826
Other long term liabilities		10,595	5,280
Total non-current liabilities		**691,531**	**682,039**
Current liabilities			
Trade and other payables	14	217,171	174,740
Interest-bearing loans and borrowings	13	45,746	11,458
Income tax payable		293	640
Derivative financial instruments	24	993	317
Deferred revenue		48,424	43,291
Total current liabilities		**312,627**	**230,446**
Total liabilities		**1,004,158**	**912,484**
Total equity and liabilities		**1,111,498**	**1,032,968**

The financial statements were approved by the Board of Directors on 30 April 2015 and were signed on its behalf by:

Zoltan Teszari, President of the Board of Directors

Marius Catalin Varzaru, Member of the Board of Directors

Monique Charlotte Rosenkotter-Donker, Member of the Board of Directors

Parveen Chantal Soebrati, Member of the Board of Directors

Serghei Bulgac, CFO

CABLE COMMUNICATIONS SYSTEMS
Consolidated Statement of profit or loss and other comprehensive income
for the year ended as at 31 December 2014
(all amounts are in thousand Euro, unless specified otherwise)

	Notes	2014 *Continuing Operations*	2014 *Discontinued Operations*	2014 *Total*	2013 *Continuing Operations*	2013 *Discontinued Operations*	2013 *Total*
Revenues	16	661,607	-	661,607	604,024	18,810	622,834
Other income	27	-		-	1,237	-	1,237
Gain from sale of discontinued operations	20	-	9,604	9,604	-	37,612	37,612
Operating expenses	17	(622,855)	-	(622,855)	(556,513)	(14,604)	(571,117)
Operating profit		**38,752**	**9,604**	**48,356**	**48,748**	**41,818**	**90,566**
Finance income	18	808	-	808	3,013	4,417	7,430
Finance expenses	18	(61,142)	-	(61,142)	(69,792)	(363)	(70,155)
Net finance costs		**(60,334)**	**-**	**(60,334)**	**(66,779)**	**4,054**	**(62,725)**
Profit / (loss) before taxation		**(21,582)**	**9,604**	**(11,978)**	**(18,032)**	**45,872**	**27,840**
Income tax	19	5,130	-	5,130	(1,993)	(5,540)	(7,533)
Net profit / (loss)		**(16,452)**	**9,604**	**(6,848)**	**(20,024)**	**40,332**	**20,308**
Other comprehensive income							
Items that will never be reclassified to profit or loss							
Revaluation of property, plant and equipment, net of tax		-	-	-	(923)	-	(923)
Items that are or may be reclassified to profit or loss							
Foreign operations – foreign currency translation differences		(8,796)	-	(8,796)	(5,524)	-	(5,524)
Available for sale financial asset, change in fair value net of tax	7, 19	8, 561	-	8, 561	5,295	-	5,295
Other comprehensive income for the year, net of tax		(235)	**-**	(235)	(1,152)	**-**	(1,152)
Total comprehensive income for the year		**(16,687)**	**9,604**	**(7,083)**	**(21,176)**	**40,332**	**19,156**
Profit / (Loss) attributable to:							
Equity holders of the parent		(6,434)	-	(6,434)	(19,160)	38,592	19,432
Non-controlling interest		(414)	-	(414)	(864)	1,740	876
Net profit / (loss) for the year		**(6,848)**	**-**	**(6,848)**	**(20,024)**	**40,332**	**20,308**
Total comprehensive income attributable to:							
Equity holders of the parent		(6,329)	-	(6,329)	(20,505)	39,054	18,549
Non-controlling interests		(754)	-	(754)	(671)	1,278	607
Total comprehensive income for the year		**(7,083)**	**-**	**(7,083)**	**(21,176)**	**40,332**	**19,156**

The financial statements were approved by the Board of Directors on 30 April 2015 and were signed on its behalf by:

Zoltan Teszari, President of the Board of Directors

Monique Charlotte Rosenkotter-Donker, Member of the Board of Directors

Marius Catalin Varzaru, Member of the Board of Directors

Parveen Chantal Soebrati, Member of the Board of Directors

Serghei Bulgac, CFO

	Notes	2014	2013
Cash flows from operating activities			
Profit/(loss) before taxation		**(11,978)**	**27,840**
Adjustments for:			
Depreciation, amortization and impairment	5, 6	192,061	208,285
Interest expense, net		49,865	38,441
Finance costs			22,137
Impairment of trade and other receivables	22	7,999	5,035
Unrealised losses/gains on derivative financial instruments		2,886	(1,030)
Equity settled share-based payments	23	2,418	1,842
Unrealised foreign exchange loss		(1,343)	5,586
Other non cash items		(313)	468
Gain on disposal of subsidiary		(9,604)	(37,612)
Cash flows from operations before working capital changes		**231,991**	**270,992**
Changes in:			
Trade receivables and other assets		(33,540)	(5,338)
Inventories		(4,463)	5,820
Trade payables and other current liabilities		28,525	(21,575)
Deferred revenue		3,791	2,158
Cash flows from operations		**226,304**	**252,057**
Interest paid		(46,746)	(29,588)
Income tax paid		(4,618)	(15,286)
Cash flows from operating activities		**174,940**	**207,183**
Cash flow used in investing activities			
Purchases of property, plant and equipment	5,14	(113,084)	(136,984)
Purchases of intangibles	6,14	(87,775)	(76,026)
Acquisition of subsidiaries, net of cash and NCI	21	(12,758)	(1,672)
Acquisition of AFS	21	(1,160)	(900)
Sale of subsidiaries, net of cash disposed	20	10,137	40,936
Proceeds from sale of property, plant and equipment		196	-
Cash flows used in investing activities		**(204,444)**	**(174,646)**
Cash flows from financing activities			
Dividends paid to shareholders		(1,741)	(3,104)
Proceeds from borrowings, including bonds issued		49,634	674,545
Proceeds from related party loan		-	953
Repayment of related party loan		-	(953)
Repayment of borrowings		(4,459)	(634,732)
Financing costs paid		(6,780)	(25,560)
Settlement of derivatives		(2,210)	(4,304)
Payment of finance lease obligations		(856)	(1,005)
Cash flows from financing activities		**33,588**	**5,840**
Net increase/(decrease) in cash and cash equivalents		**4,084**	**38,377**
Cash and cash equivalents at the beginning of the period	11	**50,234**	**12,561**
Effect of exchange rate fluctuations of cash and cash equivalents held		(30)	(704)
Cash and cash equivalents at the end of the period	11	**54,288**	**50,234**

CABLE COMMUNICATIONS SYSTEMS
Consolidated Statement of Changes in Equity
for the year ended 31 December 2014
(all amounts are in thousand Euro, unless specified otherwise)

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2014	**51**	**8,247**	**(16,703)**	**(23,160)**	**55,688**	**21,567**	**71,397**	**117,087**	**3,396**	**120,483**
Comprehensive income for the period										
Profit for the year	-		-	-	-		(6,434)	(6,434)	(414)	(6,848)
Foreign currency translation differences	-	-	-	*(8,456)*	-	-	-	*(8,456)*	*(340)*	*(8,796)*
Fair Value for AFS	-	-	-	-	-	*8,561*	-	*8,561*	-	*8,561*
Transfer of revaluation reserve (depreciation)	-	-	-	-	*(8,913)*	-	*8,913*	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	***(8,456)***	**(8,913)**	**8,561**	**2,479**	**(6,329)**	**(754)**	**(7,083)**
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Equity-settled share-based payment transactions *(Note 23)*	**-**	**-**	-	-	-	-	2,325	**2,325**	93	**2,418**
Dividends distributed	-	-	-	-	-	-	(3,500)	(3,500)	-	(3,500)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	***(1,175)***	***(1,175)***	***93***	***(1,082)***
Changes in ownership interests in subsidiaries										
Payments while having full control	-	-	-	-	-	-	(1,995)	(1,995)	(80)	(2, 075)
Movement in ownership interest while retaining control (Note 21)	-	-	-	-	-	-	(2,445)	(2,445)	(458)	(2,903)
Total changes in ownership interests in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	***(4,440)***	***(4,440)***	***(538)***	***(4,978)***
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**(5,615)**	**(5,615)**	***(445)***	**(6,060)**
Balance at 31 December 2014	**51**	**8,247**	**(16,703)**	**(31,616)**	**46,775**	**30,128**	**68,261**	**105,143**	**2,197**	**107,340**

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2013	**51**	**8,247**	**(16,703)**	**(17,866)**	**75,948**	**16,272**	**37,044**	**102,993**	**3,516**	**106,509**
Comprehensive income for the period										
Profit for the year	**-**	**-**	**-**	**-**	**-**		19,432	**19,432**	876	**20,308**
Other comprehensive income	**-**	**-**	**-**	***(5,294)***	***(20,260)***	***5,295***	***19,376***	***(883)***	***(269)***	***(1,152)***
Total comprehensive income for the period	**-**	**-**	**-**	**(5,294)**	**(20,260)**	**5,295**	**38,808**	**18,549**	**607**	**19,156**
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Equity-settled share-based payment transactions	-	-	-	-	-	-	1,763	1,763	79	1,842
Dividends distributed	**-**	**-**	-	-	-	-	(5,000)	**(5,000)**	(393)	**(5,393)**
Total contributions by and distributions to owners	***-***	***-***	***-***	***-***	***-***	***-***	***(3,237)***	***(3,237)***	***(314)***	***(3,551)***
Changes in ownership interests in subsidiaries										
Acquisition of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	(571)	**(571)**	(26)	**(597)**
Movement in ownership interest while retaining control (Note 21)	**-**	**-**	**-**	**-**	**-**	**-**	(647)	**(647)**	(388)	**(1,035)**
Total changes in ownership interests in subsidiaries	***-***	***-***	***-***	***-***	***-***	***-***	***(1,219)***	***(1,219)***	***(413)***	***(1,632)***
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**(4,456)**	**(4,456)**	***(727)***	**(5,183)**
Balance at 31 December 2013	**51**	**8,247**	**(16,703)**	**(23,160)**	**55,688**	**21,567**	**71,397**	**117,087**	**3,396**	**120,483**

1. CORPORATE INFORMATION

Cable Communications Systems Group ("the Group" or "CCS Group") comprises Cable Communications Systems N.V., RCS&RDS S.A. and their subsidiaries.

The parent company of the Group is Cable Communications Systems N.V. ("CCS" or "the Company" or "the Parent"), a company incorporated in Netherlands. The main operations are carried by RCS&RDS S.A (Romania) ("RCS&RDS"), Digi T.S kft (Hungary), Digi Spain Telecom SLU, Digi Czech Republic S.R.O. and Digi Italy SL. CCS registered office is located in Amsterdam (1043 BW), Naritaweg 165, Telestone 8, The Netherlands.

RCS&RDS is a company incorporated in Romania and its registered office is located at Dr. Staicovici 75, Bucharest, Romania.

RCS&RDS was setup in 1994, under the name of Analog CATV, and initially started as a cable TV operator in several cities in Romania. In 1996 following a merger with a part of another cable operator (Kappa) the name of the company became Romania Cable Systems S.A. ("RCS").

In 1998 Romania Cable Systems S.A established a new subsidiary Romania Data Systems S.A. ("RDS") for the purposes of offering internet, data and fixed telephony services to the Romanian market.

In August 2005, Romania Cable Systems S.A. absorbed through merger its subsidiary Romania Data Systems S.A. and changed its name into RCS&RDS.

RCS&RDS evolved historically both by organic growth and by acquisition of telecommunication operators and customer relationships.

The Group provides telecommunication services of Cable TV (television), Fixed and Mobile Internet and Data, Fixed-line and Mobile Telephony ("CBT") and Direct to Home television ("DTH") services in Romania, Hungary, Czech Republic, Spain and Italy. The largest operating company of the Group is RCS&RDS. At the end of 2014, CCS Group had a total of 12,205 employees (2013: 10,906 employees).

The principal shareholder of the CCS is RCS Management ("RCSM") a company incorporated in Romania. The ultimate shareholder of CCS is Mr. Zoltan Teszari, the principal controlling shareholder of RCSM. CCS and RCSM have no operations, except for holding and financing activities, and their primary/ only asset is the ownership of RCS&RDS and respectively CCS.

The consolidated financial statements were authorized for issue by the Board of Directors of CCS on 30 April 2015.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The 2013 financial statements were the Group's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

(b) Non –statutory consolidated financial statements

These Consolidated financial statements are not intended for statutory filing purposes in any jurisdiction. Consequently, they are not suitable for statutory filing in any jurisdiction. They are prepared as part of the filing obligations stated in the Offering Memorandum dated 4 November 2013. For statutory Dutch filing purposes the Group has applied the exception 408 of the Dutch Civil Code Book 2 Title 9 and therefore, the parent company, RCSM will file its consolidated financial statements as at and for the year ended 31 December 2014 with the auditor's opinion and the annual report in English within six months after the balance sheet date or within one month after a lawfully made later publication at the office of the commercial register.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for buildings, cable plant, equipment and devices and customer premises equipment measured at revalued amount, and except for available for sale financial assets and derivative financial instruments measured at fair value as described in the accounting policies under Note 2.2 below.

(d) Going concern assumption

Management believes that the Group will continue as a going concern for the foreseeable future. In recent years the Group operated in an environment of exchange rate volatility whereby the functional currencies (RON, HUF, etc.) fluctuated against the USD and EUR. The unfavourable evolution of the exchange rates has impacted the financial result. However it did not affect the operations of the Group. Despite these circumstances, the Group was able to mitigate the effects of the financial crisis that started globally in the second half of 2008 by readjusting its tariffs, maintaining its investment program and paying higher attention to the working capital management.

In the current year and recent years, the Group has managed to achieve consistently strong local currency revenue streams and cash flows from operating activities and has continued to grow the business. These results have been achieved during a period of significant investments in technological upgrades, new services and footprint expansion. The ability to offer multiple services is a central element of CCS Group strategy and helps the Group to attract new customers, to expand the uptake of service offerings within the existing customer base and to increase customer loyalty by offering high value-for-money package offerings of services and exclusive content. Historically capital expenditure has been significant given the upgrade of the network however is expected to decline in the short-to-medium term as the upgrade of the fibre network has been largely completed and the Group has the ability to add subscribers through bundled services at minimal incremental cost (committed capital expenditure – tangible and intangible assets – is presented in Note 25).
For further information refer to Note 22 ii) Liquidity risk.

(e) Functional and presentation currency

The functional currency as well as the presentation currency for the financial statements of each Group entity is the currency of the primary economic environment in which the entity operates (the local currency).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The consolidated financial statements are presented in Euro ("EUR") and all values are rounded to the nearest thousand EUR except when otherwise indicated. The Group uses the EUR as a presentation currency of the consolidated financial statements under IFRS based on the following considerations:

- management analysis and reporting is prepared in EUR;
- EUR is used as a reference currency in telecommunication industry in the European Union;
- Main debt finance instruments are denominated in EUR.

The translation into presentation currency of the financial statements of each entity is described under Note 2.2 below.

(f) Significant estimates and judgments

In the process of applying the Group's accounting policies, management has made the following significant judgements and estimates, including assumptions, that affect the application of 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 accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 21 purchase price allocation and goodwill calculation;
- Notes 2.2 (d): recognition and classification of programme assets;
- Notes 2.2 (c) and 5: recognition of customer premises equipment.

A significant judgment specific for the year 2014 is that, as at 31 December 2014 management considers that the IFRS 5 criteria for the recognition of the sale of Czech Subsidiary where not met, as at the year end there was no firm decision taken to sell Digi Czech Republic SRO.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3b: fair value of customer relationships acquired in a business combination;
- Note 6: key assumptions used in discounted cash flow projections in relation to goodwill impairment testing;
- Notes 7 and 22: measurement of available for sale financial assets;
- Note 2.2 (c): useful lives of property, plant and equipment;
- Note 5: revaluation of buildings, cable plant, equipment and devices and customer premises equipment;
- Note 22 i): impairment of trade receivables;
- Notes 22 iv) and vi): fair value of financial instruments;
- Note 25: contingencies;
- Note 13: bonds embedded derivatives;
- Note 19: recognition of deferred tax assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Parent has prepared the consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances for all Group entities.

