

**DIGI COMMUNICATIONS N.V. (“the Company” or “DIGI”)**

*Parent Company of*

**RCS & RDS**

(DIGI together with RCS & RDS, together with their direct and indirect consolidated subsidiaries are referred to as the “**Group**”)

**Annual Report**  
**For the year ended December 31, 2016**

**The date of the Annual Report is April 11, 2017**

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## 1. IMPORTANT INFORMATION

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Report are not historical facts and are forward-looking. Forward-looking statements appear in various locations, including, without limitation, in the sections entitled “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Business*.” We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Report includes forward-looking information that has been extracted from third-party sources. 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 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. We caution all readers 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. These risks, uncertainties and other factors include, among other things, those listed in the section entitled “*Risk Factors*,” as well as those included elsewhere in 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:

- significant competition in the markets in which we operate;
- rapid technological changes leading to increased competition and the rendering of our technologies or services obsolete;
- our capital expenditure not being able to generate a positive return or a significant reduction in costs or promote the growth of our business;
- deterioration of the general internal economic, political and social conditions in our principal countries of operation;
- continued uncertainties, challenging conditions in the global economy or volatile credit markets;
- currency transactional and translation risks associated with exchange rate fluctuations;
- 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;
- difficulty in obtaining adequate managerial and operational resources as a result of our rapid growth and expansion in new areas of business;
- our ability to attract and retain key personnel without whom we may not be able to manage our business effectively;
- 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 TV 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;
- a decrease in our ARPU figures as a result of our business strategy;
- failure to manage customer churn;
- our insurance not adequately covering all potential losses, liabilities and damage related to our business and certain risks being uninsured or not insurable;
- problems with and interruptions to our billing and credit control systems that our business relies upon;
- discontinuing of products or services by terminating contracts with, or charging of non-competitive prices by our current hardware, software and service suppliers;
- volatility in the cost of electricity we supply to our customers;
- our dependence on various intellectual property rights that we license from or that may be claimed by third parties;
- our dependence on our interconnection, roaming and MVNO arrangements with other telecommunications operators and third party network providers, over which we have no direct control;
- concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunication towers;
- 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;
- downgrading of our credit ratings by an international rating agency;
- changes to IFRS standards for lease accounting and revenue recognition;
- changes in the determination of our tax residency;
- 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;
- difficulty in obtaining required licenses, permits or other authorisations to operate our existing network, and any subsequent amendment, revocation, suspension, or termination of licenses and permits obtained;
- 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;
- inadvertent infringement of the intellectual property rights of others, which could lead to liability for infringements in relation to information disseminated through our network, protracted litigation and, in certain instances, loss of access to transmission technology or content;
- variation in payments related to copyrights;
- adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations;
- major litigation with the Antena Group and other parties and unfavorable court decisions;
- failure to comply with anti-corruption laws or allegations thereof;
- other contractual claims, complaints, litigation and negative publicity therefrom;
- higher vulnerability of the economies of the countries where we operate to fluctuations in the global economy;
- social, political and military conflicts in the region of our operations;
- political and economic uncertainty and risk resulting from the UK's vote to leave the European Union;
- difficult business climate as a result of corruption in some of the markets where we operate;
- rapid or unforeseen economic or political changes characteristic of emerging markets such as the markets in which we operate;

- downgrading of Romania’s or Hungary’s credit ratings by an international rating agency;
- Romania’s difficulties related to its integration with the European Union and Hungary’s repeated backlashes against the European Union;
- less developed legal and judicial systems in some of our markets of operation;
- difficulty of service of process in, and enforcement of judgments rendered by courts of, the United States and the United Kingdom;
- 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 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 the section entitled “*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 do not undertake any obligation, to update forward-looking statements set forth in this Report. 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 INFORMATION

### PRESENTATION OF FINANCIAL INFORMATION

The financial information presented in this Report is, unless otherwise indicated, the historical consolidated financial information for the Group. DIGI is the holding company for the Group and holds the majority of the outstanding shares of RCS & RDS. DIGI has no significant operations and has not engaged in any significant activities other than financing activities relating to the Group and acting as its holding company.

Included herein are the consolidated financial statements of the Group as at and for the year ended December 31, 2016, prepared in accordance with the IFRS as adopted by the EU (the “**Annual Financial Statements**”).

The Group’s presentation currency is the euro, as further described in the sections entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Capital Structure—Exchange Rates.*” Accordingly, the Financial Statements included herein are presented in euros.

We currently have operations in Romania, Hungary, Spain and Italy. Although in the past we had operations in other Eastern European countries, all such operations were disposed of in 2013 (Slovakia, Serbia and Croatia) and April 2015 (the Czech Republic) (collectively, “**Discontinued Operations**”). In Note 4 of the Annual Financial Statements, as part of our “Other” segment we reported (i) revenue from, and expenses of, our (a) Italian operations and (b) Discontinued Operations, in each case, for the applicable periods and (ii) certain minor expenses of the Company. In this Report, unless otherwise stated, as part of our “Other” segment we only present the results of our Italian operations, for revenue, and the results of our Italian operations and certain minor expenses of the Company, for operating expenses.

## OPERATING AND MARKET DATA

### *RGUs and ARPU*

Throughout 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. We measure RGUs at the end of each relevant period. 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 services, 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; and
- for our mobile telecommunication services we consider the following to be a separate RGU: (a) for post-paid services, each separate SIM on a valid contract; (b) for pre-paid services, each mobile voice and mobile data SIM with active traffic in the last month of the relevant period, except for Romania where pre-paid RGUs are not included due to low amount of traffic generated.

As our definition of RGUs is different for our different business lines, you should use caution when comparing RGUs between our different business lines. In addition, 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 revenue per RGU in a business line, geographic segment or the Group as a whole, for a period by dividing the total revenue of such business line, geographic segment, or the Group, for such period, (a) if such period is a calendar month, by the total number of RGUs invoiced for services in that calendar month; or (b) if such period is longer than a calendar month, by (i) the average number of relevant RGUs invoiced for services in that period and (ii) the number of calendar months in that period. In our ARPU calculations we do not differentiate between various types of subscription packages or the number and nature of services an individual customer subscribes for. 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.

Our total RGU and ARPU figures as at and for the years ended December 31, 2015 include the results of our former subsidiary in the Czech Republic.

As at June 30, 2016, we reallocated certain service revenue between business lines in order to properly reflect their nature. Comparative ARPU information for prior periods has been restated accordingly. In addition, as at December 31, 2015, we revised our definition of mobile telephony RGUs in Italy to capture only SIM cards with active traffic in the last month of the relevant period. The revision was made to ensure consistency with our accounting for mobile telecommunication services business line RGUs in Spain. Comparative RGU information for prior periods has been restated accordingly.

In this Report RGUs and ARPU numbers presented under the heading “Other” are the RGUs and ARPU numbers of our Italian subsidiary.

### **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, Adjusted EBITDA and Adjusted EBITDA Margin (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 our consolidated operating profit or loss charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark-to-market results (unrealised) from fair value assessment of energy trading contracts. In the periods under review, such non-recurring and one-off items represent gain/(loss) from sale of discontinued operations. Adjusted EBITDA Margin is the ratio of Adjusted EBITDA to the sum of our total revenue and other operating income (other than mark-to-market gain/(loss) from fair value assessment of energy trading contracts). EBITDA, Adjusted EBITDA or Adjusted EBITDA Margin under our definition may not be comparable to similar measures presented by other companies and labeled “EBITDA,” “Adjusted EBITDA” or “Adjusted

EBITDA Margin,” respectively. We believe that EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin 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, Adjusted EBITDA or Adjusted EBITDA Margin as substitutes for operating profit or cash flows from operating activities.

#### **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.

#### **DEFINED TERMS**

Capitalised terms not otherwise defined in this Report have the meaning ascribed to them in the Offering Memorandum dated October 12, 2016 (the “**Offering Memorandum**”).

## 2. RISK FACTORS

*An investment in the Notes involves complex financial risks and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Investors should consider carefully whether an investment in the Notes is suitable for them in the light of the risk described below and other information in this Report and their personal circumstances.*

*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 fulfil our obligations in respect of the Notes, potentially causing a loss of all or part of the investment made when purchasing the Notes. However, the risk factors described below are not an exhaustive list or explanation of all relevant risks and should be used as guidance only. Additional risks and uncertainties that are not currently known to us, or that we currently deem immaterial, may individually or cumulatively also have a material adverse effect on our business, prospects, results of operations and financial condition.*

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

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

We face significant competition in all our markets and business lines, which is expected to intensify further. For example, in Romania and Hungary we face intense competition in our cable TV, DTH, fixed internet and data and fixed-line telephony business lines from local entities controlled by Deutsche Telekom (“**Telekom Romania**” and “**Magyar Telekom**,” respectively) and Liberty Global (“**UPC Romania**” and “**UPC Hungary**,” respectively). In the Romanian mobile telecommunication services market we compete with Telekom Romania and local entities controlled by Orange (“**Orange Romania**”) and Vodafone (“**Vodafone Romania**”). Increased competition may encourage the customers to stop subscribing to our services (an effect known as “churn”) and thereby adversely affect our revenue and profitability.

These competitors, as well as other competitors that may enter the market in the future, 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, greater personnel resources, greater brand name recognition, fewer regulatory burdens and more experience or longer-established relationships with regulatory authorities, customers and suppliers. In particular, all our principal competitors in our core Romanian market are part of much larger international telecommunication groups.

In recent years, the telecommunications industry has experienced a significant increase in customer demand for multiple-play offerings, which combine two or more fixed and mobile services in one package. Although we believe that the combination of our own fixed and mobile infrastructures in Romania is unparalleled, all of our principal competitors in the country have made arrangements to significantly enhance their multiple-play capabilities. In particular, Telekom Romania has been heavily investing in the development of its FTTH network to complement its existing mobile infrastructure. In addition, Orange Romania has taken advantage of the recent trend in the Romanian fixed infrastructure market, as part of which ANCOM encouraged the country’s fixed line operators to open their networks to competitors. In February 2016, Orange Romania entered into certain network sharing agreements with Telekom Romania enabling it to provide cable TV and fixed Internet and data services via Telekom Romania’s network under its own brand. In consideration, Telekom Romania obtained access to Orange Romania’s 4G, 4G+ and LTE mobile networks in Romania. Orange Romania is also party to a mobile network sharing agreement concluded in July 2013 with Vodafone Romania; each party independently operates its spectrum and retaining strategic control over switched networks. These developments have resulted, and could in the future result, in synergies to the businesses of our principal competitors, increase competition, exercise further pressure on prices, result in higher rates of customer churn and ultimately adversely affect our revenue and profitability. Although in 2015 ANCOM confirmed its view (which was supported by the European Commission) that we are under no obligation to open our fixed fiber optics network to third parties, there is no assurance that this decision may not be reversed. If we are directed by ANCOM, or any other competent authority, to open our infrastructure to third parties, including our competitors, that could further enhance our competitors’ market positions, while eroding our key competitive advantages, and have a material adverse effect on our business, prospects, results of operations and financial condition.

In addition to competition in our traditional services and technologies, we also experience significant pressure from the rapid development of new technologies and alternative services, which are either offered by our existing competitors or new entrants. See “—*Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to or implement new technological developments in a cost efficient manner or at all.*” For example, our fixed-line telephony and fixed internet and data business lines in Romania are experiencing increased competition from the country’s growing mobile telecommunication services sector. This may result in slower growth or a decrease in our fixed-line telephony and fixed internet and data



services penetration rates as our subscribers may migrate from fixed to mobile services, choosing to switch to our competitors such as Telekom Romania, Orange Romania, or Vodafone Romania, who currently have stronger market positions than us in the mobile telecommunication services sector. We also have to compete with companies offering other technologies alternative to our telephony services, such as Skype, WhatsApp, Google Hangouts and Facebook Messenger, as well as with companies offering alternative platforms that make TV and entertainment content available to customers, such as Netflix, Apple TV, Amazon Prime and Google Play, along with other services which allow legal or illegal downloading of movies and television programs.

Our success in these markets may be adversely affected by the actions of our competitors in a number of ways, including:

- lower prices, more attractive multiple-play services or higher quality services, features or content;
- more rapid development and deployment of new or improved products and services; or
- more rapid enhancement of 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, changes in consumer preferences and economic, political and social conditions in the markets in which we operate. Any failure to compete effectively or any inability to respond to or effectively anticipate consumer sentiment, including in terms of pricing of services, acquisition of new customers and retention of existing customers, could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to or implement new technological developments in a cost efficient manner or at all.**

The markets in which we operate are characterized by rapid and significant changes in technology, customer demand and behavior, and as a result are characterized by a changing competitive environment. 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 investments to upgrade our networks or to obtain licenses for and develop and install new technologies such as, for instance, 5G, to remain competitive. The cost of implementing these investments could be significant, and there is no assurance that the services enabled by new technologies will be accepted by customers to the extent required to generate a rate of return that is acceptable to us. 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 be commercially viable or cost effective. Should our services fail to be commercially viable, this could result in additional capital expenditures or a reduction in profitability. Any such change could have a material adverse effect on our business, prospects, results of operations and financial condition.

In addition, rapid technological change makes it difficult to predict the extent of our future competition. For example, new transmission technologies and means of distributing content or increased consumer demand for and affordability of products based on new mobile communication technologies 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 operations. 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 revenue, 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, react 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. Failure to do so could have a material adverse effect on our competitive position, business, prospects, results of operations and financial condition.

**We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.**

The expansion and operation of our fixed fiber and mobile networks, as well as the costs of development, sales and marketing of our products and services, require substantial capital expenditure. In recent years we have undertaken significant investment to attract and retain customers, including expenditures for equipment and installation costs and the implementation of new technologies such as GPON, as well as upgrades of existing networks, such as the FTTB/FTTH roll-out. As of date of this Report we have ongoing capital requirements relating to, among other things, the following:

- expansion of our fixed fiber optic network in Romania and Hungary;
- expansion and further development of our mobile network in Romania and Hungary;
- acquisition/renewal of sports, film and other broadcasting rights;
- costs associated with CPE and the acquisition of new customers; and
- investments associated with our electrical energy activities.

However, no assurance can be given that any existing 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.

In order to finance our capital expenditures and working capital needs, we use a combination of cash from operations, financial indebtedness, reverse factoring and vendor financing arrangements. Our working capital needs have fluctuated in the past years as the development of our mobile telecommunication services business requires a significant increase in expenditure with respect to handsets and other CPE. We generally pay our suppliers within a relatively short period after acquiring products, but on-sell handsets and other CPE to our customers subject to a deferral of payments for up to 12 months. For our working capital needs, we enter into certain reverse factoring and vendor financing agreements to extend the terms of our payments to suppliers. If we fail to negotiate or renegotiate such arrangements, our ability to finance the continued expansion of our business would be materially adversely affected.

Further, we conduct certain electrical energy supply activities. This supply activity involves paying for electrical energy acquired from third parties upon acquisition; however, we receive corresponding payments from our customers over a period of between 30 and 45 days. In addition, our liquidity and capital requirements may increase if we expand into additional areas of operation, accelerate the pace of our growth or make acquisitions. If, for any reason, we are unable to obtain adequate funding to meet these requirements, we may be required to limit our operations and our expansion plans, including plans to expand our network and service offering, our operations could be significantly adversely affected, future growth could be significantly curtailed and our competitive position could be impaired.

**Any potential deterioration of the general internal economic, political and social conditions in Romania and Hungary, our principal countries of operation, may not be offset by developments in other markets.**

Our success is closely tied to general economic developments in Romania and Hungary. Negative developments in, or the general weakness of, the Romanian or 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 subscriber and usage levels. Because a substantial portion of our revenue is derived from residential customers who may be impacted by such conditions, it may be (i) more difficult to attract new customers, (ii) more likely that certain of our customers will downgrade or disconnect all or part of the services they subscribe to and (iii) more difficult to maintain average revenue per unit (“ARPU”) at existing levels. Deterioration in the Romanian or Hungarian economies may further lead to a higher number of non-paying customers or generally result in service disconnections. Increases in costs of operation and, in particular, wage inflation in Romania and Hungary could lead to increases in our levels of operational expenditure. Additionally, any uncertainty and instability in, or related to, the political conditions in Romania and Hungary, including any changes to their respective political regimes, legal and regulatory frameworks and governing policies, could negatively affect our business and operations. As our business is primarily focused on Romania and Hungary, any such negative developments may not be offset by positive trends in other markets. Therefore, a weak economy and negative economic or political developments in the principal countries in which we operate may jeopardize our growth targets and could have a material adverse effect on our business, prospects, results of operations and financial condition.

**We may be adversely affected by continued uncertainties, challenging conditions in the global economy or volatile equity and credit markets.**

Since the 2008 global economic crisis, concerns about the potential economic slowdown and recession in Europe, the availability and cost of credit, diminished business and consumer confidence, inflation and increased unemployment have continued to contribute to increased market volatility and diminished expectations for European and emerging economies, including the jurisdictions in which we operate. This instability was further exacerbated when on June 23, 2016 the United Kingdom voted to leave the European Union, which has increased volatility in the global financial markets and is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the terms of the United Kingdom’s future relationship with the European Union are settled. Furthermore, the United Kingdom’s vote to leave has increased the concern that certain other European Union members may also hold referendums and vote to leave the European Union.

Some of the effects of the continued instability in global markets, including the risk of deflation and the instability of the euro, may impact a significant number of our customers, leading to increased unemployment and a decrease in disposable income, and government responses to the economic crisis, such as austerity measures and increases in tax rates. Such conditions could have a material adverse effect on our business and results of operations. For example, in recent years the Romanian government has implemented a series of fiscal measures, including increasing real estate taxation, extending the scope of social security taxes and imposing certain one-off exceptional taxes, that have directly affected our results of operations or resulted in a decrease in consumers' available income. While other fiscal measures of the Romanian government, such as reduced VAT, would, in principle, have a positive effect on the population and available consumer income, the uncertainty in relation to their application and the continued instability in the fiscal regime have, in the short term, reduced the potential positive impact of these measures. Unfavorable economic conditions, fiscal uncertainty and special taxation may ultimately have a direct and/or indirect negative impact on consumers' spending and/or the prices we are able to charge for our products and services.

Reduced availability of credit has had, and could in the future 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 of our floating rate debt and other financial obligations, particularly the senior facilities agreement dated October 7, 2016 (the "**Senior Facilities Agreement**"), the uncommitted facility agreement dated November 4, 2013 (the "**ING Facilities Agreement**") and the uncommitted facility agreement dated October 25, 2013 (the "**Citi Facilities Agreement**"). The lack of easily available credit in the future may also restrict our ability to grow at a pace commensurate with the business opportunities we can identify. See "*—We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.*" 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.

**We are subject to transactional currency risks associated with exchange rate fluctuations.**

For the year ended December 31, 2016 we generated approximately 89.1% of revenue in our two principal functional currencies, the Romanian leu and the Hungarian forint (approximately 66.5% excluding revenue collected in local functional currencies, but denominated in euros). However, as at December 31, 2016, we had €408.3 million and US\$43.7 million of obligations denominated in euros and U.S. dollars, respectively, compared to €495.2 million and US\$32.7 million, respectively, as at December 31, 2015. Our euro obligations principally relate to outstanding financial debt, and our exposure to the U.S. dollar primarily relates to purchases of content for our cable TV and DTH businesses and mobile CPE acquisitions. A significant depreciation of our principal operational currencies relative to the euro and, to a lesser extent, the U.S. dollar, could have a material adverse effect on our business, prospects, results of operations and financial condition.

In particular, our ability to repay or refinance our euro-denominated financial indebtedness could be adversely impacted by a significant appreciation of the euro relative to our functional currencies. Such appreciation could also markedly reduce our consolidated financial results as reported in euros (see "*—We are subject to currency translation risks associated with exchange rate fluctuations*"). This could result in a breach of certain financial covenants under the €350.0 million 5.0% senior secured notes due 2023 (the "**Notes**"), the Senior Facilities Agreement, 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. In accordance with our historical approach, we may hedge the interest payments and/or repayments of the whole or a portion of the principal amount of our financial indebtedness. However, any hedging arrangements we enter into may not adequately offset the risks of foreign exchange rate fluctuations and may result in losses. In addition, further appreciation of the euro and the U.S. dollar could require us to offset the impact of such exchange rate fluctuations by price increases for customers in Romania and Hungary that are invoiced in local currencies, which could cause a reduction in the number of RGUs and could have a material adverse effect on our business, prospects, results of operations and financial condition. See "*—Risks Relating to Investments in Countries Where We Operate—The UK referendum resulting in a vote to have the United Kingdom leave the European Union could create political and economic uncertainty and risk which may negatively affect the markets in which we operate and our business.*"

**We are subject to currency translation risks associated with exchange rate fluctuations.**

Our Financial Statements are presented in euros. However, the majority of our revenue and expenses are denominated in the Romanian leu and the Hungarian forint and are translated into euros at the applicable exchange rates for inclusion in our consolidated Financial Statements. In addition, some of our borrowings and their related interest payments, as well as other assets and liabilities, are denominated in currencies other than the euro, which also require

translation into euros at the applicable exchange rates when we prepare our consolidated Financial Statements. Therefore, we are exposed to fluctuations in exchange rates when converting non-euro amounts into euro for reporting purposes. Any fluctuation in the value of a relevant functional currency against the euro may affect the value of our revenue, costs, assets and liabilities as stated in our consolidated Financial Statements, which may in turn affect our reported financial condition and results of operations in a given reporting period. See “—*Risks Relating to Investments in Countries Where We Operate—The UK referendum resulting in a vote to have the United Kingdom leave the European Union could create political and economic uncertainty and risk which may negatively affect the markets in which we operate and our business.*”

**A systems failure or shutdown in our networks may occur.**

Our cable TV, fixed internet and data, mobile telecommunication services and fixed-line telephony are currently carried through our transmission networks composed primarily of fiber optic cables. In addition, as of December 31, 2016, we had approximately 3,400 mobile network base stations in place for our mobile telecommunication services. Furthermore, our information technology system comprises numerous intra-linked systems that are periodically updated, upgraded, enhanced and integrated with new systems. Failure to maintain or update these systems, particularly where updates may be required to support new or expanded products or services, could result in their inability to support or expand our business, as 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 by, among other things, computer viruses, power failures, natural disasters, software flaws, transmission cable cuts, sabotage, acts of terrorism, vandalism and unauthorized access. 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 reputation, leading to costly repairs and loss of customers. For so long as the disruption continues, our revenue could be significantly impacted, which in turn could have a material adverse effect on our operating cash flows, business, prospects, results of operations and financial condition.

**We may be unable to use Intelsat’s and Telenor’s satellites to broadcast our DTH services and may fail to find a commercially acceptable alternative in a reasonable amount of time.**

We currently broadcast programming for our DTH services using nine transponders (and use an additional transponder for transmitting non-DTH signals), of which seven are located on a satellite operated by Intelsat Global Sales & Marketing Ltd (“**Intelsat**”), and the other two are leased through Intelsat on a Telenor satellite. Our lease of transponders expires in November 2017, and there can be no assurance that an extension of the term of the agreement can be agreed on similar financial terms or that we will not have to find alternative providers. 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 customers.

A material increase in our costs under our agreement with Intelsat or under another agreement with an alternative satellite operator could have a material adverse effect 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 of 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 deteriorate, 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 we currently use. If it is not possible to co-locate replacement satellites, we would be required to re-point all our existing customers' receiving dishes to enable them to receive our signal. Accurate re-pointing requires specialist tools and expertise, and we believe that there could be substantial costs of re-pointing all of our existing subscribers' receiving dishes in the event the satellite networks we currently use fail. Moreover, the time needed to re-point 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 customers and could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Our growth and expansion in new areas of business may make it difficult to obtain adequate operational and managerial 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. For example, in 2014 we relaunched our mobile telecommunication services business line in Romania and focused on growth in this area, achieving an approximately 27.5% increase in RGUs in the year ended December 31, 2015 and a further approximately 19.1% increase in RGUs in the year ended December 31, 2016. We may also launch a mobile telecommunications business in Hungary in 2018 or later. In addition, in 2012 and 2015, respectively, we have added solar energy generation and energy supply to our business. The operational complexity of our business as well as the responsibilities of our management has 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;
- the ability to manage increased marketing activities;
- hiring and training of new personnel;
- the ability to adapt to changes in the markets in which we operate, including changes in legislation;
- the ability to successfully deal with new regulators and regulatory regimes ; and
- the ability to manage additional taxes, increased competition and address the increased demand for our services.

In particular, in relation to any launch of a mobile telecommunications business in Hungary in 2018 or later, we have no experience operating this type of business in the respective geography and our current 1,800 MHz license is limited to one duplex of 5Mhz. There can be no assurance that we will be successful in adapting to the demands of this market or that we will be able to supplement our existing license, should growth in the business require it, as mobile telecommunications licenses are typically awarded in public tenders.

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

**We may be unable to attract and retain key personnel, directors, managers, employees and other individuals 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 key managers, employees and other individuals, including our founder and President, Zoltán Teszári, directors and senior management. These key individuals 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 of these key individuals 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 our credit facilities, particularly the Senior Facilities Agreement, the Citi Facilities Agreement and the ING Facilities Agreement. In particular, Mr. Teszári's continued involvement in the strategic oversight of the Company is key for our continued development and competitive position. 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 a 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 individuals cease their employment or engagement with us, our business, prospects,

results of operation and financial condition could be materially adversely affected.

**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 customers and to attract new customers 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 could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Our growth and profitability depend principally on continued demand for cable and telecommunications products and services in Romania and Hungary, our ability to attract and retain customers and to successfully expand our mobile telecommunication services business line.**

Our growth and profitability depend on a continued demand for our products and services and growth in our RGUs, on our ability to successfully expand our mobile telecommunication services and on the level of churn, experienced due to customers switching to our competitors or otherwise terminating their subscriptions to our services.

If demand for our services in general does not increase, if we are unable to further maximize revenue generated from existing customers through cross-selling, if we are unable to continue to expand our mobile telecommunication services business or if we are unable to gain new customers from our competitors or otherwise, it could have a material adverse effect on our business, prospects, results of operations and financial condition.

**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 customer 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 customers. 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. 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. No assurance can be provided 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. If we fail to negotiate or renegotiate programming agreements for popular content on satisfactory terms or at all, we may not be able to offer a compelling and popular product to our customers at a price they are willing to pay.

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 address 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 currently hold rights to broadcast some of the most popular competitions in our countries of operation, such as Liga 1 Orange (Top tier Romanian professional football league) and Cupa României (Romanian professional football cup). However, no assurance can be provided that we will succeed in acquiring new or renewing existing broadcasting rights upon the expiration of the underlying contracts. For example, in 2015 we lost our license to broadcast the UEFA Champions League and the UEFA Europa League in Romania to one of our principal competitors, Telekom Romania. Our current rights to both top-flight national football competitions in Romania were not obtained directly from the respective organizers, but rather through a sublicense from a company called Intel Sky Broadcast Ltd. (“**Intel Sky**”). This sublicense is due to expire at the end of the 2018/2019 football season. Also, the Romanian Competition Council (the “**RCC**”) is currently investigating the circumstances under which the Romanian Professional Football League awarded to Intel Sky the license to both competitions. Should Intel Sky’s license be annulled, we might lose our relevant broadcasting rights and we may not be able to offer a popular alternative product to our customers.

We believe that, in order to compete successfully, we must continue to obtain attractive content and deliver it to our customers 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. In addition, many of the channels we broadcast in Romania are subject to “must carry” rules, meaning that the content suppliers have opted to make them available free of charge, which, under certain conditions, creates an obligation for us to include them in our cable TV package. If some or all of the main channels we carry in Romania opted not to be subject to “must carry” rules, we may have to pay for their retransmission or discontinue the transmission of such channels as part of our services, which may lead to increases in costs or potential customer churn. 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 to 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 customers to terminate their subscriptions or lead potential new customers to refrain from subscribing. In addition, if we were to breach the terms of the applicable agreements, the licenses content providers could decide to withhold certain content or we could lose the right to retransmit certain programs or broadcast certain competitions. Also, 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 customers, or if we lose rights to transmit certain programming or broadcast certain competitions, it could have a material adverse effect on our reputation, competitive position, business, prospects, results of operations and financial condition.

**Our business strategy may cause our ARPU figures to decrease.**

In our core markets of Romania and Hungary, our customer 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 customers and the prices at which our packages are offered. For example, our “Popular” cable TV package in Romania, targeted at rural customers, offers less content and generates less revenue than our “Basic/Analog” or “Extra/Digital” packages. Further, our reported ARPU for cable TV, DTH and fixed internet may be affected by fluctuations in exchange rates. See “—*We are subject to currency translation risks associated with exchange rate fluctuations.*” A material decrease in ARPU from current levels could have a material adverse effect on our business, prospects, results of operations and financial condition.

**We may fail to manage customer churn.**

The pay TV (which includes cable TV and DTH business lines), fixed internet and data, fixed-line telephony and mobile telecommunication services industries all experience churn as a result of, among other things, high levels of competition. In particular, our DTH and fixed-line telephony service has experienced relatively high levels of churn in recent years. Although churn may have a negative effect on our business, we focus on growth in total number of RGUs, ARPU, revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin as key indicators of our performance, rather than churn. We believe that our churn levels are in line with those of our principal competitors in our core markets.

Customer churn could increase as a result of:

- the availability of competing services, some of which may 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;
- interruptions in the delivery of services to customers over our network and poor fault management; and
- customers choosing to discontinue a certain service without replacing it with an equivalent service provided by us or our competitors.

Our inability to control customer churn or an increase in customer churn, particularly in relation to our DTH and fixed-telephony services, 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 could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Our insurance may 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. 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 can provide no assurance that insurance will continue to be available to us on commercially reasonable terms or at all. Our insurance may not be adequate to cover all of our potential losses or liabilities. At present, we have no coverage for business interruption or loss of key management personnel and a substantial proportion of our assets is not insured. Should a significant event 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 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 disrupt 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 backup servers that are used for our billing and credit control systems could disrupt our operations, and this, in turn, could have a material adverse effect on our reputation, business, prospects, results of operations and financial condition.

**Our business relies on hardware, software, commodities and services supplied by third parties. These 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 ECI, Huawei, Kaon, Nagravision S.A. (“Nagravision”), Nokia and ZTE). 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. Although we are not entirely dependent on hardware, software and services supplied by particular suppliers, in many cases, we have made substantial investments in the equipment or software of a certain 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. The occurrence of any of these risks may create technical problems, damage our reputation, result in the loss of customers and could have a material adverse effect on our business, prospects, results of operations and financial condition. Further, our contractual obligations to our customers may exceed the scope of the warranties we have obtained from suppliers.

We are also exposed to risks associated with the potential financial instability of our suppliers. 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 and if we were unable to procure satisfactory substitutes, it could have a material adverse effect on our business, results of operations and financial condition.

**The results of our energy supply business are dependent on the price at which we are able to acquire electricity from third parties. Volatility in the cost of electricity may negatively impact our financial condition and results of operation.**

We acquire the electricity we then sell to our customers on the Romanian wholesale trading platforms, in line with applicable legal provisions which forbid “over the counter” agreements. Due to the fixed prices we charge customers related to our electricity supply activities, increases in the cost of the electricity we acquire from third parties on the trading platforms could adversely affect our financial condition and results of operations. For example, due to unusual volatility in the cost of electricity which we acquired, we experienced a €2.3 million EBITDA loss in the fourth quarter of 2016 and a €7 million estimated EBITDA loss in the first quarter of 2017 from our electricity supply activities. No assurance can be provided that there will not be any further increases or volatility in the cost of electricity or that any such increases or volatility would not have a material adverse effect on our electricity supply activities and thus our financial condition and results of operations in any future period. Though we have taken steps to reduce our exposure to cost volatility, there can be no assurance that these efforts will be effective due to natural variations in the level of demand per month from each customer, whether business or residential, and the potential for unexpected variations in the cost of electricity in the Romanian market in the future.

**Our business relies on third-party licenses and other intellectual property arrangements.**

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 agreements provide warranties, indemnities and the right of termination in the event of any breach or threatened breach of any intellectual property rights, no assurance can be provided 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 ability to provide commercially viable services depends, in part, upon interconnection, roaming and MVNO arrangements with other operators and third-party network providers and on the impact of EU roaming regulations.**



Our ability to provide commercially viable mobile and fixed-line telecommunication services depends, in part, upon our interconnection and roaming arrangements with other operators. In particular, we are dependent, in certain regions, on interconnection with our competitors' mobile and fixed-line networks and the associated infrastructure for the successful operation of our business. In Romania and Hungary, ANCOM and NMIAH, respectively, regulate the frameworks governing interconnection charges in an effort to facilitate access to other companies' networks. In Romania, ANCOM sets price caps on the interconnection charges that major telecommunications operators, including us, may charge, while in Hungary, NMIAH regulates the termination rates for interconnection. We are also dependent on third-party network providers for the provision of MVNO services in Spain and Italy, the resale of mobile and internet data services in Hungary and the supply of international roaming services.

In addition, we will be required to comply with Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the European Union ("**EU Roaming Regulation**") recent changes to which would require us to end all retail roaming surcharges with effect from June 15, 2017 while having to pay providers relevant wholesale charges. This would have a material negative impact on our mobile telecommunications business as we generally offer unlimited packages to our customers for a fixed fee. This model is predicated on domestic calls pricing, and lack of roaming charges could lead to massively increased consumption in roaming which would generate material wholesale roaming expense for us that we could not recover under our current business model. Unless ANCOM approves our request to apply a roaming surcharge under the terms of the EU Roaming Regulation prior to June 15, 2017 and every twelve months thereafter, we will be required to fully bear the wholesale cost of roaming for our clients .

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, roaming or MVNO agreements will be easy to agree, that we will be able to renew these agreements on commercially acceptable terms, that they will not be terminated or that ANCOM or NMIAH or European Commission will not take any action that could materially adversely affect our operations. If we fail to maintain these agreements on commercially acceptable terms, or if there are any difficulties or delays in interconnecting with other networks and services, or a failure of any operator to provide reliable roaming services to us on a consistent basis, it could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunication towers may materially adversely affect the prospects of our mobile telecommunication services business.**

Media and other reports have linked radio frequency emissions from mobile handsets and mobile telecommunication towers to various health concerns, including cancer, and interference with various electronic medical devices, including hearing aids and pacemakers. In particular, in May 2011, the World Health Organization classified radiofrequency electromagnetic fields as potentially carcinogenic to humans based on an increased risk for adverse health effects associated with wireless phone use. Concerns over radio frequency emissions may discourage the use of mobile handsets or may create difficulties in the procurement of tower sites for our mobile telecommunication business, which could have a material adverse effect on the prospects of such business.

If there is sound scientific evidence of a link between radio frequency emissions and health concerns or if concerns about such health risks increase in countries in which we do business, the prospects and results of operations of our mobile telecommunication services business could be materially adversely affected. In addition, the actual or perceived health risks associated with electromagnetic radio emissions and wireless communications devices and antennas and the resulting costs and lowered usage as well as any related potential new regulatory measures could have a material adverse effect on our business, results of operations and financial condition.

**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, reputational damage and customer churn.**

We accumulate, store and use in our operations 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.

The telecommunications sector has become increasingly digitalized, automated and online-based in recent years, increasing our exposure to risks of unauthorized or unintended data release through hacking and general information technology system failures. Unanticipated information technology problems, system failures, computer viruses, intentional/unintentional misuses, hacker attacks or unauthorized access to our network or other failures could result in a failure to maintain and protect customer data in accordance with applicable regulations and requirements and could affect the quality of the our services, compromise the confidentiality of our customer data or cause service

interruptions, and may result in the imposition of fines and other penalties. In 2015 and 2016 we were fined by the Romanian National Supervisory Authority for Personal Data Processing for breaches of general data protection legislation, especially in relation to the types of data that we process, and although we are committed to fully aligning our practices with the requirements of the Romanian National Supervisory Authority for Personal Data Processing, as of the date hereof this process has not been completed. Therefore, should any violations of data protection laws continue to exist, they may result in fines, claims for damages, prosecution of relevant employees and managers, reputational damage and customer churn and may have a material 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, distract our management or increase our expenses.**

Our historical growth has been due in part to our acquisitions of cable and/or internet operations. We may undertake, on an opportunistic basis, additional acquisitions in the future in our existing business lines or in other businesses complementary to them. However, we may not be successful in our efforts to estimate the financial effects of any such transactions on our business, especially as our previous acquisitions were relatively small in size and there is no guarantee that future acquisitions would not be larger businesses which may prove more difficult to integrate. In addition, acquisitions may divert management attention or financial or other resources away from our existing business or require additional expenditures. Such developments could have a material adverse effect on our business, results of operations and financial condition.

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, it could have a material adverse effect on our business, prospects, results of operations and financial condition.

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

Any adverse revisions to our credit ratings for domestic or international debt by international rating agencies may adversely impact the credit rating of our existing indebtedness (including the 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 could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Changes to IFRS standards for lease accounting and revenue recognition may adversely affect our financial results.**

Changes to International Financial Reporting Standards (“IFRS”) have been proposed in recent years, and further changes may be proposed in the future. Following a detailed consultation period which began in July 2006, the International Accounting Standards Board (“IASB”) released a new standard (“IFRS 16”) on lease accounting which will replace International Accounting Standards (“IAS”) 17 “Leases” and which will be effective for financial reporting periods beginning on or after January 1, 2019. IFRS 16 could have an impact on the assets and liabilities

recorded in our balance sheet and the nature of costs recorded in our income statement. Although there are some exceptions, we, as lessees, would be required to record all leases on the balance sheet as liabilities, at the present value of the expected future payments, along with an asset reflecting the right to use the asset over the lease term. Currently, operating leases are accounted for in the income statement as an expense in the period incurred.

Additionally, IFRS 15, adopted on May 28, 2014, established a comprehensive framework for determining whether, how much and when revenue is recognized from contracts with customers. IFRS 15 is effective for financial reporting periods beginning on or after January 1, 2018 and replaces existing revenue guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and the International Financial Reporting Interpretations Committee 13 Customer Loyalty Programs. Under IFRS 15, revenue must be recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will principally affect post-paid arrangements used by telecommunication operators as regards unbundling of revenue (including any subsidized items), accounting for changes in contracts, accounting for subscriber acquisition costs and loyalty programs.

These and any other changes to IFRS that may be proposed in the future could have a material adverse effect on our financial condition and results of operations.

#### **Any change in the determination of our tax residency could have an adverse impact on our tax position**

In connection with the IPO, the Company is proposing to become tax resident in Romania. Following such change, other tax authorities may treat the Company as being tax resident elsewhere. The Company is not incorporated in Romania; therefore, in order to be resident in Romania for tax purposes, the Company's effective management and control must be located (in whole or in part) in Romania. The test of effective management and control is largely a question of fact based on all the circumstances. Even if the Company's "effective management and control" is in Romania, it would not be treated as Romanian-resident if (a) the Company were concurrently resident in another jurisdiction (applying the tax residence rules of that jurisdiction) which has a double tax treaty with Romania; and (b) that tax treaty allocates exclusive residence to that other jurisdiction.