New pronouncements

The accounting policies used are consistent with those of the previous financial year except for the following new and amended IFRSs which have been adopted by the Group as of 1 January 2014:

- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets
- IFRIC Interpretation 21: Levies

These new standards and amendments did not have a significant effect on the financial position or performance of the Group.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of CCS and its subsidiaries and the Group’s interest in associates as at 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using mostly consistent accounting policies. Upon consolidation adjustments are recorded in order to align the few inconsistent accounting policies.

Business combinations

The Group accounts for business combinations using the acquisition method. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. If the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

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

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity, unless it can be clearly demonstrated that the Group lacks the ability to exercise such influence over its investee.

Investments in associates are accounted for using the equity method (equity-accounted investees)

Under the equity method, the investment in an associate is initially recognised at cost. The cost of the investment includes transaction costs. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

Foreign currency - Transactions and balances

Transactions in foreign currencies have been recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been retranslated into the functional currency at the rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was determined.
Foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective and
- qualifying cash flow hedges to the extent that the hedges are effective

Foreign operations - Translation to presentation currency

The assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the reporting date (none of the functional currencies of the subsidiaries or the Parent is hyperinflationary for the reporting periods). The income and expenses of the Parent and of the subsidiaries are translated at transaction date exchange rates. The exchange differences arising on the retranslation from functional currency to presentation currency are taken directly to equity under translation reserve. On disposal of a foreign entity, accumulated exchange differences relating to it and previously recognized in equity as translation reserve are recognized in profit or loss as component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The following rates were applicable at various time periods according to the National Banks of Romania, Hungary, Czech Republic, Serbia and Croatia:

	2014			2013		
Currency	**Jan – 1**	**Average for the year**	**Dec – 31**	**Jan – 1**	**Average for the year**	**Dec – 31**
RON per 1EUR	4.4847	4.4446	4.4821	4.4287	4.4190	4.4847
HUF per 1EUR	296.91	308.66	314.89	291.29	297.01	296.91
CZK per 1EUR	27.43	27.53	27.73	25.14	25.99	27.43
XDR per 1EUR	111.61	N/A	N/A	113.72	115.50	111.61
HRK per 1EUR	7.64	N/A	N/A	7.55	7.58	7.58
USD per 1EUR	1.3791	1.3285	1.2141	1.3190	1.3281	1.3791

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

c) Property, plant and equipment

Property, plant and equipment is carried:

- using the cost model, at purchase or construction cost less accumulated depreciation and accumulated impairment losses: vehicles, furniture and office equipment; or
- using the revaluation model, at a revalued amount, which is the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses: land, buildings, cable plant, equipment and devices and customer premises equipment (“CPE”).

Land is not depreciated.

Property, plant and equipment is measured at cost upon initial recognition.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to their present location and condition necessary for their intended use, and capitalised borrowing costs, when applicable.

The costs of internally developed networks include proportionate direct material and labour costs, as well as costs relating to subcontracting the development services.

Cost includes the cost of replacing part of the plant or equipment when that cost meets the recognition criteria. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred.

Property, plant and equipment includes customer premises equipment, such as DTH, cable, Internet and 3G equipment in custody with customer, when the Group retains control over such assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying amount of customer premises equipment in custody of customers with suspended services as at the reporting date is fully impaired.

The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

Depreciation is calculated on a straight-line basis to write off recorded cost of the assets over their estimated useful lives as follows:

Property, plant and equipment	*Useful life*
Buildings	40 years
Cable plant	15 years
Cable plant 3G	10 years
Equipment and devices	3-12 years
Customer premises equipment	
- Indoor DTH and CBT equipment	5 years
- Outdoor DTH and CBFT equipment	5-9 years
- 3G handsets and mobile Internet devices	3 years
Vehicles	5 years
Furniture and office equipment	3-9 years

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year when the asset is derecognized.

Revaluation

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in the profit or loss. A revaluation deficit is recognized in profit or loss, except where a deficit is directly offsetting a previous surplus on the same asset in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve is transferred to retained earnings as the assets are depreciated or upon disposal.

Items of property, plant and equipment with zero net book value are not revalued.

d) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortized over the useful economic life on a straight line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss.

Customer relationships

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies. Customer relationships acquired directly from other companies are recognized at the cost of acquisition, which is the fair value of the consideration paid. Customer relationships obtained by acquiring control of certain companies are recognized at their fair value at the date of the acquisition and are presented separately from any goodwill resulting in the acquisition.

Management determines the useful life used for the amortization of customer relationships based on management analysis and past experience. The useful life used for amortizing customer relationships is of 7 years (straight line method is used).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Subscriber acquisition costs

Subscriber acquisition costs ("SAC") represent the costs for acquiring and connecting new subscribers of the Group companies, consisting of commissions paid to third parties for contracting a new subscriber at the point at which the contract is signed with the customer. The Company capitalises as intangible assets the subscriber acquisition costs as they meet the requirements of IAS 38 for capitalization.
SAC are amortized over the related contract period, being a one or two year period. SAC are fully written off for all customers with suspended services as at the reporting date.

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.2 (a).
Goodwill is subsequently measured at cost less accumulated impairment losses, being tested at least annually for impairment.

Where goodwill forms part of cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

Programme assets

The Group is concluding multi-annual contracts for the acquisition of broadcasting rights for national and international sports competitions ("sports rights"), as well as contracts for the acquisition of film and television broadcasting rights. When entering into such contracts, the rights acquired are classified as contractual commitments. They are recognised in the statement of financial position and classified as current intangible assets (programme assets) as follows:

- Sports broadcasting rights for the current season are recognized at their acquisition cost, at the opening of the broadcasting period of the related sports season. Sports rights are amortized over the period they relate to on a straight line basis. Any rights not expected to be utilized are written off;
- Film and television broadcasting rights are recognised at their acquisition cost, when the programme is available for screening and are amortised over their broadcasting period.

Advance payments for sports rights related to future seasons and for film and television rights are also presented as current intangible assets (programme assets).

The Group classifies the cash outflows for the purchase of programme assets as cash flows used in investing activities in the Consolidated Statement of Cash Flows, based on the long-term nature of the contribution of these assets to the subscriber acquisition, subscriber retention and consequent revenue generation, based on the comprehensive strategy of the Group.

Other intangible assets

Other intangible assets that are acquired by the Group (the 2100 MHz and the 900 MHz mobile telephony licenses in Romania, the 1800 MHz mobile telephony license in Hungary, software and other intangible assets) have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.
Amortization of the mobile telephony licences is charged on a straight line basis over the period of each license (15 years). Software licenses (including software related to telecommunication equipment) are amortized on a straight line over their estimated useful life which is generally 3 to 8 years. Other contractual intangible assets are amortized over their underlying contract period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

e) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises financial assets on the date that the Group becomes a party to the contractual provisions of the instrument.

For regular way purchases or sales of financial assets, i.e. purchases or sales under a contract whose terms require delivery of the assets within the time frame established generally by regulation or convention in the marketplace concerned, the trade date is applied for recognition.

Classification

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs, on the date that they are originated. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets included in loans and receivables category include trade and other receivables, cash and cash equivalents and other long term receivables.

Cash and cash equivalents in the consolidated statement of cash flows comprise cash at bank and in hand and short-term deposits at banks with an original maturity of three months or less.

Available for sale assets

Available for sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial liabilities

Recognition

The Group initially recognises financial liabilities on the date that the Group becomes a party to the contractual provisions of the instrument.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Classification

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Other financial liabilities

Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, issued bonds and trade and other payables.

Derecognition

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

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Transactions with the Company’s shares between shareholders are considered completed at the date the transfer of ownership has been agreed upon by the parties in a written contract.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(iv) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Derivatives held for trading

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Derivatives as hedging instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

On initial designation of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit and loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

The Group does not use hedge accounting in accordance with IAS 39 because an effective hedging relationship as set out in IAS 39 does not exists. Therefore the changes in the fair values of the derivatives are recognized in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

f) Impairment

i) Non-financial assets

Property, plant and equipment and intangible assets other than goodwill

The carrying amount of the Group's property, plant and equipment and intangible assets other than goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An asset's or cash generating unit's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss, except for property, plant and equipment previously revalued where the revaluation was recognised in other comprehensive income. In this case the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless that asset is carried at revalued amount, in which case the reversal in excess of previous impairment loss recognised in profit or loss is treated as a revaluation increase.

After recording impairment losses or reversals the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

Goodwill is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lower level within the Group at which the goodwill is monitored for internal management purposes.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit and loss.

Impairment losses recognized for goodwill cannot be subsequently reversed.

ii) Financial assets

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

Financial assets measured at amortised cost

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Trade and other receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI. Impairment losses for an impaired available-for-sale equity instrument are not reversed through profit or loss, but only through OCI.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Investments in associates

An impairment loss in respect of investments in associates is measured by comparing the recoverable amount of the investment with its carrying amount. The recoverable amount of the investment is the higher of its fair value less costs of disposal and its value in use. The Group determines the fair value less costs of disposal based on a DCF valuation model.

An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

g) Inventories

Inventories are stated at the lower of cost and net realizable value and include equipment that will be installed at the customer's premises and other materials, consumables and goods for resale. When equipment is installed at the customer premises, it is transferred to property, plant and equipment.

Cost is determined on a FIFO basis, and it comprises all costs of purchase, costs of conversion and other costs in bringing the inventories to their current location and condition.

Net realizable value of the equipment sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

h) Employee benefits

Short-term employee benefits

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses as services are rendered.

Pensions and other post-employment benefits

Under the regulatory regimes applicable in the countries where it operates, the Group is required to make payments to national social security funds for the benefit of its employees (defined contribution plans financed on a pay-as-you go basis). The Group has no legal or constructive obligation to pay future contributions if the state managed funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Its only obligation is to pay the contributions as they fall due and if it ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

The Group does not operate any other pension schemes or post employment benefit plans.

Share based payment transactions

Refer to paragraph q) below.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

i) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as a finance cost.

j) Leases

The Group as a lessee

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Contracts meeting these criteria are then evaluated to determine whether they are either an operating lease or finance lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalized leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Group will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Indefeasible Rights of Use (IRUs) represent the right to use a portion of the capacity of a terrestrial transmission cable granted for a fixed period. IRUs are recognized as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. Such assets are included in property, plant and equipment in the consolidated statement of financial position. They are depreciated over the shorter of the expected period of use and the life of the contract.

Leases, including IRU leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

When a sale and lease back transaction results in a finance lease, any excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term (no profit on disposal of the asset is recorded in profit or loss). No loss is recognized unless the asset is impaired. If no loss is recognised, the leased asset is recorded at the previous carrying amount and continues to be accounted as before the sale and leaseback transaction.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The Group as a lessor

The Group currently has no material arrangements as a lessor. The existing arrangements as a lessor, which are not material, are all operating leases.

k) Contingencies

Management applies its judgment to the fact patterns and advice it receives from its attorney, advocates and other advisors in assessing if an obligation is probable or not or remote. This judgment application is used to determine if the obligation is recognized as a liability or disclosed as a contingent liability.
Contingent liabilities are not recognized in the accompanying consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits if remote.

A contingent asset is not recognized in the accompanying consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

l) Revenue and other income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenues from services

The Group's main sources of revenue from services are:

- Revenue from the provision of video, cable TV ("CATV") and direct-to-home ("DTH") TV, subscription services;
- Revenue from the provision of internet and data communication subscription services (fixed and mobile);
- Revenue from the provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The above revenues are recognized as follows:

- *Subscription fees and voice traffic services*

  Video services subscriptions, pay TV fees, internet and data subscriptions, telephony subscriptions and voice minutes consumption revenues are earned over the period when those services are provided. These revenues are collected through subscription fees that arise from the monthly billing of subscribers for these services, and monthly billing of voice traffic. Revenue is recognized in the month the service is rendered. Voice traffic revenue is recognized in the profit or loss at the time the call is made. Revenue from interconnect fees is recognised at the time the services are performed.

- *Deferred revenue*

  Any subscription revenue received in advance of the service being provided is recorded as deferred revenue and recognized over the period when the service is provided.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- *Prepaid services*

  Revenue from the sale of prepaid cards, net of discounts allowed, included in the Group's prepaid services packages, is recognised based on usage. Prepaid revenue is deferred until the customer uses the traffic or the card expires.

Equipment sales

Revenue is recognized when the significant risks and rewards of ownership of the equipment have passed to the buyer, usually upon delivery.

Instalment sales

Revenue attributable to the sales price, exclusive of interest, is recognized when the risks and rewards of ownership have passed to the buyer, usually upon delivery. The revenue recognised on the sale is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, using the effective interest method.

Rental income

Rental income arising from operating leases of assets is accounted for on a straight-line basis over the lease term of ongoing leases.

Multiple element arrangements

Sales of certain packaged offers are considered as comprising identifiable and separate components to which general revenue recognition criteria can be applied separately. Once the separate components have been identified, the amount received or receivable from the customer is allocated, based on each component's fair value, first to the undelivered element and the remainder, if any, to the delivered element. For the delivered element the revenue is recognized only when the following criteria are met:

- the delivered item has a value to the consumer on a standalone basis, and
- there is objective and reliable evidence of the fair value of the undelivered item.

Where the promotional offer includes a period of free service, a portion of the revenue is recognized over the period of the free service.

Other income

Other income includes the effect of reductions in estimates (accruals) of certain elements of other expenses, as well as gains on trade and other payables released during the period.

m) Finance income and finance expense

Finance income comprises interest income on funds invested, dividend income, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on derivative financial instruments that are recognised in profit or loss and reclassifications of net gains in hedging instruments previously recognised in other comprehensive income.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on derivative financial instruments that are recognised in profit or loss and reclassifications of net losses on hedging instruments previously recognised in other comprehensive income. Unamortised borrowing fees are expensed upon termination of related borrowings.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

n) Related parties

Parties are considered related when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also include individuals that are principal owners, management and members of the Board of Directors and members of their families, or any company that is related party to Group's entities.

o) Income tax

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

p) Dividends

Dividends are recognized as distributions within equity in the period in which they are declared to shareholders (at the date of the approval by the shareholders). Dividends for the year are declared after the reporting date.

q) Share-based payment transactions

Certain members of the management team of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (‘equity- settled transactions’).

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. For determination of fair value of equity instruments, refer to Note 3(e).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘the vesting date’). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

r) Discontinued operations

A discontinued operation is a component of the Group’s business, operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

s) Subsequent events

Post period-end events that provide additional information about the Group's position at the reporting date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the consolidated financial statements. Post period events that are not adjusting events are disclosed in the notes, when material.

t) Segment reporting

The information by operating segment is based on internal reporting to the Board of Directors, identified as "Chief Operating Decision-Maker", as defined by IFRS 8 *Operating Segments*. The Board of Directors reviews segment information on revenue and non-current assets on a monthly basis and segment EBITDA (earnings before interest, taxes, depreciation and amortization) on a quarterly basis.

The Group considers EBITDA, a non-IFRS measure, to be the key operating performance measure of its operating segments. The method used in calculating EBITDA and its reconciliation to the line items in the statement of comprehensive income is disclosed in Note 27. All other information included in the disclosure per segment is prepared under IFRSs applicable to the consolidated financial statements.

The Chief Operating Decision-Maker has chosen to review geographical operating segments because the Group's risks and rates of return are affected predominantly by the fact that it operates in different countries.

2.3 Standards issued but not yet effective and not early adopted

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group does not plan to adopt these standards early.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IAS 19 Employee benefits (Amended): Employee Contributions**
  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IFRS 9 Financial Instruments – Recognition and measurement**
  The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has assessed that this standard will not have a significant impact on the consolidated financial position or performance of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IFRS 14 Regulatory Deferral Accounts**
  The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard Management has assessed that this standard will not have an impact on the consolidated financial position or performance of the Group.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The management is in process of assessing the impact of this new standard on the consolidated financial position or performance of the Group.

- **IAS 27 Separate Financial Statements (amended)**
  The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after 1 January 2016. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- The **IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

  - ***IFRS 3 Business Combinations:*** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
  - ***IFRS 13 Fair Value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
  - ***IAS 40 Investment Properties:*** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

  - ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**
  The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

- **IAS 1: Disclosure Initiative (Amendment)**
  The amendments to IAS 1 *Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

3. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

3. DETERMINATION OF FAIR VALUES (continued)

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods when applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination and of property, plant and equipment carried under the revaluation model is the estimated amount for which property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of property, plant and equipment is based on the market approach and, where market approach cannot be used given the high degree of specialization of the asset being valued, cost approach. Market approach relies on quoted market prices for similar items when available or on valuation models that use inputs observable on the market. The cost approach relies on the determination of the depreciated replacement cost. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

b) Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. Main assumptions used are the churn rate, EBITDA %, the discount rate,

c) Derivatives

The fair value of the derivative financial instruments is based on generally accepted valuation techniques. It reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

d) Non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

e) Equity-settled share-based payment transactions

The fair value of the options granted to employees is measured using a generally accepted valuation technique, in which the main input is the market value of shares at the grant date as the exercise price of the options is equal to the nominal value of shares which is close to zero (refer to Note 23). Given the short life of the options and the low volatility in the market value of the Group's shares, management estimates that the time value of the share options is not significant. The market value of the shares is determined based on a discounted cash flow method and comparable enterprise/equity values of other entities in the telecom industry. The main inputs used in the discounted cash flow calculation are Group revenues, EBITDA, WACC, terminal growth rate.

f) Available for sale investments

The market value of the shares is determined based on a discounted cash flow method and comparable enterprise/equity values of other entities in the telecom industry. The main inputs used in the discounted cash flow calculation are Group revenues, EBITDA, WACC, terminal growth rate.

4. SEGMENT REPORTING

31 December 2014	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue and other income	469,652	119,051	54,028	18,876	-	-	661,607
Inter-segment revenues	1,445	-	740	-	(2,185)	-	-
Segment operating expenses	(294,103)	(72,309)	(50,354)	(16,213)	2,185	-	(430,794)
EBITDA (Note 27)	**176,994**	**46,742**	**4,414**	**2,663**	**-**	**-**	**230,813**
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(192,061)	(192,061)
Gain from sale of discontinued operations	-	-	-	9,604	-	-	9,604
Operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**48,356**
Additions to tangible non-current assets	142,405	5,704	655	518	-	-	149,282
Additions to intangible non-current assets	16,644	32,818	2,668	847	-	-	52,977
Carrying amount of:							
Property, plant and equipment	539,782	102,017	747	533	-	-	643,079
Non-current intangible assets	142,016	53,385	3,730	610	-	-	199,741
Investments in associates and AFS	2,492	-	-	41,296	-	-	43,788

The types of products and services from which each segment derives its revenues are disclosed in Note 16.

4. SEGMENT REPORTING (continued)

31 December 2013	**Romania**	**Hungary**	**Spain**	**Other**	**Eliminations**	**Reconciling item**	**Group**
Segment revenue and other income	415,129	118,997	47,625	42,320	-	-	624,071
Inter-segment revenues	3,921	-	854	-	(4,775)	-	-
Segment operating expenses	(221,152)	(74,260)	(41,055)	(31,141)	4,775	-	(362,833)
EBITDA (Note 27)	**197,898**	**44,737**	**7,424**	**11,179**	**-**	**-**	**261,238**
Depreciation, amortization and impairment of tangible and intangible assets						(208,284)	(208,284)
Gain from sale of discontinued operations				37,612			37,612
Operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**90,566**
Additions to tangible non-current assets	103,395	13,076	89	571	-	-	117,131
Additions to intangible non-current assets	19,008	483	1,338	451	-	-	21,280
Carrying amount of:							
Property, plant and equipment	507,245	116,568	256	603	-	-	624,672
Non-current intangible assets	142,360	23,541	2,117	635	-	-	168,653
Investments in associates and AFS	2,280	-	-	30,982	-	-	33,262

The types of products and services from which each segment derives its revenues are disclosed in Note 16.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Cable plant	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At December 31, 2013	**9,299**	**35,128**	**387,634**	**35,191**	**97,852**	**168,507**	**24,622**	**13,483**	**771,715**
Additions	882	1,705	1,548	126,644	1,670	5,803	955	478	139,685
Acquired through business combinations	202	-	6,762	2,197	-	381	50	5	9,597
Transfer from construction in progress (“CIP”)/reallocation	26	6,607	40,785	(98,681)	21,951	27,843	2,588	1,676	2,795
Disposals	-	-	(419)	(71)	(549)	(1,335)	(508)	(40)	(2,922)
Effect of movements in exchange rates	(4)	(163)	(4,440)	(615)	(803)	(3,239)	(261)	(174)	(9,699)
At December 31, 2014	**10,405**	**43,277**	**431,870**	**64,665**	**120,121**	**197,960**	**27,446**	**15,428**	**911,172**
Depreciation									
At December 31, 2013	**-**	**4,314**	**34,536**	**-**	**38,003**	**41,544**	**20,393**	**8,253**	**147,043**
Depreciation charge	-	1,239	38,978	-	34,392	43,327	1,967	2,147	122,050
Impairment	-	-	-	-	3,691	-	-	-	3,691
Disposals	-	-	(189)	-	(449)	(549)	(300)	(31)	(1,518)
Effect of movements in exchange rates	-	(47)	(743)	-	(879)	(1,064)	(313)	(127)	(3,173)
At December 31, 2014	**-**	**5,506**	**72,582**	**-**	**74,758**	**83,258**	**21,747**	**10,242**	**268,093**
Net book value									
At December 31, 2013	**9,299**	**30,813**	**353,098**	**35,191**	**59,850**	**126,963**	**4,228**	**5,230**	**624,672**
At December 31, 2014	**10,405**	**37,771**	**359,288**	**64,665**	**45,363**	**114,702**	**5,699**	**5,186**	**643,079**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Cable plant	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At December 31, 2012	**8,670**	**38,943**	**354,127**	**23,450**	**83,395**	**137,876**	**25,153**	**12,810**	**684,424**
Additions	565	1,070	2,289	87,167	19,784	4,252	1,111	894	117,131
Transfer from construction in progress (“CIP”)/reallocation	294	342	41,282	(74,565)	1,936	30,071	313	328	-
Discontinued operations	-	-	(2,351)	(157)	(3,202)	(1,438)	(1,120)	(17)	(8,285)
Disposals	(110)	-	(46)	-	(1,253)	(52)	(486)	(341)	(2,287)
Revaluation impact - accumulated depreciation eliminated against cost	-	(2,005)	-	-	-	-	-	-	(2,005)
Revaluation decrease recognised in other comprehensive income	-	(1,099)	-	-	-	-	-	-	(1,099)
Revaluation decrease recognised in profit or loss	-	(1,621)	-	-	-	-	-	-	(1,621)
Effect of movements in exchange rates	(120)	(503)	(7,667)	(704)	(2,808)	(2,202)	(350)	(191)	(14,543)
At December 31, 2013	**9,299**	**35,128**	**387,634**	**35,191**	**97,852**	**168,507**	**24,622**	**13,483**	**771,715**
Depreciation									
At December 31, 2012	**-**	**5,011**	**-**	**-**	**-**	**-**	**20,057**	**6,591**	**31,659**
Depreciation charge	-	1,412	35,946	-	40,840	42,380	1,985	2,122	124,685
Discontinued operations	-	-	(961)	-	(1,204)	(416)	(937)	(9)	(3,527)
Disposals	-	-	(1)	-	(1,118)	(19)	(443)	(341)	(1,922)
Revaluation impact - accumulated depreciation eliminated against cost	-	(2,005)	-	-	-	-	-	-	(2,005)
Effect of movements in exchange rates	-	(104)	(448)	-	(515)	(401)	(269)	(110)	(1,847)
At December 31, 2013	**-**	**4,314**	**34,536**	**-**	**38,003**	**41,544**	**20,393**	**8,253**	**147,043**
Net book value									
At December 31, 2012	**8,670**	**33,932**	**354,127**	**23,450**	**83,395**	**137,876**	**5,096**	**6,219**	**652,765**
At December 31, 2013	**9,299**	**30,813**	**353,098**	**35,191**	**59,850**	**126,963**	**4,228**	**5,230**	**624,672**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment additions

Most of the additions in 2014 and 2013 relate to the triple play network, as the Group has continued to invest in expanding to new areas but also has continued the upgrade of the existing network. Other additions relate to continued investment in the 3G network coverage, network assets of newly acquired CFO Integrator (Cluj City - underground network mainly) and Diginet (Botosani County – equipment and network) and equipment investments mainly in the Company's TV production facilities.

Property, plant and equipment in leasing

The carrying amount of property, plant and equipment includes an amount of EUR 11,940 as of 31 December 2014 (31 December 2013: 12,245), out of which land and buildings EUR 11,850 (31 December 2013: 11,932) and vehicles EUR 0 (31 December 2013: 312), representing assets held under finance leases. The ownership title of these assets should be transferred to RCS&RDS at the end of the leasing agreements (refer to Note 13).

Revaluation of buildings

The Group engaged an accredited independent appraiser to determine the fair value of its buildings. The last revaluation was performed as of 31 December 2013, being registered a decrease in fair value of EUR 2,720. The fair value was determined by reference to market-based evidence, using the market comparison and income approach.

If buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2014	31 December 2013
Cost	43,278	35,020
Accumulated depreciation	(9,789)	(8,732)
Net carrying amount	**33,489**	**26,288**
Fair value	**37,771**	**30,813**

Revaluation of cable plant, equipment and devices and customer premises equipment

Cable plant, equipment and devices, and customer premises equipment were revalued as of 31 December 2012 on the basis of their depreciated replacement cost calculated by the Group's personnel. Replacement cost was determined as follows:

- for materials and equipment, based on price quotations from suppliers and prices of the most recent acquisitions;
- for personnel costs, based on the historical salaries multiplied by the Group's salary growth rate;
- for subcontractor costs, based on historical fees multiplied by the consumer price indices for services.

Cable plant, equipment and devices, and customer premises equipment are part of cash generating units containing goodwill, which are tested annually for impairment (refer to Note 6).

5. PROPERTY, PLANT AND EQUIPMENT (continued)

If cable plant, equipment and devices, and customer premises equipment were measured using the cost model, the carrying amounts would be as follows:

Cable plant

	31 December 2014	31 December 2013
Cost	496,568	448,123
Accumulated depreciation	(178,050)	(144,538)
Net carrying amount	**318,518**	**303,585**
Fair value	**359,288**	**353,098**

Equipment and devices

	31 December 2014	31 December 2013
Cost	306,596	274,111
Accumulated depreciation	(198,666)	(159,583)
Net carrying amount	**107,930**	**114,528**
Fair value	**114,702**	**126,963**

Customer premises equipment

	31 December 2014	31 December 2013
Cost	461,747	438,841
Accumulated depreciation	(418,945)	(392,067)
Impairment	(3,417)	(1,604)
Net carrying amount	**39,385**	**45,170**
Fair value	**45,363**	**59,850**

For details on the pledges placed on the Group assets refer to Note 13 (vii).

6. INTANGIBLE ASSETS

a) Non-current intangible assets

	Goodwill	Customer relationships	Trade marks	Subscriber acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
Cost						
At December 31, 2013	**80,549**	**62,015**	**235**	**55,085**	**95,166**	**293,050**
Additions	-	5,822	-	4,590	39,232	49,644
Disposals	-	-	-	-	-	-
Additions from acquisition of subsidiaries	1,705	1,628	-	-	-	3,333
Effect of movement in exchange rates	(1,260)	(210)	-	(1,377)	(559)	(3,406)
At December 31, 2014	**80,994**	**69,255**	**235**	**58,298**	**133,839**	**342,621**
Depreciation						
At December 31, 2013	**-**	**38,502**	**105**	**52,869**	**32,921**	**124,397**
Amortization	-	8,717	41	2,506	8,822	20,086
Disposals	-	-	-	-	-	-
Effect of movement in exchange rates	-	(139)	-	(1,364)	(100)	(1,603)
At December 31, 2014	**-**	**47,080**	**146**	**54,011**	**41,643**	**142,880**
Net Book Value						
At December 31, 2013	**80,549**	**23,513**	**130**	**2,216**	**62,245**	**168,653**
At December 31, 2014	**80,994**	**22,175**	**89**	**4,287**	**92,196**	**199,741**

6. INTANGIBLE ASSETS (continued)

	Goodwill	Customer relationships	Trade marks	Subscriber acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
Cost						
At December 31, 2012	**81,649**	**61,563**	**235**	**56,169**	**80,496**	**280,112**
Additions	119	1,932	-	2,044	16,367	20,462
Discontinued operations	(365)	(740)	-	(2,328)	(429)	(3,862)
Disposals	-	-	-	-	(108)	(108)
Additions from acquisition of subsidiaries	818	-	-	-	-	818
Effect of movement in exchange rates	(1,672)	(740)	-	(800)	(1,160)	(4,372)
At December 31, 2013	**80,549**	**62,015**	**235**	**55,085**	**95,166**	**293,050**
Depreciation						
At December 31, 2012	-	**30,817**	**73**	**53,886**	**25,625**	**110,401**
Amortization	-	8,514	35	2,105	8,204	18,858
Discontinued operations	-	(426)	-	(2,328)	(428)	(3,182)
Disposals	-	-	-	-	(6)	(6)
Effect of movement in exchange rates	-	(403)	(3)	(794)	(474)	(1,674)
At December 31, 2013	**-**	**38,502**	**105**	**52,869**	**32,921**	**124,397**
Net Book Value						
At December 31, 2012	**81,649**	**30,746**	**162**	**2,283**	**54,871**	**169,711**
At December 31, 2013	**80,549**	**23,513**	**130**	**2,216**	**62,245**	**168,653**

6. INTANGIBLE ASSETS (continued)

(i) Customer relationships

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies.

(ii) Impairment testing for cash-generating units containing goodwill

The Group defines cash-generating units (CGUs) based on three criteria:

1. country;
2. infrastructure used in providing the services; and
3. bundling of services affecting independence of cash flows.

Since a significant percentage of customers buy bundled services of CBT (cable, broadband and television), in countries where the Group is providing both CBT and DTH services, the Group identified separate CGUs for CBT and DTH respectively. In countries where either CBT or DTH services are provided, only one CGU was identified.

Goodwill acquired through business combinations has been allocated among cash generating units for the purposes of impairment testing as follows:

- CBT Romania;
- CBT Hungary;
- CBT Spain.

Goodwill	CBT	CBT
	31 December 2014	31 December 2013
Romania	59,985	58,281
Hungary	20,781	22,040
Spain	228	228
Total	**80,994**	**80,549**

Recoverable amounts for the CGUs have been determined on the basis of fair value less costs to sell calculations using cash flow projections based on financial budgets approved by senior management covering a six-year period.

Key assumptions used in the calculations of the recoverable amounts

Key assumptions used in the calculation of the recoverable amounts are revenues, EBITDA margins, discount rate, terminal value growth rate and capital expenditure.

Discount rate

- for the Romanian territory 8.4% p.a (2013: 9.57%).;
- for the Hungarian territory 8.4% p.a (2013: 10.57%).

The discount rate applied to the cash flows of each CGU is based in the Group's Weighted Average Cost of Capital (WACC). WACC is the average cost of sources of financing (debt and equity), each of which is weighted by its respective use. Key inputs to the WACC calculation are the risk free rate, beta (reflecting the risk of the Group relative to the market as a whole) as well as assumptions regarding the spread for credit risk and the market risk premium for the cost of equity. Group WACC is adjusted for risk relative to the country in which the CGU operates.

Terminal growth rates

- for Romanian CBT CGU 1.5% p.a. (2013: 2%);
- for Hungarian CBT CGU 1.5% p.a. (2013: 2%).

6. INTANGIBLE ASSETS (continued)

The growth rate in perpetuity has been determined based on the long-term compounded annual growth rate in EBITDA estimated by management considering market maturity and market share in Romania and Hungary.

For the Romanian CBT CGU, budgeted EBITDA is based on past experience and incremental increase in future years generated from incremental increase in revenues from new subscribers to our cable Tv, internet and mobile telephony business; budgeted EBITDA for the Hungarian CBT CGU is based on past experience and growth expectation from tighter cost control and additional revenue from new subscribers connected to the fixed network.