#### **RISKS RELATING TO LEGAL AND REGULATORY MATTERS AND LITIGATION**

##### **We have been and may continue to be subject to competition law investigations and claims.**

We have been in the past and may continue to be the subject of claims regarding alleged anticompetitive behavior on the markets of the jurisdictions where we operate to restrict competition and limit consumer choice.

In February 2011, the RCC launched an investigation into the interconnection tariffs charged by all four mobile telecommunication companies in Romania (Orange Romania, Vodafone Romania, Telekom Romania and us). After operators committed to price outgoing calls to customers of other operators in line with the prices charged for calls made within their respective networks, the investigation was closed in November 2015.

Separately, Antena TV Group S.A. (a leading media group in Romania), a Romanian TV content provider, alleged in 2011, among other things, that we abused our dominant position by refusing to transmit one of its channels via our network. The RCC commenced an investigation into this matter in August 2011. The investigation was completed in March 2015 and the underlying complaints were dismissed in their entirety though the RCC noted that we enjoy a dominant position on the retransmission market in Romania. The regulator's decision was challenged by Antena TV Group S.A. ("**Antena Group**") in court. On October 3, 2016 the Bucharest Court of Appeal upheld the RCC's decision and dismissed Antena Group's claims. The term for filing appeals to the Romanian Supreme Court is pending. See "*—We are subject to litigation with the Antena Group, Electrica Distribuție Transilvania Nord S.A. and other parties; unfavorable court decisions may have a material adverse effect on our financial condition.*"

We fully cooperated with the RCC in any proceedings in which we have been involved and intend to continue to do so if we are the subject of future proceedings, but such proceedings are typically lengthy and could take several years to be resolved. There is no assurance that the RCC 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 1% of our total turnover in the year prior to the decision if we fail to provide accurate and complete information to RCC within the terms indicated by it or imposed by applicable law and up to 10% of our total turnover in the year prior to the decision per individual violation of competition law, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

The telecommunications and media sectors, amongst other industries, are under constant scrutiny by national competition regulators in the countries in which we operate and by the European Commission. Whether in the context of sector inquiries, antitrust investigations or in relation to requests for information, competition authorities may, from time to time, have different interpretations of our behavior in the relevant markets or of the clauses in the agreements that we enter into and construe them as potentially non-compliant with applicable competition legislation. As a result, we could be subject to fines up to the amount mentioned above and/or other restrictive measures.

In April 2013, the RCC opened a sector inquiry regarding, inter alia, electronic communication services offered both

as part of multiple-play packages and on a standalone basis. The same sector inquiry analyzed the access to electronic communications infrastructure in Bucharest, and examined the sector in the rest of Romania in order to evaluate the market power of the companies active in this sector. The RCC's inquiry in connection with the access to electronic communications infrastructure in Bucharest was finalized at the beginning of 2016 and the RCC's conclusions, which were published in March 2016, included recommendations for increased oversight by ANCOM of communication infrastructure operators (such as ourselves) and the monitoring of non-discrimination obligations towards communication providers with whom such operators have entered into agreements to provide communication infrastructure services. The component of the sector inquiry regarding electronic communication services offered both as part of multiple-play packages and on a standalone basis is still ongoing. The RCC is currently considering defining relevant multiple-play markets (as opposed to the individual services market). There is no further information available in connection with the scope or the outcome of the inquiry and it will not become available until the inquiry is formally finalized. However, if as a result of this sector inquiry RCC will reconsider its definition of various markets in which we operate, this could result in a stricter scrutiny of our market behavior.

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 RCC 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 stricter scrutiny of our business and/or the imposition of fines. Additionally, the results of an inquiry could lead to lawsuits being brought by third parties, or, to the extent we fail to provide accurate and complete information to RCC within the terms indicated by it or imposed by applicable law in the context of such inquiries, RCC may fine us for up to 1% of our total turnover in the year prior to the decision.

***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, energy, environmental, health and safety, labor, 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 activities 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 have violated laws, decrees or regulations. We may be unable to refute any such conclusions or remedy the violations found.

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 having to comply with higher technical standards. Such restrictions may decrease or eliminate our competitive advantage and could have a material adverse effect on our business, prospects, results of operations and financial condition. To the extent these restrictions are deemed to be insufficient and the relevant telecommunications regulator concludes that our market power is significant 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 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, 106/2012 and 364/2014, 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 we have received warnings from ANCOM and small fines. We have generally remedied such breaches after receiving such sanctions from ANCOM but we may be unable to remedy or timely remedy such breaches in the future. From time to time, our Spectrum License FS-LCX 03/2005, issued on February 22, 2005 and last amended on July 10, 2015 for the use of the spectrum in order to supply electronic communications via satellite at the national level (the "**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, from time to time, not be in full compliance with our "must carry" obligations and may have differing interpretations of such obligations than public authorities. In 2011 we challenged,

but failed to overturn, a decision by the National Audiovisual Council of Romania (the “NAC”), the media regulatory authority in Romania, that has fined us for an alleged breach of the “must carry” obligations by refusing to carry GSP TV. Our failure to comply with existing laws and regulations (including conducting part of our operations without the required licenses) and the findings of government inspections may result in the imposition of fines on us by both ANCOM and NAC (ANCOM can impose fines of up to 5% of our total turnover in the year prior to the decision in the event of repeated violations of regulatory obligations under current law in Romania; other sanctions, including the suspension, amendment or termination of relevant licenses, permits, approvals and authorizations may also be applied by the relevant authorities). To the extent certain clauses in our agreements with natural persons are deemed unenforceable, 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 full. In addition, we could be required to discontinue 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 applicable law may be invalidated and unwound by a court decision. While we are not aware of any claim arising from such agreements, we cannot rule out the possibility that such agreements would be subject to cancellation. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and could have a material adverse effect on our business, prospects, results of operations and financial condition.

***It may be difficult for us to obtain all licenses, permits or other authorizations required to operate our existing network or any other required licenses, permits or other authorizations, and once obtained they may be amended, suspended or revoked or may not be renewed.***

The operation of telecommunications networks and the provision of related services are regulated to varying degrees by European, 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 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 relevant business and the realizable value of our relevant network infrastructure and related assets may be materially adversely affected. Some of these licenses and other authorizations are particularly complicated and lengthy to obtain and may subject us to ongoing compliance obligations. 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 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 European, national, state, regional or local governmental and/or regulatory authorities, particularly in relation to establishing base stations for our mobile telecommunication services. These approvals and permits may include building, construction and environmental permits, antenna and mast deployment approvals and various other planning permissions. Obtaining of these approvals and permits can be a complex process and is often characterized by different practices and requirements at the various regulatory authorities which frequently results in inconsistent and bureaucratic processes. Though we have a dedicated team tasked with obtaining the required licenses, permits and other authorizations, due to the inherent challenges of these regimes, 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 authorizations in some instances and may require us to exert considerable effort and incur considerable expenses in order to implement suitable alternatives or could result in fines or other penalties being imposed by regulators. This could have a material adverse effect on our business, prospects, results of operations and financial condition.

***Many components of our network are based on contracts, which may currently be undocumented or 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 TV, 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 TV, fixed-line telephony and fixed internet and data services through networks that are mostly underground. In Romania and Hungary, market participants, including us, 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 mobile network base stations) not being fully authorized. Starting in 2011 (and earlier with respect to certain towns and cities), Romanian authorities implemented a series of regulatory measures which led to a virtual prohibition on building above-ground networks on public property (in particular, in urban areas) and imposed pressure to move our existing networks underground. Although in recent years urban regulations were partially relaxed so as to allow above-ground infrastructure building in rural areas, this regulatory trend is continuing and may lead to forced change in network building practices, as well as to

obligations to change existing network locations, which would involve significant capital expenditure. We are moving our networks underground in cities where local authorities have granted us the required authorizations expediently or where the necessary infrastructure was already available. However, we may not be in compliance in all instances with obligations to move our networks underground or we may have differing interpretations with respect to the imposition of such obligations by 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 not to be in compliance with such obligations, or otherwise found to be in violation of other restrictive covenants, easements or rights of way, we may face fines or service interruptions while we relocate our networks.

Additionally, certain agreements for the lease of poles from third parties are and continue to be arranged on an undocumented basis, creating a risk that they could be discontinued in the future. Certain agreements in which we have entered into for the purposes of developing our networks, including some of the agreements entered into with electricity distribution companies and public authorities for the lease of the majority of the poles that support our above-ground fixed fiber optic networks, have been entered into with persons whose title to the leased assets or authority and capacity to enter 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 cancellation or revocation. We are not aware of any claim with regard to irregularities related to such leases. If such claims were to arise and be successful, re-locating our network or developing additional suitable sites for our mobile network base stations 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 mobile network base stations) were not executed in authenticated form in accordance with Romanian law and, as such, they, or the building permits obtained on this basis, may be invalidated. Moreover, certain of our lease agreements have provisions allowing the lessor to terminate the lease at its option, subject to prior notice ranging from 10 to 90 days.

A significant portion of our above-ground fixed fiber optic network in Romania and Hungary is built on poles leased from the various regional electricity distribution companies. Half of such contracts expired in the past several months and, while they are continued as a matter of commercial practice and negotiations continue, there is no formal agreement in place. Currently ongoing litigation among companies within the Group and certain of these companies, including litigation whereby we challenge their claimed territorial exclusivity with regards to electricity distribution, may impair our relations with them and trigger unpredictable and potentially abusive behavior on their part and affect our ability to re-negotiate and re-new the lease agreements concluded with them. See “—*We are subject to litigation with the Antena Group, Electrica Distribuție Transilvania Nord S.A. and other parties; unfavorable court decisions may have a material adverse effect on our financial condition.*”

Failure to renew, termination or cancellation 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, material capital expenditure 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 have a material adverse effect on our business, prospects, results of operations and financial condition.

***If we infringe the intellectual property rights of third parties, or if we are otherwise held liable for infringements in relation to information disseminated through our network, we could face protracted litigation and, in certain instances, lose access to transmission technology or content.***

The telecommunications industry in the markets in which we operate is characterized by the existence of a large number of patents and trademarks. Objections to the registration of new trademarks from third parties and claims based on allegations of patent and/or trademark infringement or other violations of intellectual property rights are common. Further, as the number of entrants into the Romanian and Hungarian markets increases and the overlap of product function expands, the possibility of such allegations increases. For instance, in 2014 and 2015, Discovery Communications Inc. (Discovery) challenged the registration by the Romanian intellectual property authority of five trademarks used to brand some of our TV channels, alleging that those trademarks were similar to the ones owned by Discovery. Claims in relation to two trademarks were dismissed and the underlying decisions of the Romanian intellectual property authority were challenged in court by Discovery in 2015. The court of the first instance confirmed those dismissals on procedural grounds, but Discovery has appealed that decision. Defending intellectual property claims, such as the foregoing, requires us to engage in lengthy and costly litigation and divert the attention of our senior management and technical personnel from our businesses. Successful challenges to our rights to intellectual property or claims of infringement of a third party’s intellectual property could require us to incur monetary liability, temporarily or permanently discontinue the use of the respective intellectual property, or enter into royalty or licensing agreements, which may not be available on commercially reasonable terms or at all. If we were required to take any

such action, it could have a material adverse effect on our business, prospects, results of operations and financial condition.

The infringement of patents and proprietary rights of others may also lead to the loss of access to transmission technology or programming content, damage third-party interests and render us unable to deliver the content that our customers expect, which could materially adversely affect our business, prospects, results of operations and financial condition. 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 collective copyright organizations which may vary.***

In Romania and Hungary we are obliged 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 services, and copyrighted content used on our website and OTT platform. These amounts are not fixed and are determined by negotiation in accordance with a methodology based on certain legal provisions and relevant European practices. There can be no 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 could have a material adverse effect on 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, the Netherlands, Hungary, Spain and Italy may be subject to change, and there may be changes in interpretation and enforcement of tax law. These changes in tax law and/or interpretation and enforcement of the tax law may be difficult for us to predict, and we may therefore be unprepared for these changes. 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, which could have a material adverse effect on our cash flows, business, prospects, results of operation and financial condition for any affected reporting period.

In addition, such authorities periodically examine or audit the Group and an audit by the Romanian tax authorities in the tax affairs of RCS & RDS for the years 2013 to 2015 is currently ongoing. We regularly consider the likelihood of assessments and, for probable adverse assessments, 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 provisioned, which could have a material adverse effect on our cash flows, business, prospects, results of operation and financial condition for any affected reporting period.

***We are subject to litigation with the Antena Group, Electrica Distribuție Transilvania Nord S.A. and other parties; unfavorable court decisions may have a material adverse effect on our financial condition.***

We are engaged in litigation with the Antena TV Group S.A. (a leading media group in Romania). The 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 and competition 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 customers; (ii) approximately €40 million in damages for alleged breaches of Antena Group's intellectual property rights, mainly consisting of our retransmission of Antena Group's channels following their request based on the "must carry" rules; (iii) an order directing us, based on an alleged abuse of dominant position, to enter into a pay TV carriage arrangement with the Antena Group on the same terms and conditions as those that we agreed with the CME Group (another leading Romanian media group) in 2013; and (iv) payment of other amounts totalling approximately €3.3 million, based on several agreements. To date, we have received various favorable court decisions in relation to these proceedings and other past litigation initiated by Antena Group, including the irrevocable dismissal of all insolvency petitions. The claims under (i) and (iii) above are currently suspended pending final settlement of a case initiated by us against Antena Group. We also filed counterclaims against various Antena Group entities alleging damages for breach of contract of €2.6 million and for reputational and other indirect damages of €1.2 million, which were partially admitted by the first instance courts, but are subject to appeal. 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 free of charge. In addition, we may be required to pay significant damages to the Antena Group and/or to conclude pay TV carriage arrangement(s) with them.

In 2015, Electrica Distribuție Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged in a court the concession agreement we have concluded with the local municipality from Oradea regarding the use of an area of land for the development of an underground cable trough, arguing that the tender whereby we obtained the concession agreement was irregularly carried out. Furthermore, Electrica Distribuție Transilvania Nord S.A. claims that the cable trough is intended to include electricity distribution wires that would breach its alleged exclusive right to distribute electricity in the respective area. Based on our request, the trial was suspended pending final settlement of (i) our challenge regarding the failure by the claimant to pay required stamp duties and (ii) a separate lawsuit in which two Group companies are challenging the validity of the alleged exclusivity rights of incumbent electricity distributors. Should the final court decision be unfavorable to us, it may result in a partial or total loss of our investment in the underground cable trough. The high stakes of the litigation with the subsidiaries of Electrica S.A. (“**Electrica**”), (the largest distributor of electrical energy in Romania) essentially disputing the alleged exclusivity rights of incumbent electricity distributors, may also impair our contractual relations with Electrica and its subsidiaries and, consequently, could have a material adverse effect on our operations, business, prospects, results of operations and financial condition. See “—*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.*”

***Failure to comply with anti-corruption laws, or allegations thereof, could have a material 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 the 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, a complaint that we filed with the National Anti-Corruption Directorate of Romania (the “**Anti-Corruption Directorate**”) in 2013 alleging that a criminal offense had been perpetrated against one of the directors of RCS&RDS prompted the Anti-Corruption Directorate to look into a 2009 joint venture agreement between us and Bodu SRL (Bodu) with respect to a large events hall in Bucharest and question whether the agreement complied with Romanian anti-corruption laws. Bodu is controlled by Mr. Dumitru Dragomir, the former President of Liga Profesionistă de Fotbal (Romanian Professional Football League) (“**LPF**”), the entity that organizes and runs the Liga 1 competition. We have fully cooperated with all requests by the Anti-Corruption Directorate in relation to the ongoing investigation. In 2016 we acquired the events hall and we use it for our corporate purposes, for providing services to our employees and we also lease it to third parties.

Separately, the Anti-Corruption Directorate investigated certain commission payments that the LPF allegedly made at the direction of Mr. Dumitru Dragomir to a certain intermediary using the funds it had previously received from us in exchange for the exclusive right to broadcast the matches of Liga 1. That investigation has resulted in the prosecution of Mr. Dumitru Dragomir for illegal use of funds, money laundering and tax fraud. In June 2016, the Bucharest Tribunal imposed a 7-year prison sentence (subject to appeal) for Mr. Dragomir. Our broadcasting contract with the LPF is not being investigated. Also, we do not, and did not in the past, have any commercial relationship with the intermediary that is claimed to have been involved in the alleged money laundering scheme. No accusations have been advanced against us by the Anti-Corruption Directorate in relation to the above matter. However, if we are alleged or found to have violated applicable anti-corruption laws in this or any other matter, any such allegations or violation may have a material adverse effect on our reputation and business.

***We may be subject to fines, awards of damages or other penalties arising from legal proceedings, contractual claims and disputes, as well as negative publicity arising therefrom.***

We are involved in legal proceedings from time to time, which may lead to the imposition of damages, fines or other penalties on us. 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, results of operation and financial condition.

## **RISKS RELATING TO INVESTMENTS IN COUNTRIES WHERE WE OPERATE**

**The economies of the countries where we operate are more vulnerable to fluctuations in the global economy than developed markets. Negative global economic developments could have a materially adverse effect on these countries and the value of the Shares.**

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—We may be adversely affected by continued uncertainties, challenging conditions in the global economy or volatile equity and credit markets.*” Any such development may materially adversely affect the value of the Shares.

**The current and upcoming social, political and military conflicts in the region of our operations may have consequences which may materially adversely affect our business.**

Since early 2014 Ukraine, which neighbors both Romania and Hungary, 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. In response to the perceived heavy intervention (including military intervention) by the Russian Federation in Ukraine, the United States 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.

In addition, the ongoing political instability in the Republic of Moldova, another country neighboring Romania, threatens to trigger another political conflict in the region. Also, many EU countries, including Hungary, have suffered from the recent massive migration of Middle East refugees, which has had a profound impact on their economic, social and political environments. Hungary’s response to the refugees crisis has been questioned by EU officials. Although we are not currently affected by the above developments, they have the potential to cause materially adverse economic conditions, social turmoil or, in a worse case, military confrontation in the region.

Effects are to a large extent unpredictable, but may include drop in investments caused by uncertainty, 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, trading and capital flows and increases in energy prices.

These and other unforeseen negative effects of the crises in the region could have a material adverse effect on our business, prospects, results of operations and financial condition.

**The UK referendum resulting in a vote to have the United Kingdom leave the European Union could create political and economic uncertainty and risk which may negatively affect the markets in which we operate and our business.**

The UK referendum resulting in a vote for the United Kingdom to leave the European Union (“Brexit”), has created volatility in the global financial markets and could contribute to prolonged uncertainty around certain aspects of the European and global economies as well as European companies and consumers. Brexit is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the terms of the United Kingdom’s future relationship with the European Union are settled. Brexit could also affect the general political environment in the European Union as well as the stability and standing of the European Union as a single market.

Until more clarity is available around the legal, political and economic realities and requirements for having the United Kingdom leave the European Union, political and economic uncertainty, notably in European markets, may occur, which could lead to a downturn in the markets in which we operate and a decrease in spending and investment. Additionally, this uncertainty can lead to an increase in costs for us due to legal and regulatory changes as well as currency exchange rate fluctuations between the euro and Romanian leu, Hungarian forint and the U.S. dollar. These effects could have an adverse effect on our business, investments and potential growth into Europe. These factors could increase our operating costs, delay capital expenditure programs, or place additional regulatory burdens on us that could have a material adverse effect on our business, prospects, results of operations and financial condition. Furthermore, as a result of this uncertainty, financial markets could experience significant volatility which could adversely affect the price of our Shares.

In addition, Brexit has led to general volatility in the currency exchange market. Increased volatility in the currency exchange market as a result of Brexit could also materially adversely affect the Group’s results of operations as the Group may be unable to implement adequate strategies to protect against currency exchange risk.

**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 Romania and Hungary. International and local media, as well as international organizations, have been issuing numerous alerting reports on the levels of corruption in these countries. For example, the 2016 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranks countries from 1 (least corrupt) to 176 (most corrupt), ranked both Romania and Hungary in the 57th position (2015: 58 and 50; 2014: 69 and 47).

Corruption has been reported to affect the judicial systems and some of the regulatory and administrative bodies in Romania and Hungary, which may be relevant for our businesses. Although it is difficult to predict all of the effects

of corruption on our operations, it can, among other things, slow down approvals of regulatory permits and licenses we need to conduct our business. Therefore, corruption could have a material adverse effect on our business, prospects, results of operations and financial condition and on the trading price of the Shares.

**We operate mainly in emerging markets that may experience rapid or unforeseen economic or political changes, either of which could have a material adverse effect on our business, prospects, results of operations and financial condition.**

Romania and Hungary have undergone substantial political, economic and social change in recent years. 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 Romania and Hungary are subject to varying interpretations and changes, which can occur frequently. See “—*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 Shares more risky than investments in securities of an issuer that operates in a more developed legal and judicial system.*” These issues continue to result in relatively high poverty rates and low wages.

Moreover, both of these countries have experienced periods with significant political instability. In particular, for the past several years, the political environment in Romania, our primary market, has been unstable, dominated by political conflict and under significant pressure from street protests mainly aimed, in 2017, at legislative proposals of the Parliament and the Government to amend the Criminal Code and to decriminalize certain criminal acts, restricting voting abroad during the 2014 presidential election and corruption claims related to a fire in a nightclub in Bucharest in October 2015 which resulted in over 60 casualties. The latter resulted in the replacement of the entire social-democrat led cabinet, with a new technocratic government, vested with a one-year mandate, which expired after the parliamentary elections held in December 2016. The parliamentary elections held in December 2016, marked by relatively low turnout, were won by the social-democratic party, resulting in a new social-democrat led government which was sworn in on January 4, 2017. In January 2017, a new wave of protests (the largest since the 1989 revolution) erupted in connection with an emergency decree adopted by the government, which decriminalised certain offences, such as certain types of official misconduct, and would have resulted in a de-facto amnesty for thousands of corruption cases and threatening the anti-corruption effort which has intensified over the recent years. Protests have taken place in over fifty cities across the country. In the face of this large-scale backlash, the emergency decree was repealed on February 5, 2017. Political instability and the increasing direct pressure in the form of large street protests could delay or stop economic and regulatory reforms in Romania.

In Hungary, our other core market, the ruling party, which has been in power since 2010 and was 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 our non-paying customers. The Hungarian opposition towards the European Union’s reaction to the migration crisis (significantly affecting Hungary in its early stages) might additionally encourage the present government to adopt national protective measures that might discourage foreign presence or investments in Hungary. Any disruption of the reform policies and recurrence of political or governmental instability could have a material adverse effect on us and the value of investments related to Romania and Hungary, including the Shares.

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 business in emerging markets could have a material adverse effect on our results of operations.

**Any downgrade of Romania’s or Hungary’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-/A-3 by S&P, Baa3 by Moody’s and BBB-/BBB by Fitch; while the long-term foreign and domestic currency debt of Hungary is currently rated BBB- by S&P, Baa3 by Moody’s and BBB- by Fitch. Any adverse revisions to Romania’s or Hungary’s credit ratings for domestic or international debt by these or similar international rating agencies may materially adversely impact 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 could have a material adverse effect on our business, prospects, results of operations and financial condition.

**Romania’s difficulties related to its integration with the European Union and Hungary’s repeated backlashes against the European Union may adversely affect our business.**

Romania entered the European Union in January 2007 and continues to undergo legislative changes due to its accession to, and its continued integration with, the EU. As part of the accession process, the European Union has

established a series of measures for Romania in order to fulfill basic EU membership requirements. The European Commission was tasked with monitoring Romania's progress, which it does by issuing annual compliance reports. Although the European Commission's progress report on the Co-operation and Verification Mechanism with Romania published on January 25, 2017 praised the country's progress in some areas (e.g., its efforts to combat corruption, increased independence of the judicial system, integrity framework, etc.), it also highlighted a number of issues that need to be further addressed (e.g., the need for a robust and independent system for appointing top prosecutors, respect for the judges and the judicial process, outstanding legislative irregularities, certain inconsistencies with law enforcement, etc.). The Commission will focus on these aspects in monitoring Romania in 2017 and is providing continuous support in order to help Romania meet the objectives of the Co-operation and Verification Mechanism. Unless satisfactory actions are taken, Romania could face EU sanctions, which could have a material adverse effect on financial operations, investments and capital flows in the country, and consequently, on our business, prospects, results of operations and financial condition, as well as on the trading price of the Shares. Such sanctions may take the form, for example, of a temporary suspension of the application of relevant provisions governing the relations of Romania with any other EU member state or member states or the suspension of member states' obligations to recognize and enforce, under the conditions laid down in EU law, Romanian judgments and judicial decisions.

The current Hungarian Government has repeatedly adopted positions which were at odds with those of the EU institutions, especially in the context of the 2015-2016 migrant crisis, during which Hungary strongly rejected the migrant quota plan and prompted widespread criticism from EU officials. Continued backlash by Hungary against the European Union's response to social, economic and/or political events may create uncertainty as to Hungary's commitment to its membership in the European Union and result in a material adverse effect on financial operations, investments and capital flows in Hungary, and consequently, on our business, prospects, results of operations and financial condition, as well as on the trading price of the Shares.

**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 Shares 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 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. Existing laws and regulations in Romania and Hungary 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 may at times involve very considerable delays. The court systems in Romania and Hungary 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 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 investors in the Shares to address any claims that they may have.

**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 the legal recourse investors in the Shares may enjoy against us. The Company is incorporated under the laws of the Netherlands and RCS & RDS is incorporated under the laws of Romania and its subsidiaries are incorporated under the laws of Romania, Hungary, Spain and Italy. All of our directors and executive officers reside outside the United States and the United Kingdom, principally in Romania and Netherlands. 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 and Netherlands.

Romanian law may make it difficult to enforce judgments against us that were obtained 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 are met. However, other conditions may be applicable with respect to specific matters, under special Romanian legislation or international conventions. Similar rules on the recognition and enforcement of foreign court judgments apply to judgments issued in non-EU member states which are parties to the 2007 Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.

Judgments rendered by courts in the United States and other non-EU member states which are not parties to the 2007 Lugano Convention are subject to different requirements, and may be more difficult to enforce. Subject to special internal legislation (including ratified international conventions) regulating the recognition and enforcement of foreign judgments on specific matters, Romanian law allows an action to be brought before a court of competent jurisdiction in Romania for the recognition of a judgment in *personam* rendered by a court of a non-EU member state, provided that the relevant conditions in respect of recognition of foreign judgments set out under the Romanian Civil Procedure Code are met. Furthermore, 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 *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 investors in the Shares of effective legal recourse for claims related to their investment.

In addition, investors may not be able to serve process on our directors and executive officers 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. 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.

## **RISKS RELATING TO OUR FINANCIAL POSITION**

### **Our substantial leverage and debt servicing obligations could have a material adverse effect on our business, prospects, results of operations and financial condition.**

As at December 31, 2016, including in accordance with the covenants agreed under the Notes, our total gross debt was €772.6 million and Gross Leverage Ratio was 3.0x. On October 7, 2016, RCS & RDS entered into the Senior Facilities Agreement and on October 26, 2016 drew (a) RON930.0 million (204.8 million equivalent as at December 31, 2016) under a term loan facility (the “**SFA Facility A1**”) and repaid the senior facilities agreement dated April 30, 2015 (the “**2015 Senior Facilities Agreement**”) in full; and (b) RON600.0 million (€132.1 million equivalent as at December 31, 2016) under a second term loan facility (the “**SFA Facility A2**”).

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 our 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 our 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.

Additionally, we may incur substantial additional indebtedness in the future which could increase the risks listed above. Although the indenture governing the Notes (the “**Indenture**”) and the 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 Senior Facilities Agreement do not prevent us from incurring obligations that do not constitute indebtedness as such term is defined under those agreements. Any of these or other consequences or events could have a material adverse effect on our business, prospects, results of operations and financial condition.

**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.**

The Indenture limits our ability to:

- incur or guarantee additional indebtedness that would cause us to exceed a consolidated leverage ratio of 3.75 to 1;
- 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 certain of our subsidiaries' ability to pay dividends; and
- engage in any business other than a permitted business.

In addition, the Notes, the Senior Facilities Agreement and the ING Facilities Agreement contain covenants that limit our ability to incur and assume debt and/or require us to maintain a consolidated total net debt to consolidated EBITDA ratio of 3.25 to 1 and the Senior Facilities Agreement and the ING Facilities Agreement require us to maintain a consolidated EBITDA to total interest ratio of 4.25 to 1. For purposes of calculating these ratios, consolidated total net debt is defined as, at any time, an amount equal to the aggregate amount (without duplication) of all financial indebtedness of the Group less the aggregate amount at that time of all applicable cash and cash equivalents held by any Group member. Consolidated EBITDA means, for any testing period, the sum of consolidated net income, plus the following to the extent deducted in calculating such consolidated net income: all income tax expense of each Group member; ratio interest payable; depreciation and amortization expense of each Group member (excluding amortization expense attributable to a pre-paid item that was paid in cash in a prior period); and all other non-cash charges of each Group member (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income of each Group member (other than accruals of revenue by each Group member in the ordinary course of business). Total interest ratio is ratio interest payable less interest receivable adjusted to take account of amounts in the nature of ratio interest payable and receivable under interest rate hedging arrangements. Additionally, the Senior Facilities Agreement requires us to have positive equity. Further, the Notes, the 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 demergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions.

Although 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 our financial indebtedness (including the Indenture), and the relevant trustee, holders of the indebtedness 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 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement could materially adversely affect our business operations.**

Our operations have been primarily financed using cash generated in our operations and debt financing. We rely on our senior revolving credit facilities under our 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 facilities, 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 Senior Facilities depends on, among other things, our ability to maintain certain ratios. 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 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 “—*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 Senior Facilities Agreement, the ING Facilities Agreement or the Citi Facilities Agreement or to maintain our operations due to a lack of cash flow could have a material adverse effect on our business, prospects, results of operations and financial condition.

**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 in the longer term, will depend on our future operating performance and ability to generate sufficient cash over the longer term. 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.

No assurance can be provided 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 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 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 in the longer term, 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 on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

No assurance can be provided that we would be able to accomplish these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on our indebtedness 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 Senior Facilities Agreement and the ING 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 could have a material adverse effect on 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, including in relation to the covenants, or at all. In the event that we cannot refinance our debt, we may not 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 in relation to the covenants and 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 and could have a material adverse effect on 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 profit and loss, and accordingly could materially affect our reported results in any period. Moreover 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 have a material adverse effect on 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 provided a Guarantee for the benefit of the holders of the Notes on the Issue Date. Subsidiaries of RCS & RDS may guarantee the Notes in the future, but until then, any claim by us or any of our creditors, including the 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 therein), including our subsidiaries that do not provide guarantees for the Notes, which subsidiaries could account for a higher portion of our assets, liabilities, revenues and net results in the future. As at December 31, 2016, our subsidiaries that do not guarantee the Notes did not have any material financial indebtedness outstanding. Our indirect subsidiaries not guaranteeing the Notes generated 27.3%% of our consolidated total revenue and 23.2% of our consolidated EBITDA for the year ended December 31, 2016 and 27.5% of our consolidated total revenue and 24.3% of our consolidated EBITDA for the year ended December 31, 2015. 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 DIGI or RCS & RDS is entitled to receive any distribution from such assets as equity holders. Except to the extent that DIGI or RCS & RDS 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 DIGI or RCS & RDS as equity holders, although there is no assurance that the claims of DIGI or RCS & RDS 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). 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.

***The holders of the Notes may not control certain decisions regarding the Collateral.***

The Notes are secured initially by the same Collateral securing the obligations under our Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee Facility and certain hedging obligations. In addition, under the terms of the Indenture, we will be 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, the BRD Letters of Guarantee Facility and any outstanding hedging obligations. The required majority will vary with the type of amendment or waiver being sought and there 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 whose unpaid amounts and undrawn commitments under the senior secured liabilities at that time aggregate to more than 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. However, it may prove difficult for the holders of any public debt sharing in the Collateral and subject to the Intercreditor Agreement that may be, in the future, issued by RCS & RDS under Romanian law to give instructions to the Security Agent in a timely manner or at all, which may lead to the inability of the Security Agent to obtain instructions from the Majority Senior Secured Creditors and prevent it from taking enforcement or other actions in a timely manner or at all.

Nevertheless, these arrangements could result in the enforcement of the Collateral in a manner that results in lower recoveries by the holders of the Notes. Furthermore, other creditors not subject to the Intercreditor Agreement could commence enforcement action against DIGI or its subsidiaries during such period, DIGI 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. The Collateral is shared with the lenders under the Senior Facilities Agreement, the creditors with respect to any *pari passu* indebtedness (including the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Letters of Guarantee Facility), and certain hedge counterparties. The Indenture and the Senior Facilities Agreement permit DIGI 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 the 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 RCS & RDS under the Guarantee that exceed the value of the Collateral securing such Guarantee, in the event of insolvency under Romanian law, any such amounts will rank *pari passu* to certain specified categories of existing and future indebtedness of RCS & RDS, including, without limitation, bank loans (including the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee Facility, 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. Furthermore, outside of insolvency, any such amounts due and unpaid by RCS & RDS under the Guarantee that exceed the value of the Collateral securing the Guarantee will be subordinated to competing enforcement claims on a sale of assets brought in relation to certain specified categories of existing and future indebtedness of RCS & RDS, including, without limitation, bank loans, including, without limitation, the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee Facility, and related interest and expenses, and trade creditor claims. See “—*The Notes and the Guarantee are secured only to the extent of the value of the Collateral.*”

As a result, if the value of the Collateral is less than the value of the claims of the 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.***

The holders of the Notes will 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 will be subject to the mandatory distribution order set out by Romanian law. The unsecured portion of the claims of the holders of the Notes will, in insolvency, rank *pari passu* with, among others, bank loans (including related expenses and interest) and in a competing enforcement procedure outside of insolvency will be subordinated to, among others, bank loans (including related expenses and interest) and trade payables. As a result, the ability of the holders of the Notes to obtain recovery against RCS & RDS 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 or require the payment of stamp duties*” and “—*The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defences.*” Thus, no assurance can be provided 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, no assurance can be provided 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 may 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 allow us, subject to the terms of the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee Facility and the Indenture, 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, the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Letters of Guarantee Facility. So long as no default or event of default under the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee Facility 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 the holders of the 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 such company’s shareholders’ register and security interests over listed shares must be registered with the Romanian Central Depository. 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 property and rights are acquired, subject to the proper identification of such property or rights. The Trustee will not monitor the Collateral and there can be no assurance that the Security Agent will monitor, or that DIGI or RCS & RDS 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 particular 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 expiry of the aforementioned five-year period, the 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 and intercompany receivables 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 or the debtor under the intercompany receivable, as applicable, be notified. The terms and conditions applying to Dutch corporate accounts generally contain a provision that the bank accounts are only capable of being pledged if the Dutch account bank has consented to the creation of the right of pledge. The right of pledge over bank accounts can in such case only be validly created if the Dutch account bank has provided its consent in this respect. Furthermore, 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 the consent of the holders of the Notes or the Trustee or the Security Agent obtaining their 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 the relevant Guarantor) in accordance with the Indenture;
- (3) in connection with any disposition of Collateral, directly or indirectly, to any Person other than DIGI or any Restricted Subsidiary (but excluding any transaction subject to “*Description of the Notes—Certain Covenants—Merger and Consolidation*” in the Offering Memorandum) that is not prohibited by the Indenture (with respect to the Lien on such Collateral);
- (4) as described under “*Description of the Notes—Amendment, Supplement and Waiver*,” in the Offering Memorandum”
- (5) if DIGI 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 “*Description of the Notes—Certain Covenants—Limitation on Liens*” in the Offering Memorandum;
- (7) as otherwise provided in the Intercreditor Agreement or any additional intercreditor agreement in connection with an enforcement action;
- (8) pursuant to Shareholding Reorganizations; and
- (9) as described under “*Description of the Notes—Certain Covenants—Impairment of Security Interest*” in the Offering Memorandum. 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 DIGI 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 or other relevant Guarantor to a person that is not DIGI or a Restricted Subsidiary in a transaction that is permitted by the Indenture, and RCS & RDS or such other Guarantor ceases to be a Restrictive Subsidiary as a result of such 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 DIGI or a Restricted Subsidiary is at that time guaranteed by the relevant Guarantor in a manner that would require the granting of a guarantee under the Indenture;
  - if DIGI designates the relevant 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 “*Description of the Notes—Amendment, Supplement and Waiver*” in the Offering Memorandum.

The Indenture also allows 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 such 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, in certain instances, allows us to grant liens over such other assets to secure other indebtedness without also granting liens 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 will 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 has 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 of the Notes. 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, who in turn will act subject to the provisions of the Intercreditor Agreement. For example, 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 of the Notes 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. The 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 voting 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. See “—*The holders of the Notes may not control certain decisions regarding the Collateral.*”

In Romania, The Netherlands and Hungary the security interests in the Collateral are 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 DIGI under the Indenture and the Notes, as well as other obligations secured by the Collateral (the “**Principal Obligations**”). Security interests governed by Romanian, Dutch and Hungarian law secure the Parallel Debt and do not directly secure 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 Obligations, in each case, by the amount of such payment. Although the Security Agent will have, pursuant to the Parallel Debt, a claim against DIGI for the full principal amount of the Notes and other indebtedness that shares in the Collateral, the underlying creditors in respect thereof,

including the holders of the Notes, will 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. To the extent that the security interests in the Collateral created under the Parallel Debt structure are successfully challenged (including by other creditors of RCS & RDS), 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.

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 in 2011. 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.

In Hungary, the security interests in the Collateral is 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 DIGI and RCS & RDS 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 will run 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 allows 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 will not adversely affect the market value of the Collateral. See “*Risks relating to investments in countries where we operate—The economies of the countries where we operate are more vulnerable to fluctuations in the global economy than developed markets. Negative global economic developments could have a materially adverse effect on these countries and the value of the Notes.*”

***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 audiovisual authorization can only be transferred together with the audiovisual licenses issued by the NAC. Our other telecommunication 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. No assurance can be provided 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 RCS & RDS or the equity controlling RCS & RDS (i.e., DIGI) must notify the NAC of the acquisition within one month of its occurrence. With respect to the general mortgage on movable assets of RCS & RDS, 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.

Enforcing security interests created over the shares of RCS & RDS' Hungarian subsidiary may require competition approval in order to be valid under Hungarian law. Such approval may be conditional upon certain obligations imposed on the buyer by the competition authority, which may complicate the enforcement process and decrease the effective value of the Collateral and the business acquired. Furthermore, the buyer may be required to obtain the approval of NMIAH or other authorities with respect to certain permits, licenses and rights granted to RCS & RDS' Hungarian subsidiary due to the resulting change of control.