Due to confidentiality reasons the Company does not disclose information regarding budgeted EBITDA margins and revenue growth rates for the budget period, given the strategic nature of this information.

Capital expenditure

Budgeted capital expenditure (tangible and intangible assets including programme assets) is based on past experience, forecasted growth of subscribers (new subscribers connected to the fixed network) and other business drivers.

Management believes that as of 31 December 2014 no reasonable change in the main assumptions could result in an impairment charge (31 December 2013: same).

(iii) Subscriber acquisition costs (“SAC”)

SAC represents third party costs for acquiring and connecting customers of the Group. In 2014 SAC was generated in relation with contracting customers in Romania (EUR 1,487), Spain (EUR 2,616), Hungary (EUR 190) and Italy (EUR 297). In 2013 SAC was generated in relation with contracting customers in Spain (EUR 1,338), Hungary (EUR 266) and Italy (EUR 440).

(iv) Licences and software

2100 MHz license

In January 2007 the Romanian General Inspectorate for Communication and Information Technology (“IGCTI”) granted to RCS&RDS a *2100 MHz* license for a total consideration of EUR 27,056 (equivalent of USD 35,000), entirely paid as of 31 December 2014. The cost of the *2100 MHz* license was EUR 23,110 and was determined at inception date by discounting the future payments using effective interest method at the date the license was granted to RCS&RDS (interest rate used was 7.6% p.a., similar to interest rate on other long term borrowings contracted by the RCS&RDS). The carrying amount of the *2100 MHz* license as of 31 December 2014 is EUR 8,240 (2013: EUR 9,398).

900 MHz license (partially included in 2013 additions)

In September 2012 IGCTI granted to RCS&RDS 1 spectrum block in the 5 MHz broadband to be used starting with April 2014 for a period of 15 years, for a total consideration of EUR 40,000 out of which EUR 26,000 was paid in 2012. The remaining amount of EUR 14,000 was paid in June 2013. The carrying amount of the 900 MHz license as of 31 December 2014 is EUR 37,901 (2013: EUR 40,000). The obligations assumed in relation to the 900 MHz license are: allow access to MVNOs (mobile virtual network operators), coverage of a number of small cities in Romania presently without coverage until 5 April 2016, coverage for voice services of 98% of the population until 5 April 2019, coverage for data services of 60% of population until 5 April 2021.

1800 MHz license in Hungary

In September 2014 NMHH granted to Digi Hungary 1 spectrum block in the 5 MHz for a period of 15 years, for a total consideration of HUF 10 billion (EUR 32,600) which was fully paid in October 2014. The carrying amount of the 1800 MHz license as of 31 December 2014 is EUR 31,562. The license has no coverage obligations assumed.

6. INTANGIBLE ASSETS (continued)

Other

Included in "Licenses and software" category is also the software required for the operation and maintenance of communication equipment.

Collateral

For details on the pledges placed on the Group assets refer to Note 13 (vii).

b) Current intangible assets - programme assets

	31 December 2014	31 December2013
Balance at 1 January	**29,387**	**39,324**
Additions	33,765	53,651
Amortization	(46,235)	(63,122)
Effect of movement in exchange rates	(79)	(466)
Balance at 31 December	**16,838**	**29,387**

Included in "Additions" is an amount of EUR 26,004 representing broadcasting rights for sports competitions for 2014/2015 season (2013: EUR 46,095 for 2013/2014 season) and related advance payments for future seasons, the difference representing movies and documentaries rights. Contractual obligations related to future seasons are presented as commitments in Note 25.

7. AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

	31 December 2014	31 December 2013
Balance at 1 January	**30,982**	**24,967**
Additions	1,753	720
Fair value adjustment	8,561	5,295
Balance at 31 December	**41,296**	**30,982**

The above available for sale financial assets comprise shares in RCSM. As at 31 December 2014 the percentage of ownership of CCS in RCSM is 8.75% (31 December 2013: 7.73%). For additional disclosures on the fair values of the AFS refer to Notes 22 (v) and 22 (vii).

8. INVENTORIES

	31 December 2014	31 December 2013
Merchandise and equipment	7,990	11,194
Materials and consumables	14,838	9,871
Total inventories, net	**22,828**	**21,065**

Merchandise and equipment
This category includes terminal equipment sold to the customers. Such equipment include mobile phones, tablets, TV sets.

As at 31 December 2013 this line also included customer premises equipment amounting to EUR 8,096. Starting with 2014 all customer premises equipment are included in non-current assets.

Materials and consumables
This category includes mainly inventory used in the development and maintenance of the telecommunications networks, such as fiber optic cables, nodes and amplifiers.

Collateral
For details on the pledges placed on the Group assets refer to Note 13 (vii).

9. TRADE AND OTHER RECEIVABLES

	31 December 2014	31 December 2013
Trade receivables	100,248	72,146
Receivable from related parties (refer to Note 15)	1,185	841
Other taxes receivable	35	137
Other receivables	8,394	8,360
Total trade and other receivables	**109,862**	**81,484**

Collateral
For details on the pledges placed on the Group assets refer to Note 13 (vii).

10. OTHER ASSETS

	31 December 2014	31 December 2013
Advances to suppliers	8,794	10,770
Prepayments	1,133	910
Total other assets	**9,927**	**11,680**

11. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Bank accounts	53,729	49,852
Petty cash	559	382
Total cash and cash equivalents	**54,288**	**50,234**

Collateral
For details on the pledges placed on the Group assets refer to Note 13 (vii).

12. EQUITY

As of 31 December 2014, CCS has an authorised share capital of EUR 250 comprised of 250,000 units of ordinary shares of EUR 1 each. At the date of the balance sheet 50,594 ordinary shares were issued and fully paid. These are no other issued shares.

	31 December 2014	31 December 2013
Ordinary Shares – Issued and Paid (No.)	50,594	50,594
Ordinary Shares – Unissued (No.)	199,406	199,406
Nominal Value	1 EUR per share	1 EUR per share
Share Capital Value (EUR thousand)	51	51

At 31 December 2014 and 2013, the shareholders of CCS are as follows:

	31 December 2014		31 December 2013	
Shareholder name	**No. of shares**	**%**	**No. of shares**	**%**
RCSM	29,277	57.87%	29,277	57.87%
Teszari Zoltan	2,326	4.60%	2,326	4.60%
Carpathian Cable Investment Ltd	9,953	19.67%	9,953	19.66%
Celest Limited (Cyprus)	2,694	5.32%	2,694	5.32%
CCS - treasury shares	4,135	8.17%	4,135	8.17%
Other	2,209	4.38%	2,209	4.38%
Total	**50,594**	**100.00%**	**50,594**	**100.00%**

The largest ultimate beneficial shareholder of the Group is Mr. Zoltan Teszari. Mr. Zoltan Teszari is the controlling shareholder of the Group, being the controlling shareholder of RCSM (the controlling parent of CCS) and minority shareholder of CCS and RCS&RDS.

Dividends

As stated previously, these financial statements are not the statutory financial statements of CCS. The profit available for distribution is the profit for the year recorded in the Dutch GAAP statutory financial statements, which differs from the result in these financial statements, prepared in accordance with IFRS.

In December 2014 a gross dividend of EUR 3,500 was distributed from the CCS statutory retained earnings of 2013. In December 2013 gross dividends of EUR 5,000 were distributed from CCS statutory retained earnings of 2012. The related amount of dividend per share for 2014 was EUR 0.069 and for 2013 was EUR 0.099.

Nature and purpose of reserves

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

Revaluation reserve
The revaluation reserve relates to the revaluation of property, plant and equipment.

13. INTEREST BEARING LOANS AND BORROWINGS

Long term portion		Nominal interest rate	31 December 2014	31 December 2013
Bonds	(i)	7.5% p.a.	436,410	434,245
2013 New Senior Facilities Agreement	(ii)	3M EURIBOR + 4.35%p.a.	210,270	198,154
Obligations under finance leases	(iii)	Variable linked to LIBOR and EURIBOR+ respective margin	6,052	6,534
Total long term portion			**652,732**	**638,933**

Current portion		Nominal interest rate	31 December 2014	31 December 2013
2013 New Senior Facilities Agreement	(ii)	3M EURIBOR + 4.35%p.a.	34,297	-
2013 ING Bank facility agreement	(iii)	Variable linked to EURIBOR/ROBOR/LIBOR+ respective margin	3,960	4,157
Obligations under finance leases	(iii)	Variable linked to LIBOR and EURIBOR+ respective margin	969	1,044
Other			6,520	6,257
Total current portion			**45,746**	**11,458**

(i) Bonds

In November 2013, CCS issued non-convertible bonds in amount of EUR 450,000 with a coupon yield of 7.5% and maturity in November 2020. The bonds were placed at face value and have a half year coupon period.

The Bonds include several call redemption options as well as one put redemption option which were assessed not to be closely related to the host contract (with one exception). Management has assessed the combined fair value of these embedded options through the Option Adjusted Spread model and concluded that it is not material in order to be separated.

Arrangement fees
The total cost of concluding the Bonds is amortised using the effective interest method over the life of the Bonds. As of 31 December 2014 the unamortized balance of borrowings related fees was EUR 13,589.

Drawing
As of 31 December 2014, the nominal balance is EUR 450,000 (EUR 436,411- presented net of borrowing fees).

Pledges
Details on pledges are presented further in section (x) of the Note 13.

Covenants
The Group has agreed to certain covenants with respect to the Bonds, including, among other things, limitations on its ability to: incur or guarantee additional indebtedness; make investments or other restricted payments; sell assets and subsidiary stock; enter into certain transactions with affiliates; create liens; consolidate, merge or sell all or substantially all of our assets; enter into agreements that restrict our restricted subsidiaries' ability to pay dividends; sell or issue capital stock of restricted subsidiaries; engage in any business other than a permitted business; and impair the security interests with respect to the Collateral. Each of these covenants is subject to certain exceptions and qualifications. Certain of these covenants may also be suspended in the event that the Bonds receive investment grade ratings from the relevant credit rating agencies.

The Group is in compliance with all the covenants under these Bonds as at 31 December 2014.

13. INTEREST BEARING LOANS AND BORROWINGS (continued)

(ii) 2013 New Senior Facilities Agreement

On October 21, 2013 RCS&RDS entered into a committed facility agreement, as borrower, with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the repayment of our existing facilities and for general corporate purposes (the "New Senior Facilities Agreement"). The New Senior Facilities Agreement consists of a term loan facility with a capacity of EUR 250 million and a revolving credit facility with a capacity of EUR 50 million. On June 19, 2014 we drew the remaining EUR 45 million under the term loan.

Arrangement fees
The total cost of concluding the loan is amortised using the effective interest method over the life of the loan. As of 31 December 2014 the unamortized balance of borrowings related fees was EUR 5,433.

Drawing
As of 31 December 2014, RCS&RDS drew EUR 250,000 (EUR 244,567 - presented net of borrowing fees).

Maturities and repayment schedule

Repayment schedule of the loan is as follows:

Repayment date	Amount EUR
21-Oct-15	35,714
21-Apr-16	35,714
21-Oct-16	35,714
21-Apr-17	35,714
21-Oct-17	35,714
21-Apr-18	35,714
21-Oct-18	35,714
Total	**250,000**

Refer to Note 26 for details regarding the refinancing agreement signed in April 2015 for the Senior Facility Agreement through which the maturity of the loan was reset and the repayments were rescheduled.

Pledges
The New Senior Facilities Agreement shares in on a pari passu basis pursuant to the terms of the Intercreditor Agreement dated 4 November 2013.

The Intercreditor Agreement mentioned above is the document which establishes the rights of certain creditors under the financing arrangements of the Group. The Intercreditor Agreement sets out, among other things: the relative ranking of certain indebtedness and security granted, when payments can be made, when enforcement action can be taken, subordination of indebtedness, release of Collateral.

Covenants
The Group has agreed under the New Facility Agreement to comply with two financial ratio covenants regarding leverage ("total net debt to EBITDA ratio) and interest cover and certain qualitative covenants, mainly related to authorisations, compliance with corporate legislation in force, preservation of assets, negative pledge, limitations on disposals, mergers, acquisitions, arm's length transaction, change in nature of business, limitation on subsidiary indebtedness, events of default and others. The Group is in compliance with all the covenants under the New Facility Agreement as at 31 December 2014.

13. INTEREST BEARING LOANS AND BORROWINGS (continued)

(iii) 2013 ING Facilities Agreement

On November 1, 2013, RCS&RDS entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the New Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of (i) an uncommitted overdraft facility of up to EUR 5,000, of which up to EUR 1,000 can also be used for letters of guarantee and (ii) an uncommitted facility for letters of guarantee of up to EUR 9,675 and Romanian lei 8,100.

Drawings
As of December 31, 2014, EUR 3,960 were drawn and EUR 900 Letters of Guarantee issued under the overdraft facility.

(iv) Citi Facilities Agreement

On October 25, 2013, RCS&RDS entered into the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes.
On October 25, 2013, the RCS&RDS entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group. The Citi Facilities Agreement share the Collateral, pursuant to the terms of the Intercreditor Agreement.

On November 4, 2013 RCS&RDS repaid the Citi Facilities Agreement using the proceeds from the Bond and the New Senior Facilities Agreement. The Citi Facilities Agreement consists of:

(i) an uncommitted overdraft in the amount of US$ 5,000 thousand, as at 31 December 2014 were used for the issue of letter of guarantees US$ 1,041 thousand;
(ii) an uncommitted bank guarantee facility in the amount of US$ 8,100 thousand, as at 31 December 2014 were used for the issue of letter of guarantees US$ 7,322 thousand;
(iii) an uncommitted bank guarantee facility in the amount of EUR 500, fully drawn as at 31 December 2013.

As of December 31, 2014, overdraft/bank guarantee facility utilised was (i) USD 1,900 thousand all of them being letters of guarantee, and (ii) we had letters of guarantee issued in the amount of USD 5,900 thousand and EUR 500.

(v) Santander Facility

On November 4, 2014, Digi Spain (subsidiary of RCS&RDS) entered into a new short-term facility agreement with Banco Santander for EUR 1,500 which consolidates and replaces all the previous facilities. The maturity date for this new facility is November 4, 2015 and the amount provided decreased to EUR 1,000 starting with March 4, 2015. As of December 31, 2014, the balance drawn under the Santander Facility was EUR 420.

(vi) Caixa Facility

On February 6, 2014, Digi Spain (subsidiary of RCS&RDS) entered into a reverse factoring facility agreement with Caixabank, S.A. (the "Caixa Facility") through which Caixa pays in advance DIGI Spain's suppliers. On January 30, 2015, we renewed the reverse factoring facility agreement. The term of the Caixa Facility is indefinite and the maximum amount which can be used is EUR 500. As of December 31, 2014, the balance drawn under the Caixa Facility was EUR 417.

13. INTEREST BEARING LOANS AND BORROWINGS (continued)

(vii) Banca Transilvania credit agreement

On July 14, 2014 RCS&RDS signed two credit agreements with Banca Transilvania, with a total value of RON 29,300 thousand (EUR 6,537 using the exchange rate from December 31, 2014). Banca Transilvania credit agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement. As of the date of this report Banca Transilvania credit agreement has expired without being drawn.

(viii) Unicredit cash collateral agreement

On October 5, 2010, RCS&RDS entered into a cash collateral agreement with UniCredit Tiriac Bank S.A., for EUR 59 for issuance of a letter of counter guarantee, which is valid until January 31, 2017 (the "Unicredit Cash Collateral Agreement"). The agreement entered into force on October 8, 2012, and is secured with a moveable mortgage over a cash collateral account opened with UniCredit Tiriac Bank S.A.

(ix) BRD Letters of Guarantee Facility

As of December 31, 2014 the Group had letters of guarantee issued by BRD with a value of EUR 1.0 million.

(x) Collateral for all facilities

The obligations of the Group under the Bonds, as well as their obligations under the New Senior Facilities Agreement, ING Facilities Agreement and the Citi Facilities Agreement on a pari passu basis pursuant to the terms of the Intercreditor Agreement of 4 November 2013 are secured by a first-ranking security interest in certain assets of RCS&RDS and CCS, namely:
(a) certain Capital Stock that CCS holds in RCS&RDS (other than certain shares of Capital Stock of RCS&RDS that are subject to a call option in favor of the purchaser of our Serbian subsidiary), which on the Issue Date (4 November 2013) accounts for 88.93% of the issued Capital Stock of RCS&RDS
(b) all bank accounts of CCS, including any new bank accounts, except for an account used for short term facilities granted by RCS&RDS, amounting to EUR 4 as of 31 December 2014.
(c) receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by CCS to its subsidiary, RCS&RDS on 4 November 2013 - EUR 450,000,000)
(d) treasury shares of RCS&RDS held by itself, which on the Issue Date will account for 7.29% of its issued Capital Stock;
(e) 100% of the issued Capital Stock in each of DIGI T.S. Kft Hungary and DIGI Czech Republic s.r.o.;
(f) 78.49% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and
(g) subject to certain exclusions, all present and future movable assets of RCS&RDS including bank account monies, trade and other receivables, intragroup receivables, inventories, movable tangible property (including installations, machinery, equipment, vehicles, furniture and other similar assets), intangible assets, intellectual property rights, insurance and proceeds related to any of the foregoing as described in the General Movable Mortgage Agreement between RCS&RDS and Wilmington Trust (London) Limited.

(xi) Obligations under finance leases

The Group financed the acquisition of certain assets (buildings and land) through finance leases. As at 31 December 2014 there are two leasing contracts in place with Raiffeisen Leasing (the initial contract was signed with ING Lease Romania, which sold its portfolio to Raiffeisen Leasing at the beginning of 2014) and Piraeus Leasing. The finance lease agreement concluded with Raiffeisen Leasing is in USD (and it is payable in USD). The finance lease agreement signed with Piraeus Bank is in EURO but the obligation is payable in RON at the exchange rates at the date of payment. The remaining length of the lease contracts is 17 months for Raiffeisen Leasing and 109 months for Piraeus Leasing.

13. INTEREST BEARING LOANS AND BORROWINGS (continued)

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31-Dec-14		31-Dec-13	
	Net	**Gross**	**Net**	**Gross**
Within one year	969	1,348	1,044	1,450
Later than one but less than five years	5,023	5,582	4,889	5,643
More than five years	1,027	1,118	1,608	1,843
Less: future finance charges (interest)	-	(1,029)	-	(1,395)
Total	**7,019**	**7,019**	**7,541**	**7,541**

14. TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
Trade payables and payables to fixed assets suppliers	143,036	96,465
Accruals	33,550	36,227
Value added tax ("VAT")	12,688	11,098
Other payable related to investments	2,582	3,913
Salary and related taxes	13,526	14,681
Telecommunication and other taxes	-	3,442
Amounts payable to related parties (relate to note 15)	799	392
Dividends payable (relate to note 15)	7,611	6,089
Other	3,379	2,433
Total trade and other payables	**217,171**	**174,740**

Included in payables to suppliers and accruals above is EUR 52,349 (31 December 2013: EUR 32,576) representing amounts due for property, plant and equipment and EUR 11,213 (31 December 2013: EUR 19,920) representing payment obligations for intangible assets.

Trade payables are non-interest bearing and are normally settled on 60-90 day terms.

Other payables related to investments

Payables for investments are related mostly to scheduled payments for purchase of shares of newly acquired subsidiaries and non controlling interests, and payments for customer relationships.

15. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of CCS and its subsidiaries (the main subsidiaries are included in Note 21 (a)); RCSM is the Group's ultimate holding company.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are interest free. There have been no guarantees provided or received for any related party receivables or payables, other than the pledge on shares of RCS&RDS, provided by CCS for loans and borrowings (refer to Note 13). For the year ended 31 December 2014, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2013: nil).

This assessment is made each year through examining the financial position of the related party and the market in which the related party operates.

15. RELATED PARTY DISCLOSURES (continued)

The following tables provide the total amount of transactions and balances, which have been entered into with related parties for the relevant financial year.

Receivables from related parties

		31 December 2014	31 December 2013
Party			
Ager Imobiliare S.R.L.	(ii)	651	626
Digi Serbia	(ii)	189	-
Music Channel S.R.L.	(ii)	64	63
RCSM	(i)	1	72
Other		280	80
Total		**1,185**	**841**

Payables to related parties

		31 December 2014	31 December 2013
Party			
Related parties-share options	(ii)	610	88
RCSM	(i)	4,683	3,1733
Digi Serbia	(ii)	85	
Mr. Zoltan Teszari	(iii)	559	416
Other		2,473	-
Total		**8,410**	**3,677**

(i) Shareholder of CCS
(ii) Entities affiliated to a shareholder of the parent
(iii) Ultimate beneficial shareholder

Compensation of key management personnel of the Group

	2014	2013
Short term employee benefits – salaries	1,323	642
Share-based payments	2,418	1,842

Certain members of the management team (including key management personnel) benefit from a share based payment plan at the level of RCS&RDS. Total share options granted during the year 2014 of 1,305,500 (refer to Note 23) (2013: 1,305,500) remunerates key management personnel, in addition to the salaries above.

16. REVENUES

Allocation of revenues from services through business lines and geographical areas is as follows:

	2014	2013
Revenues from continuing operations	**661,607**	**604,024**
Cable TV		
Romania	155,636	147,270
Hungary	34,483	34,558
	190,119	**181,828**
Internet and data		
Romania	163,983	151,278
Hungary	31,930	30,950
Italy	90	-
Spain	9,945	4,083
	205,948	**186,312**
Telephony Revenues		
Romania	53,767	55,470
Spain	43,638	43,477
Hungary	8,296	9,992
Italy	5,010	6,430
	110,711	**115,369**
DTH Revenue		
Romania	43,898	49,761
Hungary	31,432	34,029
Czech Republic	13,720	17,035
	89,050	**100,826**
Other revenues		
Romania	52,368*	10,112*
Hungary	12,909	9,468
Czech Republic	57	46
Spain	445	64
	65,779	**19,690**
Revenues from discontinued operations	**-**	**18,810**
Cable TV		
Slovakia	-	2,365
	-	**2,365**
Internet and data		
Slovakia	-	381
	-	**381**
DTH Revenue		
Slovakia	-	14,569
Serbia	-	892
Croatia	-	231
	-	**15,692**
Other revenues		
Slovakia	-	157
Serbia	-	181
Croatia	-	34
	-	**372**
Total revenues	**661,607**	**622,834**

Other revenues refer to sales of other equipment, own content to other operators, advertising revenue and sundry penalties invoiced to subscribers.

* Included in other revenues are total revenues from sales of goods of EUR 42,972 (2013: 1,882) out of which the sales of goods for the Romania territory are of EUR 42,826 (2013: 1,753).
Sales of goods include mainly mobile handsets and other equipment.

17.OPERATING EXPENSES

	2014	2013
Operating expenses from continuing operations	**622,855**	**556,513**
Depreciation of property, plant and equipment	124,233	122,258
Amortization of programme assets	46,235	62,984
Amortisation of non-current intangible assets	20,086	18,858
Salaries and related taxes	103,527	93,683
Contribution to pension related fund	16,959	14,577
Programming expenses	63,431	61,159
Telephony expenses	62,806	50,169
Cost of goods sold	43,038	4,619
Rentals	38,044	31,929
Invoicing and collection expenses	11,957	12,023
Taxes and penalties	13,010	9,288
Utilities	12,614	14,583
Copyrights	8,291	8,232
Internet connection and related services	4,876	5,285
Impairment of receivables, net of reversals	7,999	6,335
Impairment of property, plant and equipment	1,508	1,621
Other expenses	44,241	38,910
Operating expenses from discontinued operations	-	14,604
Total operating expenses	**622,855**	**571,117**

Other expenses include mainly expenses related to own TV channels (Digi Sport, Digi 24 news channel, Digi World, Digi Life, Digi Animal World, Digi Film) and network maintenance expenses.

18. NET FINANCE COSTS

	2014	2013
Financial revenues		
Interest from banks	158	150
Other financial revenues	650	243
	808	**393**
Financial expenses		
Interest expense	(49,865)	(42,858)
Net gain/(loss) on derivative financial instruments	(2,893)	(3,287)
Other financial expenses	(5,784)	(23,647)
	(58,542)	**(69,792)**
Foreign exchange differences (net)	(2,600)	2,620
Net Financial Gain / (Expenses) from continuing operations	***(60,334)***	***(66,779)***
Net Financial Gain / (Expenses) from discontinued operations	***-***	***4,054***
Net Financial Gain / (Expenses) total	**(60,334)**	**(62,725)**

Other financial expenses in 2014 fees related to short-term vendor financing, commitment fees for undrawn facilities and other bank charges whilst in 2013 Other financial expenses (continuing operations) included an amount of EUR 10,106 representing early repayment fees related to the 2011 BCR & Credit Swiss loan and an amount of EUR 7,496 representing unamortised transaction costs relating to the refinanced long term borrowings.

19. INCOME TAX

The statutory tax rate applied in Netherlands during 2014 was 25% (2013: 25%).

Other entities

The statutory tax rate applied in the Romanian entities during 2014 was 16% (2013: 16%).
The statutory tax rate applied in Hungary during 2014 was 19% (2013: 19%).
The statutory tax rate applied in Czech Republic during 2014 was 19% (2013: 19%)
The statutory tax rate applied in Spain during 2014 was 30% (2013: 30%).
The statutory tax rate applied in Italy during 2014 was 31.4% (2013: 31.4%).

Components of income tax expense for the periods ended 31 December 2014 and 2013 respectively were:

	2014	2013
Current income tax charge	3,001	3,492
Deferred income tax relating to origination and reversal of temporary differences	(8,131)	(1,499)
Income tax expense/ (benefit) recognised in profit or loss for continuing operations	**(5,130)**	**1,993**
Income tax expense recognised in profit or loss for discontinuing operations	-	*5,540*

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate (Netherlands) applicable to the net result before tax to the income tax expense at the Group's effective income tax rate for the financial years 2014 and 2013 is as follows:

	2014	2013
Net gain / (loss) before income tax for continuing operations	**(21,582)**	**(18,032)**
At statutory income tax rate of the Company	(5,396)	(4,508)
Effect of difference in tax rates applicable for foreign subsidiaries	2,554	2,176
Non-taxable income / Non-deductible expenses	(3,331)	5,058
Write off of previously recognized deferred tax assets	-	(733)
Fiscal losses for which no deferred tax has been recognized	1,043	-
Effective tax expense from continuing operations	**(5,130)**	**1,993**
Effective tax expense from discontinuing operations	***-***	***5,540***

Deferred taxes in the consolidated statement of financial position are:

	31 December 2014	31 December 2013
Deferred tax assets	2,933	5,008
Deferred tax liabilities	(28,204)	(37,826)
	(25,271)	**(32,818)**

19. INCOME TAX (continued)

Movement of deferred taxes:

	2014	**2013**
Deferred taxes recognized in the statement of financial position	**25,271**	**32,818**
Difference from prior year balance	(7,547)	(185)
Of which:		
Recognized in profit or loss	(8,131)	(963)
Deferred tax liability resulted from business combinations	(522)	1,359
Deferred tax liability/ (asset), recognised in other comprehensive income	-	(176)
Effect of movement in exchange rates	1,106	(404)

19. INCOME TAX (continued)

The deferred tax (asset)/ liability for the financial year 2014 comprises the tax effect of temporary differences related to:

	Balance 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in business combinations	Effect of movement in exchange rates	Balance 31 December 2014
Property, plant and equipment	34,447	(1,548)		194	89	33,183
Intangibles	742	1,093	-	-	(20)	1,815
Intangibles acquired through business combinations	1,129	(976)	-	(716)	976	414
Accounts receivable	1,997	(977)	-	-	8	1,027
Accounts payable	5,173	(9,307)	-	-	66	(4,069)
Long term borrowings	0	7,140	-	-	(60)	7,080
Inventory	60	-	-	-	(1)	59
Deferred tax liabilities	***43,547***	***(4,575)***	***-***	***(522)***	***1,059***	***39,508***
Property, plant and equipment	-	-	-	-	-	-
Intangibles	160	-	-	-	-	160
Accounts receivable	(1,325)	1,282	-	-	(11)	(54)
Accounts payable	(73)	(37)	-	-	1	(110)
Interest expense postponed for deduction	-	(4,394)	-	-	37	(4,357)
Inventory	(8)	(551)	-	-	9	(550)
Fiscal losses	(9,483)	146	-	-	11	(9,327)
Deferred tax assets	***(10,729)***	***(3,556)***	***-***	***-***	***47***	***(14,238)***
Offsetting (refer to Note 2.2 o)	*(5,721)*	*-*	*-*	*-*	*-*	*(11,304)*
Recognition						
Deferred tax liabilities	37,826	-	-	-	-	28,204
Deferred tax assets	(5,008)	-				(2,933)
Net deferred tax liability	32,818	-	-	-	-	25,271
Deferred tax benefit	**-**	**(8,131)**	**-**	**-**	**-**	**-**

19. INCOME TAX (continued)

The deferred tax (asset)/ liability for the financial year 2013 comprises the tax effect of temporary differences related to:

	Balance 1 January 2013	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquired in business combinations**	**Disposed on sale of subsidiary**	**Effect of movement in exchange rates**	**Balance 31 December 2013**
Property, plant and equipment	39,509	(6,086)	(176)	-	(559)	1,759	34,447
Intangibles	1,947	(241)	-	-	-	(964)	742
Intangibles acquired through business combinations	1,214	-	-	(85)	-		1,129
Accounts receivable	979	1,047	-	-	-	(29)	1,997
Accounts payable	1,736	4,166	-	-	(3)	(727)	5,173
Inventory	63	-	-	-	-	(3)	60
Deferred tax liabilities	***45,448***	***(1,115)***	***(176)***	***(85)***	***(561)***	***36***	***43,547***
Property, plant and equipment	-	-	-	-	-	-	-
Intangibles	160	-	-	-		-	160
Accounts receivable	(369)	(1,733)	-	-	513	264	(1,325)
Accounts payable	(73)	(9)	-	-		9	(73)
Inventory	(36)	26	-	-	19	(17)	(8)
Fiscal losses	(12,126)	1,867	-	-	1,473	(697)	(9,483)
Deferred tax assets	***(12,444)***	***151***	***-***	***-***	***2,005***	***(441)***	***(10,729)***
Offsetting (refer to Note 2.2 o)	*(6,256)*	-	-	-	-	-	*(5,721)*
Recognition							
Deferred tax liabilities	39,194	-	-	-	-	-	37,826
Deferred tax assets	(6,190)	-					(5,008)
Net deferred tax liability	**33,004**	**-**	**-**	**-**	**-**	**-**	**32,818**
Deferred tax benefit	**-**	**(963)**	**-**	**-**	**-**	**-**	**-**

19. INCOME TAX (continued)

Deferred tax assets recognised for fiscal losses relate mainly to the Group's operations in Hungary. Such losses, in amount of EUR 27,758 at 31 December 2014 (31 December 2013: EUR 39,984), are not subject to preapproval by tax authorities and can be carried forward indefinitely.

In addition, in 2014 a deferred tax asset was recognized for interest expenses of RCS&RDS which are postponed for deduction until the gearing ratio falls again below 3. Such interest expenses can be carried forward indefinitely

For statutory purposes, RCS&RDS has performed several revaluations of its property, plant and equipment. Should the statutory revaluation reserves of RCS&RDS be distributed to its shareholders they would be taxed, i.e. they would generate a tax liability of EUR 8,489 (2013: EUR 6,941).

The Company did not recognise deferred tax liabilities on taxable temporary differences arising from investments in direct subsidiaries (mainly RCS&RDS) due to the fact that it enjoys a participation exemption status.

20. DISCONTINUED OPERATIONS

At the beginning of March 2013 the Group disposed of the Croatian entity.
At the beginning of June 2013 the Group disposed of the Serbian entity.
At the end of August 2013 the Group finalised the sale of the Slovak subsidiary Digi Slovakia s.r.o.
Details of income and expenses and other comprehensive income of the discontinued operations are presented in the consolidated statement of profit or loss and other comprehensive income.