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 at the relevant company within Spain; (ii) certain persons set out in a list published by the Spanish Ministry of Foreign Affairs or the competent European Union bodies; or (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. No assurance can be provided 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 defences.***

RCS & RDS guaranteed the payment of the Notes on a senior secured basis. This Guarantee, along with any future Guarantees, and the related security interests provides the holders of the Notes with a direct claim against the assets of the relevant Guarantor. However, such Guarantee and security interests are limited to the maximum amount that can be guaranteed by, or secured by assets of, the relevant Guarantor without rendering such Guarantee or security interest voidable or otherwise ineffective under applicable laws, and enforcement of such Guarantee and security interest against a 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 relevant 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, a Guarantor's liability under its Guarantee and any related Collateral could be

materially reduced or eliminated, depending upon the amounts of its other obligations and upon applicable laws. Under the laws of certain jurisdictions, the validity and enforceability of guarantees (including any related 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 DIGI in relation to the Notes are invalidated, the obligations of a Guarantor under the relevant Guarantee and the Collateral may also be invalidated.

Under Romanian law, a guarantee issued or security provided by a company that is not in RCS & RDS' corporate interests or the burden of which exceeds the benefit to RCS & RDS may not be valid and enforceable. Romanian law also contains provisions on fraudulent conveyance outside of a bankruptcy scenario. Thus, a creditor holding a receivable for a sum certain (*creanță certă*) evidencing that it suffered damage may bring an action (*acțiune 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. 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 holders of the Notes 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 RCS & RDS over all present and future movable assets will be limited to those assets that will 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.

***Payments by RCS & RDS under the Proceeds Loan and the Guarantee may be subject to Romanian withholding tax.***

With respect to the Proceeds Loan, based on professional advice we have received, we believe that interest payments made by RCS & RDS to DIGI 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. In general, unless the withholding tax is reduced or eliminated pursuant to the provisions of an applicable tax treaty or Directive of the European Union, 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%. If any such Romanian withholding tax is imposed, RCS & RDS would not be obliged to pay additional amounts with respect to such payment made to DIGI under the Proceeds Loan as a result of the imposition of such Romanian withholding tax.

With respect to the Guarantee, Romanian law is currently unclear on the withholding tax treatment of payments that might be made by Romanian residents to non-residents thereunder. Based on the professional advice we have received, we believe that the nature of any payment made by RCS & RDS 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 DIGI 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, RCS & RDS 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 DIGI. Upon the occurrence of a change of control, except in the case of an initial public offering occurring within the 12 months following the Issue Date, DIGI 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 RCS & RDS will prepay the Proceeds Loan to the extent necessary to finance the repurchase by DIGI of the Notes. In addition, each lender under the Senior Facilities Agreement may, at such lender's option, require repayment of all amounts due to it and a cancellation of its commitment under the Senior Facilities Agreement upon the occurrence of a change of control thereunder. If a change of control were to occur, no assurance can be provided that we will have sufficient funds to pay the purchase price of the outstanding Notes, and repay amounts outstanding under the 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 Senior Facilities Agreement. The inability to purchase the Notes or loans under the 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 Senior Facilities Agreement, which would trigger a cross-default under the Notes and *vice versa*.

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

DIGI 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 DIGI and DIGI can be subjected to insolvency proceedings in this jurisdiction. Such insolvency proceedings applicable to DIGI 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 DIGI 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 DIGI. As such, the ability of the holders of the Notes to bring suit against DIGI in New York or England may be limited.

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

RCS & RDS is located in Romania and DIGI 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 may have rights to intervene or to contest the enforcement actions of the Trustee.

Local procedural rules may also conflict with each other, thereby further adding to difficulties, delays and limitations in the enforceability of debt obligations or security interests either in a consensual out of court transactions or formal court supervised process.

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

On June 28, 2014 Law no. 85/2014 prescribing insolvency prevention measures and governing insolvency procedures (the "**Romanian Insolvency Law**") became effective in Romania. Because it remains a recent piece of legislation, there is limited related case law, judicial doctrine or market practice relating to insolvency proceedings, which may result in uncertainty or inconsistency with respect to the interpretation and application of the Romanian Insolvency Law.

The Romanian Insolvency Law may not be as favorable to the holders of the Notes with respect to RCS & RDS' Guarantee and the security granted by RCS & RDS in relation to it as the laws of England and Wales, 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 of RCS & RDS' insolvency the holders of the Notes will be secured creditors of RCS & RDS under the Romanian Insolvency Law and will, on liquidation, be entitled to the proceeds of the sale of RCS & RDS' assets that constitute the Collateral 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 related to conservation and administration of the said assets, such as utility payments, as well as the expenses incurred by creditors in the context of enforcement proceedings, claims of utilities suppliers arising after the initiation of insolvency proceedings and remuneration owed (as of the distribution date) to the persons engaged for the benefit of all creditors (*e.g.* remuneration payable to the judicial administrator, liquidator and other experts involved in the proceedings); and (ii) receivables incurred and accrued by preferred creditors after the start of the insolvency proceedings. Any secured financings extended to RCS & RDS 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 financings and the proceeds of enforcement would be split on a *pro-rata* basis with respect to all secured assets and rights of RCS & RDS. Therefore, any 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.*”

The commencement of Romanian insolvency proceedings mandates an 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, a creditor of the insolvency debtor holding certain liquid receivables valued over RON 40,000, overdue for more than 60 days and originating after the initiation of original insolvency proceedings, may request initiation of the bankruptcy proceedings, which may result in such creditors foreclosing on the Collateral, while the Security Agent is prevented from acting outside the initial 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) in the original insolvency proceedings. The Romanian Insolvency Law provides for certain additional exceptions to the stay of all judicial actions or measures of enforcement.

In addition, the debtor undergoing insolvency will be precluded from independently managing its business. Operational decisions will be made by the administrator or liquidator appointed by the court. However, during the observation period, the debtor could remain entitled to manage its business, with the supervision of the judicial administrator. The debtor will be entitled to retain such relative operational independence, if the insolvency request was filed by the debtor in the first place and there is no decision of the insolvency judge precluding such arrangement. Otherwise the debtor’s business will be managed by the judicial administrator.

***Romanian law may not recognize the validity of clauses which trigger the acceleration of the Notes in the event of insolvency of RCS & RDS.***

The Romanian Insolvency Law provides that any provisions terminating a contract or accelerating payments thereunder, in each case, in the event of insolvency proceedings, 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*) 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 governing the Notes, which may result in rendering them unenforceable against RCS & RDS and will limit or deny the ability of the holders of the Notes to exercise their rights under the Notes.

***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 an 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 in this “*Risk Factors*” section. 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 events 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 could 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 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 covenants will be suspended for the duration of the period during which the Notes maintain an investment grade rating and 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, and such transactions will not result in a breach of the Indenture if the Notes fail to maintain an investment grade rating.

***Early redemption of the Notes may reduce the yield expected by the holders of the Notes.***

The Notes may be redeemed at the option of DIGI. In the event that DIGI exercises the option to redeem the Notes, the holders of the Notes may suffer a lower than expected yield and may not be able to reinvest the funds on the same terms.

***Transfers of the Notes will be subject to certain restrictions.***

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

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

The Notes are listed on the Official List of the Irish Stock Exchange and are admitted to trading on its Global Exchange Market. We cannot guarantee the liquidity of any market that may develop for the Notes, the ability of the holders of the Notes to sell such Notes or the price at which they may be able to sell such 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. 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 be available 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 DIGI, in the Indenture, agreed to use its commercially reasonable efforts to maintain the listing of the Notes on the Official List of the Irish Stock Exchange as long as they are outstanding, DIGI cannot assure existing and prospective investors that the Notes will remain listed. If DIGI cannot maintain the listing of the Notes on the Official List on the Global Exchange Market of the Irish Stock Exchange or it becomes unduly onerous to make or maintain such listing, DIGI may cease to make or maintain such listing on the Official List on the Global Exchange Market of the Irish Stock Exchange, provided that it will use commercially reasonable 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 DIGI 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, failure to be approved for listing or delisting from another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell the 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 their respective 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.***

Mr. Zoltán Teszári privately holds the majority of our share capital. As a result, Mr. Zoltán Teszári has, 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 controlling shareholder 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 controlling shareholder could also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in his judgment, could enhance his equity investment, although such transactions might involve risks to the holders 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 controlling shareholder makes divestitures such that he controls less than a majority of our equity, he may still be able to effectively control or strongly influence our decisions. Such divestitures may not trigger a change of control under the Indenture.

**The Notes will initially be held in book-entry form and therefore prospective investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.**

Unless and until the Notes in definitive registered form, or definitive registered Notes, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or the holders of the Notes. The common depository for Euroclear and/or Clearstream or their respective nominees will be the sole holders of the global notes representing the Notes. After payment to the common depository, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests.

Accordingly, if an investor owns a book-entry interest, it must rely on the procedures of Euroclear or Clearstream, as applicable, and if it is not a participant in Euroclear or Clearstream, on the procedures of the participant through which it owns its interest, to exercise any rights and obligations as a holder of the Notes. Unlike the holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon our solicitations for consents, requests for waivers or other actions from the holders of the Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, or if applicable, from a participant in these systems. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable investors to vote on any matters or otherwise exercise their rights with respect to the Notes on a timely basis.

Similarly, upon the occurrence of an event of default, unless and until definitive registered Notes are issued in respect of all book-entry interests, if an investor owns a book-entry interest it will be restricted to acting through Euroclear or Clearstream, as applicable. No assurance can be provided that the procedures to be implemented through Euroclear or Clearstream, as applicable, will be adequate to ensure the timely exercise of the investors' rights under the Notes.

**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.

***Additional Notes issued in additional offerings by DIGI may not be fungible for U.S. federal income tax purposes with the Notes issued in the original Offering.***

Additional Notes issued in additional offerings by DIGI may not be fungible for U.S. federal income tax purposes with the Notes issued in the original Offering. Whether any additional Notes would be fungible for such purposes will depend on the date such additional Notes are issued, the yield of the outstanding Notes at that time (based on their market value), whether the original Notes were issued with original issue discount ("OID") and whether the Notes are publicly traded or quoted at the time of the issuance of additional Notes. If additional Notes are not treated as fungible with the Notes issued in the original Offering for U.S. federal income tax purposes, the additional Notes may be issued with OID (or with a different amount of OID, if any, on the original Notes). In such event, unless the additional Notes can be distinguished from the original Notes, the issuance of additional Notes with OID may adversely affect the market value of the original Notes.

### 3. BUSINESS

#### OVERVIEW

##### Introduction

We are a leading provider of telecommunication services in Romania and Hungary based on number of RGUs. Our offerings in both countries include cable and DTH television services, fixed internet and data and fixed-line telephony. Our fixed telecommunication and entertainment services are offered through our technologically advanced fiber optic network, covering approximately 62% and 24% of households in Romania and Hungary, respectively, and both countries are entirely within the footprint of our DTH signal. Our cable and DTH television subscribers enjoy access to custom-made channels and simulcast services, which carry premium movies and sports content, as well as various third-party products. We also operate the fastest growing, in terms of RGUs (Sources: Group and peer reports, ANCOM), and one of the most technologically advanced mobile networks in Romania, which shares the backbone of our fixed fiber optic infrastructure. In addition, we provide mobile telecommunication services as an MVNO to the large Romanian communities in Spain and Italy.

For the year ended December 31, 2016 our Romanian operations accounted for €612.7 million, or 72.7%, of our total revenue; our Hungarian operations accounted for €137.9 million, or 16.4%, of our total revenue; our Spanish operations accounted for €83.0 million, or 9.9%, of our total revenue; and our Italian operations accounted for €9.2 million, or 1.1%, of our total revenue. Although in the past we had operations in other Eastern European countries, all such operations were disposed of in 2013 and 2015. Apart from our targeted MVNO operations in Spain and Italy, we currently focus exclusively on our core markets. As a result, the combination of our fixed-line, satellite and mobile capabilities in Romania and Hungary and our deep local expertise makes us a European leader in geographically focused telecommunication solutions.

We have grown mainly organically from approximately 0.7 million RGUs at December 31, 2002 to approximately 12.4 million RGUs as at December 31, 2016, during which period we have developed from a cable TV provider to a provider of multiple-play services, including cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH television services. At December 31, 2016, we had a total of approximately 12.4 million RGUs, of which approximately 3.3 million were cable TV RGUs, approximately 2.5 million were fixed internet and data RGUs, approximately 3.9 million were mobile telecommunication services RGUs, approximately 1.7 million were fixed-line telephony RGUs and approximately 0.9 million were DTH RGUs.

We have consistently generated strong revenue streams. We generated €750.1 million and €842.8 million of revenue in the years ended December 31, 2015 and 2016, respectively, representing a variation of 12.4% from 2015 to 2016 for continuing operations. In recent years we invested heavily in the development of our mobile business in Romania. Our Adjusted EBITDA and Adjusted EBITDA margins for continuing operations have remained relatively stable from 237.5 million and 31.8%, respectively, for the year ended December 31, 2015 to €263.3 million and 31.2%, respectively, for the year ended December 31, 2016, representing a variation of 11% from 2015 to 2016 for continuous operations.

We offer five principal types of service:

- **Cable TV** is our original line of business. As at December 31, 2016, we had approximately 2.9 million Romanian RGUs and approximately 473,000 Hungarian RGUs for cable TV services. Cable TV services accounted for 25.7% of our revenue in the year ended December 31, 2016. As at December 31, 2016, our cable TV services, together with our DTH services, had a share of approximately 49.0% and approximately 25.1% in the Romanian and Hungarian pay TV markets, respectively (Sources: Group and peer reports, ANCOM, NMIAH).
- Our **fixed internet and data** services are primarily offered through our FTTB/FTTH networks using GPON or comparable technology in Romania and Hungary. As at December 31, 2016, we had approximately 2.1 million fixed internet and data RGUs in Romania and approximately 428,000 RGUs in Hungary. Fixed internet and data services accounted for 23.9% of our revenue in the year ended December 31, 2016. As at December 31, 2016, our fixed internet and data services had a market share of approximately 48.6% and approximately 15.8% in Romania and Hungary, respectively (Sources: Group and peer reports, ANCOM, NMIAH).
- We provide **mobile telecommunication services** using our 3G and 4G networks in Romania, and as an MVNO targeted at the Romanian communities in Spain and Italy. As at December 31, 2016, we had approximately 3.2 million mobile telecommunication services RGUs in Romania, approximately 14,000 RGUs in Hungary (where we offer mobile internet and data services as a reseller through Telenor's network), approximately 609,000 RGUs in Spain and approximately 86,000 RGUs in Italy. Mobile telecommunication services accounted for 25.5% of our revenue in the year ended December 31, 2016. As at December 31, 2016, our mobile telecommunication services had a market share of approximately 11.6%

in Romania and relatively small shares in the Hungarian, Spanish and Italian markets (Sources: Group and peer reports, ANCOM).

- We offer **fixed-line telephony** services through our networks in Romania and Hungary. As at December 31, 2016, we had approximately 1.3 million Romanian fixed-line telephony RGUs and approximately 353,000 Hungarian fixed-line telephony RGUs. Fixed-line telephony services accounted for 3.8% of our revenue in the year ended December 31, 2016. As at December 31, 2016, our fixed-line telephony services had a market share of approximately 31.7% and approximately 11.6% in Romania and Hungary, respectively (Sources: Group and peer reports, ANCOM, NMIAH).
- Our **DTH satellite television** services are offered in Romania and Hungary. As at December 31, 2016, we had approximately 641,000 DTH RGUs in Romania and approximately 307,000 DTH RGUs in Hungary. DTH services accounted for 8.3% of our revenue in the year ended December 31, 2016.

### **Key Strengths**

We consider our key strengths to include the following:

- **Attractive local markets with stable structural growth.** We focus our telecommunication offerings primarily on two core geographic segments, Romania and Hungary. Both economies have been experiencing strong positive developments in recent years, outperforming the European Union's overall GDP growth rate, and their respective telecommunication services markets have been growing steadily. Our home jurisdiction, Romania, has a large and dynamic economy, the real GDP of which is expected to grow at a CAGR of 3.7% from 2015 to 2018 (compared to an expected CAGR of 1.6% for the European Union) (Source: Eurostat). Consumer spending grew at a CAGR of 4.9% from 2013 to 2015 (Source: Eurostat), and Romania's telecommunication and entertainment industries have benefited from this growth. The total number of Romanian pay TV (including cable TV and DTH platforms), fixed internet and data and mobile telecommunication services subscribers has grown significantly in recent years, and the country's telecommunications market offers further significant potential growth opportunities in these business lines. As regards our cable TV and DTH business lines, there is limited free TV in Romania, while pay TV offers a variety of popular programming, including exclusive live content. In addition, only 41.2% of the country's cable TV subscribers used digital technology at December 31, 2015 (Source: ANCOM), which provides an opportunity to transfer existing subscribers from the analog platforms that they are currently using to our advanced digital platform. As regards fixed internet and data, it had a 51.8% household penetration rate in Romania at December 31, 2015 (compared to an average of approximately 83.0% in the European Union) (Source: ANCOM and Eurostat). Given our technologically advanced fixed fiber network, we are well positioned to take advantage of remaining penetration opportunities and increase our number of fixed internet and data subscribers. Finally, the Romanian mobile telecommunication services market is currently generating approximately two times the revenue of the country's internet and pay TV markets and is experiencing rapid data consumption growth (Source: ANCOM). However, it is still experiencing low convergence with fixed pay TV and internet and data offerings. Given our established and leading positions in Romania's pay TV and fixed internet and data markets based on the number of RGUs, as well as our advanced and extensive mobile network, we are well placed to capitalize on these conditions in order to grow our share of the mobile telecommunication services market. Our operations in Romania and Hungary accounted for approximately 72.7% and 16.4%, respectively, of our consolidated revenue for the year ended December 31, 2016.
- **Market leadership in core business lines and robust RGU growth.** We are the leading provider of pay TV services in Romania by number of RGUs. As at December 31, 2016 we had an approximate 49.0% share of the Romanian pay TV services market and were third in Hungary with an approximate 25.1% share. We also lead Romania's fixed internet and data market with an approximate 48.6% market share, while being third in Hungary with an approximate 15.8% share, in each case, as at December 31, 2016. In addition, we are the second largest provider of fixed-line telephony services in Romania with an approximate 31.7% market share and are the fourth in Hungary with an approximate 11.6% share, in each case, as at December 31, 2016. Finally, we are the fourth-largest provider of mobile telecommunication services in Romania with an approximate 11.6% share of the post-paid market as at December 31, 2016. During recent years, we have made significant investments to increase our pay TV and fixed internet and data services market shares, which in 2016 enabled us to outperform all our major competitors in Romania in the mobile and fixed telecommunication industries in terms of net subscriber add-ins and RGU growth (Source: Group data, peer reporting). We continue to focus on increasing market penetration in our existing markets by further expansion and the cross-selling of multiple service offerings to our current and prospective subscribers. Capitalizing on our high-quality technical infrastructure, competitive pricing and attractive content we have achieved substantial organic growth; increasing our total RGUs across all business lines from approximately 0.7 million as at December 31, 2002 to approximately 12.4 million as at December 31, 2016.

- **Advanced infrastructure, including nationwide fiber networks in Romania and Hungary and the fastest growing, in terms of RGUs, mobile network in Romania.** Our fixed fiber optic networks in Romania and Hungary are technologically advanced and cover approximately 62% and 24%, respectively, of households in those countries as at December 31, 2016 (Source: Eurostat/Hungarian Central Statistical Office). We have upgraded approximately 84% of our Romanian and Hungarian fixed fiber optic networks to GPON or comparable technology and are currently able to offer transmission speeds of up to 1 Gbps for internet and data services, the fastest available to residential users in those markets. As at December 31, 2016, our 3G and 4G mobile telecommunication services in Romania covered approximately 98% and 37% of the population, respectively, and, as at December 31, 2016, were provided via approximately 3,400 and 1,200 mobile base stations, respectively, over 61% of which shared the backbone of our fixed fiber optic network. Since we refocused on our Romanian mobile telecommunication services in 2014, our extensive coverage and attractive mobile offerings have allowed us to grow RGUs in this business line from approximately 1.7 million as at December 31, 2013 to approximately 3.2 million as at December 31, 2016.
- **Leading commercial proposition for customers.** Our technical capabilities, wide network coverage and multiple service offering, including mobile services, enable us to provide our customers with a wide range of services at competitive 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 product offerings, to expand the uptake of our service offerings within our existing customer base and increase customer loyalty by offering multiple services at cost-effective prices. For example, we offer flexible packages in Romania, which include a comprehensive cable TV offering (including analog and digital packages with optional add-ons for HBO, HBO 2, HBO 3 and Digi Film), our superfast fixed internet and data (at speeds of 300 Mbps, 500 Mbps or 1,000 Mbps) and our mobile packages (with tariffs offering 200 minutes, 300 minutes, 500 minutes and unlimited voice traffic, including 3,000 international minutes to the EU, the U.S., Canada and China). Customers have recognized the value of our commercial proposition as we experienced approximately 123,000, 137,000 and 515,000 net organic add-ins in the cable TV, fixed internet and data and mobile telecommunication services business lines, respectively, in 2016, which was approximately three times higher than the net add-ins of our nearest competitor in these business lines for the same period (Source: Group data, peer reporting).
- **Robust financial performance.** Our business has consistently generated strong revenue streams. For the years ended December 31, 2015 and 2016 we had total revenue (excluding intersegment revenue, other income and gain from sale of discontinued operations) of €750.1 million and €842.8 million, respectively. Our revenue from continuing operations (excluding intersegment revenue, other income and gain from sale of discontinued operations) was €746.3 million and €842.8 million, respectively, for the same periods. We have historically had robust Adjusted EBITDA and a disciplined approach to capital expenditure. However, following our refocus on mobile offerings in Romania in 2014, we have invested heavily in the development of our technologically advanced mobile business. As a result of such expansion to a new capital intensive business line and divestitures of our operations in the Czech Republic in 2015, our Adjusted EBITDA was €238.4 million for the year ended December 31, 2015. Our Adjusted EBITDA for continuing operations was €237.5 million, for the year ended December 31, 2015. At the same time, our total capital expenditure was €197.6 million for the year ended December 31, 2015, respectively. This represented 26.5% of our revenue from continuing operations for year ended December, 31 2015. We reported Adjusted EBITDA of €263.3 million, whilst our capital expenditure was €216.5 million, or 25.7% of revenue, for the year ended December 31, 2016.

#### **Highly experienced management team.**

Our senior management team is made up of professionals who have, on average, more than 10 years of experience in the telecommunication industry and the Company. Our controlling shareholder, Mr. Zoltán Teszári, has been, and continues to be, involved in all key management decisions in relation to the Group since its foundation in 1992. Our Chief Executive Officer, Mr. Serghei Bulgac, joined RCS & RDS in 2003 as the CFO and became CEO in 2015. The majority of our experienced management team members have been with us for more than 10 years and made significant contributions to our transformation from a small cable TV business to a leading provider of telecommunication services in our core markets. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable them to continue to successfully execute our strategy.

#### **Strategy**

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

- **Continue to leverage our advanced fixed fiber network, offering high-quality service while maintaining competitive prices.** The current technological state of our Romanian and Hungarian fixed fiber networks

allows us to offer a wide range of high-quality services to our customers at competitive prices while maintaining low infrastructure operating expenses. We plan on leveraging our high speed networks to increase our cable TV and fixed internet and data subscribers, as our fiber network throughout Romania and Hungary is faster and more cost-effective than traditional networks operated by our competitors. We also plan on further integrating into FTTH.

- **Expand our mobile network in our core geographic segments and grow our mobile communication services business line.** As at December 31, 2016, our 3G and 4G mobile telecommunication services covered approximately 98% and 37% of the Romanian population, respectively. In Hungary, we hold certain licenses entitling us to develop our own 3G and/or 4G mobile network and we are currently in the technical and operational planning stage, having initiated certain limited engineering works for certain base stations. In both countries, we plan on expanding our 3G and/or 4G coverage while growing our mobile RGUs through competitive pricing and convergence offerings. We believe that our dense fiber network and existing licenses provide a solid foundation for future technological developments in the mobile telecommunication industry.
- **Focus on core Romanian and Hungarian markets and expand market share.** We intend to focus on Romania and Hungary, our core markets. Our fixed 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 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 telecommunication and internet and data services as we believe that the core Romanian and Hungarian mobile markets still offer opportunities for us to expand.
- **Continue to grow our RGU base through product cross-selling and increased penetration of our services, while managing customer churn. We may also seek to grow through opportunistic acquisitions.** Our goal is to achieve continued organic RGU growth by cross-selling our services to existing and prospective customers and increasing the penetration of our cable TV, fixed internet and data, mobile telecommunication, fixed-line telephony and DTH services in Romania and Hungary through multiple service offers. We have seen strong growth in RGUs, from approximately 0.7 million as at December 31, 2002 to approximately 12.4 million as at December 31, 2016, which was mainly due to the expansion of our fixed fiber optic networks and cross-selling of additional services to our existing customers, as well as to the refocusing on our mobile telecommunication business in Romania. Furthermore, we aim to manage customer churn by ensuring that customers subscribe to multiple services and providing a market-leading value proposition to existing and prospective customers. In addition to organic growth, we seek to explore acquisition opportunities in our core Romanian and Hungarian markets on an opportunistic basis in line with or complementary to our current businesses.
- **Offer premium and/or 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.

## AREAS OF OPERATIONS

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

The table below shows the business lines available in each of our geographic segments:

	<u>Cable TV</u>	<u>Fixed Internet and Data</u>	<u>Mobile Telecommunication services</u>	<u>Fixed-line Telephony</u>	<u>DTH</u>
Romania.....	✓	✓	✓	✓	✓
Hungary .....	✓	✓	✓ <sup>(1)</sup>	✓	✓
Spain.....			✓ <sup>(2)</sup>		
Italy.....			✓ <sup>(2)</sup>		

(1) Data only, as a reseller.

(2) As an MVNO.

Our core geographic segments are Romania and Hungary.

## OUR BUSINESS LINES

We offer five principal types of service. 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 telecommunication 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 Romania and Hungary.

The table below shows the number of RGUs per business line and per geographic segment as at December 31, 2016:

	<b>Romania</b>	<b>Hungary</b>	<b>Spain<sup>(3)</sup></b>	<b>Italy<sup>(3)</sup></b>	<b>Total RGUs per service</b>
	<b>(thousands)</b>				
Cable TV .....	2,865	473	—	—	<b>3,338</b>
Fixed Internet and Data .....	2,115 <sup>(1)</sup>	428	—	—	<b>2,543</b>
Mobile Telecommunication Services ..	3,213	14 <sup>(2)</sup>	609	86	<b>3,922</b>
Fixed-line Telephony.....	1,339 <sup>(1)</sup>	353	—	—	<b>1,692</b>
DTH.....	641	307	—	—	<b>948</b>
<b>Total RGUs per country .....</b>	<b>10,173</b>	<b>1,575</b>	<b>609</b>	<b>86</b>	<b>12,443</b>

(1) Includes both residential and business lines.

(2) Data only, as a reseller.

(3) As an MVNO

### Cable TV Services

Our cable TV services consist of distributing local and international programming content through our cable TV networks. We offer cable TV services mainly in Romania, where we are the largest pay TV operator, by number of RGUs (Source: Group and peer reports, ANCOM), and Hungary, where we are the third largest pay-TV operator, by number of RGUs (Source: Group and peer reports, NMIAH) in each case as at December 31, 2016.

As at December 31, 2016, we had approximately 2.9 million cable TV RGUs in Romania and approximately 473,000 in Hungary and a combined number of homes passed in the two countries of approximately 5.7 million. The total number of cable TV RGUs in Romania increased by approximately 4.8% from approximately 2.7 million as at December 31, 2015 to approximately 2.9 million as at December 31, 2016. 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 have historically generated 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 the years ended December 31, 2015 and 2016, cable TV services generated revenue of €203.4 million and €216.7 million, representing 27.1% and 25.7% of total revenue, respectively.

### 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 approximately 60 channels for the analog version and more than 90 channels for the digital version, and a reduced version, which is addressed to customers in rural areas, on EOC infrastructure, and includes 36 channels for the analog version and 68 channels for the digital version. At December 31, 2016, approximately 56% of our cable TV customers were subscribed to the analog package and approximately 44% of our cable TV customers were subscribed to the digital package. We believe that our standard packages are attractive in the market in terms of range of content offered for the price, and allowing access to our own channels (other than Digi Film, our pay TV channel) for no additional fee. In combination with the standard



version 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 three packages of cable TV services, each for a monthly fee. 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 up to 20-25 channels. Thirdly, we offer the basic package “DIGITV”, which is made up of over 50 local and international channels. Typically, our “DIGITV” packages are 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 the “DIGITV” 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.

### **Fixed Internet and Data**

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, 2015, we generated €189.3 million from fixed internet and data services (representing around 25.2% of our revenue), of which €155.9 million was generated in Romania. In the year ended December 31, 2016, we generated €201.6 million from fixed internet and data services (representing around 23.9% of our revenue), of which €163.6 million was generated in Romania. As at December 31, 2016, we had approximately 2.1 million fixed internet and data RGUs in Romania (including business subscribers) and approximately 428,000 such RGUs in Hungary.

Business subscribers represent an important part of our fixed internet and data business in Romania, as they generate a significant part of our revenue streams, although they are much fewer in number than residential subscribers. At December 31, 2016, we had approximately 115,000 business internet and data RGUs, compared with 103,000 at December 31, 2015. Our ARPU for business users of our fixed internet and data business was €35.76 at December 31, 2016, compared with €39.19 at December 31, 2015.

### ***Fixed internet and data product packages***

We offer several residential fixed internet and data services packages at competitive prices 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 300”, “Fiberlink 500” and “Fiberlink 1,000” are our main residential fixed internet and data offerings in Romania. “Fiberlink 300” allows unlimited traffic at a speed of up to 300 Mbps. “Fiberlink 500” and “Fiberlink 1,000” allow for unlimited traffic at speeds of 500 Mbps and 1 Gbps, respectively, the fastest internet service currently offered to residential users in Romania. We migrate our “Fiberlink 100” customers (enjoying speeds of up to 100 Mbps) to “Fiberlink 300” package. We also offer a “Fiberlink Popular” package to certain of our rural customers. It allows unlimited traffic at speed of up to 30 Mbps.
- “DIGINet 100”, “DIGINet 100 Pro” and “DIGINet 200” are our main residential fixed internet and data offerings in Hungary. “DIGINet 100” allows unlimited traffic at speed of up to 100 Mbps, “DIGINet 100

Pro” allows unlimited traffic at a symmetric speed of up to 100 Mbps, while “DIGINet 200” allows unlimited traffic at speed of up to 200 Mbps. In addition, “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 and 1 Gbps, respectively.

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

### ***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 generally offer a high-speed and affordable means of fixed internet access for residential users in Romania and Hungary, and we bill our fixed internet and data services in local currencies.

### **Mobile Telecommunication Services (voice and data)**

As at December 31, 2016, we were one of four licensed providers of mobile services in Romania. We provide mobile telecommunication services, which include both voice and data services, using our 3G and 4G networks in Romania, and as an MVNO targeted at the Romanian communities in Spain and Italy. In Hungary, we resell third party mobile data services to our customers. In Hungary, we hold certain licenses entitling us to develop our own 3G and/or 4G mobile network and we are currently developing the network that will support our service, with a view to being in the position to launch in 2018 or later.

We began offering mobile telecommunication services in Romania in October 2007, and as at December 31, 2016, our 3G and 4G networks coverage extended to approximately 98% and 37% of the country’s population, respectively. In Romania we have frequencies blocks in the bandwidths of: 900 MHz, 2,100 MHz, 2,600 MHz and 3,700 MHz.

Since 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 customers including a variety of mobile phones for immediate purchase or to purchase in installments. The campaigns are supported by nationwide media advertising (TV, radio, outdoor, online).

We are the leader in inbound number porting in mobile with 1,058,527 numbers ported from 2008 until early February 2017. In 2016, there were 879,330 mobile telephony number ported in Romania, the majority towards us (434,816). (Source: ANCOM)

We intend to continue to increase the coverage of our mobile telecommunication service and achieve growth in subscriber numbers and revenue. We currently ensure 3G coverage to over 98% 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 telecommunication subscriptions and intend to use this service to develop new customer relationships.

### ***Mobile telecommunication packages***

We offer mobile telecommunication services structured to meet the needs of our subscribers. The service plans offer flat rates allowing either generous or an unlimited number of minutes of voice communications across the main networks, as well as mobile internet traffic up to 50 GB/month at 4G speed. Starting with 2015 we have offered three main types of packages, with several variations:

- ***Digi Mobil Optim.*** Digi Mobil Optim offers a range of packages that target customers who wish to have unlimited minutes inside and/or outside of the network and a generous monthly mobile data allowance of up to 10 GB mobile internet traffic at 3G speed and a total of 50 GB mobile internet traffic at 3G and 4G speed (up to 150 Mbps). The monthly fee range varies between €1.94 and €4.8 (VAT included) depending of the number of minutes included, 200 minutes for the €1.94 subscription, 300 minutes for the €2.88 subscription. We also offer unlimited voice traffic and selected international networks (3,000 international minutes to the EU, U.S.A., Canada and China) for a subscription for a price of €4.8, however depending on the total number of mobile services contracted by the same customer, this price can go down to €2.88. We also offer to our clients the possibility to acquire a range of mobile phones within the same price range, regardless of the type of the subscription chosen.
- ***Digi Mobil Avantaj.*** Digi Mobil Avantaj offers 3 types of subscriptions together with a handset. The monthly fee is between €1.98 to €4.96 (VAT included) depending on the voice and data traffic included. The subscriptions include 200 up to 500 minutes with national and selected international networks and up to 5 GB mobile internet traffic at 3G speed and 50 GB mobile internet traffic at 4G speed.

- **Digi Mobil Pre-paid.** We launched Digi Mobil Pre-paid in December 2015 with option fees that can vary between €2 and €4 (excluding VAT). Options include unlimited free minutes and SMS within our network, plus national minutes ranging from 150 to 450 and up to 6 GB of mobile internet data traffic. The options have validity period of up to 3 months.

We also offer mobile internet and data services on a stand-alone basis in two different price plans with data traffic from 10 to 20 GB monthly.

In Romania as at December 31, 2016, we had approximately 3.2 million mobile telecommunication services RGUs, an increase of approximately 19.1% compared with December 31, 2015 when we had 2.7 million mobile telecommunication services RGUs.

### ***MVNO operations in Spain and Italy***

#### *Spain*

We offer voice mobile services in Spain under the brand name Digi Mobil using the Telefonica Moviles España, S.A. (“TME”) network. The service is mainly targeted at the large Romanian community in Spain, 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 prepaid and postpaid tariff packages for voice, SMS and mobile data in Spain. At December 31, 2016, we had approximately 609,000 mobile telecommunication services RGUs in Spain generating revenue of €82.7 million for the year ended December 31, 2016.

#### *Italy*

We offer MVNO voice mobile service in Italy under the brand name Digi Mobil using the TIM network. The service is targeted at the large Romanian community in Italy.

We offer prepaid packages for voice, SMS and data in Italy, which are distinguished by varying mixes of predefined options on top of our standard tariffs.

At December 31, 2016, we had approximately 86,000 mobile telecommunication services in Italy generating revenue of €9.0 million for the year ended December 31, 2016.

### **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 increase in 2005 as we began to upgrade our cable networks to the FTTB/FTTH standard (our cable networks have since been upgraded to GPON technology). As at December 31, 2016, we were the second largest fixed-line telephony operator after Telekom Romania (Source: Group, peer reports, ANCOM), which is the largest fixed-line telephony operator in Romania (based on the figures published by Telekom Romania as at December 31, 2016). We also started to offer fixed-line telephony services in Hungary in 2007, and we had approximately 353,000 RGUs as at December 31, 2016.

In the year ended December 31, 2015, we generated €32.7 million from fixed telephony services (representing around 4.4% of our revenue), of which €25.8 million was generated in Romania. In the year ended December 31, 2016, we generated €31.9 million from fixed telephony services (representing around 3.8% of our revenue), of which €25.1 million was generated in Romania. As at December 31, 2016, we had approximately 1.3 million fixed line telephony RGUs in Romania (including business subscribers) and approximately 353,000 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 telecommunication in order to encourage customers to subscribe to multiple services and increase customer retention. We also believe our fixed-line telephony service offering helps make our other business lines as well as our mobile telecommunication and mobile internet and data services more attractive. We offer two main types of packages for residential customers 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 telecommunication 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 telecommunication 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 129,000 fixed-line telephony business RGUs in Romania as at December 31, 2016, compared with 127,000 at December 31, 2015. Our ARPU for business users of our fixed-line telephony business was €3.72 at December 31, 2016, compared with €3.62 at December 31, 2015.

In Hungary, we offered the following main types of packages as at December 31, 2016:

- **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 telecommunication 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 telecommunication 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 telecommunication 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 telecommunication networks. Digi Tel Family subscribers are not charged a fee for on-net calls and for the first 100 minutes in other fixed networks, are charged a fee of €0.006 per minute for calls, after the first 100 minutes, to other fixed-line networks and a fee of €0.02 per minute for calls to other national mobile networks. Digi Tel National subscribers are not charged fees for on-net calls or for calls to other fixed-line networks and for the first 100 minutes to other national and main EU, U.S.A., Canada and China mobile networks, and they are charged a fee of €0.012 per minute for calls to other national mobile networks. The fees for international calls vary on a country-by-country basis, starting with €0.012 per minute for the main fixed networks in EU, U.S.A., 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.

For our business fixed-line telephony services we offer several packages, with prices from €2 to €30 (VAT excluded). All business subscriptions include unlimited calls in our fixed and mobile networks and in Telekom Romania's fixed network, and up to 1,400 free minutes in other national mobile networks.

#### **DTH**

Our DTH services consist of distributing programming content via satellite transmission primarily to 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 (which includes the lease of two transponders on the Telenor satellite) that will expire in November 2017, at which time we plan to extend existing relations or consider available alternatives.

We are a leading DTH operator in our main markets, Romania and Hungary. In the year ended December 31, 2015, we generated €74.5 million from DTH services (representing approximately 9.9% of our revenue). In the year ended December 31, 2016, we generated €70.1 million from DTH services (representing approximately 8.3% of our revenue). As at December 31, 2016, we had approximately 641,000 DTH RGUs in Romania and approximately 307,000 in Hungary.

### ***DTH product packages***

Our product offerings include four types of packages (“Popular”, “Basic”, “Extra 1” or “Extra 2”) for Romania and two types of packages (“Digimini” and “DigiTV”) 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.

- ***Popular Packages.*** In Romania, we offer a “Popular” package, which includes a minimum of 25 channels and cannot be combined with the premium movie channels offered.
- ***Basic Packages.*** Our “Basic” packages include at least 60 channels in Romania. In Hungary, our “Digi” package offers at least 70 channels. In addition, in Hungary, due to local “must carry” regulations, we also offer a limited package with a maximum of 25 channels. We believe that our Basic packages are attractive in the market in terms of range of content offered for the price. 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 of programming content such as news, general entertainment, sports, movies, documentaries, and children’s programs. 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. They include at least 63 and 76 channels, respectively, in each market. 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 customers. Generally, international channels such as the History Channel, TV 1000, the Travel Channel, Viasat Nature or Viasat History and certain local special-interest 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.

### ***Own TV channels***

We offer our own TV channels. 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, DIGI Sport 3 and DIGI Sport 4 (each in Romania) and DIGI Sport 1, DIGI Sport 2 and DIGI Sport 3 (each in Hungary)), a pay TV movie channel (DIGI Film), a news channel (DIGI 24), documentary channels (DIGI World, DIGI Life and DIGI Animal World), music channels U Televiziune Interactiva and Hora TV. We also own an interest in Music Channel. At the beginning of February 2014, our news channel (DIGI 24) was declared a “must carry” channel and offered solely in Romania through our own network as well as through other cable networks for free.

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 Serie A and Ligue 1 and the WTA . Furthermore, we are one of a few providers with co-exclusive rights to broadcast the Romanian Football League and Cup (Romania), Romanian Football Second League (Romania), EHF Champions League (Romania), Spanish La Liga (Romania), Formula 1 Championship (Romania) and for the UEFA Europa League (Hungary). We use this premium content to attract a higher number of customers to our services.

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

<b>Sport</b>	<b>Competition</b>	<b>Romania</b>	<b>Hungary</b>	<b>Period</b>
Football	Romanian Football Championship and Romanian Football Cup	✓		2015 – 2019
Football	UEFA Europa League		✓	2015 – 2018
Football	Spanish Football Championship “La Liga”	✓		2015 – 2018
Football	Italian Football Championship “Serie A”	✓	✓	2015 – 2018
Football	French Football Championship “Ligue 1”	✓	✓	2015 – 2018
Football	Qualification matches World Cup 2018	✓		2014 – 2017
Handball	EHF Champions League, Cup and Trophy	✓		2014 – 2017
Racing	Formula One World Championship	✓		2016 – 2017
Tennis	WTA Tennis Tournament <sup>(1)</sup>	✓	✓	2017 – 2021

(1) Wimbledon Premier is included in the WTA Tennis Tournament broadcasting license.

(2) We have also held the broadcasting rights for the Moto GP and ATP1000 Master series & World Tour Finals, both of which expired in 2016.

The aggregate value of the licensing fees under these agreements is approximately €110.9 million. In addition to licensing fees, some of these agreements require us to bear certain technical costs such as costs 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. In addition to broadcasting them through our Pay TV platforms, we offer our own TV channels to our certain other cable TV operators in Romania for a fee. At the end of 2015, we introduced advertising on our own channels to allow for additional monetization of our channel portfolio.

### **DIGI Film**

In 2011, we commenced offering a pay TV service in Romania 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 RON 2.9 per month in Romania and HUF 300 per month in Hungary to access the service.

### **Radio channels**

We also started operating radio stations in Romania (Pro FM, Info Pro, Music FM, Dance FM) in May 2015, and, in November 2015, we launched Digi FM, a new radio station. Digi FM is operated on the basis of the license and audiovisual authorization initially issued for Info Pro, which was closed down shortly after its acquisition.

### **Multiple Offerings**

The 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 those who utilize our network-based services (network customers), in which we include our cable TV, internet, fixed telephony and mobile telecommunication services, 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 our residential customers (excluding DTH customers) was 2.41 and the percentage of network customers using more than one service was approximately 75% as at December 31, 2016. In Hungary, the average number of services per network customer was 2.3 and the percentage of network customers using more than one service was approximately 80% as at December 31, 2016.

The table below shows the percentage of network customers that subscribe to multiple services in Romania and Hungary as a percentage of our base subscribers as at December 31, 2016:

	<b>Romania</b>	<b>Hungary</b>
Single-play.....	25%	20%
2 or more.....	75%	80%
Of which 3 or more.....	47%	53%
Of which quad-play .....	19%	0.5%

We offer certain discounts incentivizing customers to subscribe for more than one service. For example, in Romania, the mobile internet service provided on USB dongle as “Digi Net Mobil” package is discounted for customers who also hold a “Fiberlink” fixed internet subscription.

In Hungary, there is a 20% discount for 24-month contracts if all three fixed services (cable TV, internet and fixed telephony) are purchased as a package.

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

### **Electricity generation and supply**

In 2012, we started to acquire several developmental stage solar energy projects as a means to reduce or partially offset our costs for electricity. As at December 31, 2016, the projects have an aggregate installed capacity of 15.72 MW, all of them being operational.

Under incentives promulgated by the Romanian government, producers of electricity from renewable sources (e.g., solar) that are accredited by the Romanian energy regulator are entitled to receive green certificates that can be subsequently sold to suppliers and other entities that have a legal obligation to acquire them. In 2016, sales of green certificates received from our solar energy projects generated €2.1 million.

In 2015, we started operating an electricity supply business, initially targeting business customers, and in 2016 it was extended to also target residential customers. Electricity supply is not a core activity for us; we entered it largely to broaden our service offering to our clients and hence increase “client stickiness” as well as to exploit the capabilities we developed and opportunities we identified while selling green certificates and, other than in the December 2016 and the first quarter of 2017, it has been a break-even or slightly loss making business. Our electricity supply business consists of us buying electricity on the centralised wholesale trading platforms (in line with applicable legal provisions which forbid “over the counter” agreements) and selling it to our business and residential customers. In general, our customer contracts are fixed price for up to one year and have no limits on the amount of electricity the customer can require us to supply. In 2016 we purchased electricity from both the forward electricity market as well as from the spot market. Approximately half of the energy that we acquired in 2016 was purchased from the forward market, while the remaining energy was purchased on the spot market. However, in January and February 2017 the quantity of forward purchased energy was negligible. In 2016, we supplied, in aggregate, approximately 1.1 million MWh to a mix of business and residential customers, of which business customers accounted for over 95% of consumption. In the first three months of 2017, we supplied an estimated 255.6 MWh. In March 2017, we intentionally decreased electricity supplied to an estimated 67 MWh, a 28% decrease when compared to the 2016 average of monthly supplied electricity.

Demand from our larger business customers is subject to higher variation and is more difficult to predict than from residential and mid-sized and smaller business customers. Large and unusual increases in prices for purchase of electricity in late 2016 and early 2017 due, in part to cold weather and in part to market dysfunctionality, led to us incurring significant losses in this business during those periods. To reduce our exposure to such volatility, we are currently in the process of refocusing our energy supply business on residential and mid-sized and smaller business customers and decreasing the overall volume of electricity supplied to business customers. Our target is to decrease such volume of business customers by roughly half by mid-2017 as compared to the previous year and have as at 31 March 2017, already reduced our volume of electricity supplied to business customers by 28% when compared to the 2016 average of monthly supplied electricity to business customers. We expect that this will result in us having more manageable supply obligations and that we will decrease materially the amount of electricity we supply when compared to 2016 levels. In addition, for 2017 we are aiming for at least half of our electricity supply needs to be met through fixed term contracts. See *“Risk Factors—The results of our energy supply business are dependent on the price at which we are able to acquire electricity from third parties. Volatility in the cost of electricity may negatively impact our financial condition and results of operations.”*

## **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, 2016, we had distribution agreements in place with approximately 82 content providers. In total we have the right to retransmit in Romania and Hungary approximately 299 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 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 Networks**

In Romania, we own and operate an advanced, fully digitalized and two-way capable fiber optic network. The network architecture provides approximately 84% FTTB/FTTH coverage based on GPON or comparable technology, with the rest (located in rural areas composed primarily of single family homes) being hybrid fiber-coaxial networks, giving us the highest fiber share among similar cable operators in Europe.

We provide cable 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 500 Mbps upload. Subscribers are connected to the network using Point-to-Point Protocol over Ethernet sessions. Our BNG/BRAS system uses N+1 redundancy and is highly distributed.

Our DWDM network reaches Budapest. Total IP Internet Connectivity is around 2 Tbps split as IP Transit capacity, IP Peering network capacity and CDN network capacity. Our total IP Transit network connectivity is around 400Gbps. IP Transit connections have been deployed with two different Tier 1 providers (Teliasonera and NTT) in three different locations (Bucharest, Budapest and Frankfurt). Total IP Peering network capacity is over 600Gbps. Our own IP Peering routers have been deployed in the most important IXPs in the world: Frankfurt (DE-CIX), Amsterdam (AMS-IX) and London (LINX). Regional IP Peering routers also exist in Budapest and Bucharest.

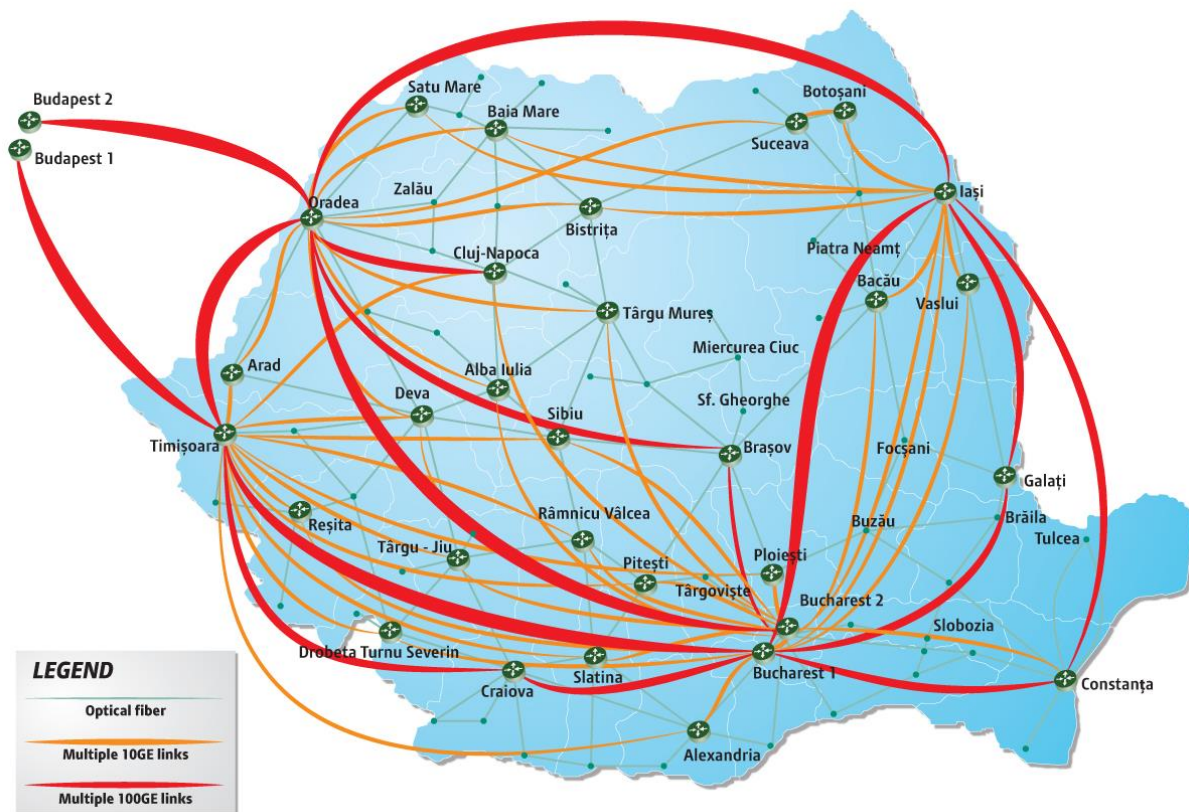
Over 700Gbps of CDN capacity has been deployed in our Data Centers all over the country by the largest content providers like Google, Facebook and Akamai enabling our subscribers to enjoy top download speeds, HD quality streaming, instant access to social media and reliable connection to the cloud.

We have a multi-vendor policy for the IP Backbone network routers. Major city nodes in Romania are connected with multiple redundant 100 Gbps or 10 Gbps links. The national network coverage is ensured through redundant scalable rings, with transmission capacities ranging between 10 and 300 Gbps.

In Romania, we have an intercity backbone network of approximately 22,000 kilometers. Approximately 76% of this network is aerial, with the remaining approximately 24% 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 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). 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 passes a total of approximately 4.7 million homes as at December 31, 2016. We service business customers in all counties and major cities of Romania.

The map below shows our backbone in Romania as at December 31, 2016:





In Hungary, we cover 80 cities with our FTTB/FTTH network, which has similar technical capabilities to our Romanian network. Our Hungarian fiber network passes approximately 1.1 million homes. We use approximately 4,306 km of backbone fiber optic network, approximately 32% of which is owned by us, 47% is subject to long-term leases and the remaining 20% is subject to regular lease contracts.

The map below shows our backbone in Hungary as at December 31, 2016:



	As at December, 31	
	2015	2016
<b>Romania</b>		
Number of homes passed (millions)	4.6	4.7
Percentage of homes passed <sup>(1)</sup>	61%	62%
<b>Hungary</b>		

	As at December, 31	
	2015	2016
Number of homes passed (millions)	1.0	1.1
Percentage of homes passed <sup>(1)</sup>	22%	24%

(1) Calculated based on the total number of households from Eurostat for Romania and [www.ksh.hu](http://www.ksh.hu) for Hungary.

In Romania and Hungary we continue to pursue technological improvements of our network as well as expansion of our coverage, and the number of homes passed accelerated in 2016 compared to previous years. 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 1000 Gbps in December 2016 (including an estimate of 65 Gbps for business subscribers). We believe this figure may increase further in 2017 due to an increase in the number of subscribers and improved offerings that we may be able to provide to our subscribers.

## Set-top boxes and routers

### Set-top boxes

No set-top boxes are required for analog TV customers, and we offer digital set-top boxes with standard HD CAM modules for our digital TV customers. The first set-top box rental is included in the digital TV tariff, with additional boxes requiring a supplemental fee; though customers can also opt to purchase rather than rent the boxes. We currently source set-top boxes from Kaon, Humax, and EKT.

The set-top boxes have the ability to connect an external hard drive to record content to create a personal video recorder (“PVR”) functionality, which provides customers with a more efficient setup as they are usually not willing to pay for expensive high-speed PVRs. Additionally, customers get access to our proprietary electronic program guide.

### Routers

Routers are provided to our fixed internet and data customers for RON 5 a month, which is payable on top of internet costs; customers also have the option to purchase the routers. Rented routers are accessible to RCS & RDS which allows for remote troubleshooting if an issue arises with the router. We recently launched a new router which offers speed of more than 900Mbps over Ethernet and over 400Mbps over Wi-Fi, depending on the receiving device’s capability.

## Mobile Telecommunication Services Network

Our mobile telecommunication network in Romania is based on the equipment and solutions provided by leading vendors (Huawei, Nokia, Ericsson and ZTE). We lease technical premises and antenna supports from a large number of land and premises owners as well as the national radio communications operator, Societatea Nationala de Radiocomunicatii S.A., 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, antennas and other related equipment.

In Romania, as at December 31, 2016, our 3G and 4G mobile telecommunication and mobile internet and data services covered approximately 98% and 37% of the Romanian population, respectively. As of December 31, 2016, our 3G and 4G mobile telecommunication and mobile internet and data services were comprised of approximately 3,400 and 1,200 base stations, respectively.

The mobile network is integrated at the transmission level with our fiber optic backbone to take advantage of the high available capacity. We have teams of employees that undertake the high-level radio design, set-up, operation, maintenance, network optimization and drive-test of the network.

For the purposes of developing of our 3G and 4G mobile networks, we have acquired several frequency blocks in various bandwidths, which are set out in the table below.

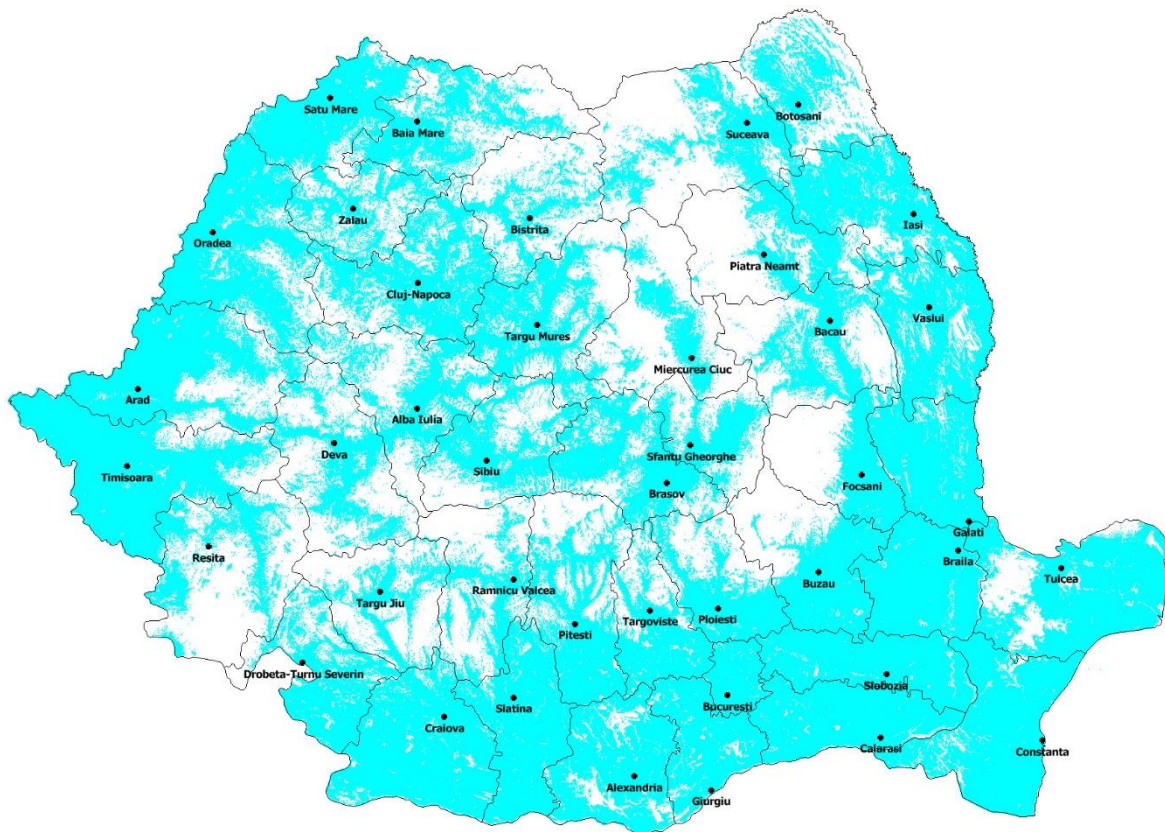
Country	Bandwidth	Frequency blocks	Year of Acquisition	Validity period	Additional information
Romania.....	2,100 MHz	3 X 2 X 5 MHz 1X5 MHz <sup>(1)</sup>	2007	Until 2022	Can be extended with 6 months prior notice for an additional 10

<u>Country</u>	<u>Bandwidth</u>	<u>Frequency blocks</u>	<u>Year of Acquisition</u>	<u>Validity period</u>	<u>Additional information</u>
Romania.....	900 MHz	1 X 2 X 5 MHz	2012	Until 2029	years (without additional license fees). Can also be used to establish other services like 4G-LTE. We fulfilled our license obligations, as reviewed by ANCOM. Please see the license obligations listed below. Usage from 2014
Romania.....	2,600 MHz	6 X 1 X 5 MHz	2015	Until 2029	4G license
Romania.....	3,700 MHz	10 X 1 X 5 MHz	2015	Until 2025	4G license
Hungary .....	1,800 MHz	1 X2 X 5 MHz	2014	Until 2029	5 year automatic renewal if the initial contract is not breached during the initial term
Hungary .....	3,800 MHz	4 X 5 MHz	2016	Until 2034	

(1) TDD technology

Under the terms of our 900 MHz spectrum license in Romania, we were required to expand our coverage to include a number of small cities by April 5, 2016, and we have complied with this requirement. This license also requires us to 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.

The map below shows the territorial coverage of our own 3G mobile network as at December 31, 2016:



In order to minimize the potential for a system failure in our 3G mobile network, we have agreements in place with certain of our suppliers for technical support to help ensure continuous operation of the network.

In November 2016 we have entered into a frame agreement to acquire an IMS system (IP Multimedia System) which will enable VoLTE (Voice over LTE/4G), VoWiFi (Voice over WiFi) and VoBB (Voice over broadband) on our 4G networks.

## **Fixed-line Telephony**

Our fixed-line telephony network in Romania is based on current technologies, combining IP (flexibility) and time division multiplexing (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, Proximus, Deutsche Telekom, Telekom Austria, Telia Sonera, Turk Telecom, Tata, etc.).

In order to minimize the potential for a system failure, we maintain a system of back-up generators and spare batteries in 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.

Our new IMS system (IP Multimedia System) will enable us to migrate the fixed-line services to a new state of the art technology, allowing us to develop new and innovative services and integrations with the mobile or internet fixed services.

## **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 center 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 Budapest and Debrecen in Hungary and service all our DTH subscribers on a country-by-country basis.

### ***Satellites and transponders***

As at December 31, 2016, we use 9 high-powered transponders, seven on the IS-10-02 satellite and two on the Thor 6 satellite, to transmit our DTH signal and one additional transponder for transmission of non-DTH signals. The lease agreement with Intelsat (which includes the lease of two transponders on the Telenor satellite) is entered into on competitive terms and will expire on November 30, 2017, at which time we plan to extend existing relations or consider available alternatives. 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. We also use simulcrypt agreements.

The nine satellite transponders used for DTH signal transmission 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. 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.

### ***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***

We use an encryption solution and smart-cards for our DTH operations supplied by Nagravision, which is a leading supplier of security solutions for the television industry. We believe the quality of the encryption technology we use is consistent with market standards. See also “—*Fiber Networks—Set-top boxes and routers—Set-top boxes.*”

## **DISTRIBUTION AND SALES**

We employ four primary sales channels: (i) our own retail network; (ii) agents providing door-to-door sales, (iii) retail sales partners and (iv) inbound and outbound telesales. These channels use our own as well as external salesforce.

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 subscriptions are generated through our retail operations (at service centers where customers make payments in person). In addition, subscriptions are generated through contacts initiated by us, through door-to-door activity and the rest through outbound/inbound telesales.

### **Business Customer Sales**

We launched our services for business customers in 1998, and 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. We have a large number of sales agents in charge of the retention of small and medium business customers, who also contract new services through cross-sales or to new customers. 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 have also established a business telesales department, which focuses on the acquisition of small business customers and cross-sales.

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.

We also have tailored offerings for large corporate and government customers through a wide range of customizable solutions. In the sector of small and medium sized enterprises and micro-businesses, we attempt to further penetrate the market with standardized products.

## **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).

As at December 31, 2016, our customer service department in Romania consisted of 1,969 employees spread across all of our national service centers and six call centers (servicing our Romanian, Spanish and Italian clients). As at December 31, 2016, our customer service department in Hungary consisted of 395 employees spread across all of our physical service centers and two call centers in Budapest and Debrecen. 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.

As at December 31, 2016, out of the total customer service department, we have a total of 1,050 call center employees, of whom 913 are in Romania, 137 are in Hungary.

We also have after sale and service teams dedicated to our various services. Our mobile telecommunication 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.

In addition, we offer our customers promotional vouchers to promote customer retention.

## **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 telecommunication services, DIGI Net Mobil for our mobile internet and data services, DIGI Animal World, DIGI Life, DIGI Sport, DIGI Film, DIGI World and DIGI 24 for our TV channels and 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. We also aim to encourage the uptake of multiple-play services 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 in which 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 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 awareness of new services and cross-selling. The campaigns also emphasize our 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 the majority of our 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 prices not determined in the local currency, customers pay their invoices in local currency using the exchange rate from the date when the invoice was issued. We usually 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 various payment outlets (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. 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. We are trying to improve our physical presence by increasing the number of sales/collection points and bringing them closer to the client, including in rural areas (Digi Box). Additionally, 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, 2016, our bad debt rate (which we calculate as recognized impairment losses relating to trade and other receivables as a percentage of total revenue) was approximately 1.0%.

## **EQUIPMENT SUPPLIERS**

In our cable TV business line, our principal supplier for video receivers and modulators is Kaon.

Our satellite receivers are currently supplied by Kaon. Nagravision supplies the encryption and subscriber management system.

For internet and data services, our main suppliers are Cisco, Juniper and Huawei 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 business line, our main supplier is Nokia (using Alcatel switches; Alcatel is currently part of Nokia).

The equipment for 3G mobile telecommunication services is provided by Nokia and Huawei. We focus on Android-based smartphones, due to better affordability for our customers. The main producers 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, NGC, HBO, Universal, Disney, Viacom, and Viasat.

Our main suppliers for global internet interconnection and IP transit services are the leading industry operators: Telia Company 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, TME, Proximus, Deutsche Telekom (through Combridge SRL), Telekom Austria, Telia Company, 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", "UTV", "DIGI Oriunde", "DIGI Online", "DIGI PLAY", "DIGI Energy", "Pro FM", "DIGI FM", "DANCE FM", "MUSIC FM" and "ROMANIA FURATA." 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. During the course of our business, we regularly undergo the renewal of our trademarks and the registration of new trademarks (most of the later related to our TV and radio broadcast activities).

We are generally not party to any license agreements in connection with any of the trademarks we own. The isolated cases when we have provided licenses for use of our trademarks by third parties have been as a post-closing covenant at the disposal of our subsidiaries in Croatia, Slovakia and the Czech Republic. Each of such temporary arrangements was limited to the exited territory(ies), with no impact on our business in the countries where we have continued to operate. The license agreement applicable to the trademarks used in the Czech Republic is in force until April 2020, while the trademark license for Slovakia is contemplated to be extended until December 2017 and the Croatian trademark agreement has expired.

## **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 Uniqa Asigurari and has an aggregate coverage of up to RON143 million (€31.5 million equivalent as at December 31, 2016). 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 our 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 is not insured.

## **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 Networks*” for a discussion of rights related to our networks.

The following table sets forth our key properties:



<b>Country</b>	<b>Location</b>	<b>ID</b>	<b>Primary Function</b>	<b>Owned/ leased</b>	<b>Size (sqm)</b>
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	2,244
Romania	Bucharest	Panduri	Call Center, Administrative	leased	7,532
Romania	Timisoara		Administrative, Head End, NOC, TV Studios	owned	470
Romania	Craiova		Administrative, HeadEnd, 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
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, HeadEnd, 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
Romania	Timisoara		Administrative	owned	4,489
Romania	Arad		Administrative	leased	1,106
Romania	Bucharest		Administrative	owned	4,829
Hungary	Budapest		Administrative, Headquarter, Head End, NOC	leased	3,600
Hungary	Budapest		Administrative, Call Center	leased	1,064
Hungary	Budapest		Administrative, land for development	co-owned	4,207
Spain	Madrid		Administrative	leased	1,400
Spain	Madrid		Warehouse	leased	383
Italy	Milano		Administrative, Sales, Warehouse	leased	498

## EMPLOYEES

As at December 31, 2016, we had 13,400 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

<b>Country</b>	<b>As at December 31,</b>	
	<b>2015</b>	<b>2016</b>
Romania.....	11,017	11,708
Hungary.....	1,296	1,522
Czech Republic*.....	—	—
Spain.....	99	120
Italy.....	40	49
The Netherlands.....	1	1
<b>Total.....</b>	<b>12,453</b>	<b>13,400</b>

\* Disposed of in April 2015

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

<b>Department</b>	<b>As at December 31,</b>	
	<b>2015</b>	<b>2016</b>
Customer Service.....	1,985	2,395
Administrative, Purchasing, Logistics.....	1,520	1,686
Technical.....	5,293	6,242
Sales and marketing.....	2,301	1,836
TV.....	1,354	1,241
<b>Total.....</b>	<b>12,453</b>	<b>13,400</b>

Our employees are not members of any trade union. Where legally required, we enquire on a yearly basis of our employees about their interest to enter into a collective labor agreement; until now our employees have not expressed such interest.

## **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. 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 telecommunication base stations that we are complying with accepted electromagnetic radiation standards in our mobile telecommunication 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 with or liability from relevant environmental protection regulations.

## **LITIGATION AND LEGAL PROCEEDINGS**

Our operations and properties are subject to regulation and control by various independent regulators and government authorities that exercise considerable discretion, and we are involved in various litigation and administrative proceedings with such authorities in the countries where we operate. Certain cases relate to the interpretation and application of legal provisions, and in most of the cases in which we are involved, we are the plaintiff bringing claims against such regulators or government authorities. Similarly, we encounter disputes with our partners and/or competitors in the ordinary course of business that can ultimately lead to litigation. Due to the 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, in the 12 months preceding the date of this Prospectus, has 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 a significant effect on the Group's financial position and/or profitability.

### **Romanian Competition Council Investigations**

We conduct our business in compliance with competition law requirements. However, given that we operate in a highly antitrust-sensitive sector where in some cases we enjoy a leading market position, we are generally exposed to a high level of antitrust scrutiny. We have been involved in two investigations triggered by the Romanian Competition

Council (“RCC”), which were closed without any fine, though the results of these investigations are not final. In addition, we continue to be involved in pending sector inquiries conducted by the RCC and are subject to inquiries in relation to various investigations of the RCC. If we are at any time found to have committed breaches of 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 the cancellation of contracts or rights which contravene applicable legislation. In addition, if we fail to provide accurate and complete information to RCC within the terms indicated by it or imposed by applicable law, the RCC may apply fines of up to 1% of our total turnover in the year prior to the decision.

### **Telecommunications market interconnection investigation**

In February 2011, the RCC opened an investigation into the telecommunications market related to interconnection tariffs charged by all telecommunications operators. We believe this investigation was launched to reduce the relatively high interconnection tariffs charged on the Romanian market and thereby reduce the rates ultimately charged to consumers.

By decision no 33/2015 the RCC closed the investigation in exchange for all operators committing not to discriminate between the levels of the tariffs charged for on-net and off-net calls. We will need to implement this commitment for 2 years starting from its entry into force, i.e., November 2015. The duration of this commitment may be extended to 3 years in accordance with the RCC’s assessment of the market after the entry into force of the commitments. During the term of the commitments, RCS & RDS is required to provide business information to the RCC upon request and to commission periodic independent market studies on the evolution of the mobile telecommunication sector.

The RCC’s decision to accept our commitment has closed the investigation without the application of any fines for the alleged anticompetitive conduct. The offering of commitments does not imply any admission of wrongdoing. A failure to comply with the terms and conditions of the commitment as accepted by the RCC may lead to penalties of up to 10% of our aggregate turnover in the year prior to the underlying decision.

### **GSP investigation**

In May 2011, a leading media group in Romania, Antena Group, which is part of Intact Media Group and our former commercial partner, filed a complaint with the RCC alleging our refusal to retransmit one of its channels, GSP TV. In August 2011, the RCC opened an investigation against us in relation to this matter. We have fully cooperated during this investigation, and consider Antena Group’ allegations to be aggressive and groundless.

The RCC issued its decision on March 3, 2015, declaring that our initial refusal to retransmit GSP TV constituted neither an abuse of our market, nor a violation of competition law. The RCC additionally acknowledged that our 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.

The RCC also issued a formal recommendation to us to produce general terms to be complied with by third party broadcasters wishing to retransmit their content via our network. Our relations with “must carry” and pay TV channels are expressly excluded from the scope of that recommendation.

The RCC’s decision is not final and is subject to judicial review. Antena Group has challenged that decision and the trial is pending. See “—*Litigation regarding the outcome of the GSP investigation.*”

### **Sector inquiry on the market of electronic communications**

In April 2013, the RCC opened a sector inquiry regarding multiple-play services and access to electronic communications infrastructure in Bucharest and the rest of Romania, in order to evaluate the market behaviour of the companies active in this sector.

The conclusions arising from its analysis on the electronic communications infrastructure in Bucharest, which were published in March 2016, included recommendations by the RCC for increased oversight by ANCOM of the communication infrastructure operators (such as ourselves) and the monitoring of their non-discrimination obligations towards communications operators with whom they have entered into agreements to provide communication infrastructure services.

The sector inquiry regarding the packages of electronic communications services is still pending. The RCC is currently considering defining relevant multiple-play markets (as opposed to the individual services market). There is no further information available in connection with the scope or the outcome of the inquiry and it will not become available until the inquiry is formally finalised.

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 RCC cannot apply fines as a result of sector inquiry proceedings for anticompetitive conduct, but may decide to open new infringement investigations

targeted at particular companies found to have committed antitrust infringements, which may ultimately result in the imposition of fines. Additionally, the results of an inquiry could lead to lawsuits being brought by third parties or, to the extent we fail to provide accurate and complete information to RCC within the terms indicated by it or imposed by applicable law in the context of such inquiries, RCC may fine us for up to 1% of our total turnover in the year prior to the decision.

### **Intact Media Group Litigation**

Certain Group entities are parties to a number of proceedings against various subsidiaries of Intact Media Group, particularly Antena Group.

#### ***(a) Proceedings initiated by Intact Media Group entities***

##### *1. "Must carry" regulations violation litigation*

###### 2011 proceedings

In March 2011, Antena Group initiated three separate proceedings against us alleging that we had refused to retransmit certain of its channels in violation of Romanian "must carry" regulations. Antena Group is seeking damages in the total aggregate amount of approximately €100 million, as well as other non-monetary relief, such as an order obliging us to provide its channels to our subscribers free of charge and in compliance with the highest technical standards.

In the first proceedings, Antena Group is claiming that under the Romanian "must carry" regulations, we are obliged to provide its Antena 1 channel free of charge to our subscribers in a package that only contains "must carry" channels. We believe that this claim misinterprets applicable law and is inconsistent with established market practice. Furthermore, Antena Group is seeking damages in the amount of approximately €65.0 million for our alleged breach of the applicable "must carry" regulations. This proceeding has been suspended pending resolution of a parallel claim that we brought in 2012 against Antena Group and First Quality Debt Recovery seeking to invalidate the former's assignment of its claims in this dispute to the latter (the "**Fraudulent Assignment Counterclaim**"). On April 15, 2015, the first instance court declared the assignment to be fraudulent, which decision is currently being appealed by Antena Group. The next hearing on the appeal is scheduled for April 11, 2017.

In the second and third proceedings, Antena Group is claiming total aggregate damages of approximately €35 million, allegedly resulting from our temporary refusal to retransmit their GSP TV and Antena 2 channels in an alleged breach of applicable Romanian antitrust and "must carry" regulations. Both proceedings have been suspended pending resolution of the Fraudulent Assignment Counterclaim.

###### 2014 proceedings

At the end of 2014, Antena Group initiated two new proceedings, claiming damages allegedly resulting from our temporary refusal to retransmit their GSP TV and Antena 2 channels. Their claims are almost identical to the claims regarding these channels that they brought against us in 2011, save for much lower damages sought (RON500,000 in relation to GSP TV and RON250,000 in relation to Antena 2). Both proceedings have been suspended pending resolution of the Fraudulent Assignment Counterclaim.

In both the 2011 and 2014 proceedings, Antena Group never provided any evidence for the determination of their damages. However, should their claims prove to be successful, we could be found liable for material amounts. Moreover, an obligation could be imposed on us to change our business model of providing "must carry" channels to our customers, as we would be forced to provide separate packages free of charge containing only the "must carry" channels. However, these proceedings are only relevant for our cable TV services and would not affect our DTH services, which are expressly exempt from the "must carry" regulation in Romania.

##### *Copyright infringement litigation*

In June 2014, Antena Group initiated proceedings against us claiming infringements of certain copyrights in relation to its TV channels and seeking damages of approximately €40 million. Antena Group is claiming that from June 2011 to June 2014 we retransmitted certain of its copyrighted TV programs without its consent. We believe that such retransmission complied with all applicable laws and was performed on the basis of either a legal obligation or valid contractual arrangements and thus requested the first instance court to dismiss Antena Group's claim. The next hearing of this case by the Bucharest Tribunal is scheduled for May 11, 2017.

##### *Abuse of dominant position litigation*

In July 2014, Antena Group and Antena 3 initiated proceedings against us alleging that we had abused our dominant position by refusing to enter into negotiations of an arrangement for retransmission of Antena Group's TV channels for a fee, should it eventually choose to waive the "must carry" regime, which it claims they are currently benefiting from. In addition, Antena Group claimed that any such arrangement should be on terms not worse than the terms of

the arrangement between us and Pro TV S.A. (“**Pro TV**”) for retransmitting their TV channels. We believe that Antena Group’s claims are meritless. These proceedings are currently suspended pending resolution of other disputes between us and Antena Group.

#### *Litigation regarding the outcome of the GSP investigation*

On March 3, 2015, the RCC dismissed Antena Group’s complaint regarding our alleged abuse of dominant position in relation to the retransmission of its GSP TV channel. See “—Romanian Competition Council Investigations—GSP investigation.”

On April 10, 2015, Antena Group appealed the RCC’s decision in court alleging that, contrary to the RCC’s findings, we in fact abused our dominant position. Antena Group requested the court to ascertain that we have abused our dominant position and to order that the RCC re-open its investigation of the matter and issue another decision addressing all of Antena Group’s arguments. On October 3, 2016 the Bucharest Court of Appeal upheld the RCC’s decision and dismissed Antena Group’s claims. This decision may be appealed to the Romanian Supreme Court within 15 days from the date the full text is delivered by the court.

If Antena Group were to appeal the decision issued by the Bucharest Court of Appeal successfully, we would not expect there to be any direct adverse financial consequences for us. However, the risks addressed in the section entitled “—Romanian Competition Council Investigations” could materialize.

#### **(b) Proceedings we initiated against Intact Media Group entities**

##### *Compensation of damage to reputation*

In November 2012, we initiated proceedings against Antena Group and other Intact Media Group entities for compensation in respect of the damage to our business reputation inflicted by a media campaign conducted via media assets of Intact Media Group that we consider defamatory. We requested: (i) a declaration that the adversary media campaign was being conducted in abuse of Intact Media Group’s rights; (ii) an order obliging Intact Media Group to publish such declaration via its TV and newspaper network; and (iii) monetary compensation in the aggregate amount of approximately €1.2 million for damage to our business reputation.

On March 7, 2016, the Bucharest Court of Appeal ruled in our favor on most counts and required Antena Group to pay us €780,000 in moral damages. Antena Group filed a higher appeal to the Romanian Supreme Court against the decision of the appeal court. On November 24, 2016 the Romanian Supreme Court admitted the higher appeal and sent the case for retrial to the Bucharest Court of Appeal. The retrial has not been scheduled yet.

##### *Violation of certain contracts*

In 2011 and 2012, we initiated two proceedings against Antena Group claiming approximately €2.6 million in damages resulting from their breaches of certain contractual arrangements. In 2012, Antena Group responded with counterclaims in both proceedings in the total aggregate amount of approximately €3.3 million.

In the first proceedings we sought a refund of certain retransmission fees we had paid to Antena Group until 2010 in relation to two of its channels (Antena 3 and Antena 4). In turn, Antena Group sought further retransmission fees from us for 2010 and 2011. On November 2, 2015, the first instance court dismissed our claim and granted Antena Group’s counterclaim in part, ordering us to pay approximately €1.9 million to Antena Group in retransmission fees and legal expenses. Both parties have appealed that decision. On March 16, 2017 the Bucharest Court of Appeal partially admitted both appeals and consequently awarded approx. €315,000 to us and approx. €900,000 to Antena Group. We have already filed a higher appeal against this decision, the first hearing before the Romanian Supreme Court being scheduled for May 17, 2017. We are currently unaware if Antena Group has also submitted a higher appeal.