Effect in 2013 of disposal on the financial position of the Group	
Property, plant and equipment	4,758
Intangible assets	680
Inventories	533
Trade and other receivables	4,008
Cash and cash equivalents	292
Deferred tax asset, net position	1,441
Trade, other payables and other liabilities	(7,556)
Net assets and liabilities	**4,156**
Income from sale of discontinued operations	**41,768**
Gain from sale of discontinued operations	**37,612**
Consideration received, satisfied in cash	41,228
Cash and cash equivalents disposed of	(292)
Net cash inflow	**40,936**

The sale agreement regarding the Slovak subsidiary stipulates, besides the consideration already recognised in 2013 and 2014 and settled by the buyer by 31 December 2014, an amount of EUR 1,000 that may be received and if so, will be recognised as income in the future, following the Group fulfilling certain obligations.

In 2014, the Group received EUR 10,344 representing the additional contingent consideration resulting from the fulfilling certain conditions in 2014, which were netted off by commissions paid of EUR 740

The Group had discussions regarding the sale of its Czech subsidiary, however as of 31 December 2014 no commitment regarding the selling decision was made. An agreement was reached in April 2014 and the sale of the subsidiary was completed. Please refer to Note 26.
During the financial year ended 31 December 2014 the Group did not dispose any of its operations.

21. BUSINESS COMBINATIONS

a) Subsidiaries

The consolidated financial statements incorporate the financial information of the following main subsidiaries in each of the countries:

CCS owns 87.1% shares in RCS&RDS (2013: 89,16%). Below are the presented the main subsidiaries of RCS&RDS:

Subsidiary	Country of Incorporation	Field of activity	Legal Ownership	
			2014	2013
S.C. DALVIG CORP S.R.L.	Romania	Internet	100.00%	100.00%
S.C. AIR BITES S.R.L.	Romania	CATV	100.00%	100.00%
S.C. ENERGIAFOTO SRL	Romania	Solar energy	100.00%	90.00%
S.C. NOVITAS Electro	Romania	Solar energy	100.00%	100.00%
S.C. DELALINA S.R.L.	Romania	Solar energy	100.00%	100.00%
DIGI SPAIN TELECOM S.L.U.	Spain	Telephony	100.00%	100.00%
Digi T.S. Kft	Hungary	CATV, Internet, DTH, Telephony	100.00%	100.00%
ITV.	Hungary	CATV	100.00%	100.00%
DIGI CZECH REPUBLIC s.r.o.	Czech Republic	DTH	100.00%	100.00%
DIGI ITALY SL	Italy	Telephony	100.00%	100.00%
CFO Integrator	Romania	Duct Rent	100.00%	-

b) Acquisitions of subsidiaries

	2014	2013
Total consideration payable in cash	**4,694**	**818**
Customer relationships	1,628	-
Deferred tax liabilities	(260)	-
Property, plant and equipment	9,641	-
Payables	(10,447)	-
Cash and cash equivalents	261	-
Other	2,166	-
Total identifiable net assets	**2,989**	**-**
Goodwill	**1,705**	**818**

On 31 March 2014 the Group acquired CFO Integrator SRL, Vesatel SRL and UCR SRL. The percentage of voting equity interests acquired is 100% and acquired companies are located in Romania.

On 1 November 2014 the Group acquired Diginet SRL. Percentage of voting equity interests acquired is 100% and acquiree is located in Romania.

The acquisitions are in line with the Group's plan to invest in its network infrastructure and gain market share and strategic advantages.

In the period following their acquisition, these companies contributed revenue of EUR 498 and loss of EUR 542 to the Group's results. If the acquisitions had occurred on 1 January 2014, management estimates that total revenue contributed by these entities would have been EUR 1,916, and total loss contributed for the year would have been EUR 1,057. In determining these amounts, management have assumed that fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2014.

For determination of fair value of customer relationships, refer to Notes 3(b).

None of the goodwill recognized is expected to be deductible for tax purposes.

21. BUSINESS COMBINATIONS (continued)

c) Changes in ownership interests while retaining control

In 2014 CCS acquired 1,318,500 (2013: 849,470) shares in RCS &RDS. In 2014 CCS paid for RCS&RDS shares a total amount of EUR 2,903 (2013: EUR 1,035).

During 2014 the Group paid EUR 2,075 (31 December 2013: EUR 597) to previous owners of the non-controlling interest.

22. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from the use of financial instruments:

- credit risk
- liquidity risk
- market risk (including currency risk and interest rate risk).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

(i) Credit risk

Credit risk exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables from customers.

The carrying amount of trade and other receivable, net of an impairment adjustment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by macro-economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Cash and cash equivalents are placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2014	31 December 2013
Trade and other receivables	9	109,862	81,484
Cash and cash equivalents	11	54,288	50,234
Total		**164,150**	**131,718**

22. FINANCIAL RISK MANAGEMENT (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	31 December 2014	31 December 2013
Romania	84,738	55,606
Hungary	9,624	10,770
Spain	2,495	2,834
Czech Republic	637	911
Other countries	2,754	2,025
Total	**100,248**	**72,146**

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2014	31 December 2013
Citibank	22,082	40,497
ING Bank	28,360	7,240
Banca Comerciala Romana	664	316
BRD Groupe Societe Generale	134	117
Unicredit Tiriac Bank	201	297
Other	2,847	1,767
Total	**54,288**	**50,234**

The credit risk on cash and cash equivalents is very small, since the cash and cash equivalents are held at reputable banks in different countries. The most significant part of cash and cash equivalents balance is generally kept at the main subsidiary (RCS RDS) level with internationally reputable banks, having at least A-2 rating in a country with a “BBB-” rating.

Impairment losses

The ageing of trade and other receivables at the reporting date was:

	Gross 31-Dec-14	Impairment 31-Dec-14	Net 31-Dec-14	Gross 31-Dec-13	Impairment 31-Dec-13	Net 31-Dec-13
Not Past Due	90,546	(778)	89,769	56,830	-	56,830
Past Due less 30 days	7,680	(474)	7,206	14,891	(2,779)	12,112
Past Due 30-90 days	4,043	(1,040)	3,003	7,889	(1,893)	5,996
Past Due 90-360 days	11,040	(4,545)	6,495	9,852	(4,259)	5,593
Past Due over 1 year	68,502	(65,112)	3,389	59,043	(58,090)	953
Total	**181,811**	**(71,949)**	**109,862**	**148,505**	**(67,021)**	**81,484**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014	2013
Balance at 1 January	67,021	70,023
Impairment loss recognized	7,999	6,553
Impairment related to receivables of discontinued operations	-	(8,036)
Utilised	(566)	-
Amounts written off	(1,802)	(1,301)
Effect of movement in exchange rates	(703)	(218)
Balance at 31 December	**71,949**	**67,021**

22. FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2014:

	31 December 2014						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**691,458**	**933,502**	32,780	58,072	113,486	250,869	478,295
Finance lease liabilities	**7,019**	**8,048**	674	674	4,492	1,090	1,118
Trade and other payables and other liabilities	**228,059**	**231,025**	189,198	30,356	11,471	-	-
Derivative financial liabilities							
Interest rate swaps	**993**	**993**	993	-	-	-	-
Foreign currency forwards	**-**	-		-	-	-	-
Total	**927,529**	**1,173,568**	**223,645**	**89,102**	**129,449**	**251,959**	**479,413**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2013:

	31 December 2013						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**642,850**	**928,213**	31,966	21,872	72,406	289,924	512,045
Finance lease liabilities	**7,541**	**8,936**	757	693	1,232	4,411	1,843
Trade and other payables and other liabilities	**180,660**	**181,865**	162,890	13,695	5,280	-	-
Derivative financial liabilities							
Interest rate swaps	**254**	**254**	254	-	-	-	-
Foreign currency forwards	**63**	**63**	63	-	-	-	-
Total	**831,368**	**1,119,331**	**195,930**	**36,260**	**78,918**	**294, 335**	**513,888**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

22. FINANCIAL RISK MANAGEMENT (continued)

At 31 December 2014, the Group had net current liabilities of EUR 97,418 (31 December 2013: EUR 31,739). As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities. Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and to keep the Group's leverage optimized. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and working capital, whilst considering future cash flows from operations. Management believes that there is no significant risk that the Group will encounter liquidity problems in the foreseeable future. During 2013 the Group refinanced most of its financial obligation through the issue of Bonds and 2013 New Senior Facilities Agreement (Note 13) and as at 31 December 2014 has unused credit lines of EUR 50,000 and USD 4,100.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Exposure to currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in currencies other than the functional currencies of the Company and each of its subsidiaries.

The Group's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2014		31 December 2013	
	USD	**EUR**	**USD**	**EUR**
Trade and other receivables	952	2,221	623	2,626
Cash and cash equivalents	90	49,714	5	47,240
Interest bearing loans and borrowings	-	(686,603)	-	(638,176)
Bank overdraft	(33)	(3,967)	-	(4,157)
Finance lease liabilities	(5,373)	(2,597)	(6,222)	(2,950)
Trade and other payables	(28,201)	(47,148)	(22,427)	(46,851)
Gross statement of financial position exposure	**(32,565)**	**(688,380)**	**(28,021)**	**(642,268)**
Derivative financial instruments*	**-**	**59,156**	**87,250**	**-**
Gross exposure	**(32,565)**	**(629,224)**	**59,229**	**(642,268)**

*Represents amounts to be received as part of the cross currency interest rate swaps in place at the end of each period.

22. FINANCIAL RISK MANAGEMENT (continued)

The following significant exchange rates applied for the year ended 31 December 2014:

	2014	2013
Romania		
USD	3.6868	3.2551
EUR	4.4821	4.4847
Hungary		
USD	259.13	215.67
EUR	314.89	296.91
Czech Republic		
USD	22,83	19.89
EUR	27.73	27.43

The Group imports services and equipment and attracts substantial amount of foreign currency denominated borrowings

Sensitivity analysis for currency risk

A 10 percent strengthening of the currencies listed below against the functional currencies of the Parent and of the subsidiaries at 31 December would have decreased equity and increased loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Equivalent in EUR	Equivalent in EUR
	2014	**2013**
EUR	68,838	64,227
USD	2,679	2,034
Total	**71,517**	**66,261**

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Parent and of the subsidiaries at 31 December would have had the equal but opposite effect on the equity and loss, on the basis that all other variables remain constant.

Exposure to interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk (USD and EUR) through market fluctuations of interest rates. The interest rates of borrowings (except bonds) are disclosed in Note 13.

At the reporting date the interest rate profile of the interest-bearing financial instruments was:

Variable rate instruments	Carrying amounts **31 December 2014**	Carrying amounts **31 December 2013**
Financial liabilities - loans and borrowings	254,831	202,311
Finance lease liabilities	7,019	7,541
Total	**261,850**	**209,852**

22. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before tax by:

	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2014		
Variable rate instruments	(5,848)	5,848
	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2013		
Variable rate instruments	(6,874)	6,874

(iv) Fair values

The Group measures at fair value available for sale investments. The valuation model used to assess the fair value of available for sale investments is based on an income approach which estimates the fair (market) value of the investment.

The valuation of the investment was estimated based on a discounted cash-flow model, using cash flow projections based on financial budgets approved by senior management covering a six-year period.
The unobservable inputs used in the model include:

- Forecast terminal annual revenue growth rate (2014: 1.5%; 2013: 2%).
- Risk-adjusted discount rate (2014: 8.40%; 2013: 9.57%).

Note 6 a) includes details regarding other key assumptions used for the cash flow projections (revenues, EBITDA margins and Capital expenditure), which are relevant for this calculation as well.

The estimated fair value would increase (decrease) if:

- the terminal annual revenue growth rate were higher (lower);
- the risk-adjusted discount rate were lower (higher).

Sensitivity analysis for available for sale financial assets

A change in the terminal value growth rate and/ or WACC at the reporting date would have an impact as follows:

	WACC		Terminal value growth rate	
	100 basis points increase	100 basis points decrease	50 basis points decrease	50 basis points increase
31 December 2014				
Available for sale financial assets	(10,480)	14,048	(4,683)	5,351
31 December 2013				
Available for sale financial assets	(6,924)	9,039	(2,772)	3,164

22. FINANCIAL RISK MANAGEMENT (continued)

As of 31 December 2014 the Group calculated as well the sensitivity with respect of the changes in the Revenue annual growth rates (YOY), EBITDA margins and Capital expenditure.

The estimated fair value would increase (decrease) if:

- the annual revenue growth rate were higher (lower);
- the EBITDA margins were higher (lower);
- the capital expenditure were lower (higher).

	Revenue growth rate (YOY)		**EBITDA margins**		**Capital expenditure**	
	1% decrease	1% increase	2% decrease	2% increase	10% increase	10% decrease
31 December 2014						
Available for sale financial assets	(8,526)	8,873	(10,719)	10,686	(9,102)	9,068

v) Financial instruments carried at other than fair value

Financial instruments which are not carried at fair value on the statement of financial position include trade and other receivables, cash and cash equivalents, interest bearing loans and borrowings, other long term liabilities and trade and other payables.

Due to their short term nature, the carrying amounts of trade and other receivables, trade and other payables and overdrafts are considered to approximate their fair values.

The fair value of long term loans and their corresponding carrying amount and fair value measurement hierarchy are presented in the table below:

	31 December 2014		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 13)	**680,978**	**703,374**	
Bonds	436,411	456,615	Level 1
New Senior Facilities	244,567	246,759	Level 2

	31 December 2013		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 13)	**632,399**	**663,215**	
Bonds	434,245	462,375	Level 1
New Senior Facilities	198,154	200,840	Level 2

The fair value of bonds is calculated on the basis of the market price while the fair value of the loans is based on contractual cash flows discounted using a market rate prevailing at the reporting date (latest Euribor reset rate + the market credit spread received by the Group for financial liabilities with similar features).

22. FINANCIAL RISK MANAGEMENT (continued)

vi) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2014				
Cross currency swap	-	-	(993)	**(993)**
Foreign exchange forwards	-	-	-	**-**
Available for sale financial assets	-	-	41,296	41,296
Total liabilities	**-**	**-**	**40,303**	**40,303**
31 December 2013				
Cross currency swap	-	-	(254)	**(254)**
Foreign exchange forwards	-	(63)	-	**(63)**
Available for sale financial assets	-	-	30,982	30,982
Total liabilities	**-**	**(63)**	**30,728**	**30,665**

vii) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. Management monitors “total net debt to EBITDA” ratio which is computed in accordance with the New Senior facilities agreement Currently the ratio is 2.9 (2013: 2.39), level which, as mentioned, is constantly monitored.

23. SHARE-BASED PAYMENTS

In February 2007, the Group implemented a share based payment plan for certain members of the management team and key employees. The options vest if and when certain revenue, subscriber targets and other targets of the Group are met.

According to the plan, in 2014, 1,305,500 share options were granted to eligible employees under the share based payment plan (2013: 1,305,500). The related share option expense of EUR 2,418 has been recorded as an expense in 2014 (2013: EUR1,842) in the Consolidated statement of profit or loss and other comprehensive income in the line item Operating expenses, within salaries and related taxes. (Note 17).
Out of the total number of share options granted, 632,500 were exercised in 2014 and 673,000 in 2015 (the latter include the difference of 148,500 share options for 2013 granted in 2014).

The number of outstanding share options (not exercised) as of 31 December 2014 was 1,978,500 (31 December 2013: 2,193,780).

24. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2014 the Group had derivative financial liabilities in amount of EUR 993 (31 December 2013: 317). corresponding to a cross currency interest rate swap.

As of 31 December 2014 there are in place cross currency interest rate swaps for the entire Proceeds Loan's value (EUR 450 million), all with a termination date of 23 September 2016.

25. GENERAL COMMITMENTS AND CONTINGENCIES

Uncertainties associated with international financial environment

Within the last years, the European banking sector started to face a sovereign debt crisis, triggered by significant fiscal disequilibria and large public debt positions in several European countries. The ongoing fears that such deteriorating financial conditions could contribute at a later stage to a further retrenchment in confidence, prompted a coordinated effort of governments and Central Banks to adopt special measures aimed at countering a vicious circle of growing risk aversion and to helping maintain normal market functioning.