In the second proceedings the court of the first instance fully dismissed both our claim and Antena Group’s counterclaim. Both parties are currently appealing the court’s decisions. The next hearing in the court of appeal is scheduled for April 24, 2017.

#### **Litigation related to a decision of ANCOM**

In 2015, ANCOM directed that we enter into negotiations with Telekom Romania for an interconnection agreement on certain terms set by ANCOM. We challenged that decision in all levels of the Romanian court system, but the decision was finally upheld by the Romanian Supreme Court on July 9, 2015. Although we continued to negotiate with Telekom Romania while our appeals were pending, no agreement has been reached and Telekom Romania has not re-initiated the negotiations following the issuance of the Romanian Supreme Court decision. Therefore, there is a risk that ANCOM could find us in breach of its original direction, which could result in a fine of up to 5% of our annual turnover in the year prior to that decision.

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

A complaint that we filed with the Anti-Corruption Directorate in 2013 alleging that a criminal offense had been perpetrated against one of our directors prompted the Anti-Corruption Directorate to look into a 2009 joint venture agreement between us and Bodu with respect to a large events hall in Bucharest and question whether the agreement complied with Romanian anti-corruption laws. Bodu is controlled by Mr. Dumitru Dragomir, the former President of the LPF, the entity that organizes and runs the Liga 1 Orange competition. We have fully cooperated with all requests by the Anti-Corruption Directorate in relation to the ongoing investigation. In 2016 we acquired the events hall and we use it for our corporate purposes, for providing services to our employees and we also lease it to third parties.

Separately, the Anti-Corruption Directorate has investigated certain commission payments that the LPF allegedly made at the direction of Mr. Dumitru Dragomir to an intermediary using the funds it had previously received from us in exchange for the exclusive right to broadcast the matches of Liga 1 Orange. The investigation has resulted in the prosecution of Mr. Dumitru Dragomir for illegal use of funds, money laundering and tax fraud. In June 2016, the Bucharest Tribunal imposed a seven-year prison sentence (subject to appeal) on Mr. Dragomir. Our broadcasting contract with the LPF is not being investigated. Furthermore, we do not, and have never in the past, had any commercial relationship with the intermediary that is claimed to have been involved in the alleged money laundering scheme. No accusations have been advanced against us by the Anti-Corruption Directorate in relation to the above matter. However, if we are alleged or found to have violated applicable anti-corruption laws in this or any other matter, any such allegations or violation may have a material adverse effect on our reputation and business. See *“Risk Factors—Failure to comply with anti-corruption laws, or allegations thereof, could have a material adverse effect on our reputation and business.”*

### **Litigation with Electrica Distribuție Transilvania Nord in relation to a concession agreement between RCS & RDS and the Oradea municipality**

In 2015, Electrica Distribuție Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged in a court the concession agreement we entered into with the local municipality of Oradea regarding the use of an area of land for the development of an underground cable trough, arguing that the tender whereby we obtained the concession agreement was carried out irregularly. Furthermore, Electrica Distribuție Transilvania Nord S.A. claims that the cable trough is intended to include electricity distribution wires that would breach its alleged exclusive right to distribute electricity in that area.

Based on our request, the trial was suspended pending final settlement of (i) our challenge regarding the failure by the claimant to pay required stamp duties and (ii) a separate lawsuit in which two Group companies are challenging the validity of the alleged exclusivity rights of incumbent electricity distributors. Should the final court decision be unfavorable to us, it may result in a partial loss of our investment in the underground cable trough. See *“Risk Factors—We are subject to litigation with the Antena Group, Electrica Distribuție Transilvania Nord S.A. and other parties; unfavorable court decisions may have a material adverse effect on our financial condition.”*

#### 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, 2015 and 2016. The financial information as at and for the years ended December 31, 2015 and 2016 has been extracted or derived from the Annual Financial Statements. The Financial Statements are included elsewhere in this Report. The information below should be read in conjunction with the Financial Statements and accompanying notes included elsewhere in the Report and the discussion in the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

##### CONSOLIDATED PROFIT OR LOSS DATA

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(€ millions)	
<b>Consolidated profit or loss</b>		
<b>Revenue</b>		
Romania .....	541.8	615.4
Hungary .....	125.9	137.9
Spain .....	73.8	84.7
Other .....	11.4 <sup>(1)</sup>	9.6
Eliminations of intersegment revenues	(2.7)	(4.8)
<b>Total revenues</b> .....	<b>750.1</b>	<b>842.8</b>
Gain/(loss) on sale of discontinued operations .....	20.9 <sup>(2)</sup>	(0.7) <sup>(4)</sup>
<b>Total revenues, other income and gain/(loss) on sale of discontinued operations</b> .....	<b>771.0</b>	<b>842.1</b>
<b>Operating expenses</b>		
Romania .....	(362.2) <sup>(5)</sup>	(413.1)
Hungary .....	(76.5)	(86.5)
Spain .....	(62.8)	(70.7)
Other .....	(13.0) <sup>(3)</sup>	(13.9) <sup>(7)</sup>
Eliminations of intersegment expenses	2.7	4.8
Depreciation, amortization and impairment of tangible and intangible assets .....	(187.9)	(176.4) <sup>(8)</sup>
<b>Total operating expenses</b> .....	<b>(699.7)</b>	<b>(755.8)</b>
Other expenses	(1.0) <sup>(5)</sup>	(7.0) <sup>(5)</sup>
<b>Operating profit</b> .....	<b>70.3</b>	<b>79.3</b>
Finance income .....	9.9	45.3 <sup>(6)</sup>
Finance expense .....	(70.8)	(101.5)
<b>Net finance costs</b> .....	<b>(60.9)</b>	<b>(56.2)</b>
<b>Profit (Loss) before taxation</b> .....	<b>9.5</b>	<b>23.1</b>
Income tax (expense)/benefit .....	(5.4)	(11.3)
<b>Net profit/(loss)</b> .....	<b>4.0</b>	<b>11.8</b>

(1) Includes revenue from our operations in Italy and the Czech Republic.

(2) Represents gains/(losses) from sale of operations in Slovakia and the Czech Republic.

(3) Includes operating expenses for our operations in Italy and the Czech Republic and certain minor operating expenses of the Company.

(4) Represents an additional provision for expenses regarding the sale transaction of the Czech subsidiary.

(5) As of December 31, 2016, we present unrealised mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015, was restated accordingly. Prior to the restatement, as of December 31, 2015, the unrealised mark-to-market loss of € 1.0 million was included in Operating expenses.

(6) As of December 31, 2016 available for sales instruments were derecognised and the fair value gain was reclassified from equity to Profit or loss statement, included in Finance income..

(7) Includes operating expenses for our operations in Italy and certain minor operating expenses of the Company.

(8) Includes revaluation deficit in amount of € 3.9 million from revaluation of land and buildings as at December 31, 2016.

## CONSOLIDATED FINANCIAL POSITION

	For the year ended December 31,	
	2015	2016
	(€ millions)	
<b>Consolidated financial position</b>		
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment.....	674.7	826.0
Intangible assets.....	205.1	206.8
Available for sale financial assets.....	43.4	-
Investments in associates.....	1.0	1.0
Long term receivables .....	5.9	3.9
Deferred tax assets.....	4.0	3.1
<b>Total non-current assets</b>	<b>934.0</b>	<b>1,040.8</b>
<b>Current assets</b>		
Inventories .....	13.2	18.6
Program assets .....	29.5	30.3
Trade and other receivables .....	82.5	109.0
Income tax receivables .....	0.2	2.8
Other assets.....	8.2	6.3
Derivative financial assets .....	9.9	17.0
Cash and cash equivalents .....	49.7	14.6
<b>Total current assets</b>	<b>193.3</b>	<b>198.6</b>
<b>Total assets</b>	<b>1,127.3</b>	<b>1,239.5</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital .....	0.1	0.1
Share premium.....	8.2	8.2
Treasury shares .....	(16.7)	(16.7)
Reserves.....	31.6	9.1
Retained earnings .....	77.5	40.5
<b>Total equity attributable to equity holders of the parent</b>	<b>100.7</b>	<b>41.2</b>
Non-controlling interest.....	2.2	1.4
<b>Total equity</b>	<b>102.8</b>	<b>42.6</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	624.9	665.5
Deferred tax liabilities .....	27.0	34.8
Other long term liabilities.....	7.6	46.1
<b>Total non-current liabilities</b>	<b>659.5</b>	<b>746.4</b>
<b>Current liabilities</b>		
Trade and other payables .....	271.1	374.0
Interest-bearing loans and borrowings	63.1	44.0
Income tax payable.....	1.7	1.4
Derivative financial liabilities .....	8.3	16.4
Deferred revenue .....	20.8	14.7
<b>Total current liabilities</b>	<b>365.1</b>	<b>450.4</b>
<b>Total liabilities</b>	<b>1,024.5</b>	<b>1,196.9</b>
<b>Total equity and liabilities</b>	<b>1,127.3</b>	<b>1,239.5</b>



## CONSOLIDATED CASH FLOW STATEMENT

	For the year ended December 31,	
	2015	2016
	(€ millions)	
<b>Cash flow data</b>		
<b>Cash flows from operations before working capital changes</b> .....	<b>237.2</b>	<b>266.6</b>
Cash flows from changes in working capital <sup>(1)</sup> .....	4.2	(11.3)
<b>Cash flows from operations</b> .....	<b>241.5</b>	<b>255.3</b>
Interest paid .....	(44.2)	(44.0)
Income tax paid .....	(5.1)	(7.8)
<b>Net cash flows from operating activities</b>	<b>192.2</b>	<b>203.5</b>
<b>Net cash flow used in investing activities</b>	<b>(171.6)</b>	<b>(216.0)</b>
<b>Net cash flows used in financing activities</b> .....	<b>(25.7)</b>	<b>(21.8)</b>
Net increase (decrease) in cash and cash equivalents .....	(5.1)	(34.2)
Cash and cash equivalents at the beginning of the period .....	54.3	(49.7)
Effect of exchange rate fluctuation on cash and cash equivalent held .....	0.5	(0.8)
<b>Cash and cash equivalents at the closing of the period</b> .....	<b>49.7</b>	<b>14.6</b>

- (1) Cash flows from changes in working capital includes the sum of the (Increase)/decrease in trade receivables and other assets, (Increase)/decrease in inventories, Increase/(decrease) in trade payables and other current liabilities, Increase/(decrease) in deferred revenue.

## EBITDA, ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

	For the year ended December 31,	
	2015	2016
	(€ millions, unless otherwise stated)	
<b>EBITDA<sup>(1)</sup> data</b>		
<b>Revenue<sup>(2)</sup></b> .....	<b>750.1</b>	<b>842.8</b>
Operating profit .....	70.3	79.3
Depreciation, amortization and impairment	187.9	176.4 <sup>(9)</sup>
<b>EBITDA</b> .....	<b>258.2</b>	<b>255.6</b>
(Gain)/loss from sale of discontinued operations .....	(20.9) <sup>(4)</sup>	0.7
Other expense <sup>(3)</sup> .....	1.0	7.0
<b>Adjusted EBITDA<sup>(5)</sup></b> .....	<b>238.4</b>	<b>263.3</b>
<b>Adjusted EBITDA Margin (%)<sup>(6)</sup></b> .....	<b>31.8%</b>	<b>31.2%</b>
Adjusted EBITDA of discontinued operations .....	0.9 <sup>(7)</sup>	-
Adjusted EBITDA of continuing operations <sup>(8)</sup> .....	237.5	263.3
<b>Adjusted EBITDA Margin for continuing operations (%)</b> .....	<b>31.8%</b>	<b>31.2%</b>

- (1) EBITDA is consolidated operating profit or loss plus charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark-to-market results (unrealised) from fair value assessment of energy supply contracts. 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.
- (2) Excludes intersegment revenue.
- (3) Represents mark-to-market loss from fair value assessment of energy supply contracts, which we exclude in our calculations of Adjusted EBITDA starting from June 30, 2016. Comparative information for prior periods has been restated accordingly.
- (4) Represents gains from sale of operations in Slovakia and the Czech Republic.
- (5) Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark-to-market results (unrealised) from the fair value assessment of energy supply contracts.

- (6) Adjusted EBITDA Margin is the ratio of Adjusted EBITDA to our total revenue.  
(7) Represents Adjusted EBITDA from operations in the Czech Republic.  
(8) Represents Adjusted EBITDA from operations in Romania, Hungary, Spain and Italy.  
(9) Includes revaluation deficit in amount of € 6.3 million from revaluation of land and buildings and CPE as at December 31, 2016.

### Selected financial data and ratios

	As at and for the year ended December, 31	
	2015	2016
<b>Selected financial data and ratios</b>		
<b>Total debt</b> <sup>(1)</sup> .....	<b>703.9</b>	<b>772.0</b>
Cash and cash equivalents .....	49.7	14.6
<b>Total net debt</b> .....	<b>654.2</b>	<b>757.4</b>
Leverage ratio <sup>(2)</sup> .....	2.7x	2.9x
Net interest expense <sup>(3)</sup> .....	49.3	45.1
Interest coverage ratio <sup>(4)</sup> .....	4.8x	5.8x

- (1) Total debt is interest bearing loans and borrowings (non-current), interest bearing loans and borrowings (current), derivative financial liabilities and other long term liabilities.  
(2) Represents the ratio between total net debt and Adjusted EBITDA over a given period.  
(3) Represents interest expense as extracted from our consolidated cash flow statement, less interest from banks related to cash and cash equivalents held.  
(4) Represents the ratio between Adjusted EBITDA and net interest expense over a given period.

### REVENUE BY BUSINESS LINE AND GEOGRAPHIC SEGMENT

	For the year ended December 31,		% change year on year
	2015 <sup>(1)</sup>	2016	2015 v 2016
(€ millions, unless otherwise stated)			
<b>Revenue by business line (excluding intersegment revenues)</b>			
<b>Romania</b>			
Cable TV.....	166.8	175.7	5.3%
Fixed internet and data.....	155.9	163.6	4.9%
Mobile telecommunication services <sup>(1)(2)</sup>	84.2	122.0	44.9%
Fixed-line telephony <sup>(1)</sup> .....	25.8	25.1	(2.7)%
DTH.....	40.2	38.7	(3.7)%
Other revenue <sup>(3)</sup> .....	67.2	87.6	30.4%
<b>Hungary</b>			
Cable TV.....	36.6	41.0	12.0%
Fixed internet and data.....	33.4	38.0	13.8%
Mobile telecommunication services <sup>(4)</sup> ..	1.4	1.2	(14.3)%
Fixed-line telephony .....	6.9	6.8	(1.4)%
DTH.....	30.5	31.4	3.0%
Other revenue <sup>(3)</sup> .....	17.1	19.5	14.0%
<b>Spain</b>			
Mobile telecommunication services <sup>(2)</sup> ..	72.2	82.7	14.5%
Other revenue <sup>(3)</sup> .....	0.4	0.3	(25.0)%
<b>Other<sup>(5)</sup></b>			
Mobile telecommunication services <sup>(2)</sup> ..	7.4	9.0	21.6%
Other revenue <sup>(3)</sup> .....	0.2	0.2	0.0%
<b>Discontinued operations</b>			
DTH.....	3.8 <sup>(6)</sup>	—	—
<b>Total revenue</b> .....	<b>750.1</b>	<b>842.8</b>	<b>12.4%</b>
Total other income (including gains from sale of discontinued operations).....	20.9	(0.7)	(103.3)%
<b>Total revenue and other income</b> .....	<b>771.0</b>	<b>842.1</b>	<b>9.2%</b>

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(€ millions)	
<b>Revenue by geographic segment</b> (excluding intersegment revenue)		
<b>Continuing operations</b>		
Romania.....	540.1	612.7
Hungary.....	125.9	137.9
Spain.....	72.7	83.0
Other <sup>(5)</sup> .....	7.5	9.2
<b>Total revenue from continuing operations.....</b>	<b>746.3</b>	<b>842.8</b>
<i>Discontinued operations.....</i>	<i>3.8<sup>(6)</sup></i>	<i>-</i>
<b>Total.....</b>	<b>750.1</b>	<b>842.8</b>

- (1) As at June 30, 2016, we reallocated certain service revenue between business lines in order to properly reflect their nature. Comparative information for year ended December 31, 2015, has been restated accordingly for presentation herein.
- (2) As at June 30, 2016, we aggregated certain revenue to report it as part of our mobile telecommunication services business line. For the year ended December 31, 2015, that revenue includes mobile internet and data revenue reported under the caption "Internet and Data Revenue" and mobile telephony revenue reported under caption "Telephony Revenue" in Note 16 of the Annual Financial Statements for the years ended December 31, 2015. The remaining revenue that is reported under those captions in the Annual Financial Statements is presented in this Report as fixed internet and data and fixed telephony revenue. Comparative information for prior periods has been restated accordingly for presentation herein.
- (3) Includes sales of CPE (primarily mobile handsets and satellite signal receivers and decoders), services of filming sports events, advertising revenue from own TV and radio channels and sundry penalties invoiced to subscribers.
- (4) Includes mobile internet and data revenue.
- (5) Includes revenue from operations in Italy.
- (6) Includes revenue from operations in the Czech Republic.

#### Other operating data

	<b>As at December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(thousands)	
<b>Other operating data</b>		
<b>RGUs<sup>(1)</sup> per business line</b>		
Cable TV.....	3,170	3,338
Fixed internet and data.....	2,358	2,543
Mobile telecommunication services <sup>(2)</sup> .....	3,342	3,922
Fixed-line telephony.....	1,741	1,692
DTH.....	992	948
<b>Total.....</b>	<b>11,603</b>	<b>12,443</b>

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(€/period)	
<b>ARPU<sup>(3)</sup> per business line</b>		
<b>Cable TV.....</b>	<b>5.50</b>	<b>5.56</b>
<b>Fixed internet and data</b>		
Residential.....	5.56	5.51
Business.....	39.13	35.76
<b>Mobile telecommunication services<sup>(2)</sup>.....</b>	<b>4.62</b>	<b>4.93</b>
<b>Fixed-line telephony<sup>(4)</sup></b>		
Residential.....	1.40	1.37
Business.....	3.62	3.72
DTH.....	5.86	5.99

- (1) RGUs, or revenue generating units, represent the number of customer accounts at period end. A single customer can account for several RGUs.
- (2) As at June 30, 2016, we aggregated RGUs from our previously reported mobile telephony and mobile internet and data business lines and currently report them as part of our mobile telecommunication services business line. Comparative RGU information for prior periods has been restated accordingly.
- (3) ARPU is average revenue per RGU in each business line or geographic segment for a period. We calculate it by dividing the total

revenue of such business line or geographic segment for such period, (a) if such period is a calendar month, by the total number of relevant RGUs invoiced for services in that calendar month; or (b) if such period is longer than a calendar month, by (i) the average number of relevant RGUs invoiced for services in that period and (ii) the number of calendar months in that period.

	<b>As at and for the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(RGUs: thousands; ARPU: €/period)</b>	
<b>RGUs/ARPU</b>		
<b>Group</b>		
RGUs <sup>(2)</sup> .....	11,603	12,443
ARPU <sup>(1)</sup> .....	4.98	5.10
<b>Continuing operations</b>		
<b>Romania</b>		
<i>Cable TV</i>		
RGUs .....	2,733	2,865
ARPU .....	5.22	5.25
<i>Fixed internet and data</i>		
RGUs		
Residential .....	1,873	2,000
Business .....	103	115
ARPU		
Residential .....	5.13	5.04
Business .....	39.13	35.76
<i>Mobile telecommunication services<sup>(1)(2)</sup></i>		
RGUs .....	2,698	3,213
ARPU .....	2.96	3.44
<i>Fixed-line telephony<sup>(1)</sup></i>		
RGUs		
Residential .....	1,287	1,210
Business .....	127	129
ARPU		
Residential .....	1.29	1.30
Business .....	3.62	3.72
<i>DTH</i>		
RGUs .....	674	641
ARPU .....	4.84	4.90
<b>Hungary</b>		
<i>Cable TV</i>		
RGUs .....	437	473
ARPU .....	7.23	7.45
<i>Fixed internet and data</i>		
RGUs .....	382	428
ARPU .....	7.67	7.77
<i>Mobile telecommunication services<sup>(3)</sup></i>		
RGUs .....	16	14
ARPU .....	6.62	6.83
<i>Fixed-line telephony</i>		
RGUs .....	327	353
ARPU .....	1.85	1.67
<i>DTH</i>		
RGUs .....	318	307
ARPU .....	7.75	8.22
<b>Spain</b>		
<i>Mobile telecommunication services<sup>(2)(3)</sup></i>		
RGUs .....	569	609
ARPU .....	11.20	11.58
<b>Other<sup>(5)</sup></b>		
<i>Mobile telecommunication services<sup>(2)(4)</sup></i>		
RGUs .....	59	86
ARPU .....	11.27	10.88

**Discontinued operations**

**Czech Republic**

**DTH**

RGUs .....	—	—
ARPU .....	7.88	—

- 
- (1) As at June 30, 2016, we reallocated certain service revenue between business lines in order to properly reflect their nature. Comparative ARPU information for year ended December 31, 2015 has been restated accordingly.
  - (2) As at June 30, 2016, we aggregated RGUs from our previously reported mobile telephony and mobile internet and data business lines and currently report them as part of our mobile telecommunication services business line. Comparative RGU and ARPU information for prior periods has been restated accordingly.
  - (3) Includes mobile internet and data services offered as a reseller through the Telenor network under our “Digi” brand.
  - (4) As an MVNO.
  - (5) Includes Italy.

## 5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of the financial condition and results of operations of the Group should be read in conjunction with the information in the sections captioned "Important Information – Presentation of Financial and Other Information" and "Selected Financial and Other Information" of this Report. The following discussion should also be read in conjunction with the Financial Statements together with the related notes included elsewhere in this 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 in sections captioned "Forward-Looking Statements" and "Risk Factors" of this Report.*

### OVERVIEW

We are a leading provider of telecommunication services in Romania and Hungary. Our offerings in both countries include cable and DTH television services, fixed internet and data and fixed-line telephony. Our fixed telecommunication and entertainment services are offered through our technologically advanced fiber optic network, covering approximately 62% and 24% of households in Romania and Hungary, respectively, and both countries are entirely within the footprint of our DTH signal. Our cable and DTH television subscribers enjoy access to custom-made channels and pay-to-view services, which carry premium movies and sports content, as well as various third-party products. We also operate the fastest growing, in terms of RGUs, and one of the most technologically advanced mobile networks in Romania, which shares the backbone of our fixed fiber optic infrastructure. In addition, we provide mobile telecommunication services as an MVNO to the large Romanian communities in Spain and Italy.

Although in the past we had operations in other Eastern European countries, all such operations were successfully disposed of in 2013 and 2015 and, apart from our targeted MVNO operations in Spain and Italy, we currently focus exclusively on our core markets. As a result, the combination of our fixed-line, satellite and mobile capabilities in Romania and Hungary and our deep local expertise makes us a European leader in geographically focused telecommunication solutions.

For the years ended December 31, 2015 and 2016 we had total revenue (excluding intersegment revenue, other income and gain from sale of discontinued operations) of €750.1 million and €842.8 million, respectively. Adjusted EBITDA of €238.4 million and €263.3 million, respectively; and net profit of €4.0 million and net profit of €11.8 million, respectively.

### RECENT DEVELOPMENTS

In February 2017, the general meeting of shareholders of the Company has unanimously resolved the following:

- to change the name of the Company from Cable Communications Systems N.V. to DIGI Communications N.V.;
- to amend the articles of association pursuant to which, inter alia, two classes of shares will be created being: class A shares with a nominal value of ten eurocent (EUR 0.10) each and in respect of which for each share A ten (10) votes may be cast and class B shares with a nominal value of one eurocent (EUR 0,01) each and in respect of which for each share B one (1) vote may be cast;
- a conversion and split of each currently issued ordinary share in the Company with a nominal value of EUR 1 into ten (10) class A shares with a nominal value of EUR 0.10 each;
- the cancellation of shares held by the Company in its own share capital; and
- the increase of the share capital by issuing up to 100 million class A shares pro-rata to the shareholdings, subject to availability of reserves.

The above-mentioned resolutions and the changes approved therein are set to take effect only following the lapse of a two-month mandatory wait period, occurred on 11 April 2017.

In February 2017 RCS&RDS has contracted a short-term loan from ING Bank NV-Bucharest branch for financing working capital needs in amount of RON 7 million.

In February 2017 the Company converted dividend payables to 2 minority shareholders into short term loans in amount of EUR 8.1 million, with maturity until 30 June 2017 and interest expense of 5% p.a. (secured on pari passu basis, same as the terms of the Intercreditor Agreement).

In March 2017 a share swap agreement was concluded between Mr Teszari and the Company through which Mr Teszari exchanges a number of 7,500,000 shares of RCS&RDS for 1,042 shares of the Company.

In March 2017 share swaps agreements were concluded between the Company and several minority shareholders of RCSM, through which the minority shareholders exchange 16,582 shares of RCSM for 17,367,832 shares in RCS&RDS, which became effective in April 2017 after the lapse of a two-month mandatory wait period.

On 7 April 2017, the General Meeting of the shareholders of DIGI decided the following:

- revocation of the resolution of the general meeting of shareholders of DIGI from February 2017 to cancel the shares held by the Company in its own share capital;
- approval of several operations with shares held by DIGI in its own share capital between DIGI and RCSM, as part of the pre-IPO restructuring process;
- the authorization for the Board of DIGI to issue a number of 99,494,060 class A shares at a total nominal value of EUR 9,949,406 through incorporation of share premium and reserves (bonus issuance, based on the shareholders resolutions from February 2017);
- resolutions on the intention to float class B shares on the regulated spot market of the Bucharest Stock Exchange, International Tier, and related offering and admission.

Due to unusual volatility in the price of electricity in Romania during December 2016 through February 2017, the cost of electricity we acquire from third parties increased in the fourth quarter of 2016 and the first quarter of 2017 relative to the corresponding payments we receive from our electricity supply activities. As the payments we receive from our customers are based on a fixed amount, the increases in the price at which we purchased electricity had a negative effect on our EBITDA, resulting in a loss of €2.3 million in the fourth quarter of 2016. We currently estimate an EBITDA loss of approximately €7 million from our electricity supply activities during the first quarter of 2017. For 2016 we had gross revenue and associated costs of €76.1 million and €80.2 million, respectively, associated with our energy supply business; however, as required by IFRS in our case, the net results from our energy supply business is presented in our operating expenses. Though the cost of electricity has normalized, we are taking measures to help offset any volatility in the future, including decreasing the volume of electricity supplied to our business customers by roughly half, which are generally more variable and less predictable than the electricity requirements of our residential customers. The amount of electricity required by any customer per month will always vary, so we have also entered into forward contracts concluded on the centralised trading platforms with large, local electricity producers in an effort to more closely match electricity costs with payments from customers going forward, and aim to have the majority of our electricity acquired in this way. We expect to decrease materially the amount of electricity we supply, especially to larger business customers, when compared with 2016 levels by the second quarter of 2017 and management is targeting an ultimate reduction in supply to about 50,000 megawatt hours per month by the second half of 2017. See *“Risk Factors—The results of our energy supply business are dependent on the price at which we are able to acquire electricity from third parties. Volatility in the cost of electricity may negatively impact our financial condition and results of operations.”*

In connection with the IPO, the Company is proposing to become tax resident in Romania. This should not affect materially the corporate income tax incurred by the Company. Due to misalignment of Romanian and EU legislation, the Company's 350 million Euro 2023 Notes may be subject to Romanian withholding taxes on interest (approximately EUR 3.3 million per year which will be treated as interest expense). The Company believes that the imposition of any such withholding tax is incorrect. However, the Company expects as a prudential matter to pay to such withholding taxes. The Company intends to claim back any amounts so paid. The Company is prepared to litigate in pursuit of such reclaim. Any such litigation is likely to be relatively lengthy and complex.

In April 2017 we have drawn RON 15 million from SFA 2016 Facility B for general corporate and working capital purposes of the Group.

## **BASIS OF FINANCIAL PRESENTATION**

The Group prepared its Annual Financial Statements for the years ended December 31, 2015 and 2016 in accordance with IFRS as adopted by the EU. For the periods discussed in this Report, the Group's presentation currency was the euro. The Group's financial year ends on December 31 of each calendar year. See *“Presentation of Financial and Other Data.”*

### **Functional Currencies and Presentation Currency**

Each Group entity prepares individual financial statements in its functional currency, which is the currency of the primary economic environment in which such entity operates. As our operations in Romania and Hungary generated approximately 72.7% and 16.4%, respectively, of our consolidated revenue for the year ended December 31, 2016, our principal functional currencies are the Romanian leu and the Hungarian forint.

The Group presents its consolidated Financial Statements in euros. The Group uses the euro as the presentation

currency of its consolidated Financial Statements because management analysis and reporting is prepared in euros, as the euro is used as a reference currency in the telecommunication industry in the European Union.

### Presentation of Revenue and Operating Expenses

Our Board of Directors evaluates business and market opportunities and considers our results primarily on a country-by-country basis. We currently generate revenue and incur operating expenses in Romania, Hungary, Spain and Italy, and in the Netherlands we incur certain minor operating expenses of the Company. However, in the periods under review revenue was also generated, and operating expenses were also incurred, by our subsidiary in the Czech Republic, which was disposed of in 2015. Therefore we break down our total revenue and our total operating expenses for the relevant periods into revenue and operating expenses from continuing operations and revenue and operating expenses from discontinued operations. Revenue and operating expenses from continuing operations are further broken down into the following geographic segments: Romania, Hungary, Spain and Other.

The revenue for each of our geographic segments (excluding intersegment revenue, other income and gain from sale of discontinued operations) for the years ended December 31, 2015 and 2016 was as follows:

	<b>For the year ended December 31,</b>	
	<b>2015<sup>(1)</sup></b>	<b>2016</b>
	(€ millions)	
<b>Continuing operations</b>		
Romania.....	540.1	612.7
Hungary.....	125.9	137.9
Spain.....	72.7	83.0
Other <sup>(1)</sup> .....	7.5	9.2
<b>Total revenue from continuing operations.....</b>	<b>746.3</b>	<b>842.8</b>
<i>Discontinued operations</i> .....	3.8 <sup>(2)</sup>	-
<b>Total revenue.....</b>	<b>750.1</b>	<b>842.8</b>

(1) Includes revenue from operations in Italy.

(2) Includes revenue from operations in the Czech Republic.

The operating expenses for each of our geographic segments (excluding intersegment operating expenses, but including depreciation, amortization and impairment) for the years ended December 31, 2015 and 2016 were as follows:

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(€ millions)	
<b>Continuing operations</b>		
Romania.....	361.1 <sup>(3)</sup>	411.3
Hungary.....	76.5	86.5
Spain.....	61.8	68.8
Other <sup>(1)</sup> .....	9.4	12.9
Depreciation, amortization and impairment of tangible and intangible assets.....	187.8	176.4
<b>Total operating expenses of continuing operations.....</b>	<b>696.6</b>	<b>755.8</b>
<b>Discontinued operations</b>		
Operating expenses.....	3.0	-
Depreciation, amortization and impairment of tangible and intangible assets.....	0.1	-
<b>Total operating expenses of discontinued operations.....</b>	<b>3.1<sup>(2)</sup></b>	<b>-</b>
<b>Total operating expenses.....</b>	<b>699.7</b>	<b>755.8</b>

(1) Includes operating expenses of operations in Italy and certain minor operating expenses of the Company.

(2) Includes operating expenses of operations in the Czech Republic.

(3) As of December 31, 2016 we present unrealized mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealized mark-to-market loss of €1.0 million was included in Operating expenses.



In line with our management’s consideration of the Group’s revenue generation we further break down revenue generated by each of our four geographic segments in accordance with our five principal business lines: (1) cable TV; (2) fixed internet and data; (3) mobile telecommunication services; (4) fixed-line telephony; and (5) DTH.

### **Revenue and Expenses structure of our principal lines of business**

In general, for each of our five principal lines of business, we earn revenue from flat-rate subscription fees received from our customers and incur expenses that include licensing, programming and content fees, customer service, as well as network operation and maintenance. However, the structure of our revenue and expenses differs in each of our principal lines of business. See “*Business Description—Areas of operation.*”

#### ***Cable TV***

The revenue we receive for cable TV services in Romania and Hungary consists principally of flat-rate monthly subscription fees. The level of subscription fees depends on the programming package chosen by the particular customer.

The expenses we record for cable TV services consist principally of fees that we pay to providers of programming, license fees that we pay for content on our own television channels, and personnel expenses (consisting in large part of the salaries we pay to personnel that operate and maintain our network, personnel used to operate our own channels and our sales personnel). We also incur expenses for copyright payments to the national bodies representing collective artists’ rights under relevant local laws, 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, collection and other miscellaneous expenses. We capitalize the expenses related to installing and upgrading our fixed fiber optic network (except for maintenance and repairs). We capitalize the expenses related to acquiring third-party programming for our own channels and amortize those assets over the period they relate to on a straight line basis. Such third-party programming expenses are accounted for as a capital expenditure because the underlying rights are generally either exclusive or shared with one other party and we acquire them to attract and retain customers. We expense the cost of acquiring third-party channels and other content not used in the production of our own channels. Third-party 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 for third-party channels link programming fees paid to content owners to the number of our subscribers in the relevant territory.

#### ***Fixed internet and data***

The revenue we receive for fixed internet and data services consists principally of flat-rate monthly subscription fees. We service both residential and business customers. The market for business customers is more competitive, and, as a result, ARPU for our business customers can vary significantly over time.

The expenses recorded for fixed internet and data services consist principally of personnel expenses and related expenses of our service and maintenance staff, as well as interconnection and transmission fees. We also incur expenses for maintenance and repair of the network and rights of way for the network, energy expenses related to the operation of the network and collection expenses. Our treatment of expenses related to installing and upgrading our fixed fiber optic network is the same across all business lines offering services via such network. See “—*Cable TV.*”

#### ***Mobile telecommunication services***

The revenue that we receive for mobile telephony services in Romania consists of flat-rate monthly subscription fees, per-minute telephone charges and, to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers, as well as charges for text and video messages to, or from, third party numbers. We do not charge for calls or messages to, or from, other customers within our own fixed-line and mobile telephony networks in Romania.

The revenue that we receive for mobile internet and data services in Romania consists principally of flat-rate monthly subscription fees, whilst in Spain and Italy mobile internet and data is included in pre-paid packages. We also sell mobile internet and data services which utilize the Telenor network under our “Digi” brand in Hungary.

The expenses incurred in connection with our mobile telecommunication 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 geographic segment are shown in the below table:

<b>Mobile telephony interconnection fees</b>	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(eurocents/minute)</b>	
Romania.....	0.96	0.96
Spain.....	1.09	1.09
Italy.....	0.98	0.98

Our expenses also include rental of sites necessary for the operation of our mobile network in Romania, energy consumed by the network, personnel expenses and related expenses of our maintenance and customer service staff, radio spectrum fees payable to communications authorities in Romania and Hungary (where we have acquired licenses that authorize us to develop a mobile network), service carry fees that we pay to TME in Spain and, in Italy, to TIM and that we previously paid to H3G S.p.a. (“**H3G**”) in Italy.

We also generate revenue and incur expenses in relation to sales of third-party manufactured handsets and accessories. These are primarily sold directly to our customers and, to a lesser extent, via third-party distributors. The sales are generally conducted at a low margin, or no margin at all, as part of new customer acquisition or as an incentive for existing customers to renew our upgrade their subscriptions. In addition, we offer financing options to customers allowing them to pay off the acquisition price over a period of up to 12 months. See “—*Liquidity and Capital Resources—Historical cash flows.*”

### **Fixed-line telephony**

The revenue we receive for fixed-line telephony services consists principally of flat-rate monthly subscription fees and per-minute telephone charges. We also derive revenue from 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.

The expenses 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 incur personnel expenses related to sales, installation and customer support services. Our treatment of expenses related to installing and upgrading our fixed fiber optic network is the same across all business lines offering services via such network. See “—*Cable TV.*”

### **DTH**

The revenue we receive from our DTH services consists principally of flat-rate monthly subscription fees from customers and, to a lesser extent, activation and other fees. The level of subscription fees depends on the programming package chosen by the particular customer.

The expenses incurred in connection with our DTH services consist principally of the cost of the programming content offered to our subscribers, rental expenses relating to transmission capacity on the Intelsat and Telenor satellites, license fees paid to the holders of transmission/retransmission rights for sporting events that are broadcasted on our sports channels and the expense of operating customer care call centers. Our treatment of expenses related to third-party programming is the same as in our cable TV business line. See “—*Cable TV.*” The cost of equipment that we provide to subscribers is capitalized as CPE together with the cost of installation services provided by third parties.

### **Other operations**

In addition to our principal business lines we operate four local radio stations in Romania, which we acquired in 2015 to boost our advertising capabilities and consumer recognition. We have also invested in certain solar energy generating facilities to meet our electricity needs and operate an electricity supply business by which we acquire electricity and sell to our customers on the Romanian wholesale trading platforms. These operations are relatively small and are not reported as separate business lines.

## **TRENDS AND OTHER KEY 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 Eastern and Southern Europe that we serve, our enhanced television, data and telephony services are generally viewed as desirable but not indispensable in times of economic difficulty. By contrast, we believe that basic television, internet and telephony services are perceived as necessities rather than discretionary items.

Some of the markets in which we operate were materially and adversely impacted by the most recent global economic crisis and sovereign debt crisis in Europe. However, after a few years of recovery, the core markets in which we

operate have shown significant economic growth. In particular, Romania, which accounted for 72.7% of our consolidated revenue for the year ended December 31, 2016 had one of the highest real gross domestic product (“GDP”) growth rates, according to Eurostat.

The following table shows the GDP growth, or contraction, in each of our current markets for the period between December 31, 2012 and December 31, 2016 in comparison with the EU:

<b>Real GDP growth/(contraction)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
			(%)		
EU.....	(0.5)	0.2	1.5	2.2	1.9
Romania.....	0.6	3.5	3.0	3.8	4.8
Hungary.....	(1.6)	2.1	4.0	3.1	2.0
Spain.....	(2.9)	(1.7)	1.4	3.2	3.2
Italy.....	(2.8)	(1.7)	0.1	0.7	0.9

Source: Eurostat.

The effect of the most recent 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. However, in the periods under review the exchange rates of the euro to both the Romanian leu and the Hungarian forint have been largely stable. Although these currencies have declined more significantly relative to the U.S. dollar, our exposure to the U.S. dollar is limited. See “—Exchange Rates” and “—Quantitative and Qualitative Disclosures About Market Risks—Currency Risk.”

Another negative effect of the most recent global downturn was a number of distress taxes and other governmental measures aimed at curtailing the economic turmoil and compensating for the decrease in revenue to state budgets in the jurisdictions where we operate. In Romania, a series of special taxes were introduced in 2014, of which only the tax on special construction assets (including telecommunication networks) was in effect in 2016 at the rate of 1% of gross book value of relevant assets. Although this tax was discontinued in January 2017, it has led to an increase in our expenses totaling 0.6% of our revenue in Romania for the year ended December 31, 2016 (2015: 0.6%) and has negatively affected our consolidated cash flows. In Hungary, special infrastructure, financial transactions, and certain other taxes applicable to us were introduced in 2012, and, since 2013, have amounted to approximately 2% of our revenue per annum from Hungarian operations. Despite increased expenses, we did not adjust the prices that customers pay for our services in any jurisdiction that we service to specifically reflect those developments. While in the future governments may change their tax arrangements at their discretion, we expect our current taxes to continue at the same rate in the near term, save for the discontinuation of the special construction tax in Romania discussed above and a decrease of the VAT in Romania from 20% to 19% and in Hungary decrease of VAT chargeable for internet services from 27% to 18%, which became effective from 2017.

### **Rapid development of our mobile business line and impact on our Adjusted EBITDA and Adjusted EBITDA Margin**

EBITDA is a widely recognized benchmark for measuring profitability and cashflows in the telecommunication industry. Therefore, our Board of Directors closely monitors the Group’s EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin as key measures of its financial performance.

We calculate EBITDA by adding back to our consolidated operating profit or loss charges for depreciation, amortization and impairment of assets. Our Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark-to-market results (unrealised) from the fair value assessment of energy supply contracts. Finally, our Adjusted EBITDA Margin is the ratio of Adjusted EBITDA to our total revenue.

None of these are measures of financial performance under IFRS; they are solely derived from our management’s accounts and estimates and as such may not be comparable to similarly titled measures used by other companies. Therefore you should not consider our reported EBITDA, Adjusted EBITDA or Adjusted EBITDA Margin as substitutes for operating profit or cash flows from operating activities reported in the Financial Statements.

Our EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin for the years ended December 31, 2015 and 2016:

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions, unless otherwise stated)</b>	
<b>Revenue</b> <sup>(1)</sup> .....	<b>750.1</b>	<b>842.8</b>
Operating profit.....	70.3	79.3
Depreciation, amortization and impairment...	187.9	176.4 <sup>(6)</sup>
<b>EBITDA</b> <sup>(2)</sup> .....	<b>258.2</b>	<b>255.6</b>

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions, unless otherwise stated)</b>	
(Gain from sale of discontinued operations) ..	(20.9) <sup>(3)</sup>	0.7
Other expenses <sup>(4)</sup> .....	1.0	7.0
<b>Adjusted EBITDA</b> .....	<b>238.4</b>	<b>263.3</b>
<b>Adjusted EBITDA Margin (%)</b> .....	<b>31.8%</b>	<b>31.2%</b>
Adjusted EBITDA of discontinued operations .....	0.9 <sup>(5)</sup>	-
Adjusted EBITDA of continuing operations ..	237.5	263.3
<b>Adjusted EBITDA Margin for continuing operations (%)</b> .....	<b>31.8%</b>	<b>31.2%</b>

(1) Excludes intersegment revenue.

(2) EBITDA is consolidated operating profit or loss plus charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark-to-market results (unrealised) from fair value assessment of energy trading contracts. 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) Represents gains from sale of operations in Slovakia and the Czech Republic.

(4) Represents mark-to-market loss from fair value assessment of energy supply contracts, which we exclude from our calculations of Adjusted EBITDA starting from June 30, 2016. Comparative information for prior periods has been restated accordingly.

(5) Represents Adjusted EBITDA from operations in the Czech Republic.

(6) Includes revaluation deficit in amount of €6.3 million from revaluation of land and buildings and CPE as at December 31, 2016.

The following table shows our Adjusted EBITDA and Adjusted EBITDA Margin by geographic segment for the years ended December 31, 2015 and 2016:

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions, unless otherwise stated)</b>	
<b>Adjusted EBITDA</b>		
<i>Continuing operations</i>		
Romania .....	179.6 <sup>(1)</sup>	202.3
Hungary .....	49.4	51.3
Spain and Other <sup>(2)</sup> .....	8.5	9.7
<b>Adjusted EBITDA of continuing operations</b>	<b>237.5</b>	<b>263.3</b>
<i>Discontinued operations</i>		
Adjusted EBITDA of discontinued operations .....	0.9 <sup>(3)</sup>	-
<b>Adjusted EBITDA</b> .....	<b>238.4</b>	<b>263.3</b>
<b>Adjusted EBITDA Margin (%)</b> <sup>(4)</sup>		
<i>Continuing operations</i>		
Romania .....	33.1%	32.9%
Hungary .....	39.2%	37.2%
Spain and Other <sup>(5)</sup> .....	10.5%	10.2%
<b>Adjusted EBITDA Margin of continuing operations (%)</b> <sup>(6)</sup> .....	<b>31.8%</b>	<b>31.2%</b>
<i>Discontinued operations</i>		
Adjusted EBITDA Margin of discontinued operations (%) <sup>(7)</sup> .....	22.5% <sup>(8)</sup>	-
<b>Adjusted EBITDA Margin (%)</b> .....	<b>31.8%</b>	<b>31.2%</b>

(1) As of December 31, 2016 we present unrealized mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses, excluded from EBITDA Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealized mark-to-market loss of €1.0 million was included in Operating

- expenses.
- (2) Represents Adjusted EBITDA from operations in Spain and Italy, and includes minor operating expenses of the Company.
  - (3) Represents Adjusted EBITDA from operations in the Czech Republic.
  - (4) Adjusted EBITDA Margin for a geographic segment is Adjusted EBITDA divided by revenue (including intersegment revenue), in each case, for the relevant geographic segment.
  - (5) Represents Adjusted EBITDA Margin from operations in Spain and Italy, and includes minor operating expenses of the Company.
  - (6) Adjusted EBITDA Margin for continuing operations is total aggregate Adjusted EBITDA for continuing operations divided by total aggregate revenue from continuing operations (excluding intersegment revenue).
  - (7) Adjusted EBITDA Margin for discontinued operations is total aggregate Adjusted EBITDA for discontinued operations divided by total aggregate revenue from discontinued operations (excluding intersegment revenue).
  - (8) Represents Adjusted EBITDA from operations in the Czech Republic.

The change in our Adjusted EBITDA and Adjusted EBITDA Margin from €238.4 million and 31.8%, respectively, for the year ended December 31, 2015 to €263.3 million and 31.2%, respectively, for the year ended December 31, 2016 was primarily due to the rapid development of our mobile business line in Romania. This resulted in an increase in our operating profit from €70.3 million for the year ended December 31, 2014 to €79.3 million for the year ended December 31, 2016 primarily due to development in the scaling of our operations and the expansion of our subscribers base.

We expect to make further investments in the development of our mobile network in Romania both in terms of infrastructure and customer acquisition. Therefore, we expect continuing pressure on our consolidated Adjusted EBITDA Margin in the near to medium term as we focus on growing our mobile RGUs to increase our market share rather than on profitability. By contrast, the current extensive coverage and technological advancement of our fixed fiber optic network and the quality of our TV content allow us to focus on growing our cable TV, fixed internet and data, fixed-line telephony and DTH RGUs, while maintaining attractive margins across these business lines. See “—*Growth in business, RGUs and ARPU.*”

## **Technical capabilities and limitations of our networks**

### ***Fixed offerings***

We offer cable TV, fixed internet and data and fixed-line telephony through our fiber optic networks in Romania and Hungary, which covered approximately 62% and 24% of households in those countries as at December 31, 2016. Our ability to expand our reach, attract new customers and migrate existing customers to higher levels of service depends on the capabilities and limitations of these networks. In the periods under review, we have continued to pursue a network expansion strategy and have also focused on upgrading our networks in principal coverage areas to GPON or comparable technology. As of the date hereof we have completed an upgrade of approximately 84% of our networks and are currently able to offer communication speeds of up to 1Gbps in both countries, higher than any competing product.

As a result of those upgrades, we anticipate that our fixed fiber optic network will require relatively low maintenance capital expenditure over the near and medium term. We believe that growth from cable TV, fixed internet and data and fixed-line telephony services will principally come from increasing penetration in the areas that we already cover, expanding our fixed 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 and/or internet companies. We may continue to make acquisitions in the future if attractive opportunities arise and adequate financing is available. Such growth by acquisition would contribute to increases in our number of RGUs.

### **Mobile offerings**

#### ***Romania***

We launched 3G mobile telephony offerings in Romania based on a 2,100 MHz license in 2007. Unlike some of our competitors in the mobile telecommunication services business, our mobile network generally shares the backbone of our existing advanced fixed fiber optic network. To further enhance our 3G capabilities we acquired a 900 MHz license in 2012 and have continued to gradually expand the area covered by our 3G services in order to reach more potential subscribers and meet the coverage obligations under our 3G licenses. As at December 31, 2016, we had approximately 3,400 mobile network base stations covering approximately 98% of the country’s population. In 2015, we acquired a 2,600 MHz license and a 3,700 MHz license and launched a 4G mobile offering in Romania. 4G coverage is available through our existing mobile network in the country’s most populous cities and along major roads to satisfy our customers who use the latest mobile devices. 4G is offered in parallel with our 3G coverage. As at December 31, 2016 our 4G offering covered approximately 37% of the country’s population. We intend to continue the roll-out of our mobile networks in Romania. In order to provide our services in areas that were not serviced by our own network at that time, we entered into a national 3G roaming agreement with Vodafone Romania in 2014. This agreement expired in April 2017, and we have no plans to renew it.

#### ***Hungary***

We currently hold a 1,800 MHz mobile telephony license and a 3,800 MHz mobile telephony license in Hungary. These licenses entitle us to develop our own 4G mobile network in the country and we are currently developing the network that will support our service, with a view to being in the position to launch in 2018 or later. Any mobile network that we decide to develop in Hungary in the future would be based on our existing fixed fiber optic network in that country, which would allow us to capitalize on resulting synergies.

#### *Spain and Italy*

Our MVNO businesses currently rely on TME's network in Spain and TIM's in Italy. In the past we have also used H3G's networks in Italy. Our full MVNO agreement with TME is currently effective until the end of 2017 and we believe that TME's network is sufficient to support the operation and development of our Spanish business. In Italy, we finalized the migration of our MVNO operations from H3G to TIM in an effort to promote further growth and offer a more reliable service to our customers. In early 2014, we signed a full MVNO agreement with TIM which will be effective until December 2020.

#### **DTH**

Our DTH satellite television services are not geographically constrained, as the footprint of our existing satellite coverage encompasses the entire territories of Romania and Hungary. 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**

##### ***Conversion into euros for presentation in the Financial Statements***

Our operating subsidiaries in Romania and Hungary generate revenue and record their financial results in the Romanian leu and the Hungarian forint, respectively. However, our consolidated financial results are reported in euros. See “—*Basis of Financial Presentation—Functional Currencies and Presentation Currency.*” Therefore, a significant depreciation of one of our functional currencies in relation to the euro could significantly reduce our financial results as reported in euros and could have a significant negative impact on our financial position and cash flows. See “*Risk Factors—We are subject to currency translation risks associated with exchange rate fluctuations.*”

##### ***Liabilities denominated in the euro and the U.S. Dollar***

In addition, we have significant exposure to the euro as a significant portion of our outstanding financial debt is denominated in that currency, and we also have certain limited exposure to the U.S. dollar, in which we purchase certain content for our cable TV and DTH businesses and certain CPE. As at December 31, 2016, we had €408.3 million of obligations denominated in euros and US\$43.7 million of obligations denominated in U.S. dollars, (2015: €495.2 million and US\$32.7 million). See “—*Liquidity and Capital Resources—Financial Obligations.*” Our euro exposure is partially mitigated by euro-denominated revenue from our MVNO operations in Spain and Italy, which, together with revenue collected in local functional currencies, but denominated in euros, accounted for 33.5% of our total revenue for the year ended December 31, 2016. See “*Business Description—Mobile Telecommunication Services (voice and data)—MVNO operations in Spain and Italy.*” However, we still pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenue generated in our principal functional currencies. See “*Risk Factors—We are subject to transactional currency risks associated with exchange rate fluctuations.*”

##### ***Historic performance of our functional currencies against the euro and the U.S. Dollar***

In the periods under review the Romanian leu and the Hungarian forint have remained stable relative to the euro, with only marginal declines (0.9% and 0.5%, respectively). Although both our principal functional currencies have declined more significantly relative to the U.S. dollar, our obligations denominated in U.S. dollars are significantly smaller, so the appreciation of the U.S. dollar did not have a major effect on the Group. See “—*Quantitative and Qualitative Disclosures About Market Risks—Currency Risk.*”

The following table sets out, where applicable, the period end and average exchange rates for the years ended December 31, 2015 and 2016 of the euro against each of our principal functional currencies and the U.S. dollar:

<u>Value of one euro in the relevant currency</u>	<u>As at and for the year ended December 31,</u>	
	<u>2015</u>	<u>2016</u>
<b>Romanian leu (RON)<sup>(1)</sup></b>		
Period end rate		
.....	4.52	4.54
Average rate		
.....	4.45	4.49
<b>Hungarian forint (HUF)<sup>(2)</sup></b>		
Period end rate		
.....	313.12	311.02
Average rate		
.....	309.89	311.47
<b>U.S. dollar (USD)<sup>(1)</sup></b>		
Period end rate		
.....	1.09	1.05
Average rate		
.....	1.11	1.11

(1) According to the exchange rates published by the National Bank of Romania.

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

In the year ended December 31, 2016, we had a net foreign exchange loss of €3.3 million (year ended December 31, 2015: net loss of €5.5 million). In each of those periods, our net foreign exchange loss was primarily due to the depreciation of the leu against the euro and the U.S. dollar. 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 addition, some of our core competitors, such as subsidiaries of Liberty Global and Deutsche Telekom in the fixed telecommunication services markets in Romania and Hungary, and subsidiaries of Deutsche Telekom, Orange and Vodafone in the mobile telecommunication services market in Romania, are much larger international telecommunication companies, whilst others may have access to alternative technologies for providing similar services to our potential and existing customers, such as Netflix, Apple TV, Google Play, Amazon Prime, Skype, Whatsapp, Google Hangouts and Facebook Messenger, which may compete with our telephony and entertainment services. See “*Risk Factors—We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenue and profitability.*”

We believe that our principal focus on Romania and Hungary, as well as synergies generated by our convergent fixed and mobile offerings and our advanced infrastructure, currently allow us to compete efficiently in our core markets. However, intense competition creates pressure to maintain low prices on our service and product offerings thus affecting our revenue growth potential.

### **Growth in business, RGUs and ARPU**

Our revenue is 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. We use RGU to designate a subscriber account of a customer in relation to one of our services. RGUs are measured at the end of the relevant period. As our definition of RGU is different for our different business lines, you should use caution when trying to compare RGUs and ARPU between our business lines. We calculate ARPU in a business line, geographic segment or the Group as a whole, for a period by dividing the total revenue of such business line, geographic segment or the Group, for such period, (a) if such period is a calendar month, by the total number of relevant RGUs invoiced for services in that calendar month;

or (b) if such period is longer than a calendar month, by (i) the average number of relevant RGUs invoiced for services in that period and (ii) the number of calendar months in that period. In our ARPU calculations we do not differentiate between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is a measure we use to evaluate how effectively we are realising potential revenues from customers. See “*Important Information – Presentation of Financial and Other Information.*”

Our total RGU base has grown from 11.6 million RGUs as at December 31, 2015 to 12.4 million RGUs as at December 31, 2016, representing an increase of 7.2%. In addition, in the year ended December 31, 2016, we had approximately 3.0 million average unique subscribers, or households, in Romania using our cable TV, fixed internet and data or fixed-line telephony services, which resulted in a fixed blended ARPU of €8.81 (calculated by dividing our aggregate revenue in these business lines in Romania by (i) the number of such unique subscribers and (ii) twelve (being the number of relevant calendar months)). The increase in RGUs during that period was principally due to the increase in mobile customers, the expansion of our fixed fiber optic network coverage and increased penetration in areas already covered and cross-selling. Growth in RGUs is the primary driver of growth in revenue and is dependent on further network development, capitalizing on existing customer relations by cross-selling and investments made for subscriber acquisition. These investments consist of CPE (such as GPON terminals, set-top boxes, mobile data devices and fixed-line phone handsets, satellite dishes and satellite receivers, and smartcards), as well as expenses related to the network’s development, upgrades and installation.

The following table shows our RGUs and monthly ARPU by geographic segment and business line as at and for the years ended December 31, 2015 and 2016:

RGUs/ARPU	As at and for the year ended December 31,	
	2015	2016
	(RGUs: thousands; ARPU: €/period)	
<i>Continuing operations</i>		
<b>Romania</b>		
<i>Cable TV</i>		
RGUs.....	2,733	2,865
ARPU .....	5.22	5.25
<i>Fixed internet and data</i>		
RGUs		
Residential.....	1,873	2,000
Business.....	103	115
ARPU		
Residential.....	5.13	5.04
Business.....	39.13	35.76
<i>Mobile telecommunication services<sup>(1)(2)</sup></i>		
RGUs.....	2,698	3,213
ARPU .....	2.96	3.44
<i>Fixed-line telephony<sup>(1)</sup></i>		
RGUs		
Residential.....	1,287	1,210
Business.....	127	129
ARPU		
Residential.....	1.29	1.30
Business.....	3.62	3.72
<i>DTH</i>		
RGUs.....	674	641
ARPU .....	4.84	4.90
<b>Hungary</b>		
<i>Cable TV</i>		
RGUs.....	437	473
ARPU .....	7.23	7.45
<i>Fixed internet and data</i>		
RGUs.....		
Residential.....	382	428
Business.....	7.67	7.77
<i>Mobile telecommunication services<sup>(3)</sup></i>		
RGUs.....	16	14
ARPU .....	6.62	6.83
<i>Fixed-line telephony</i>		



RGUs/ARPU	As at and for the year ended December 31,	
	2015	2016
	(RGUs: thousands; ARPU: €/period)	
RGUs.....	327	353
ARPU .....	1.85	1.67
<i>DTH</i>		
RGUs.....	318	307
ARPU .....	7.75	8.22
<b>Spain</b>		
<i>Mobile telecommunication services</i> <sup>(2)(4)</sup>		
RGUs.....	569	609
ARPU .....	11.20	11.58
<b>Other</b> <sup>(5)</sup>		
<i>Mobile telecommunication services</i> <sup>(2)(4)</sup>		
RGUs.....	59	86
ARPU .....	11.27	10.88
<b>Discontinued operations</b>		
<b>Czech Republic</b>		
<i>DTH</i>		
RGUs.....	—	—
ARPU .....	7.88	—

(1) As at June 30, 2016, we reallocated certain service revenue between business lines in order to properly reflect their nature. Comparative ARPU information for year ended December 31, 2015 has been restated accordingly.

(2) As at June 30, 2016, we aggregated RGUs from our previously reported mobile telephony and mobile internet and data business lines and currently report them as part of our mobile telecommunication services business line. Comparative RGU and ARPU information for prior periods has been restated accordingly.

(3) Includes mobile internet and data services offered as a reseller through the Telenor network under our “Digi” brand.

(4) As an MVNO.

(5) Includes Italy.

Our total revenue may not always grow in direct proportion with the increase in our RGUs. In part, these variations reflect the fact that ARPU differs from business line to business line. Our focus in the mobile telecommunication services business is to grow RGUs rather than profitability. Therefore, our strategy of a rapid expansion of the mobile telecommunication offerings in Romania have historically put pressure on our consolidated Adjusted EBITDA and Adjusted EBITDA Margin (despite a significant growth in our mobile telecommunication services RGUs) because of the investment required to develop and maintain our mobile network and acquire additional customers. See “—*Rapid development of our mobile business line and impact on our Adjusted EBITDA and Adjusted EBITDA Margin.*” In other business lines we have focused, and continue to focus, on increasing the number of RGUs by acquiring new customers and by cross-selling more services to our existing customers while maintaining our Adjusted EBITDA Margin. We try to increase profitability in each business line by careful management of expenses 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.

Our approach reflects the relatively wide range of our business and our ability to offer multiple services to our customer base. For example, as at December 31, 2016, each of our residential customers in Romania (excluding DTH customers) subscribed to an average of 2.41 services (as compared with an average of 2.45 as at December 31, 2015). Currently, there is a trend towards subscribers discontinuing fixed telephony services altogether, which has an impact on the average number of services per subscriber.

The following table shows the evolution of our total RGUs by business line for 2015 and 2016:

	<b>As at December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(thousands)</b>	
Cable TV .....	3,170	3,338
Fixed internet and data .....	2,358	2,543
Mobile telecommunication services <sup>(1)</sup> .....	3,342	3,922
Fixed-line telephony .....	1,741	1,692
DTH.....	992	948
<b>Total</b> .....	<b>11,603</b>	<b>12,443</b>

- (1) As at June 30, 2016, we aggregated RGUs from our previously reported mobile telephony and mobile internet and data business lines and currently report them as part of our mobile telecommunication services business line. Comparative RGU information for prior periods has been restated accordingly.

### Depreciation, amortization and impairment of assets

As we have invested, and continue to invest, significantly in the development of our fixed and mobile networks and customer acquisition through investment in CPE, our expenses relating to depreciation, amortization and impairment of tangible and intangible assets have remained consistently high during the periods under review.

The following table shows the evolution of our depreciation, amortization and impairment of assets expenses for the years ended December 31, 2015 and 2016:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions)</b>	
<b>Continuing operations</b>		
Depreciation of property, plant and equipment.....	114.8	86.7
Amortization of non-current intangible assets .....	25.6	35.0
Amortization of programme assets .....	47.0	46.2
Impairment of property, plant and equipment and non-current intangible assets .....	0.3	2.2
Revaluation impact <sup>(2)</sup> .....		6.3
<b>Total for continuing operations</b> .....	<b>187.8</b>	<b>176.4</b>
<b>Discontinued operations</b> .....	<b>0.1<sup>(1)</sup></b>	<b>-</b>
<b>Total</b> .....	<b>187.9</b>	<b>176.4</b>

- (1) Includes depreciation, amortization and impairment of assets in the Czech Republic.

- (2) As at December 31, 2016 we have performed revaluation of land and buildings and CPE as described below.

### Changes to our estimated useful lives

The Company depreciates its property, plant and equipment and amortizes its intangible assets on a straight-line basis using estimated useful lives. Under IFRS, the Company is required to reassess these estimated useful lives at least at each financial year-end. In 2016, in light of its ongoing experience relating to building and using these assets, the Company has revised the useful lives used for depreciating and amortizing these assets. In order to match the current best estimate of the period over which these assets will generate future economic benefits, which the Company expects to be longer than previously estimated for the majority of cases, the useful lives were extended in accordance.

For details regarding the category of assets for which useful lives were revised, please see “*Depreciation of property, plant and equipment*” and “*Amortization of intangible assets*” from below.

Accordingly, the Company recorded a depreciation and amortization charge of €121.7 million (excluding program assets) in 2016 as compared to the €145.6 million (excluding program assets) it would have recorded had it employed the estimated useful lives utilized in the preparation of its 2015 financial statements. This decrease in depreciation and amortization charge had a corresponding positive effect on our 2016 profit before tax.

## Revaluation

As at December 31, 2016 there were revaluations performed for land and buildings, as well as for customer premises equipment (“CPE”). Under the revaluation model described in Accounting policies from the IFRS Consolidated Financial Statements, property, plant and equipment are carried 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. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. As a result, the revaluation impact of land and buildings reflected a €3.9 million deficit for the year ended December 31, 2016 in profit and loss and a positive impact of €1.9 million in OCI (equity). The revaluation impact of the CPE resulted a €2.4 million deficit for the year ended December 31, 2016 in profit and loss and a positive impact of €17.5 million in OCI (equity).

The change in estimated useful lives of the assets and revaluation of CPE had a positive net of tax effect on consolidated shareholders’ equity at year-end 2016, which was €32.0 million higher than it would have been, had the 2015 estimate lives been used and the revaluation of CPE described above not performed, and had the effect of increasing the deferred tax liability by €6 million. Depreciation and amortization are non-cash charges and changes in the depreciation and amortization recorded by the Company do not have a corresponding effect on its cash position.

## Churn

Loss of our customers (an effect known as “churn”) is a factor which could negatively affect our growth in RGUs and revenue. The pay TV, fixed internet and fixed-line and mobile telecommunication services industries encounter 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 revenue. We believe that the following factors help to reduce our level of churn:

- 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 was 2.41 (excluding DTH) and the percentage of customers using more than one service was approximately 75% as at December 31, 2016. In Hungary, the average number of services per network customer was 2.3 (excluding DTH) and the percentage of customers using more than one service was approximately 80% as at December 31, 2016; 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.

Although churn may have a negative effect on our business, we focus on growth in total number of RGUs, ARPU, revenue, Adjusted EBITDA and Adjusted EBITDA Margin as key indicators rather than churn. We believe that our churn levels are in line with those of our principal competitors in our core markets.

## Capital expenditure

Historically, we have pursued an ambitious growth strategy that required us to undertake substantial capital expenditure. The primary focus of our investment spending over the periods under review has been (i) the upgrade and expansion of our fixed fiber optic network in Romania and Hungary; (ii) the expansion of our 3G mobile network and the launch of 4G offerings in Romania; (iii) the creation and development of our own television channels; (iv) the creation and expansion of our MVNO services in Spain and Italy; and (v) subscriber acquisition costs in all our business lines. Consequently, our capital expenditures have been significant. In the year ended December 31, 2016, we had capital expenditure of €216.5 million, which was lower than our Adjusted EBITDA by €46.8 million and represented 25.7% of our revenue for this period. In the year ended December 31, 2015, we had capital expenditure of €197.6 million, which was lower than our Adjusted EBITDA by €40.8 million and represented 26.3% of our revenue for this period.

Going forward we expect our capital expenditure to consist principally of amounts paid for:

- further expansion of our fixed fiber optic networks in Romania and Hungary;
- further development of our mobile network in Romania and Hungary as permitted by our existing licenses;
- 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; and
- payments under telecommunication licenses;
- investments associated with our electrical energy activities.

The majority of these capital expenditures (with the exception of certain obligations under content agreements that we have already entered into) are discretionary, and we will revise these plans as required to ensure the best possible alignment with our business strategies and opportunities. 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.

### **Payments to third-party service and content providers**

In all of our business lines, a key cost item is payments to service and content providers. In the case of television services (both cable TV and DTH), this includes fees paid to third-party providers of channels that we carry. In the case of our own channels, we pay license fees to the holders of transmission/retransmission rights for sporting events, films and certain other programming. In the case of DTH services, these fees also include fees paid to the providers of satellite transmission services. In the case of internet and data, fixed-line telephony and mobile services, fees consist principally of interconnection fees paid to other network operators and, in the case of internet and data, international connectivity fees.

We carry both our own channels and channels produced by third-parties over our DTH and cable TV services. Fees paid for channels produced by third parties consist primarily of per subscriber fees and are accounted for as operating expenses. Fees paid for content carried on our own channels is accounted for as capital expenditure and consist primarily of flat fees for the right to broadcast the relevant content. We believe that our large market share in cable TV and DTH services in Romania and Hungary places us in a strong position when negotiating for the acquisition of sports and film content for our own channels.

Television programming fees, television license fees and internet and data connectivity fees are not determined by regulators and are subject to commercial negotiations. Our backbone networks in Romania and Hungary (both for national communications and for our internet connection with the global internet network) allow us to realize significant cost savings, as we only have to pay limited lease or transit fees for the use of other networks. Moreover, we benefit from competition among leading providers of global internet interconnection services, which tends to keep prices low.

We believe that our use of the Intelsat and Telenor platforms to transmit our DTH signal provides us with a cost advantage over competing providers with lower numbers of overall customers in the region. Under its terms, our current contract with Intelsat (which includes the lease of two transponders on the Telenor satellite) will expire on November 30, 2017, at which time we plan to extend existing relations or consider available alternatives. Although costs per transponder are fixed for the duration of the contract, increases in the number of programs or the amount of high definition content that we broadcast could require us to rent capacity on additional transponders, thus increasing our expenses. As at December 31, 2016, we leased 9 transponders to transmit our DTH signal (and used an additional transponder for transmitting non-DTH signals).

Telephone interconnection charges are regulated by national authorities and the European Union, and are capped at certain amounts which have decreased over the past few years. In all our markets we pay fees to third-party service providers, such as banks, to help us collect revenue from customers, but also use our own network of collection points in Romania and Hungary.

Our operations require us to purchase significant amounts of electricity from utility companies in Romania and Hungary. In an effort to manage our future energy costs, in 2012 we started to invest in renewable energy by acquiring several companies developing solar energy projects. These projects are currently fully operational and have a combined installed capacity of 15.72 MW. We may develop further energy projects in the future to the extent we view such projects as a cost effective means to manage our future energy costs.

### **Acquisitions and disposals**

In April 2015, we sold our subsidiary in the Czech Republic for the total consideration of €24.9 million. That subsidiary contributed €3.8 million in revenue, or 1% of total revenue, in the year ended December 31, 2015. We recorded a gain from the sale thereof of €19.9 million in the year ended December 31, 2015 (total gain from sales in the year ended December 31, 2015 in the amount of €20.9 million includes gains from sales in Slovakia in the amount of €1 million).

Those disposals were intended to streamline our operations and further focus business on our core markets of Romania and Hungary. During the period under review we also acquired a number of small telecommunication operators in Romania and Hungary. See “—*Liquidity and Capital Resources—Historical cash flows—Cash flows used in investing activities.*”

## HISTORICAL RESULTS OF OPERATIONS

### Results of operations for the years ended December 31, 2016 and 2015.

#### Revenues

##### Revenue

Our revenue (excluding intersegment revenue, other income and gain from sale of discontinued operations) for the year ended December 31, 2016 was €842.8 million, compared with €750.1 million for the year ended December 31, 2015, an increase of 12.4%.

The following table shows the distribution of revenue by geographic segment and business line for the years ended December 31, 2015 and 2016:

	For the year ended December 31,		% change
	2015	2016	2015 v 2016
	(€ millions)		
<b>Romania</b>			
Cable TV.....	166.8	175.7	5.3%
Fixed internet and data.....	155.9	163.6	4.9%
Mobile telecommunication services <sup>(1)</sup> .....	84.2	122.0	44.9%
Fixed-line telephony.....	25.8	25.1	(2.7)%
DTH.....	40.2	38.7	(3.7)%
Other revenue <sup>(2)</sup> .....	67.2	87.6	30.4%
<b>Total.....</b>	<b>540.1</b>	<b>612.7</b>	<b>13.4%</b>
<b>Hungary</b>			
Cable TV.....	36.6	41.0	12.0%
Fixed internet and data.....	33.4	38.0	13.8%
Mobile telecommunication services <sup>(3)</sup> .....	1.4	1.2	(14.3)%
Fixed-line telephony.....	6.9	6.8	(1.4)%
DTH.....	30.5	31.4	3.0%
Other revenue <sup>(2)</sup> .....	17.1	19.5	14.0%
<b>Total.....</b>	<b>125.9</b>	<b>137.9</b>	<b>9.5%</b>
<b>Spain</b>			
Mobile telecommunication services <sup>(1)</sup> .....	72.2	82.7	14.5%
Other revenue <sup>(2)</sup> .....	0.4	0.3	(25.0)%
<b>Total.....</b>	<b>72.7</b>	<b>83.0</b>	<b>14.2%</b>
<b>Other<sup>(4)</sup></b>			
Mobile telecommunication services <sup>(1)</sup> .....	7.4	9.0	21.6%
Other revenue <sup>(2)</sup> .....	0.2	0.2	0.0%
<b>Total.....</b>	<b>7.5</b>	<b>9.2</b>	<b>22.7%</b>
<b>Total continuing operations...</b>	<b>746.3</b>	<b>842.8</b>	<b>12.9%</b>
<b>Discontinued operations</b>			
DTH.....	3.8 <sup>(5)</sup>	—	—%
<b>Total discontinued operations.....</b>	<b>3.8</b>	<b>—</b>	<b>(100)%</b>
<b>Total.....</b>	<b>750.1</b>	<b>842.8</b>	<b>12.4%</b>

(1) As at June 30, 2016, we aggregated certain revenue to report it as part of our mobile telecommunication services business line. That revenue includes mobile internet and data revenue reported under the caption “Internet and Data Revenues” and mobile telephony revenue reported under the caption “Telephony Revenues” in Note 16 of the Annual Financial Statements. The remaining revenue that is reported under those captions in the Annual Financial Statements is presented in this Report as fixed internet and data and fixed-line telephony revenue. Comparative information for prior periods has been restated accordingly.

(2) Includes sales of CPE (primarily mobile handsets and satellite signal receivers and decoders), own content to other operators, advertising revenue from own TV and radio channels and sundry penalties invoiced to subscribers.

(3) Includes mobile internet and data revenue.

(4) Includes revenue from operations in Italy.

(5) Includes DTH revenue in the Czech Republic.

**Revenue in Romania** for the year ended December 31, 2016 was €612.7 million, compared with €540.1 million for the year ended December 31, 2015, an increase of 13.4%. Revenue growth in Romania was primarily driven by an increase in our mobile telecommunication services RGUs and ARPU, cable TV and fixed internet and data RGUs and an increase in other revenues. Mobile telecommunication services RGUs increased from approximately 2.7 million as at December 31, 2015 to approximately 3.2 million as at December 31, 2016, an increase of approximately 19.1%, primarily as a result of certain changes in the mix of subscription packages, customers upgrading to higher-value services and overall traffic increases. ARPU from mobile telecommunication services also increased in the year ended December 31, 2016 to an average €3.44/month from an average €2.96/month in the year ended December 31, 2015, an increase of 16.2%. Our cable TV RGUs increased from approximately 2.7 million as at December 31, 2015 to approximately 2.9 million as at December 31, 2016, an increase of approximately 4.8%, and our fixed internet and data RGUs increased from approximately 2.0 million as at December 31, 2015 to approximately 2.1 million as at December 31, 2016, an increase of approximately 7%. These increases were primarily due to investments in expanding and upgrading our fixed fiber optics network, enabling more customers to be connected.

Other revenues includes mainly sales of equipment, but also contains services of filming sport events and advertising revenue. Sales of equipment includes mainly mobile handsets and other equipment. Growth in our cable TV, fixed internet and data, mobile telecommunication services and other revenue was partially offset by a decrease in revenue generated by our DTH and fixed-line telephony businesses as a result of decreases in RGUs in both business lines. DTH RGUs decreased from approximately 674,000 as at December 31, 2015 to approximately 641,000 as at December 31, 2016, a decrease of approximately 5%. This decrease was primarily driven by low investments in CPE (such as satellite receivers and decoders), which limited our customer acquisition potential. Also, a number of DTH subscribers terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services. Residential fixed-line telephony RGUs decreased from approximately 1.3 million as at December 31, 2015 to approximately 1.2 million as at December 31, 2016, a decrease of approximately 6% and fixed-line telephony ARPU remained relatively stable from an average €1.29/month for the year ended December, 2015 to an average €1.30/month for the year ended December 31, 2016, a variance of 0.8%.

**Revenue in Hungary** for the year ended December 31, 2016 was €137.9 million, compared with €125.9 million for the year ended December 31, 2015, an increase of 9.5%. This increase was principally due to an increase in our cable TV and fixed internet and data RGUs. Our cable TV RGUs increased from approximately 437,000 as at December 31, 2015 to approximately 473,000 as at December 31, 2016, an increase of approximately 8.2%, our fixed internet and data RGUs increased from approximately 382,000 as at December 31, 2015 to approximately 428,000 as at December 31, 2016, an increase of approximately 12.0%, and our fixed-line telephony RGUs increased from approximately 327,000 as at December 31, 2015 to approximately 353,000 as at December 31, 2016, an increase of approximately 8.0%. These increases were partially driven by our investments in expanding and upgrading our fixed fiber optic network in Hungary. Our mobile telecommunication services RGUs decreased by approximately 12.5% from approximately 16,000 RGUs as at December 31, 2015 to approximately 14,000 RGUs as at December 31, 2016, primarily due to the decrease in our DTH subscribers who also terminated their mobile contracts. Our DTH RGUs decreased from approximately 318,000 as at December 31, 2015 to approximately 307,000 as at December 31, 2016, a decrease of approximately 3.5%. This decrease was primarily driven by low investments in CPE (such as satellite receivers and decoders). Also, a number of DTH subscribers terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services.

**Revenue in Spain** for the year ended December 31, 2016 was €83.0 million, compared with €72.7 million for the year ended December 31, 2015, an increase of 14.2%. The increase in revenue was principally due to an increase in the number of our mobile telecommunication services RGUs from approximately 569,000 as at December 31, 2015 to approximately 609,000 as at December 31, 2016, an increase of approximately 7.0%, primarily due to new customer acquisitions as a result of more attractive mobile and data offerings.

**Revenue in Other** represented revenue from our operations in Italy and for the year ended December 31, 2016 and was €9.2 million, compared with €7.5 million for the year ended December 31, 2015, an increase of 22.7%. The increase in revenue was principally due to new customer acquisitions as a result of more attractive mobile and data offerings.

**Revenue from discontinued operations** (which represented revenue from services provided by our Czech Republic subsidiary) for the year ended December 31, 2015 was €3.8 million. The decrease was due to the fact that our Czech Republic subsidiary was sold in April 2015. There was no revenue from discontinued operations for the year ended December 31, 2016.

**Gain/(loss) from sale of discontinued operations** for the year ended December 31, 2015 was €20.9 million. It represented the results of the disposals of our operations in the Czech Republic in 2015. A loss of €0.7 million representing a provision for expenses regarding the disposal of operations in the Czech Republic was recorded for the year ended December 31, 2016.

## Total operating expenses

Our total operating expenses (excluding intersegment expenses and other expenses, but including depreciation, amortization and impairment) for the year ended December 31, 2016 were €755.8 million, compared with €699.7 million for the year ended December 31, 2015, an increase of 8.0%.

## Operating expenses

The table below sets out our expenses (excluding intersegment expenses, other expenses and depreciation, amortization and impairment) per geographic segment for the years ended December 31, 2015 and 2016.

	<b>For the year ended December 31,</b>			
	<b>2015</b>		<b>2016</b>	
	(€ millions)	(% of revenue)	(€ millions)	(% of revenue)
<b>Continued operations</b>				
Romania .....	361.1 <sup>(3)</sup>	66.9%	411.3	67.1%
Hungary .....	76.5	60.8%	86.5	62.7%
Spain .....	61.8	85.0%	68.8	82.9%
Other <sup>(1)</sup> .....	9.4	125.3%	12.9	140.2%
<b>Discontinued operations</b>	3.0 <sup>(2)</sup>	78.9%	-	-
<b>Total .....</b>	<b>511.8</b>		<b>579.5</b>	

(1) Includes operating expenses of operations in Italy and certain minor operating expenses of the Company.

(2) Includes operating expenses from operations in the Czech Republic.

(3) As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealised mark-to-market loss of EUR 1 million was included in Operating expenses.

**Operating expenses in Romania** for the year ended December 31, 2016 were €411.3 million, compared with €361.1 million for the year ended December 31, 2015, an increase of 13.9%. This was principally due to the development of our business, mainly representing increases in telephony expenses due to increased interconnection charges associated with our mobile offerings, expenses related to sales of handsets at cost to facilitate growth of mobile telecommunication services RGUs, salaries and related taxes, rent expenses for mobile sites and shops as well as programming expenses.