The identification and valuation of investments influenced by the illiquid market conditions, the determination of compliance with debt agreements and other contract covenants, and the evaluation of significant uncertainties, including uncertainties associated with an entity’s ability to continue as going concern for a reasonable period of time, bring their own challenges.

Deteriorating conditions for customers may also have an impact on the management cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessment.

Management is unable to predict all developments which could have an impact on the Romanian and other countries’ economies where the Group operates and consequently what effect, if any, they could have on these financial statements.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances by:

- forecasting on short-term basis its net liquidity position;
- examining terms and conditions of financing agreements and considering the implications of obligations imposed and risks identified such as approaching maturity dates or the implications of any terms or covenants that may have been breached or which may be breached in the foreseeable future.

Given the fact that the market conditions and uncertainties are likely to continue to exist in 2015 and perhaps later, other effects may be felt beyond the dates of these financial statements.

Uncertainties associated with the fiscal and legal system

The tax frameworks in Romania and other Eastern and Central Europe countries are subject to frequent changes (some of them resulting from EU membership, other from the domestic fiscal policy) and often subject of contradictory interpretations, which might be applied retroactively.

Furthermore, the Romanian and other Eastern and Central Europe governments work via a number of agencies authorized to carry on audits of the companies operating in these countries. These audits cover not only fiscal aspects but also legal and regulatory ones that are of interest to these agencies.

The Dutch, Romanian and other Eastern and Central Europe Fiscal legislation include detailed regulations regarding transfer pricing between related parties and includes specific methods for determining transfer prices between related prices at arm's length. Transfer pricing documentation requirements have been introduced so that taxpayers who carry out transactions with affiliated parties are required to prepare a transfer pricing file that needs to be presented to the tax authorities upon request.

The Company and its subsidiaries entered into various transactions within the Group, as well as other transactions with related parties. In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result of the Company and/ or its subsidiaries with additional taxable revenues/ non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

Group management believes that it has paid or accrued all taxes, penalties and interest that are applicable, at the Company and subsidiaries level.

25. GENERAL COMMITMENTS AND CONTINGENCIES (continued)

Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Intact Media Group Litigation

In March 2011, the Intact Media Group initiated a series of lawsuits against us. Although we consider the Intact Media Group litigation to be, at least in a large part, abusive and vexatious, if these court claims are successful, they will generate significant adverse effects on our finances, management and business model.

a) The must carry related litigation

In March 2011, Antena Group (Intact Media Group) initiated three separate lawsuits in tort against us alleging that we illegally refused to carry its channels breaching, among other things, the Romanian must carry rules. They claim damages of approximately €100 million and have requested that the court impose other non-monetary remedies, such as requiring that we provide the Intact Media Group channels to our subscribers free of charge and in compliance with the highest technical standards.

In the first proceeding, Antena Group claims that we are bound by the must carry rules to provide Antena 1, the Intact Media Group's lead channel, free of charge to our subscribers in a package that only contains must carry channels. Antena Group has requested injunctive relief which would require us to offer such a package to our subscribers (neither we nor any other Romanian distributor currently offers to its customers such a package) and has sought damages amounting to €65 million for our alleged breach of the must carry rules. The initial court case was split into two proceedings as Antena Group assigned its monetary claims related to this lawsuit to First Quality Debt Recovery.

The claim regarding the €65 million monetary damages was suspended until final settlement of both the claim for injunctive relief and a lawsuit we initiated challenging the effects of an arrangement regarding the assignment of receivables from Antena Group to First Quality Debt Recovery. On April 15, 2015, the Bucharest Tribunal partially admitted RCS&RDS' claim and annulled the assignment of receivables from Antena Group to First Quality Debt Recovery. We expect this decision to have a significant positive impact on RCS&RDS' defence against Antena Group's claim regarding the €65 million monetary damages. Please note that this decision is not final as it is subject of review if either party decides to challenge it.

In the case regarding the injunctive relief request, both the court of first instance and the court of appeals ruled in our favor and dismissed Antena Group's claims. However, in February 2014, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality Debt Recovery and quashed the decisions issued by both the first instance and the appeal courts, ordering a retrial of the case by the first court. The decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case, as the retrial was ordered solely based on procedural reasons. The case remains to be resettled by the Bucharest Tribunal; the next hearing is scheduled for 15 June 2015.

Separately, Antena Group has also filed two lawsuits claiming (i) monetary damages of approximately €35 million consisting of loss of revenue due to our temporary refusal to carry the tv channels GSP TV and Antena 2 which allegedly breached, among other things, the must carry rules; and (ii) injunctive relief that would require us to provide the disputed channels to our customers in compliance with the highest technical standards. Approximately €24 million out of these claims are related to our refusal to carry GSP TV, while the remaining €11 million is related to our refusal to carry Antena 2. Because Antena Group assigned to First Quality Debt Recovery the claims regarding the €35 million monetary damages as well, First Quality Debt Recovery became involved in these proceedings. Consequently, the court split both the GSP TV and the Antena 2 lawsuits into two: in each case, the monetary claim formed one lawsuit and the claim for injunctive relief another one. At our request, both the GSP TV and the Antena 2 claims for monetary damages were suspended until the final settlement of the lawsuit we initiated for challenging the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

25. GENERAL COMMITMENTS AND CONTINGENCIES (continued)

The case regarding the injunctive relief sought in relation to the GSP TV channel was settled by the Bucharest Tribunal in favour of Antena Group, the court ordering us to include the channel in our network in compliance with several technical requirements. However, we have been carrying the channel as of January 2012 and therefore the decision did not impact our network. The appeal filed by RCS & RDS against the first court decision was rejected in October 2014. We filed a higher appeal against the appeal court's decision, registered with the Romanian Supreme Court. At the first hearing scheduled for 30 April 2015, the case was heard by the Romanian Supreme Court that is to make public the final decision after the date of this report.

The case regarding the injunctive relief sought in respect to Antena 2 was settled in March 2014 by the Bucharest Tribunal in our favour; Antena Group's claims were rejected in their entirety. Antena Group appealed the decision, but the appeal was rejected in October 2014. Antena Group filed a higher appeal against the appeal decision and the High Court of Cassation and Justice ordered a retrial of the appeal by the Bucharest Court of Appeal. The first hearing in the retrial of the appeal has not been established yet.

At the end of 2014, Antena Group initiated two new lawsuits requesting damages in relation to the carriage of GSP TV and Antena 2. The claims are almost identical to the ones regarding the same channels and assigned to First Quality Debt Recovery in 2012, except for the much lower amounts requested, specifically RON 500,000 in relation to GSP TV and RON 250,000 in relation to Antena 2. The lawsuit regarding the GSP TV channel is suspended since February 2015 until the final settlement of two separate files: (i) the injunctive relief case initiated in relation to this program and (ii) the trial initiated by RCS & RDS to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery. The first hearing in the case regarding the Antena 2 channel was held on 29 April 2015, when both parties discussed the suspension of the trial.

We have also challenged, but failed to overturn in court a number of NAC decisions on must carry rules and, particularly, a decision finding that we breached the obligation to provide certain must carry channels to our customers (including GSP TV). This adverse decision could be used in the monetary claims of Antena Group against us in relation to the alleged breach of the must carry rules with respect to GSP TV (such claims being approximately €24 million).

Antena Group has not yet provided any objective criteria for the determination of their claims in damages. However, there is a risk that we could be found liable for substantial sums. Moreover, should Antena Group be successful in all or part of its non-monetary claims, we may be forced to change our business model of providing must carry channels to our customers as we would be forced to provide separate, free of charge packages containing only the must carry channels. This litigation is relevant only to our cable television distribution and would not affect our DTH distribution since DTH distribution is as per current regulations expressly exempt from the must carry rules.

b) Litigation on grounds of an alleged abuse of dominant position

In July 2014, two companies of the Intact Media Group (Antena Group and Antena 3) filed another claim against RCS&RDS requesting the court to ascertain that RCS & RDS abused its dominant position by its alleged refusal to negotiate and conclude an agreement for the remunerated carriage of Antena Group channels, should Antena Group eventually choose to waive the must carry regime currently applicable to all Intact Media Group's TV channels. The claimants also requested the court to order RCS & RDS to negotiate with Antena Group in view of concluding a pay-tv based agreement under terms similar to the ones agreed by us with Pro TV S.A.
We requested the court to reject the claim as RCS&RDS's behaviour is neither abusively discriminatory nor an abusive refusal to deal. We are mainly arguing that: (i) the claimants didn't initiate good-faith negotiations, as their channels are still under must-carry regime and they didn't even issued an offer to begin with; (ii) the alleged refusal to negotiate would be justified by the abusive past conduct of the claimant; (iii) the negotiations requested by Intact Media Group are not comparable to the ones with Pro TV S.A., given the different market conditions at the moment of the negotiations and the different legal status of the TV channels of the two groups; and (iv) the conditions required by antitrust legislation are not met (e.g., the claimants are not risking exiting the market).

25. GENERAL COMMITMENTS AND CONTINGENCIES (continued)

In March 2015, RCS & RDS requested the court to stay the proceedings until the final settlement of four other trials that may serve as a justification for the alleged refusal to negotiate with Antena Group and Antena 3. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until final settlement of other judicial disputes between the parties. This decision is not final and is subject to superior judicial review.

If, in this litigation, the Court finally rules in favour of the plaintiffs, we risk to be forced to conclude the carriage agreement for Intact Media Group's channels on similar financial conditions to those agreed with Pro TV S.A. An unfavourable decision could also be used as argument by other broadcasters to claim similar conditions.

Litigation between the Cluj Napoca Municipality and CFO Integrator S.R.L. (RCS&RDS's subsidiary)

In March 2015, the Cluj Napoca Municipality filed a claim against CFO Integrator S.R.L. (a company that has been taken over by RCS&RDS starting March 2014) asking for approx. RON 3.5 million as penalties for the late payment by CFO Integrator S.R.L. during 2010-2014 of the outstanding annual royalty due by CFO Integrator S.R.L. to the Cluj Napoca Municipality under the ongoing joint venture agreement on the development and management of the electronic communications infrastructure Ductcity in Cluj Napoca. The Cluj Napoca Municipality's abusive allegations for payment are grounded on several legal and local regulatory provisions that we consider not to be applicable to the joint venture agreement in place between the parties and ignores the fact that CFO Integrator S.R.L. paid in May 2014 all outstanding debts towards Cluj Napoca Municipality, including all applicable penalties for late payment as computed according to the terms of the joint venture agreement (total penalties amounting to approx. RON 220,000).

CFO Integrator S.R.L. submitted its statement of defence on April 4, 2015. The first hearing in front of the Cluj Napoca Tribunal is scheduled for July 3, 2015.

Should the court rule in whole or in part in favour of the Cluj Napoca Municipality, this approach would risk granting the Cluj Napoca Municipality excessive powers under the joint venture agreement (in place until 2028) and expose CFO Integrator S.R.L. to a greater liability towards the Cluj Napoca Municipality.

Operating risks

Main operating risks are described below:

- *Risks related to overseas operations and certain financial matters*

These risks arise from the fact that the Group operates in several countries and therefore it is exposed to currency fluctuation (refer to Note 22), difficulties in managing international operations, changes in domestic and foreign laws. In addition, difficult economic conditions may reduce subscriber spending for the Group's video, internet and telephony services and reduce the rate of growth of subscriber additions. Refer to paragraphs above related to uncertainties associated with international financial environment and uncertainties associated with the fiscal and legal systems in Central and Eastern Europe.

- *Risks related to systems failure or shutdown*

The Group's cable TV, internet and data, fixed-line telephony and mobile telecommunication services are currently provided through transmission networks comprised of coaxial and fibre-optic cables. The Group's ability to deliver services may be subject to disruptions of systems from communication failures which may be caused, among other things, by computer viruses, power failures, natural disasters, software flaws, transmission cable cuts, sabotage, acts of terrorism and vandalism and unauthorized access. Any such disruption may affect The Group's reputation, may lead to loss of customers and would have a significant impact on revenues for as long as the disruption continues and could adversely affect the Group's operating cash flows.

25. GENERAL COMMITMENTS AND CONTINGENCIES (continued)

- *Risks related to inability to acquire or retain satellite transmission rights or content rights*

The Group is exposed to the risk of not being able to extend the terms of the current agreements for satellite transmission rights or content rights or to conclude new agreements on similar financial terms. A material increase in related costs may have a material adverse impact on the Group's financial position and results of operations.

- *Risks related to the competition and the technology used by the Group*

The Group operates in increasingly competitive markets, and there is a risk that the Group is not able to effectively compete with other service providers. In addition, technology in the video, telecommunication and data services industries is changing rapidly; this change in technology may limit competitiveness of and demand for the Group's services, which may adversely impact the Group's business.

Material commitments and contingencies

Commitments are presented on a discounted basis, using an interest rate of 3M LIBOR + 5% p.a., 3M EURIBOR + 5% p.a. or 3M ROBOR + 5% p.a.

Operating leases

The Group leases under operating leases several main types of assets:

- pillars for network support in Romania and Hungary in several rural areas for the Romanian and Hungarian fibre optics main ring;
- pillars for network support in Romania in several urban areas for "fibre to the block networks";
- fibre optic line capacities in Hungary;
- commercial spaces for cash collection points in Romania and Hungary;
- office facilities in Romania, Hungary, Czech Republic, Spain, Italy.

Minimum lease payments under non-cancellable operating lease agreements are as follows:

	2014	**2013**
Less than one year	34,388	13,776
Between one and five years	36,971	34,898
More than five years	3,755	7,165
	75,114	**55,839**

The leases for local offices and commercial spaces typically run for an initial period of one year, with an option to renew the lease after that date. The leases of pillars for network support typically run for an initial period of 17 years. The leases for fibre optical line capacities typically run for an initial period between 4 and 7 years. None of the leases include contingent rentals.

Besides these lease agreements, there are approximately another 590 contracts signed for a period of over 5 years, with an automatic renewal clause or signed for an indefinite term. The average annual rent for these contracts is of maximum EUR 2,900.

Capital expenditure
The capital expenditure the Group has assumed until 31 December 2014 is mostly made of commitments for the purchase of 3G and fixed network equipment amounting to approximately EUR 19,443 (31 December 2013: EUR 23,871).

Satellite capacity expenses
The Group has committed under the long term agreement with Intelsat, the satellite solution provider, to use until 30 November 2017 the contracted services and to pay monthly equal fees cumulating to EUR 24,833 (31 December 2013: EUR 28,714).

25. GENERAL COMMITMENTS AND CONTINGENCIES (continued)

2100 MHz spectrum fee
The Group has committed to pay an annual fee to the Romanian Communication Authority for the *2100 MHz* radio spectrum license awarded until 31 December 2021 inclusively, amounting to a cumulated value of EUR 13,848 (31 December 2013: EUR 15,333).

900 MHz spectrum fee
The Group has committed to pay an annual fee to the Romanian Communication Authority for the 900 MHz radio spectrum license awarded starting with April 2014 until April 2029 inclusively, amounting to a cumulated value of EUR 22,927 (31 December 2013: EUR 23,123).

1800 MHz spectrum fee
The Group has committed to pay an annual fee to the Hungarian Communication Authority for the *1800 MHz* radio spectrum license awarded until 31 October 2029 inclusively, amounting to a cumulated value of EUR 6,265.
Sports rights and TV films and documentaries
As of 31 December 2014, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 16,692 (31 December 2013: EUR 21,333).

Letters of guarantee and letters of credit
As of 31 December 2014, there were bank letters of guarantee and letters of credit issued in amount of EUR 10,401 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2013: EUR 18,212).

Romanian Competition Council Investigations

RCS&RDS is subject to two investigations by the Competition Council. An investigation by the Romanian Competition Council could take up to several years. If RCS&RDS is found to have committed breaches of competition law, sanctions could include fines of up to 10% of RCS&RDS total turnover for each individual violation as well as cancellation of contracts or rights which contravene applicable legislation.
Due to the fact that the investigations are in progress and no preliminary reports were issued by the Competition Council, RCS&RDS was not able to quantify the risks related to these investigations, but management does not believe RCS&RDS has committed any violations of competition law and would challenge any ruling that would be made against RCS&RDS.