**Operating expenses in Hungary** for the year ended December 31, 2016 were €86.5 million, compared with €76.5 million for the year ended December 31, 2015, an increase of 13.1%. This trend was principally due to the increase in direct costs associated with increases in RGUs, mainly programming expenses and an increase in salaries.

**Operating expenses in Spain** for the year ended December 31, 2016 were €68.8 million, compared with €61.8 million for the year ended December 31, 2015, an increase of 11.3%. This increase resulted from increased data traffic and larger interconnection costs.

**Operating expenses in Other** represented expenses of our operations in Italy and certain minor expenses of the Company and for the year ended December 31, 2016 were €12.9 million, compared with €9.4 million for the year ended December 31, 2015, an increase of 37.2%. The increase was primarily due to increased interconnection charges resulting from increased data traffic and higher RGUs in Italy.

**Operating expenses related to Discontinued operations** for the year ended December 31, 2015 (which represented operating expenses of our Czech Republic subsidiary disposed of in April 2015) were €3.0 million. There weren't operating expenses related to Discontinued operations for the year ended December 31, 2016.

## Depreciation, amortization and impairment of tangible and intangible assets

The table below sets out information on depreciation, amortization and impairment of our tangible and intangible assets for the years ended December 31, 2015 and 2016.

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	(€ millions)	
<b>Continuing Operations</b>		
Depreciation of property, plant and equipment .....	114.8	86.7
Amortization of non-current intangible assets .....	25.6	35.0

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions)</b>	
Amortization of program assets.....	47.0	46.2
Impairment of property, plant and equipment.....	0.3	2.2
Revaluation impact of land and buildings.....		6.3
<b>Total.....</b>	<b>187.8</b>	<b>176.4</b>
<b>Discontinued Operations.....</b>	<b>0.1<sup>(1)</sup></b>	<b>-</b>
<b>Total.....</b>	<b>187.9</b>	<b>176.4</b>

(1) Includes depreciation, amortization and impairment of assets of in the Czech Republic.

### Depreciation of property, plant and equipment

Depreciation of property, plant and equipment for continuing operations was €86.7 million for the year ended December 31, 2016, compared with €114.8 million for the year ended December 31, 2015, a decrease of 24.5%. This decrease was primarily due to the change in the estimated useful lives of certain categories of property, plant and equipment, which were re-assessed as at December 31, 2016, with the revised useful lives which were applied prospectively from 1 January 2016, and secondarily to the termination of depreciation periods for an increased amount of CPE and other equipment.

The revised useful lives are presented below:

	<b>Prior Useful life</b>	<b>Revised Useful life</b>
Buildings	40-50 years	40-50 years
Fixed Network	15 years	up to 25 years
Mobile Radio Network (sites)	10 years	20 years
Equipment and devices	3-12 years	3-10 years
Customer premises equipment	5 years	5-10 years
Vehicles	5 years	5 years
Furniture and office equipment	3-9 years	3-9 years

The impact of revising the estimated useful lives of certain categories of property, plant and equipment on the value of depreciation charge recognized in the Profit or Loss Statement in the year ended December 31, 2016 is presented below:

	<b>Depreciation charge 2016 (€ millions)</b>		
	<b>Prior estimated useful lives</b>	<b>Revised estimated useful lives</b>	<b>Difference arising from change in estimated useful lives</b>
Land	-		-
Buildings	3.1	3.1	-
Network	43.0	38.8	(4.1)
Customer premises equipment	23.8	12.4	(11.4)
Equipment and devices	33.2	25.6	(7.6)
Vehicles	3.5	3.5	-
Furniture and office equipment	3.3	3.3	-
<b>Total</b>	<b>109.9</b>	<b>86.7</b>	<b>(23.2)</b>

### Amortization of non-current intangible assets

Amortization of non-current intangible assets for continuing operations was €35.0 million for the year ended December 31, 2016, compared with €25.6 million for the year ended December 31, 2015, an increase of 36.8%, mainly as a result of the 2,600 MHz license acquired in August 2015 and the 3,700 MHz license acquired in



October 2015 in Romania, as well as other licenses and software mainly for mobile communications equipment. As at December 31, 2016, management reviewed the estimated useful lives of mobile telephony licenses. For certain mobile telephony licenses there are options for extension, automatically exercisable upon the request of the Company. Consequently, useful lives were revised in order to match the current best estimate of the period over which these licenses will generate future economic benefits. Estimated useful lives for mobile telephony licenses were previously 15 years and are now between 15 and 25 years.

The impact of revising the estimated useful lives of the mobile telephony licenses in the value of amortization charge recognized in the Profit or Loss Statement in the year ended December 31, 2016 is presented below:

<b>Amortization charge 2016</b>			
<b>(€ millions)</b>			
	<b>Prior estimated useful lives</b>	<b>Revised estimated useful lives</b>	<b>Difference arising from change in estimated useful lives</b>
Goodwill	-	-	-
Customer relationships	10.3	10.3	-
Trade marks	0.7	0.7	-
Subscriber acquisition costs ("SAC")	7.1	7.1	-
Licences and software	17.6	16.8	(0.7)
<b>Total</b>	<b>35.7</b>	<b>35.0</b>	<b>(0.7)</b>

#### **Amortization of program assets**

Amortization of program assets for continuing operations was €46.2 million for the year ended December 31, 2016, compared with €47.0 million for the year ended December 31, 2015, a slight decrease of 1.8%.

#### **Other expense**

We recorded €7.0 million of other expenses for the year ended December 31, 2016, compared with €1.0 million of other expense for the year ended December 31, 2015. This reflected unrealized mark-to-market loss from fair value assessment of energy trading contracts.

#### **Operating profit**

For the reasons set forth above, our operating profit was €79.3 million for the year ended December 31, 2016, compared with €70.3 million for the year ended December 31, 2015.

#### **Net finance income/(expense)**

We recognized net finance expense of €56.2 million in the year ended December 31, 2016, compared with net finance expense of €60.9 million in the year ended December 31, 2015, a variation of 7.7%. As of December 31, 2016, we recorded as Finance income the amount of €33.7 million from fair value gain of the available for sale assets, which were derecognized, and the related accumulated gain was reclassified from equity to the profit or loss statement. Finance expenses were impacted by the refinancing of the 2013 Notes and the 2015 Senior Facilities Agreement from October 2016. In 2016, Other finance expenses include mainly redemption interest and penalties for the refinancing of the 2013 Notes in the amount of €17.6 million and the unamortized borrowing costs of the 2013 Notes in the amount of €8.8 million. . We recognized the net effect of gain on 2013 Bond embedded derivative in 2016 of EUR 5.0 million, expense of EUR 14.2 million upon exercising the call option on 2013 Bond. We recognized the fair value gain on 2016 Bond embedded derivative of EUR 5.4 after taking into consideration fair value of the embedded derivative asset at inception of EUR 8.5 million.

#### **Profit/(Loss) before taxation**

For the reasons set forth above, our profit before taxation was €23.1 million for the year ended December 31, 2016, compared with a profit of €9.5 million for the year ended December 31, 2015.

#### **Income tax credit/(expense)**

An income tax expense of €11.3 million was recognized in the year ended December 31, 2016 compared to a tax expense of €5.4 million recognized in the year ended December 31, 2015. This was primarily due to an increase in the profit before taxation from continuing operations and increase in deferred tax expense generated mainly by changes in useful life estimates of property, plant and equipment.

## Profit/(loss) for the year

For the reasons set forth above, our net profit for the year ended December 31, 2016 was €11.8 million, compared with a profit of €4.0 million for the year ended December 31, 2015.

## LIQUIDITY AND CAPITAL RESOURCES

On October 7, 2016 RCS & RDS entered into the Senior Facilities Agreement consisting of (i) the SFA Facility A1; (ii) the SFA Facility A2; and (iii) the revolving credit facility in the amount of RON157.0 million under the Senior Facilities Agreement (the “SFA Facility B”). On October 26, 2016, RCS & RDS drew (a) RON930.0 million (€204.8 million equivalent as at December 31, 2016) under the SFA Facility A1 and repaid the 2015 Senior Facilities Agreement in full; and (b) RON600.0 million (€132.1 million equivalent as at December 31, 2016) under the SFA Facility A2. Facility B has a capacity of RON157.0 million.

In October 2016, we issued €350 million aggregate principal amount of 5.0% Senior Secured Notes due 2023 (the “2016 Notes”). In November 2016, the 2013 Notes of €450 million were redeemed in full.

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, the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement (as defined below), other letter of guarantee facilities and other credit agreements. We believe that our operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

All of our businesses have historically produced positive operating cash flows that are relatively constant from month to month. 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 expanding our mobile telecommunication network and our fixed fiber optic networks, acquiring new and renewing existing content rights, procuring CPE which we provide to our customers and exploring other investment opportunities on an opportunistic basis in line with our current business model. We believe that we will be able to continue to meet 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.

## Historical cash flows

The following table sets forth, for the years ended December 31, 2015 and 2016, our consolidated cash flows from operating activities, cash flows used in investing activities and cash flows from (used in) financing activities.

	For the year ended	
	December 31,	
	2015	2016
	(€ millions)	
<b>Cash flows from operations before working capital changes</b> .....	<b>237.2</b>	<b>266.6</b>
Cash flows from changes in working capital <sup>(1)</sup> .....	4.2	(11.3)
<b>Cash flows from operations</b> .....	<b>241.5</b>	<b>255.3</b>
Interest paid .....	(44.2)	(44.0)
Income tax paid .....	(5.1)	(7.8)
<b>Net cash flows from operating activities</b> .....	<b>192.2</b>	<b>203.5</b>
<b>Net cash flows used in investing activities</b> .....	<b>(171.6)</b>	<b>(216.0)</b>
<b>Net cash flows from (used in) financing activities</b> .....	<b>(25.7)</b>	<b>(21.8)</b>
Net increase (decrease) in cash and cash equivalents .....	(5.1)	(34.2)
Cash and cash equivalents at the beginning of the period .....	54.3	49.7
Effect of exchange rate fluctuation on cash and cash equivalent held.....	0.5	(0.8)
<b>Cash and cash equivalents at the closing of the period</b> .....	<b>49.7</b>	<b>14.6</b>

(1) Cash flows from changes in working capital includes the sum of the (Increase)/decrease in trade receivables and other assets, (Increase)/decrease in inventories, Increase/(decrease) in trade payables and other current liabilities, Increase/(decrease) in deferred revenue.

Cash flows from operations before working capital changes were €266.6 million in the year ended December 31,

2016 and €237.2 million in the year ended December 31, 2015. The increase from 2015 to 2016 was due to the reasons discussed in “—*Historical Results of Operations—Results of operations for the years ended December 31, 2016 and 2015.*”

The following table shows changes in our working capital:

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions)</b>	
Decrease/(increase) in trade receivables and other assets .....	15.1	(29.5)
Increase in inventories .....	(3.7)	(6.0)
Increase in trade payables and other current liabilities .....	21.2	31.4
(Decrease) in deferred revenue .....	(28.4)	(7.2)
<b>Total</b> .....	<b>4.2</b>	<b>(11.3)</b>

We had a working capital requirement of €11.3 million in the year ended December 31, 2016. This was primarily due to a €29.5 million increase in trade and other receivables largely attributable to impacts on the trade and other receivables balance as at December 31, 2015 due to a change in the invoicing cycle, which occurred in December 2015 as well as the development in our energy activity during 2016 and a general increase in activity overall. The invoicing cycle change from 2015 is also a primary explanation of the variation in deferred revenue amounting to €7.2 million, which decreased in 2016 compared to 2015. The increase in trade payables of €31.4 million related mainly to the increase in suppliers for our energy activity and interconnection costs, which increased proportionately with the expansion of our RGU base.

We had a working capital surplus of €4.2 million in the year ended December 31, 2015. This was primarily due to a decrease in trade receivables and other assets balances of €15.1 million, largely as a result of our change in invoicing cycle which occurred in December 2015, partially offset by the increase in revenues. This change also was the reason for the decrease of deferred revenue of €28.4 million. The increase in trade payables of €21.2 million related mainly to acquisitions of handsets and other CPE that are on-sold to our mobile telecommunication services customers subject to a deferral of payments from such customers for up to 12 months. See “—*Revenue and Expense Structure of Our Principal Lines of Business—Mobile telecommunication services.*” We use this offering to promote new customer acquisitions and incentivize existing customers to transfer to higher-value services, but it creates a mismatch between the time when we pay our CPE suppliers and receive customer payments. In order to mitigate the impact of this mismatch we enter into certain reverse factoring and vendor financing agreements with our CPE suppliers extending the terms of our payments for CPE acquired, which are then classified as long term trade payables.

**Cash flows from operating activities** were €203.5 million in the year ended December 31, 2016 and €192.2 million in the year ended December 31, 2015. Included in these amounts are deductions for interest paid and income tax paid, which were €51.8 million in the year ended December 31, 2016 and €49.3 million in the year ended December 31, 2015. Interest paid was €44.0 million in the year ended December 31, 2016, compared with €44.2 million in the year ended December 31, 2015. Income tax paid was €7.8 million in the year ended December 31, 2016, compared with €5.1 million in the year ended December 31, 2015 mainly as a result of increased payments made by our operations in Spain. The increase in cash flows from operating activities in the year ended December 31, 2016, as compared to the year ended December 31, 2015, was due to an increase in our subscribers base and the improved performance of certain business lines.

**Cash flows used in investing activities** were €216.0 million in the year ended December 31, 2016, €171.6 million in the year ended December 31, 2015 (including €25.1 million as proceeds from the sale of our operations in the Czech Republic, net of cash disposed).

The following table shows our capital expenditures by category for the years ended December 31, 2015 and 2016:

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions)</b>	
Network and equipment <sup>(1)</sup> .....	91.9	149.3
Customer Premises Equipment (CPE) <sup>(2)</sup> .....	25.5	36.0
Program assets—content for our own channels <sup>(3)</sup> .....	60.1	47.1
License and software <sup>(4)</sup> .....	23.2	22.1
Customer relationships <sup>(5)</sup> .....	2.8	0.6

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(€ millions)</b>	
Other additions to tangible assets <sup>(6)</sup> .....	24.2	35.6
Other additions to intangible assets <sup>(7)</sup> .....	6.2	14.6
<b>Total additions to tangible and intangible assets</b> .....	<b>233.9</b>	<b>305.3</b>
Differences between capital expenditures for tangible and intangible assets and additions to tangible and intangible assets <sup>(8)</sup> .....	(39.6)	(91.9)
Capital expenditures for the acquisition of tangible and intangible assets .....	194.3	213.4
Acquisitions of shares <sup>(9)</sup> .....	3.3	3.1
<b>Total</b> .....	<b>197.6</b>	<b>216.5</b>

- (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; costs incurred for equipment needed to operate our own channels; costs for acquisitions through business combinations, and allocated costs of construction in progress.
- (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-related costs 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, and allocated costs of construction in progress.
- (3) Composed of costs incurred for additions of content for our own channels.
- (4) Composed primarily of payment for our 3700 MHz and 2,600 MHz licenses in Romania (in 2015), 3,800 MHz license in Hungary (in 2016) and mobile network software licenses acquired in Romania.
- (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, and allocated costs of construction in progress.
- (7) Composed primarily of subscriber acquisition 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 periods.
- (9) Composed of cash spent to acquire controlling and non-controlling interests in subsidiaries and associates and to make payments for shares acquired in current or prior periods.

During the year ended December 31, 2016, we acquired tangible and intangible assets for €305.3 million. We had €149.3 million in additions to our network and equipment, primarily to expand and upgrade our fixed fiber optic and mobile networks in Romania and Hungary. We had €47.1 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions in the 2016/2017 season for contracts entered into in this and prior years. We had €22.1 million in additions to our intangible assets, primarily to recognize software licenses for equipment for our mobile networks and the 3,800 MHz license from Hungary. In addition, we had additions of €36.0 million to acquire CPE, primarily set-top boxes and GPON terminals and for our cable TV customers. We also had minor additions to customer relationships of €0.6 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 €91.9 million lower than additions to tangible and intangible assets in the year ended December 31, 2016. This was primarily due to longer payment terms, especially for part of the network, as well as equipment and CPE additions. Out of the payments made for acquisition of shares, €0.9 million are payments made by the Company for the acquisition of shares in RCS Management. The remaining €2.1 million related to acquisitions of controlling interests in other entities from previous years.

During the year ended December 31, 2015, we acquired tangible and intangible assets for €233.9 million. We had €91.9 million of additions to our network and equipment, primarily to expand and upgrade our fixed fiber optic and mobile networks. We had €60.1 million in additions to our program assets, primarily reflecting the recognition of costs related to rights to broadcast certain sports competitions in the 2015/2016 season for contracts entered into in this and prior years. We had €23.2 million of additions to our intangible assets, primarily to recognize payments for software licenses for equipment for our mobile networks and 3,700 MHz and 2,600 MHz licenses. We also had additions of €25.5 million to acquire CPE, primarily set-top boxes and GPON terminals (which may not be treated as CPE-related costs by our competitors). We also had additions to customers' relationships of €2.8 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 €39.6 million lower than additions to tangible and intangible assets in the year ended December 31, 2015. 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, €1.5

million constituted payments made by the Company for the acquisition of shares in RCS Management. Out of the remaining €1.8 million, €0.7 million were related to acquisitions of controlling interests in other entities and €1.1 million to acquisitions of non-controlling interests while retaining control.

*Cash flows used in financing activities* were a €21.8 million outflow for the year ended December 31, 2016. We refinanced our Senior Facilities in October 2016 with a loan in the amount of €336.9 million equivalent, of which we used (a) RON930.0 million (€204.8 million equivalent as at December 31, 2016) under SFA Facility A1 to repay the 2015 Senior Facilities Agreement in full and (b) RON600.0 million (€132.1 million equivalent as at December 31, 2016) under SFA Facility A2, along with the €350 million 2016 Notes issued to repay the €450 million 2013 Notes. We also paid financing costs and early prepayment fees of €26.8 million, dividends of €4.4 million, settlement of derivative transactions of €5.8 million and installments under our finance leases of €3.4 million. The 2016 debt restructuring achieved a significant reduction of our interest rates payable and a reduction of our exposure to euro by reducing our euro indebtedness, as well as an extension of the maturities.

In the year ended December 31, 2015, the net outflow of €25.7 million was mainly the result of the repayment of the principal amount outstanding under the 2013 Senior Facilities Agreement with drawdowns under the 2015 Senior Facilities Agreement and our own funds. We also repaid RON 99.4 million (an equivalent of €22.0 million as at December 31, 2015) and drew down an additional RON 105.4 million (an equivalent of €23.3 million as at December 31, 2015), in each case, under the 2015 Senior Facilities Agreement, paid certain financing costs of €4.1 million, dividends of €1.6 million, settlement of derivative transactions of €3.7 million and installments under our finance leases of €1.6 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 service our debt, to upgrade and build expansions to our fixed fiber optic and mobile networks, to further develop our mobile telecommunication services business and to purchase further broadcasting rights for our premium TV channels. 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:

- expansion of our fixed fiber optic network;
- expansion and further development of our mobile network;
- acquisition of additional sports, film and other broadcasting rights;
- renewal of certain existing broadcast rights;
- costs associated with CPE and the acquisition of new customers; and
- payments under telecommunication licenses.

As at December 31, 2016, 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 €85.6 million.

### **Contractual obligations**

Our principal contractual obligations consist of our obligations in respect of financial indebtedness that is owed under our credit facilities, rent for network pillars, the annual radio spectrum fees for our mobile telecommunication licenses in Romania and Hungary, the remaining payments for certain broadcasting rights, operational leasing arrangements (including for our radio stations), financial leasing arrangements for part of our headquarters in Bucharest and land outside of Bucharest and financial leasing arrangements used to purchase cars for our fleet.

The table below sets out the maturities of our financial liabilities and other contractual commitments, including estimated interest payments and excluding the impact of netting agreements as at December 31, 2016, 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 the table below.

	Carrying amount as at December 31, 2016	Contractual cash flows as at December 31, 2016	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
	(€ millions)						
<b>Non-derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds <sup>(1)</sup> .....	696.6	839.6	35.1	31.0	76.1	697.4	-
Overdraft facilities.....	7.2	7.2	7.2	-	-	-	-
Finance lease liabilities <sup>(1)</sup> .....	5.8	6.4	1.0	1.0	1.9	1.7	0.8
Trade and other payables and other liabilities <sup>(2)</sup> .....	409.9	416.3	314.4	55.4	32.7	13.7	-
Capital expenditure and operating expenditure contractual commitments <sup>(3)</sup> .....	246.8	246.8	54.7	54.7	64.2	39.4	33.8
<b>Derivative financial liabilities</b>							
Interest rate swaps.....	5.3	8.0	2.0	1.8	2.6	1.7	-
Energy trading mark to market.....	1.3	1.3	0.9	0.3	0.0	-	-
<b>Total</b> .....	<b>1,372.9</b>	<b>1,525.7</b>	<b>415.4</b>	<b>144.2</b>	<b>177.6</b>	<b>753.9</b>	<b>34.5</b>

- (1) Includes estimated interest. Interest was estimated by using 3-month ROBOR or a fixed rate as at December 31, 2016 for all future periods. The estimated interest rate used for the 350 million Euro 2023 Notes does not include the withholding tax (“WHT”) on interest (approximately EUR 3.3 million per year which will be treated as interest expense) that may be incurred due to misalignment of Romanian and EU legislation. Please see *Management’s Discussion and Analysis of Financial Condition and results of Operations- Recent Development*.
- (2) Includes trade payables, other long-term liabilities and income tax.
- (3) 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).

## Financial obligations

### Notes

On October 26, 2016 the Company issued Notes with a value of €350.0 million falling due in 2023. The Notes are secured by (i) subject to certain exclusions, all present and future movable assets of RCS & RDS, including bank accounts, trade receivables, intragroup receivables, insurance receivables, inventories, movable tangible property (including installation, networks, machinery, equipment, vehicles, furniture, and other similar assets), intellectual property rights, insurance and proceeds related to any of the foregoing; (ii) all shares of certain of RCS & RDS’ material subsidiaries held by RCS & RDS; and (iii) certain assets of the Company, including all shares it holds in the RCS & RDS, certain bank accounts and rights under the proceeds loan agreement dated November 3, 2013 as amended and extended between the Company, as lender, and RCS & RDS, as borrower, pursuant to which the Company remitted the proceeds (of which €100 million had been repaid to date) from the sale of the €450.0 million 7.50% Senior Secured Notes due 2020 issued by the Company on November 4, 2013 (the “**2013 Notes**”) to RCS & RDS. The collateral is shared with the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and an uncommitted bank guarantee facility entered into on July 13, 2015 between RCS & RDS and BRD for an amount of €5.0 million (the “**BRD Letters of Guarantee Facility**”) on a *pari passu* basis pursuant to the terms of the the intercreditor agreement originally dated November 4, 2013, as amended and restated on or about October 7, 2016 between, among other parties, RCS & RDS, the Company, Wilmington Trust, National Association, as trustee, and Wilmington Trust (London) Limited, as security agent (the “**Intercreditor Agreement**”).

### 2013 Senior Facilities Agreement

On October 21, 2013, RCS & RDS, as borrower, entered into the 2013 Senior Facilities Agreement with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the

repayment of the then existing facilities and for general corporate purposes. The 2013 Senior Facilities Agreement consisted of a term loan facility with a capacity of €250.0 million and a revolving credit facility with a capacity of €50.0 million. Under the 2013 Senior Facilities Agreement, RCS & RDS covenanted to maintain a debt to EBITDA ratio of 3.25:1 and an EBITDA to total interest ratio of 4.25:1. On May 22, 2015, RCS & RDS repaid all of the amounts outstanding under the 2013 Senior Facilities Agreement using the proceeds of the 2015 Senior Facilities Agreement and own funds.

### **2015 Senior Facilities Agreement**

On April 30, 2015, RCS & RDS, as borrower, entered into the 2015 Senior Facilities Agreement with BRD, Citibank, N.A., London Branch, ING Bank and UniCredit Tiriac Bank, as mandated lead arrangers, for the repayment of its 2013 Senior Facilities Agreement. The 2015 Senior Facilities Agreement consists of a term loan facility with a capacity of RON1,091.2 million and a revolving credit facility with a capacity of RON50.2 million. Under the 2015 Senior Facilities Agreement, RCS & RDS agreed to maintain, from the date of the 2015 Senior Facilities Agreement to December 31, 2016, a debt to EBITDA ratio of 3.75:1 and an EBITDA to total interest ratio of 3.75:1 and, from December 31, 2016 a debt to EBITDA ratio of 3.25:1 and an EBITDA to total interest ratio of 4.25:1. On October 26, 2016, RCS & RDS repaid all of the amounts outstanding under the 2015 Senior Facilities Agreement using the proceeds of the Senior Facilities Agreement.

### **2016 Facility Agreement**

On August 18, 2016, RCS & RDS, as borrower, entered into a facility agreement with BRD and Citibank, N.A., London Branch, as mandated lead arrangers (the “2016 Facility Agreement”). The 2016 Facility Agreement consists of a revolving credit facility with a capacity of RON135.0 million. Under the 2016 Facility Agreement, RCS & RDS covenanted to maintain, from the date of the 2016 Facility Agreement to 31 December 2016, a debt to EBITDA ratio of 3.75:1 and an EBITDA to total interest ratio of 3.75:1 and, from 31 December, a debt to EBITDA ratio of 3.25:1 and an EBITDA to total interest ratio of 4.25:1. On October 26, 2016, RCS & RDS repaid all of the amounts outstanding under the 2016 Facility Agreement using its own funds.

### **Senior Facilities Agreement**

On October 7, 2016, RCS & RDS, as borrower, entered into the Senior Facilities Agreement with, among others, BRD-Groupe Société Générale S.A., Citibank, N.A., London Branch, ING Bank, and Unicredit Tiriac Bank, as lead arrangers. The Senior Facilities Agreement is unconditionally guaranteed by RCS & RDS on a senior secured basis, and shares in the Collateral, together with the Notes, the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Letters of Guarantee Facility, pursuant to the terms of the Intercreditor Agreement.

The Senior Facilities Agreement consists of (i) the SFA Facility A1; (ii) the SFA Facility A2; and (iii) the SFA Facility B. The SFA Facility A1 can be drawn for the purposes of funding the refinancing of the 2015 Senior Facilities Agreement and capital expenditure requirements of the Group. The SFA Facility A2 can be drawn for the purpose of funding the refinancing of the 2013 Notes. The SFA Facility B can be drawn for the purposes of refinancing the 2016 Facility Agreement and the general corporate and working capital purposes of the Group. On October 26, 2016, RCS & RDS drew (a) RON930.0 million (€204.8 million equivalent as at December 31, 2016) under the SFA Facility A1 and repaid the 2015 Senior Facilities Agreement in full; and (b) RON600.0 million (€132.1 million equivalent as at December 31, 2016) under the SFA Facility A2. As at December 31, 2016 Facility B was not drawn and had a capacity of RON157.0 million.

The interest rate under the Senior Facilities Agreement is floating at a margin of 2.65% per annum plus ROBOR. Interest is payable every three months, unless a longer period is agreed with the facility agent acting per instructions of all lenders under the Senior Facilities Agreement.

The repayment schedule for any principal amount drawn under the SFA Facility A1/A2 in relation is as follows:

<b>Repayment date</b>	<b>Repayment installment (percentage of the SFA Facility A1/A2 loan outstanding as at the end of the availability period for the SFA Facility A1/A2)</b>
April 28, 2017.....	3.75%
October 30, 2017.....	3.75%
April 30, 2018.....	6.25%
October 30, 2018.....	6.25%
April 30, 2019.....	8.75%
October 30, 2019.....	8.75%

	<b>Repayment installment</b>
	<b>(percentage of the SFA Facility A1/A2 loan outstanding as at the end of the availability period for the SFA Facility A1/A2)</b>
April 30, 2020.....	8.75%
October 30, 2020 .....	8.75%
April 30, 2021.....	8.75%
Termination date for the SFA Facility A1/A2 .....	36.25%
<b>Total</b> .....	<b>100%</b>

### **ING Agreements**

On November 1, 2013, the RCS & RDS entered into the ING Facilities Agreement with ING Bank N.V., Bucharest Branch, in order to consolidate the Group’s existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The ING Facilities Agreement shares in the Collateral, together with the Notes, the Senior Facilities Agreement, the Citi Facilities Agreement and the BRD Letters of Guarantee Facility on a *pari passu* basis 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 and (ii) an uncommitted facility for letters of guarantee of up to €5.0 million. As at December 31, 2016, RCS & RDS had €4.2 million drawn under the overdraft facility and out of the uncommitted facility for letters of guarantee, total amount of the letters of guarantee issued is €2.0 million and RON13.1 million.

In addition to the ING Facilities Agreement, on April 28, 2016 RCS & RDS entered into an uncommitted letter of guarantee facility of up to €5.0 million with ING Bank N.V., Bucharest Branch. The letter of guarantee issued under this facility has expired.

### **Citi Facilities Agreement**

On October 25, 2013, RCS & RDS entered into the Citi Facilities Agreement with Citibank, N.A., London Branch, to consolidate the Group’s existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes. On October 25, 2013, RCS & RDS entered into a personal guarantee agreement with Citibank, N.A., London Branch pursuant to which it provides Citibank, N.A., London Branch with a guarantee for the due performance of the Citi Facilities Agreement by the Group. The Citi Facilities Agreement shares in the Collateral, together with the Notes, the Senior Facilities Agreement, the ING Facilities Agreement and the BRD Letters of Guarantee Facility on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The Citi Facilities Agreement consists of (i) an uncommitted overdraft, bank guarantee and letters of guarantee facility in the amount of US\$5.5 million and (ii) an uncommitted bank guarantee facility with an amount of US\$4.7 million and €500,000. As at December 31, 2016, (i) the cash overdraft facility had an outstanding balance of €3.1 million, and (ii) we had letters of guarantee issued in the amount of US\$0.7 million, €1.0 million and RON16.3 million.

### **BRD Letters of Guarantee Facility**

On July 13, 2015, RCS & RDS entered into an uncommitted bank guarantee facility with BRD—Groupe Société Générale S.A. for an amount of €5.0 million (the “**BRD Letters of Guarantee Facility**”). As at December 31, 2016, we had letters of guarantee issued by BRD—Groupe Société Générale with a value of €0.7 million and RON2.0 million. The BRD Letters of Guarantee Facility shares in the Collateral, together with the Notes, the Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

### **Banca Transilvania Agreements**

On July 14, 2014, RCS & RDS entered into two credit agreements with Banca Transilvania (the “Banca Transilvania Agreements”), for an aggregate amount of RON29.3 million. The Banca Transilvania Agreements were never drawn and expired on January 13, 2015 and July 12, 2015.

### **Santander Facility**

On October 30, 2015, Digi Spain entered into a new €1.5 million short-term facility agreement with Banco Santander (the “**Santander Facility**”). This facility was renewed from October 30, 2016 for one additional year, and at the same time the limit was increased to €2.0 million, with maturity on October 21, 2017. As at December 31, 2016, the balance drawn under the Santander Facility was €1.1 million.



## **Caixa Facility**

On February 6, 2014, Digi Spain entered into a facility agreement with Caixabank, S.A. (the “**Caixa Facility**”), containing an overdraft and a reverse factoring option. On January 30, 2015, we renewed the agreement and on July 28, 2015 we agreed an amendment to lower interest rates. On January 17, 2017, the agreement has been renewed again. The term of the Caixa Facility is indefinite and the maximum amount which can be used is €500,000. As at December 31, 2016, the balance drawn under the Caixa Facility overdraft was €0.4 million.

On October 21 2016, Digi Spain entered into a short-term loan with Caixabank, S.A for €1.8 million with maturity on February, 28 2017 (the “**Caixa Loan**”), when the loan was repaid. As at December 31, 2016, the balance was €1.2 million.

## **Unicredit Agreements**

On October 5, 2010, RCS & RDS entered into a cash collateral agreement with UniCredit Bank S.A., for €59,484 for the issuance of a letter of counter guarantee, which is valid until August 2017. The agreement entered into force on October 8, 2012, and is secured with a charge over a cash collateral account opened with UniCredit Tiriac S.A.

On December 15, 2015, RCS & RDS entered into an agreement with UniCredit Bank S.A. for an uncommitted overdraft/bank guarantee facility in the amount of €2.0 million. As at December 31, 2016 this facility remained undrawn.

## **Libra Loan Agreement**

On February 25, 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON32.0 million repayable in 5 years with Libra Bank (the “**Libra Loan Agreement**”). We drew RON31.6 million under the Libra Loan Agreement and used the funding to acquire certain real property in Bucharest, which has been mortgaged in favor of Libra Bank as security for the Libra Loan Agreement. As at December 31, 2016 RON26.9 million (€5.9 million equivalent using exchange rate as at December 31, 2016) was outstanding under the Libra Loan Agreement.

## **OTP Bank Hungary Loan Agreement**

Digi Hungary has entered into a short term loan of HUF1,300 million (€4.2 million equivalent using exchange rate as at December 31, 2016) with OTP bank in Hungary. Out of this loan, as at December 31, 2016 HUF 500 million (€1.6 million equivalent using exchange rate as at December 31, 2016) was drawn. As at December 31, 2016 HUF500 million (€1.6 million equivalent using exchange rate as at December 31, 2016) was outstanding under this Agreement. The remaining amount was drawn in January 2017.

## **Financial leasing agreements**

As at December 31, 2016, we had 4 leasing agreements in place with a total outstanding value of approximately €5.8 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, which subsequently sold its interest to Raiffeisen Leasing IFN SA. In December 2015 this sale-leaseback arrangement was refinanced for €4.3 million. As at December 31, 2016, the outstanding amount under this sale-leaseback agreement was €3.1 million.

We 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, 2016, the outstanding amount under this leasing agreement was €2.1 million.

In December 2015, we entered into two lease agreements with Unicredit Leasing IFN for two buildings in the Romanian cities of Timisoara and Arad. The lease agreement for the Timisoara property was terminated on August 11, 2016. As at December 31, 2016, the outstanding amount under this leasing agreement was €0.5 million.

The fourth lease agreement that we have entered into as at December 31, 2016 is for a vehicle, with a not significant amount.

## **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 and in “*Risk Factors*”, we have no material contingent obligations.

## **OFF-BALANCE SHEET ARRANGEMENTS**

Other than commitments included under the caption “—*Financial Obligations*” we do not have any material off-

balance sheet arrangements.

Following a detailed consultation period which began in July 2006, the IASB released IFRS 16 on lease accounting which will replace IAS 17 “Leases” and which will be effective for financial reporting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. Our management is in the process of assessing the impact of this new standard on the consolidated financial position or performance of the Group.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to the following risks from the use of financial instruments: credit risk, liquidity risk and market risk (including currency risk and interest rate risk).

### Credit risk

Financial assets, which potentially subject us to credit risk, consist principally of trade and other receivables and cash and cash equivalents. Our credit risk is significantly concentrated in Romania and Hungary. As at December 31, 2016 we had €109.0 million of trade and other receivables. €89.4 million, or 82.1%, of our trade and other receivables were attributable to Romania, and €10.3 million, or 9.4%, were attributable to Hungary. Although collection of receivables could be influenced by economic factors, we believe that there is no significant risk of loss beyond the allowances already recorded.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

Our exposure to credit risk as at December 31, 2014, 2015 and 2016 was concentrated as follows:

	<b>As at December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	(€ millions)		
Trade and other receivables <sup>(1)</sup> .....	109.9	82.5	109.0
Other assets .....	9.9	8.2	6.3
Cash and cash equivalents.....	53.7	49.4	14.3
Derivative assets.....	—	9.9	17.0
Long term receivables .....	4.6	2.9 <sup>(2)</sup>	3.9
<b>Total .....</b>	<b>178.1</b>	<b>153.0</b>	<b>150.6</b>

(1) Net of impairment losses.

(2) Does not include “green certificates” generated from our electrical energy supply activities.

## Impairment losses

The aging of trade receivables and other receivables as at December 31, 2014, 2015 and 2016 was:

	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
	<b>As at Dec 31, 2014</b>	<b>As at Dec 31, 2014</b>	<b>As at Dec 31, 2015</b>	<b>As at Dec 31, 2015</b>	<b>As at Dec 31, 2016</b>	<b>As at Dec 31, 2016</b>
	(€ millions)					
Neither past due nor impaired	89.8	-	57.8	-	92.1	-
Past due but not impaired .....	30.0		33.0	-	23.2	-
Impaired .....	71.9	(71.9)	77.4	(77.4)	45.1	(45.1)
<b>Total .....</b>	<b>191.7</b>	<b>(71.9)</b>	<b>168.2</b>	<b>(77.4)</b>	<b>160.3</b>	<b>(45.1)</b>
<b>Aging past due but not impaired</b>						
Past Due less than 30 days .....	17.1		28.2		14.9	
Past Due 30-90 days .....	3.0		4.0		4.1	
Past Due 90-180 days .....	9.9		0.9		4.1	

	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
	<u>As at</u>	<u>As at</u>	<u>As at</u>	<u>As at</u>	<u>As at</u>	<u>As at</u>
	<u>Dec 31,</u>	<u>Dec 31,</u>	<u>Dec 31,</u>	<u>Dec 31,</u>	<u>Dec 31,</u>	<u>Dec 31,</u>
	<u>2014</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>
<b>Total .....</b>	<b>30.0</b>		<b>33.0</b>		<b>23.2</b>	

The majority of receivables classified as Neither past due nor impaired refer to residential subscribers. Impairment allowances are cumulative, including all prior years. The movements in the allowance for impairment in respect of trade receivables during the years ended December 31, 2014, 2015 and 2016 were as follows:

	<u>For the year ended December 31</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
	<u>(€ millions)</u>		
Balance at January .....	67.0	71.9	77.4
Impairment loss recognized .....	8.0	10.1	9.1
Impairment related to receivables of discontinued operations .....	—	(1.6)	-
Reversed .....	(0.6)	—	-
Amounts written off.....	(1.8)	(2.3)	(41.4)
Effect of movement in exchange rates.....	(0.7)	(0.7)	(0.1)
<b>Balance at December 31 .....</b>	<b>72.0</b>	<b>77.4</b>	<b>45.1</b>

#### Liquidity risk

Our liquidity policy aims to maintain sufficient liquid resources to meet our obligations as they fall due and to keep our leverage optimized. Our 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, while considering future cash flows from operations.

As a result of the volume and nature of the telecommunication business, our current liabilities exceed our current assets. A large part of our current liabilities is generated by investment activities. There is often a delay between the time we incur liabilities for investment activities and the time those activities begin to generate receivables. We believe that we will generate sufficient funds to cover the current liabilities from future revenue given the growth realized over the last years and the largely discretionary nature of our investment activities, which can be scaled down if necessary without a significant effect on our operations.