Telecommunications market interconnection investigation

In May 2010, we made a complaint to the Romanian Competition Council in relation to the interconnection tariffs applied on the Romanian telecommunications market, seeking to obtain a reduction in the tariffs charged by our competitors.

In February 2011, the Romanian Competition Council opened an investigation on the telecommunications market related to interconnection tariffs charged by all telecommunications operators. We believe this investigation was launched with the aim of reducing the relatively high interconnection tariffs charged on the Romanian market and thereby reducing the rates ultimately charged to consumers. We are fully cooperating with the Romanian Competition Council in this investigation. Immediately after the triggering of this investigation, we offered commitments to charge a tariff for call termination into our mobile telephony network of 1.00 eurocent per minute, irrespective of the tariffs charged by the other operators (at the start date of the investigation the regulated interconnection tariff was of 3.07 eurocent per minute).

25. GENERAL COMMITMENTS AND CONTINGENCIES (continued)

During the course of the investigation, in April 2013 ANCOM lowered the level of the interconnection tariff at 0.96 eurocent per minute. In light of this change, the Romanian Competition Council refocused the scope of the antitrust investigation from the initial target of lowering the wholesale interconnection tariffs to ensuring that no discrimination will be further made at the retail level by the operators between in-network calls versus out-of-network calls. RCS&RDS offered to undertake new commitments able to respond to this new antitrust concern. After submitting in July 2013 a first set of commitments that – although being principally accepted by the Romanian Competition Council and by the market – have not been endorsed by the European Commission, at the Romanian Competition Council's request, we offered in October 2014 a second commitment consisting in the principle undertaking not to discriminate between the level of the tariffs charged for the on-net and the off-net calls. This new commitment – that has been undertaken by the other mobile telephony operators as well – has been submitted to public consultation in November 2014. Following the considerations submitted by third parties during the public consultation, we have carried out several discussions with the Romanian Competition Council and have transmitted several updates and clarifications. The latest commitment submitted by RCS&RDS is currently pending the Romanian Competition Council's final approval. If accepted, we will need to implement this commitment for 2 years. Until final endorsement of the commitments, we expect that the Romanian Competition Council will issue a clear mechanism for the monitoring and the implementation of this commitment.

The offering of commitments does not imply any admission of wrongdoing. We expect that the competition authority will issue a final decision accepting our commitments and close the investigation without applying any fines for the alleged anticompetitive conduct.

GSP investigation

In May 2011, Antena TV Group S.A., a leading media group in Romania and a former commercial partner of RCS&RDS, made a complaint to the Romanian Competition Council based on our refusal to retransmit one of the group's channels, GSP TV. The Romanian Competition Council opened an investigation against us in relation to this matter in August 2011. We have fully cooperated with the authority during this investigation and although considering the demands of Antena TV Group S.A. to be abusive and groundless, we have retransmitted GSP TV following injunctive relief Antena TV Group S.A. has obtained against us on grounds that starting July 2011 GSP TV has become a must-carry channel.

The Romanian Competition Council issued its final decision on March 3, 2015. The antitrust authority's decision amounted to the conclusion that RCS&RDS' refusal to negotiate the carriage of GSP TV channel is not abusive and that it does not amount to a competition law infringement. The Romanian Competition Council additionally considered that such refusal was justified by the existence of multiple judicial disputes between the parties, including with respect to the application and meaning of the must-carry regime.

By reference to RCS&RDS' market power, the decision also issued a formal recommendation for RCS&RDS to set, publish and to apply its own general terms in relation to broadcasters' request for the conclusion of a carriage agreement. We believe that there are no grounds for this recommendation given the features and dynamics of the TV carriage market. Additionally, this recommendation is impractical if not impossible to implement.

The Romanian Competition Council's decision is not final and is subject to judicial review. Although the recommendation is not mandatory and the refusal by RCS&RDS to implement such recommendation is not, in itself, able to lead to financial penalties, RCS&RDS challenged this recommendation in court (on April 10, 2015) given the impossibility for RCS&RDS to follow such recommendation given the existing features of the tv carriage market. From the information at our disposal it results that the Competition Council's decision was equally challenged by Antena TV Group S.A. (on April 10, 2015). Please note that the Competition Council's decision rejecting Antena TV Group S.A.' complaint against RCS&RDS is not final and may be overturned in court. At the date of this report, both trials are in the administrative stage while no hearing has been yet scheduled.

26. SUBSEQUENT EVENTS

On 15 January 2015 RCS&RDS acquired the rights for the Romanian Football League for the period February 2015 – May 2019.

At the beginning of April 2015 RCS&RDS signed a contract for the sale of the Czech subsidiary. The closing took place on 21 April 2015. Out of the total selling price of EUR 26.14 million, EUR 25.39 million were received at closing, and the remaining EUR 0.75 million will be received after 13 months, subject to certain conditions.

On 30 April 2015 RCS&RDS signed a new facility agreement which will refinance our New Senior Facilities Agreement and convert the current EUR exposure into RON. The total amount of this facility is the equivalent in RON of EUR 235 million at the exchange rate of 4.4 RON/EUR, with the possibility of increasing it to EUR 260 million (the same, equivalent in RON) in the next three months. Out of the total EUR 235 million, EUR 226 million represents a term loan, with equal repayments every 6 months and final maturity in 5 years time from signing and the remaining EUR 9 million represents a Revolver credit facility with a maturity of three years. RCS&RDS expects to draw the new facility and to finalize the refinancing on 15 May 2015.

On 22 December 2014 RCS&RDS signed the contract for the acquisition of two radio stations in Romania (Pro FM and Campus). In February 2015 the National Audiovisual Council approved the transfer of the radio licences. Until the date of these financial statements the closing has not taken place as not all of the conditions precedent has been fulfilled.

Alexandru Oprea has resigned from the position of CEO of RCS&RDS starting with 14 April 2015.

27. EBITDA

In the telecommunications industry the benchmark for measuring profitability is EBITDA (earnings before interest, taxes, depreciation and amortization). EBITDA is a non-IFRS accounting measure.

For the purposes of disclosure in these notes, EBITDA is the consolidated operating profit/ (loss) of the Group before taking into account:

- any interest expenses and other financing charges,
- income tax or interest income and other financing revenues,
- add back charges for depreciation, amortization and impairment of assets
- extraordinary and one off items.

In years where there are extraordinary and one off items, EBITDA is referred to as “Adjusted EBITDA”.

	2014	**2013**
Revenues and other income	**661,607**	**624,071**
EBITDA		
Operating profit	48,356	90,566
Depreciation, amortization and impairment	192,061	208,285
One off transactions (Note 20)	(9,604)	(37,612)
Adjusted EBITDA	**230,813**	**261,238**
Adjusted EBITDA (% of revenue and other income)	*34.89%*	*41.86%**

* *the 2013 EBITDA margin computation has been revised in order to include “other income”*

For breakdown of depreciation, amortization and impairment refer to Notes 5 and 6(a) and 6(b). One off transaction in 2014 represents net gain from discontinued operations in Slovakia, and in 2013 for all discontinued operations.

SUPPLEMENTARY NOTE - OTHER UNAUDITED FINANCIAL AND OPERATING DATA FOR THE THREE MONTHS ENDED DECEMBER 31, 2014

These supplementary notes are not part of our Annual Report for the twelve months ending on 31 December, 2014, nor are they a report on the three months period ended on 31 December 2014. We are not required to provide them under the terms of our financing arrangements and the information set out below is provided on an "as is" basis without warranties or representations of any kind, express or implied as to the accuracy or completeness of the information or as to the use of such information for any particular purpose. We shall not, under any circumstances, be liable in contract, tort or otherwise, for any damages of any kind, including, without limitation, indirect, special, consequential or incidental damages, lost profits, business interruption or other damages arising directly or indirectly from use of or reliance on the information contained in these supplementary notes.

The information set out below includes certain summary consolidated financial information for the Group as at and for the three months ended December 31, 2013 and 2014. Such financial information has been derived from Cable Communications Systems's audited consolidated financial statements as at and for the years ended December 31, 2013 and 2014, included elsewhere in this annual report and Cable Communications Systems' unaudited condensed consolidated interim financial report as at and for the nine months ended September 30, 2014 and the related notes. However, such information has not been audited, reviewed, or in any other way verified by any financial auditor or any other person.

Our audited consolidated financial statements and our unaudited condensed consolidated interim financial report as at and for the nine months ended September 30, 2014 have been prepared in accordance with IFRS. The information presented below under the caption "Other operating data" is not derived from the annual and interim financial statements.

Financial Data

	Three months ended December 31,	
	2013	**2014**
	(euro in millions)	
Revenues		
Romania	106.8	126.8
Hungary	30.0	30.5
Spain	12.4	15.4
Other[1]	5.9	4.7
Eliminations of intersegment revenues	(1.1)	0.3
Total revenues	**153.3**	**177.6**
Other income	**0.3**	**0.0**
Operating expenses		
Romania	(57.3)	(85.3)
Hungary	(19.2)	(18.3)
Spain	(10.5)	(13.9)
Other[1]	(4.8)	(3.7)
Eliminations of intersegment expenses	1.1	(0.3)
Depreciation, amortization and impairment of tangible and intangible assets	(55.0)	(51.5)
Total operating expenses	**(145.6)**	**(173.0)**
EBITDA[2]	**63.7**	**56.2**
EBITDA margin(%)[3]	**41.3%**	**31.6%**
Capital expenditure	**44.3**	**64.6**

Revenue (excluding intersegment revenues)	Three months ended December 31,		% change period on period
	2013	2014	2013 v 2014
	(euro in millions)		
Romania			
Cable TV	37.3	39.7	6.4%
Fixed internet and data	35.3	37.6	6.5%
Fixed-line telephony	8.9	7.1	-20.2%
Mobile telephony	4.9	8.5	73.5%
Mobile internet and data	3.5	4.6	31.4%
DTH	11.8	10.6	-10.2%
Other revenues(4)	4.2	19.2	357.1%
Hungary			
Cable TV	8.9	8.8	-1.1%
Fixed internet and data	7.4	7.9	6.8%
Fixed-line telephony	2.5	2.0	-20.0%
Mobile internet and data	0.4	0.4	0.0%
DTH	8.4	7.8	-7.1%
Other revenues(5)	2.4	3.5	45.8%
Spain			
Mobile internet and data	10.7	11.5	7.5%
Mobile telephony	1.4	3.2	128.6%
Other revenues(6)	0.1	0.4	300.0%
Other			
Mobile telephony	2.0	1.4	-30.0%
DTH	3.9	3.3	-15.4%
Total Revenues	**154.0**	**177.6**	**-3.00%**

Revenues in Constant Currency	For the three months ended December 31		
	2013	2014	2014
	Actual	Actual	Constant currency
	(euro in millions)		
Romania	106.8	126.8	126.4
Hungary	30.0	30.5	31.6
Spain	12.4	15.4	15.4
Other(1)	5.9	4.7	4.8
Eliminations of intersegment revenues	(1.1)	0.3	0.3
Total	**153.3**	**177.6**	**178.4**

(1) Includes our operations in Czech Republic and Italy

(2) We calculate EBITDA by adding back to consolidated operating profit/(loss) our charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is defined as EBITDA adjusted for the effect of extraordinary and one-off items. EBITDA and Adjusted EBITDA under our definition may not be comparable to similar measures presented by other companies and labeled "EBITDA." We believe that EBITDA and Adjusted EBITDA are useful analytical tools for presenting a normalized measure of cash flows that disregards temporary fluctuations in working capital, including due to fluctuations in inventory levels and due to timing of payments received or payments made. Since operating profit and actual cash flows for a given period can differ significantly from this normalized measure, we urge you to consider these figures for any period together with our data for cash flows from operations and other cash flow data and our operating profit. You should not consider EBITDA or Adjusted EBITDA a substitute for operating profit or cash flows from operating activities.

(3) We define EBITDA margin as the ratio between EBITDA and the sum of total revenues and total other income.

(4) Other revenues in Romania consist primarily of sale of handsets and other equipment, advertising sold on our own music channels, fees we receive from other TV operators which carry our "Digi Sport" channel, reversal of certain payables and certain other ancillary items.

(5) Other revenues in Hungary consist primarily of fees we receive from other TV operators which carry our "Digi Sport" channel and advertising sold on our "Digi Sport" channels and revenues from network management services

(6) Other revenues in Spain consists primarily of sale of mobile telephone handsets.

Other operating data

	RGUs (in thousands)			ARPU (EUR/RGU/month)		
	As at and December 31		% change	For the three months period December 31		% change
	2013	**2014**		**2013**	**2014**	
Romania						
Cable TV	2,451	2,599	6.0%	5.11	5.13	0.4%
Fixed Internet and data						
Residential	1,605	1,745	8.7%	5.19	5.18	-0.2%
Business	78	89	14.1%	46.32	41.46	-10.5%
Fixed-line telephony						
Residential	1,403	1,346	-4.1%	1.70	1.29	-24.1%
Business	116	124	6.9%	4.94	4.34	-12.1%
Mobile telephony	1,089	1,388	27.5%	1.50	2.18	45.3%
Mobile internet and data	670	1,223	82.5%	1.73	1.35	-22.0%
DTH	821	725	-11.7%	4.73	4.81	1.7%
Hungary						
Cable TV	404	411	1.7%	7.38	7.21	-2.3%
Fixed internet and data	329	347	5.5%	7.66	7.68	0.3%
Fixed-line telephony	288	301	4.5%	2.91	2.26	-22.3%
Mobile internet and data[1]	21	19	-9.5%	6.73	6.50	-3.4%
DTH	341	330	-3.2%	8.03	7.79	-3.0%
Spain						
Mobile telephony[2]	309	423	36.9%	11.91	9.47	-20.5%
Mobile internet and data[2]	103	187	81.6%	5.11	5.95	16.4%
Other						
DTH[3]	157	134	-14.6%	8.11	7.97	-1.7%
Mobile telephony[4]	60	63	5.0%	10.85	7.72	-28.8%
Mobile internet and data[4]	0	3	N.M.	0.00	5.67	N.M.

	For the three months ended December 31,	
	2013	**2014**
Other operating data		
RGUs per line of business[5] (in thousands)		
Cable TV	2,855	3,010
Fixed Internet and data	2,012	2,181
Fixed-line telephony	1,807	1,771
Mobile telephony	1,458	1,874
Mobile internet and data	794	1,432
DTH	1,319	1,189
Total	**10,245**	**11,457**
ARPUs per line of business[6] (€)		
Cable TV	5.43	5.42
Fixed Internet and data residential	5.61	5.59
Fixed Internet and data business	46.32	41.46
Fixed-line telephony residential	1.90	1.47
Fixed-line telephony business	4.94	4.34
Mobile telephony	4.02	4.04
Mobile internet and data	2.27	2.05
DTH	5.99	6.00

(1) As a reseller, selling services which utilize the Telenor network under our "Digi" brand.

(2) As an MVNO.

(3) Includes services provided in Czech Republic

(4) As an MVNO. Services only provided in Italy.

(5) RGUs, or revenue generating units, represent the number of customer accounts at period end. A single customer can account for several RGUs. See “*Presentation of Financial and Other Data—Operating and Market Data.*”

(6) We use the term ARPU to refer to the average monthly revenue per RGU in each business line or country and we calculate it by dividing the total revenue per business line or country for that month, by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is not a standardized measure and can be defined differently by different companies within our industry. You should therefore exercise caution in comparing our ARPUs with those of competitors. See “*Presentation of Financial and Other Data—Operating and Market Data.*”

N.M – not meaningful

The following table sets out the period end and average exchange rates for the three months period ending December 31, 2013 and 2014 of the euro against each of our local functional currencies, in each case as reported by the relevant central bank on its website (unless otherwise stated):

	As at and for the three months ended December 31,	
	2013	**2014**
Romanian leu (RON)		
Period end rate	4.48	4.48
Average rate	4.45	4.43
Hungarian forint (HUF)		
Period end rate	296.91	314.89
Average rate	297.80	308.37
Czech koruna (CZK)		
Period end Rate	27.43	27.73
Average rate	26.70	27.63
United States Dollar (USD)(1)		
Period end rate	1.38	1.21
Average rate	1.36	1.25

(1) According to the exchange rates published by the European Central Bank.