#### Currency risk

Our exposure to foreign currency risk as at December 31, 2014, 2015 and 2016 was as follows:

	<u>As at December 31,</u>					
	<u>2014</u>		<u>2015</u>		<u>2016</u>	
	<u>USD</u>	<u>EUR</u>	<u>USD</u>	<u>EUR</u>	<u>USD</u>	<u>EUR</u>
	<u>(millions)</u>					
Trade and other receivables..	1.0	2.2	3.9	3.6	4.0	4.7
Cash and cash equivalents...	0.1	49.7	0.1	3.1	-	5.5
Interest bearing loans and borrowings, including bonds.	—	(686.6)	—	(446.2)	-	(352.8)
Bank overdraft.....	—	(4.0)	—	(4.8)	-	-
Finance lease liabilities.....	(5.4)	(2.6)	—	(8.8)	-	(5.8)
Trade and other payables ....	(28.2)	(47.1)	(36.7)	(42.3)	(47.7)	(59.9)
<b>Gross statement of financial position exposure .....</b>	<b>(32.6)</b>	<b>(688.4)</b>	<b>(32.7)</b>	<b>(495.2)</b>	<b>(43.7)</b>	<b>(408.3)</b>
Derivative financial instruments <sup>(1)</sup> .....	—	59.2	—	25.4	-	-
<b>Gross exposure .....</b>	<b>(32.6)</b>	<b>(629.2)</b>	<b>(32.7)</b>	<b>(469.8)</b>	<b>(43.7)</b>	<b>(408.3)</b>

- (1) Represents amounts to be received as part of the interest rate swaps in place at the end of each period. See “—*Derivative Financial Instruments*.”

Since 2014, RCS & RDS has concluded three cross-currency swaps with ING Bank N.V., which converted the euro exposure under the 2013 Notes into RON. These swaps expired on September 23, 2016.

See “—*Trends and Other Key Factors Impacting our Results of Operations—Exchange Rates*.”

#### Sensitivity analysis

A 10% strengthening of the currencies listed below against the functional currencies of the Company and its subsidiaries as at December 31, 2014, 2015 and 2016 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 and does not take into account any existing derivative financial instruments.

	<u>2015</u>	<u>2016</u>
	(equivalent in € millions)	
EUR	49.5	40.8
USD	3.0	4.1
<b>Total</b>	<u><b>52.5</b></u>	<u><b>44.9</b></u>

A 10% weakening of the above mentioned currencies against the functional currencies of the Group as at December 31, 2015 and 2016, respectively, would have had the equal but opposite effect on the equity and loss, assuming that all other variables remain constant.

#### Interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates. We are exposed to interest rate risk (in euro) through market value fluctuations of interest-bearing borrowings. As at December 31, 2015 and 2016, the variable interest rate profile of our variable interest-bearing financial instruments was:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>6 months or less</b>	<b>6 months or less</b>
Interest bearing payables	77.3	18.1
Finance lease liabilities	2.1	2.4
Senior Facilities Agreement	336.9	229.9
Derivative liability	5.3	6.6
Other	13.1	4.8
<b>Total</b>	<u><b>434.8</b></u>	<u><b>261.7</b></u>

#### Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date, after giving effect to interest rate swaps, would have increased (decreased) profit or loss by:

	<u>Profit or loss (€ millions)</u>	
	<u>100 basis points increase</u>	<u>100 basis points decrease</u>
<b>December 31, 2015</b>		
Variable rate instruments .....	(0.3)	0.3
	<u>Profit or loss (€ millions)</u>	
	<u>100 basis points increase</u>	<u>100 basis points decrease</u>
<b>December 31, 2016</b>		
Variable rate instruments .....	(1.9)	1.9

#### Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arm’s length transaction.

Financial instruments carried on our balance sheet and measured at fair value include available-for-sale instruments, embedded derivatives, interest rate swaps, cross currency swaps, electricity trading assets (term contracts) and electricity trading liabilities (term contracts).

## **DERIVATIVE FINANCIAL INSTRUMENTS**

As at December 31, 2016, we had both derivative financial liabilities and derivative financial assets.

As at December 31, 2016, we had electricity trading assets (term contracts) of €3.1 million, which represented mark-to-market gain from fair valuation of electricity trading contracts. We also had electricity trading liabilities (term contracts) of €11.0 million, which represented mark-to-market loss from fair valuation of electricity trading contracts.

As at December 31, 2016, we also had embedded derivatives of €13.9 million related to the Notes, which include several call options as well as one put option, similar to the 2013 Notes for which the Group's management has assessed the combined fair value of these embedded options for the 2013 Notes through an OAS model in 2015. For the Notes issued in 2016 the fair valuation was performed by a third party based on the option adjusted spread model. As at December 31, 2016 and 2015, the Group recognized a separate financial asset in relation to such embedded derivatives.

On May 22, 2015, RCS & RDS entered into an interest rate swap for the entire term loan facility under the 2015 Senior Facilities Agreement, which remains valid for the 2016 Facility Agreement, through which it hedges against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e. ROBOR). For this purpose we use interest rate swaps, paying fixed and receiving variable cash flows on the same dates on which we settle the interest on our hedged borrowings.

In January 2016, we concluded an interest rate swap for the additional amount drawn on SFA Facility A in December 2015, which expires in April 2020. No modifications were made to this swap when we entered into the 2016 Facility Agreement. As at December 31, 2016, we had a financial liability in relation to this swap of €5.3 million, which was previously €6.1 million in 2015.

## **ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND DISCRETION**

We prepare our financial statements in accordance with IFRS as adopted by the EU. 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 Report. The most material of these include the following:

### **Valuation of Assets**

Property, plant and equipment are carried:

- using the cost model, at purchase or construction cost less accumulated depreciation and accumulated impairment losses: land, 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: buildings, cables, equipment and devices and 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 direct material and labor 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

The fair value 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.

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.

Our non-current intangible assets other than goodwill (consisting primarily of software and licenses, our customer relationships and subscriber acquisition costs) are similarly recorded at cost, less accumulated amortization and impairment in value.

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.

Intangible assets are amortized over their useful economic life. Determining the useful economic life of these assets requires discretion and judgment. We have established the useful life (and thus the amortization periods) for our various intangible assets as follows:

- for subscriber acquisition costs, the 2 year period of the initial contract with the subscriber;
- for customer relationships, generally 7 years (we recognize impairment losses if our relationship with customers is terminated before the subscriber acquisition costs or customer relationships, as applicable, are fully amortized);
- for mobile licenses, the 15 to 25 year period of the license;
- software licenses (including software related to telecommunication equipment), generally 3-8 years; and
- for other contractual intangible assets, over the underlying contract period.

The Company's program assets are recorded under current intangible assets. Advance payments for sports rights related to future seasons and for film and television rights are also presented as current intangible assets. When entering into contracts for the acquisition of broadcasting rights for national and international sports competitions, as well as contracts for the acquisition of film and television broadcasting rights, the rights acquired are classified as contractual commitments.

- 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 during the period.
- Film and television broadcasting rights are recognized at their acquisition cost, when the program is available for screening and are amortized over their broadcasting period

Goodwill, which is also recorded under "intangible assets," represents the excess of the purchase price of a business operation that we have acquired over the net fair value of our interest in that business's assets, liabilities and contingent liabilities. Determining that net fair value requires management discretion and judgment. Under IFRS, goodwill is not amortized.

In addition, we are required under IFRS to assess most of our assets, including goodwill, for impairment at each financial year end, and more frequently if there is an indication that the asset may be impaired. This assessment compares the recoverable value of the asset against its carrying value and, if applicable, recognizes an impairment charge to bring the carrying value down to the recoverable value. Determining the residual value or the recoverable amount of these assets requires us to exercise discretion and judgment.

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.

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. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

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 five-year period. Key assumptions used in the calculation of the recoverable amounts are revenue, EBITDA margins, discount rate, terminal value growth rate and capital expenditure.

#### **Estimated useful lives**

Depreciation is calculated on a straight-line basis to write off the recorded cost of the assets over their estimated useful lives.

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.

As at December 31, 2016, management reviewed the estimated useful lives of property, plant and equipment. As the Group has continued to build and utilise the network and related assets, a more consistent foundation for estimating the consumption pattern of those assets has developed. Consequently, useful lives for several asset sub-categories were revised in order to match the current best estimate of the period over which these assets will generate future economic benefits.

The change of estimated useful lives was applied prospectively from January 1, 2016 onwards.

	<b>Prior Useful life</b>	<b>Revised Useful life</b>
Buildings	40-50 years	40-50 years
Fixed Network	15 years	up to 25 years
Mobile Radio Network (sites)	10 years	20 years
Equipment and devices	3-12 years	3-10 years
Customer premises equipment	5 years	5-10 years
Vehicles	5 years	5 years
Furniture and office equipment	3-9 years	3-9 years

As at December 31, 2016, management reviewed the estimated useful lives of mobile telephony licenses. For certain mobile telephony licenses there are options for extension, automatically exercisable upon the request of the Group. Consequently, useful lives were revised in order to match the current best estimate of the period over which these licenses will generate future economic benefits. Estimated useful lives for mobile telephony licenses are now between 15 and 25 years, where they had previously been 15 years.

#### **Capitalization of Costs**

We reflect costs in our income statement in the year to which those costs relate, except for situations where those costs meet the criteria for capitalization. As an example, we capitalize the costs of upgrading our FTTB/FTTH networks to GPON technology. We identify the following categories of costs that should be capitalized for property, plant and equipment: direct materials costs, proportionate direct labor costs and costs relating to subcontracting the development services. In line with other industry players, 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.

Fees paid for channels produced by third-parties consist primarily of per subscriber fees and are accounted for as operating expenses.

Determining whether a certain cost meets the criteria for capitalization can involve management judgment and discretion.

#### **Trade and other receivables**

Trade receivables are recognized and carried at original invoice amount less an allowance for any doubtful debts. An estimate for doubtful debts allowance is made when collection of the full amount is no longer probable. We record allowances for bad debts and write-off uncollectible amounts when we identify them.

The Group considers evidence of impairment for trade and other receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant trade and other receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. 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.

#### **Available-for-sale assets**

Available for sale assets are initially recognized 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 recognized in OCI and accumulated in the fair value reserve. Available for sale assets comprised shares in RCS Management, not traded on active markets. The valuation model used to assess their fair value was based on the income approach. Cash flows were projected based on financial budgets approved by senior management covering a five-year period, after which a terminal annual revenue growth was used.

#### **Derivative financial instruments**

Derivatives are recognized initially at fair value; attributable transaction costs are recognized 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 recognized 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.

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 to 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 recognized 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 recognized in the statement of profit or loss as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization 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 derecognized, the unamortized fair value is recognized immediately in profit or loss. When an unrecognized 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 recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

##### ***Cash flow hedges***

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss as other operating expenses. Amounts recognized 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 recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized 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 recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Embedded derivatives related to the bond (the Bonds include several call options as well as one put option, for which Management has assessed the combined fair value of these embedded options and recognized a separate embedded derivative asset): the fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a “plain vanilla” bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds.

Electricity trading assets and liabilities (term contracts): the Company uses a discounted cash flow valuation technique to measure the fair value of the term electricity sale and acquisition contracts as these are not traded on active markets. The valuation model is based on the spot-forward parity formula and the significant inputs are represented by:

- the electricity spot price as estimated based on transaction on PZU market around the valuation date, and
- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date.

### **Deferred tax liability and assets**

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.

A deferred tax asset is recognized 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.

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.

### **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.

**DIGI COMMUNICATIONS NV**  
**(former CABLE COMMUNICATIONS SYSTEMS NV)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH**  
**INTERNATIONAL FINANCIAL REPORTING STANDARDS**  
**AS ADOPTED BY THE EUROPEAN UNION**

**For the year ended 31 December 2016**

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Financial Statements**  
**Prepared in accordance with International Financial Reporting Standards**  
**for the year ended 31 December 2016**

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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:**

Digi Communications N.V.

Naritaweg 165, 1043 BW, Amsterdam, Netherlands

### **Auditors:**

Ernst & Young Assurance Services S.R.L.

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Digi Communications NV (former Cable Communications Systems NV)

Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Digi Communications NV (former Cable Communications Systems NV), ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition given the complexity of billing systems</p> <p>There is an inherent telecommunications industry risk associated with the recognition of revenue, given the complexity of billing systems, which process large volumes of data, and the impact of changing offerings and pricing models on revenue recognition (such as tariff structures and incentive arrangements).</p> <p>The Group’s revenue recognition relies on IT systems, comprising of a number of interdependent interfaces and databases. Given the complexity of the IT environment, with highly automated processes and controls over the critical path of transactions, a significant component of the audit work was in the area of controls that we considered relevant and key for the financial reporting of revenue, such as controls over the capture, rating, storage and extraction of information. These controls are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner. We therefore consider this as a key audit matter.</p>	<p>We focused our audit on those IT systems and controls that are significant for the Group’s revenue recognition. Considering that audit procedures over the IT systems and application controls require specific expertise, we involved our IT specialists in order to assist us in our audit procedures.</p> <p>Our audit procedures included, but were not limited to, the following procedures:</p> <ul style="list-style-type: none"> <li>• a detailed understanding of the revenue processes and related document flows, identifying the IT systems as well as the controls designed and implemented within the respective processes that we considered relevant and significant for our audit;</li> <li>• testing the operating effectiveness of selected controls by inspecting evidence supporting whether they were in place throughout the year. We focused on billing systems controls with respect to data capture, mediation and recording of revenue transactions; on the controls over authorization of tariff changes and over the correctness of input of tariff information in the billing system as well as on the controls over the accuracy of automatic calculation of invoice amounts based on tariffs, usage and other relevant inputs;</li> </ul>

Key audit matter	How our audit addressed the key audit matter
	<p>With respect to IT general controls, we tested controls over the user access rights to systems and data, as well as managing system changes. The audit approach was tailored in accordance with the financial significance of the system and whether there were automated procedures supported by that system and our focus was on the following procedures:</p> <ul style="list-style-type: none"> <li>• testing whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications;</li> <li>• testing whether user access rights were set-up in accordance with Group's internal policies and procedures and</li> <li>• testing the operating effectiveness of controls over the system changes, in order to determine if changes were properly authorized, implemented and monitored.</li> </ul> <p>In addition, we also performed, amongst others, the following procedures:</p> <ul style="list-style-type: none"> <li>• Analysis over the calculation of revenues from subscription, by considering each type of subscription and the applicable tariff as per the commercial offers;</li> <li>• Testing, on a sample basis, the proper allocation of cash receipts to subscribers.</li> </ul>



Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition considering multiple revenue streams</p> <p>The Group's main sources of revenue are from subscription services, as follows:</p> <ul style="list-style-type: none"> <li>• Revenue from rendering of cable TV ("CATV") and direct-to-home TV ("DTH"), subscription services;</li> <li>• Revenue from rendering of internet and data communication subscription services (fixed and mobile);</li> <li>• Revenue from rendering of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.</li> </ul> <p>Telecommunication services also comprise significant equipment sales. In addition to telecommunications revenues the Group also derives a smaller portion of revenues from rentals, energy production (including related green certificates), advertising, filming services for other operators etc.</p> <p>The Group's disclosures about revenue recognition are included in Note 2 (Basis for preparation and accounting policies) and Note 17 (Revenues).</p> <p>We consider this a key audit matter due to the fact that there are multiple revenue streams which are subject to different IFRS requirements with respect to revenue recognition.</p>	<p>Our audit procedures included, but were not limited to the following procedures:</p> <ul style="list-style-type: none"> <li>• Analyse the Group's accounting policy for each revenue stream considering both the substance of the commercial offers that were in force during the year, and the applicable requirements of IFRS as well as the industry practices for each revenue stream;</li> <li>• Assess whether the Group's accounting policies are implemented consistently as adopted.</li> </ul> <p>In the area of revenue recognition, we also performed, amongst others, the procedures outlined in the above key audit matter <i>Revenue recognition given the complexity of billing systems</i>.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of tangible and intangible assets</p> <p>As at 31 December 2016, the Group has recognized goodwill in amount of EUR 77,178 thousand, representing 37% out of total intangibles assets.</p> <p>Under IFRS, an entity is required to test the goodwill for impairment at least annually. The determination of the recoverable amount, being determined by the Group as fair value less costs to sell, was significant to our audit because the computation of fair value less costs to sell is complex and relies on estimates and assumptions, therefore we have considered it a key audit matter. Goodwill acquired through business combinations is allocated among the following cash generating units (CGUs), for the purpose of impairment testing: CBT (being: cable, TV, fixed and mobile internet and data, fixed line and mobile telephony) Romania, CBT Hungary and CBT Spain. The main assumptions used by the Group in the estimation of fair value less costs to sell were:</p> <ul style="list-style-type: none"> <li>• the discount rates (post-tax);</li> <li>• the terminal growth rate;</li> <li>• capital expenditure and</li> <li>• assumptions underlying future operating cash flows for the explicit period of 5 years.</li> </ul> <p>The Group's disclosures about the impairment test for the above CGUs, which include the goodwill as well as most of the tangible and other intangible assets of the Group, are included in Note 2.1 (Basis for preparation and accounting policies) and Note 6 (Intangible assets). Furthermore, an assessment of impairment indicators has been made for the other CGUs, which do not include goodwill (such as the renewable energy production), as well as for specific assets (such as abandoned construction-in-progress).</p>	<p>Our audit procedures included, but were not limited to, the following procedures:</p> <ul style="list-style-type: none"> <li>• analysis of the methodology used by management to assess the fair value less costs to sell of the CGUs, to determine its compliance with accounting standards and consistency of application;</li> <li>• evaluation of the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rate and the capital expenditure. We involved our valuation specialists to assist us in the evaluation of key assumptions and methodologies used by the Group for the impairment testing, including the determination of the discount rates for Romania and Hungary. In this context we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the Group's economic circumstances; ii) existing market information; iii) the business plans of the Group, including management's expectations; iv) the risk associated with cash flows, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate; v) specific requirements of IFRS;</li> <li>• test the mathematical accuracy of the discounted cash flow computations;</li> <li>• assessment of the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;</li> <li>• test the mathematical accuracy of the computations in respect of the sensitivity in the available headroom of CGUs.</li> </ul> <p>We further assessed the adequacy of the Group's disclosures about the impairment test in the notes to the consolidated financial statements.</p>

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="197 465 703 533"><b>Covenants associated with bonds and Senior Facilities Agreement</b></p> <p data-bbox="197 566 719 667">The availability of adequate funding and whether the Group meets its financial covenants are significant for our audit.</p> <p data-bbox="197 701 770 902">We have considered this a key audit matter due to the high leverage of the Group (as of 31 December 2016 interest-bearing loans and borrowings, including bonds, amount to EUR 709,587 thousand and equity amounts to EUR 42,603 thousand).</p> <p data-bbox="197 943 767 1111">The Group's disclosure about the covenants of the bonds and the covenants of the Senior Facilities Agreement (SFA) is included in Note 14 (Interest bearing loans and borrowings).</p>	<p data-bbox="809 465 1417 533">Our audit work included, but was not limited to the following procedures:</p> <ul data-bbox="817 566 1430 1144" style="list-style-type: none"> <li data-bbox="817 566 1401 667">• read the terms of the 2016 SFA and 2016 bonds with respect to the covenants clauses;</li> <li data-bbox="817 674 1382 842">• evaluate the Group's assessment of compliance with the debt covenant requirements including both quantitative and qualitative covenants as at 31 December 2016;</li> <li data-bbox="817 848 1430 1144">• given the relevance of the EBITDA (earnings before interest tax depreciation and amortisation) in the quantitative covenant calculations, we focused our procedures on the correct classification of items in EBITDA and on the specific items included in or excluded from EBITDA, in accordance with criteria as stated in the SFA and bonds terms.</li> </ul> <p data-bbox="809 1182 1337 1283">We further assessed the adequacy of the disclosures included in the notes to the consolidated financial statements.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of overdue trade and other receivables</p> <p>At 31 December 2016, the Group records trade and other receivable balances of EUR 154,023 thousand, before allowance adjustment of EUR 45,058 thousand.</p> <p>The identification and determination of receivables allowance requires management to make judgements and assumptions and represents a process with a significant level of uncertainties.</p> <p>The main assumptions used by management in evaluating the level of the allowance include factors such as age of the balance, type of customers, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of counterparties, as well as the Group's historical loss experiences for the relevant aged category.</p> <p>Due to the significance of trade and other receivables (representing 55% of Current assets) and the related estimation uncertainty, this is considered a key audit matter.</p> <p>The Group's disclosures about receivables allowance are included in Note 2.2 f) (accounting policies – impairment), Note 10 (Trade and other receivables) and Note 23 (Financial risk management – Credit risk section) to the consolidated financial statements.</p>	<p>Our audit work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> <li>• test controls over the collection process;</li> <li>• test application controls over the automatic computation of ageing of receivables;</li> <li>• test collections from customers, on a sample basis, subsequent to the year-end;</li> <li>• evaluate management's assessment of the creditworthiness of clients and the factors taken into account when establishing the percentage of allowance or considering that no allowance is necessary;</li> <li>• evaluate the Group's allowance levels by considering the historical cash collection patterns and degree of accuracy of previous allowance estimates;</li> <li>• obtain direct customer confirmations, and inspecting public information available about the insolvency proceedings and obtaining confirmation letter from external lawyers regarding the insolvency process, where applicable;</li> <li>• review the correspondence with the Group's external lawyers supporting any disputes between the parties involved, and the attempts by management to recover the amounts outstanding, where applicable.</li> </ul> <p>We further assessed the adequacy of the Group disclosures included in Note 10 (Trade and other receivables) and Note 23 (Financial risk management) to the consolidated financial statements.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Useful lives of property, plant and equipment</p> <p>Management judgment significantly impacts the carrying value of property, plant and equipment through the estimation of their useful lives.</p> <p>As described in Note 2.2.c) (accounting policies - property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements, as of 31 December 2016 management has completed its review of the estimated useful lives of property plant and equipment and determined changes to be necessary to many types of assets from the categories of Customer premises equipment, Network and Equipment. The change of estimated useful lives was applied prospectively from 1 January 2016 onwards.</p> <p>Due to the significance of the impact on depreciation expense (a net decrease of EUR 23,173 thousand of the depreciation expense for the year 2016) and the degree of judgment involved in determining the revised useful lives, this is considered a key audit matter.</p>	<p>Our audit procedures included, but were not limited to, the following procedures:</p> <ul style="list-style-type: none"> <li>• reading the memos prepared by management to support the revised useful lives, including appendices with technical specifications and relevant public studies;</li> <li>• evaluation of the additional technical specifications obtained from certain suppliers;</li> <li>• testing the actual failure rates experienced so far by RCS&amp;RDS as listed in the memos;</li> <li>• analyzing that the recent churn rates do not imply useful lives shorter than the revised ones;</li> <li>• comparing the revised useful lives with the ones disclosed in the latest financial statements available of other telecommunications groups based in Europe and a public study of useful lives applied by telecommunications groups based in the United States;</li> <li>• involving our Telecommunications industry specialists and our valuation &amp; business modelling specialists to assist us and review the useful lives re-assessment from the methodology and assumptions reasonability point of view, including appropriate consideration of technological obsolescence and comparison to non-public benchmarks available to them;</li> <li>• evaluation of the consistency of the business strategy assumptions used for the revision of useful lives with the assumptions used for the business plan and impairment test, and other knowledge accumulated by us about management's plans during our audit.</li> </ul> <p>We further assessed the adequacy of the disclosures included in Note 2.2.c) (accounting policies - property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Revaluation of property, plant and equipment</p> <p>The Group uses the revaluation model in order to account for land, buildings, network, equipment and devices and customer premises equipment.</p> <p>As of 31 December 2016, management has performed the annual analysis, in order to assess whether the carrying amount does not differ materially from the fair value of the above categories of property, plant and equipment. Following this analysis, management concluded that a revaluation exercise must be performed only for land, buildings and customer premises equipment. At 31 December 2016, the carrying value of assets carried under revaluation model was:</p> <ul style="list-style-type: none"> <li>• land: EUR 17,803 thousand (after 2016 revaluation);</li> <li>• buildings: EUR 71,290 thousand (after 2016 revaluation);</li> <li>• networks: EUR 417,054 thousand</li> <li>• customer premises equipment: EUR 74,431 thousand (after 2016 revaluation), and</li> <li>• equipment and devices: EUR 131,062 thousand.</li> </ul> <p>We have considered the revaluation of customer premises equipment, as well as the assessment of management that no revaluation is necessary for network and for equipment and devices, to be a key audit matter due to the fact that it requires management to make significant judgements and assumptions.</p> <p>The main areas involving significant judgments and assumptions made by management were represented by:</p> <ul style="list-style-type: none"> <li>• determination of current replacement cost of the assets;</li> <li>• the assets' specific physical/functional depreciation and</li> <li>• the functional and economical obsolescence.</li> </ul>	<p>Our audit work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> <li>• perform a detailed understanding of the Group's internal processes and related documentation flow as well as methods and assumptions used by management and the Group's internal specialists;</li> <li>• assessing the competence, capabilities of the Group's internal specialists, as well as their objectivity;</li> <li>• evaluate the valuation methodology used, giving consideration to the: (i) nature of the asset being valued; (ii) premise and standard of value; (iii) observable market prices; and (iv) whether the assumptions used provide a reasonable basis for the fair value measurement;</li> <li>• test the underlying data to evaluate that it: (i) is relevant; and (ii) provides objective support for the assumptions used in the valuation analysis, including where possible an overall assessment against industry practices;</li> <li>• evaluate the assumptions made by management for the specific technical adjustments related to the physical characteristics of the individual assets, including the allocation of individual assets to the categories from which the valuation assumptions have been derived;</li> <li>• analyse and corroborate the replacement costs sourced by management based on external/internal evidence and similar benchmarks;</li> <li>• test the mathematical accuracy of the valuation models used by management;</li> <li>• for several of the above procedures we have involved our Telecommunications industry specialists and our valuation &amp; business modelling specialists to assist us;</li> <li>• in respect of the useful lives used to account for the assets' physical/functional depreciation please refer to the procedures outlined in the above key audit matter</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p>The Group's disclosures about the revaluation are included in Note 2.2 c) (accounting policies – property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements.</p>	<p><i>Useful lives of property, plant and equipment</i> We further assessed the adequacy of the Group disclosures included in Note 2.2 c) (accounting policies – property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements.</p>

#### Other information

The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- " Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- " Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- " Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- " Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- " Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- " Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### 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 Group, stated in the Offering Memorandum dated 12 October 2016. These consolidated financial statements are not intended for statutory filing purposes in any jurisdiction.

The partner in charge of the audit resulting in this independent auditor's report is Anamaria Cora.

On behalf of

Ernst & Young Assurance Services SRL

Name of signing person: Anamaria Cora

Bucharest, Romania

11 April 2017

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Statement of financial position**  
**as at 31 December 2016**

(all amounts are in thousand EUR, unless specified otherwise)

	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	825,989	674,743
Intangible assets	6a	206,812	205,128
Available for sale financial assets (AFS)	7	-	43,373
Investment in associates		995	1,000
Long term receivables		3,927	5,852
Deferred tax assets	20	3,126	3,951
<b>Total non-current assets</b>		<b><u>1,040,849</u></b>	<b><u>934,047</u></b>
<b>Current assets</b>			
Inventories	9	18,552	13,205
Programme assets	6b	30,312	29,536
Trade and other receivables	10	108,965	82,545
Income tax receivable		2,804	202
Other assets	11	6,321	8,209
Derivative financial assets	25	17,049	9,937
Cash and cash equivalents	12	14,625	49,662
<b>Total current assets</b>		<b><u>198,628</u></b>	<b><u>193,296</u></b>
<b>Total assets</b>		<b><u>1,239,477</u></b>	<b><u>1,127,343</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	51	51
Share premium		8,247	8,247
Treasury shares		(16,703)	(16,703)
Reserves		9,096	31,597
Retained earnings		40,474	77,462
<b>Equity attributable to equity holders of the parent</b>		<b><u>41,165</u></b>	<b><u>100,654</u></b>
Non-controlling interest		1,438	2,160
<b>Total equity</b>		<b><u>42,603</u></b>	<b><u>102,814</u></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings, including bonds	14	665,540	624,897
Deferred tax liabilities	20	34,812	26,981
Other long term liabilities	15.2	46,076	7,598
<b>Total non-current liabilities</b>		<b><u>746,428</u></b>	<b><u>659,476</u></b>
<b>Current liabilities</b>			
Trade and other payables	15.1	373,969	271,118
Interest-bearing loans and borrowings	14	44,047	63,118
Income tax payable		1,390	1,746
Derivative financial liabilities	25	16,356	8,253
Deferred revenue		14,684	20,818
<b>Total current liabilities</b>		<b><u>450,446</u></b>	<b><u>365,053</u></b>
<b>Total liabilities</b>		<b><u>1,196,874</u></b>	<b><u>1,024,529</u></b>
<b>Total equity and liabilities</b>		<b><u>1,239,477</u></b>	<b><u>1,127,343</u></b>

The financial statements were approved by the Board of Directors on 11/04/2017 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

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Statement of profit or loss and other comprehensive income**  
**for the year ended as at 31 December 2016**

*(all amounts are in thousand EUR, unless specified otherwise)*

		<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
		<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	Notes	<i>Operations</i>	<i>Operations</i>		<i>Operations</i>	<i>Operations</i>	
Revenues	17	842,755	-	842,755	746,290	3,840	750,130
Gain/(loss) from sale of discontinued operations	21	-	(674)	(674)	-	20,882	20,882
Operating expenses	18	(755,848)	-	(755,848)	(696,567)	(3,115)	(699,682)
Other expenses	28	(6,969)	-	(6,969)	(998)	-	(998)
<b>Operating profit</b>		<b>79,938</b>	<b>(674)</b>	<b>79,264</b>	<b>48,725</b>	<b>21,607</b>	<b>70,332</b>
Finance income	19	45,312	-	45,312	9,869	-	9,869
Finance expenses	19	(101,467)	-	(101,467)	(70,726)	(23)	(70,749)
<b>Net finance costs</b>		<b>(56,155)</b>	<b>-</b>	<b>(56,155)</b>	<b>(60,857)</b>	<b>(23)</b>	<b>(60,880)</b>
<b>Profit / (loss) before taxation</b>		<b>23,783</b>	<b>(674)</b>	<b>23,109</b>	<b>(12,132)</b>	<b>21,584</b>	<b>9,452</b>
Income tax	20	(11,326)	-	(11,326)	(5,369)	(56)	(5,425)
<b>Net profit / (loss)</b>		<b>12,457</b>	<b>(674)</b>	<b>11,783</b>	<b>(17,501)</b>	<b>21,528</b>	<b>4,027</b>
<b>Other comprehensive income</b>							
<b>Items not to be reclassified to profit or loss</b>							
Revaluation of property, plant and equipment, net of tax		16,660	-	16,660	-	-	-
<b>Items that are or may be reclassified to profit or loss, net of tax</b>							
Foreign operations – foreign currency translation differences		1,609	-	1,609	(108)	-	(108)
Change in fair value available for sale asset		2,367	-	2,367	1,227	-	1,227
Available for sale financial asset, reclassification of gain	7	(33,722)	-	(33,722)	-	-	-
Cash Flow hedge reserves		654	-	654	(4,535)	-	(4,535)
<b>Other comprehensive income for the year, net of tax</b>		<b>(12,432)</b>	<b>-</b>	<b>(12,432)</b>	<b>(3,416)</b>	<b>-</b>	<b>(3,416)</b>
<b>Total comprehensive income for the year</b>		<b>25</b>	<b>(674)</b>	<b>(649)</b>	<b>(20,917)</b>	<b>21,528</b>	<b>611</b>

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Serghei Bulgac, CFO

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Statement of profit or loss and other comprehensive income**  
**for the year ended as at 31 December 2016**

*(all amounts are in thousand EUR, unless specified otherwise)*

	Notes	2016 Continuing Operations	2016 Discontinued Operations	2016 Total	2015 Continuing Operations	2015 Discontinued Operations	2015 Total
<b>Profit / (Loss) attributable to:</b>							
Equity holders of the parent		13,434	(648)	12,786	(16,667)	20,637	3,970
Non-controlling interest		(977)	(26)	(1,003)	(834)	891	57
<b>Net profit / (loss) for the year</b>		<b>12,457</b>	<b>(674)</b>	<b>11,783</b>	<b>(17,501)</b>	<b>21,528</b>	<b>4,027</b>
<b>Total comprehensive income attributable to:</b>							
Equity holders of the parent		221	(648)	(427)	(19,896)	20,637	741
Non-controlling interests		(196)	(26)	(222)	(1,021)	891	(130)
<b>Total comprehensive income for the year</b>		<b>25</b>	<b>(674)</b>	<b>(649)</b>	<b>(20,917)</b>	<b>21,528</b>	<b>611</b>
<b>Earnings per share (in EUR) attributable to parent company</b>							
<b>Net profit/(loss)</b>		<b>13,434</b>	<b>(648)</b>	<b>12,786</b>	<b>(16,667)</b>	<b>20,637</b>	<b>3,970</b>
<b>Basic and diluted earnings/(loss) per share (EUR/share)</b>		<b>289.2</b>	<b>(13.9)</b>	<b>275.2</b>	<b>(358.7)</b>	<b>444.2</b>	<b>85.5</b>

The financial statements were approved by the Board of Directors on 11/04/2017 and were signed on its behalf by:

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Serghei Bulgac, CFO

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2016**

(all amounts are in thousand EUR, unless specified otherwise)

	Notes	2016	2015
<b>Cash flows from operating activities</b>			
<b>Profit/(loss) before taxation</b>		<b>23,109</b>	<b>9,452</b>
<b>Adjustments for:</b>			
Depreciation, amortization and impairment	5, 6	170,094	187,905
Revaluation deficit recognised in profit or loss		6,276	-
Interest expense, net*	19	45,173	49,342
Finance cost & amortized borrowing costs*		26,505	4,923
Impairment of trade and other receivables	18	9,677	10,069
Impairment of investments in associates		-	1,542
Losses/(gains) on derivative financial instruments	23	14,547	(5,523)
Equity settled share-based payments	24	-	2,054
Unrealised foreign exchange loss/(gain)		5,741	(837)
Reclassification of fair value adjustment of AFS		(33,722)	
Other non cash items		-	(64)
Gain on sale of assets		(1,462)	(744)
(Gain)/loss on disposal of subsidiary	21	674	(20,882)
<b>Cash flows from operations before working capital changes</b>		<b>266,612</b>	<b>237,237</b>
<b>Changes in:</b>			
Decrease/(increase) in trade receivables and other assets		(29,540)	15,144
Increase in inventories		(5,974)	(3,704)
Increase in trade payables and other current liabilities		31,424	21,191
(Decrease)/increase in deferred revenue		(7,248)	(28,388)
<b>Cash flows from operations</b>		<b>255,274</b>	<b>241,480</b>
Interest paid		(43,981)	(44,235)
Income tax paid		(7,823)	(5,062)
<b>Net cash flows from operating activities</b>		<b>203,470</b>	<b>192,183</b>
<b>Cash flow used in investing activities</b>			
Purchases of property, plant and equipment	5, 15	(142,629)	(113,733)
Purchases of intangibles	6, 14	(70,767)	(80,618)
Acquisition of subsidiaries, net of cash and NCI	22	(2,124)	(1,827)
Acquisition of AFS	22	(939)	(1,460)
Sale of subsidiaries, net of cash disposed	21	-	25,132
Proceeds from sale of property, plant and equipment		505	919
<b>Net cash flows used in investing activities</b>		<b>(215,954)</b>	<b>(171,587)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(4,428)	(1,622)
Proceeds from borrowings	14	496,304	258,229
Repayment of borrowings	14	(477,628)	(272,905)
Financing costs paid		(26,779)	(4,082)
Settlement of derivatives		(5,802)	(3,739)
Payment of finance lease obligations		(3,428)	(1,618)
<b>Net cash flows (used in)/from financing activities</b>		<b>(21,761)</b>	<b>(25,737)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(34,245)</b>	<b>(5,141)</b>
Cash and cash equivalents at the beginning of the year	12	<b>49,662</b>	<b>54,288</b>
Effect of exchange rate fluctuations of cash and cash equivalents held		(792)	515
<b>Cash and cash equivalents at the end of the year</b>	12	<b>14,625</b>	<b>49,662</b>

\* As of 31 December 2015 interest expense and unamortized borrowing costs recognized as expense were both presented on the Interest expense, net line in the Cash flow. Comparative information was restated as of 31 December 2016, in order to present this information on separate lines. For details, please see Note 13 Borrowings.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2016**  
*(all amounts are in thousand EUR, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
<b>Balance at 1 January 2016</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(31,726)</b>	<b>36,314</b>	<b>31,355</b>	<b>(4,346)</b>	<b>77,462</b>	<b>100,654</b>	<b>2,160</b>	<b>102,814</b>
<b>Comprehensive income for the period</b>											
Profit/(loss) for the year	-	-	-	-	-	-	-	12,786	12,786	(1,003)	11,783
Foreign currency translation differences	-	-	-	1,545	-	-	-	-	1,545	64	1,609
Revaluation of property, plant and equipment, net of tax (Note 5)	-	-	-	-	15,970	-	-	-	15,970	690	16,660
Fair Value for AFS (Note 7)	-	-	-	-	-	2,367	-	-	2,367	-	2,367
Reclassification AFS gain (Note 7)	-	-	-	-	-	(33,722)	-	-	(33,722)	-	(33,722)
Cash Flow hedge reserves	-	-	-	-	-	-	627	-	627	27	654
Transfer of revaluation reserve (depreciation)	-	-	-	-	(9,288)	-	-	9,288	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,545</b>	<b>6,682</b>	<b>(31,355)</b>	<b>627</b>	<b>22,074</b>	<b>(427)</b>	<b>(222)</b>	<b>(649)</b>
<b>Transactions with owners, recognised directly in equity</b>											
<b>Contributions by and distributions to owners</b>											
Dividends distributed (Note 13)	-	-	-	-	-	-	-	(57,546)	(57,546)	(370)	(57,916)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57,546)</b>	<b>(57,546)</b>	<b>(370)</b>	<b>(57,916)</b>
<b>Changes in ownership interests in subsidiaries</b>											
Payments while having full control (Note 22)	-	-	-	-	-	-	-	-	-	-	-
Movement in ownership interest while retaining control (Note 22)	-	-	-	-	-	-	-	(1,516)	(1,516)	(130)	(1,646)
<b>Total changes in ownership interests in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,516)</b>	<b>(1,516)</b>	<b>(130)</b>	<b>(1,646)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(59,062)</b>	<b>(59,062)</b>	<b>(500)</b>	<b>(59,562)</b>
<b>Balance at 31 December 2016</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(30,181)</b>	<b>42,996</b>	<b>-</b>	<b>(3,719)</b>	<b>40,474</b>	<b>41,165</b>	<b>1,438</b>	<b>42,603</b>

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2016**  
*(all amounts are in thousand EUR, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
<b>Balance at 1 January 2015</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(31,616)</b>	<b>46,775</b>	<b>30,128</b>	<b>-</b>	<b>68,261</b>	<b>105,143</b>	<b>2,197</b>	<b>107,340</b>
<b>Comprehensive income for the period</b>											
Profit for the year	-	-	-	-	-	-	-	3,970	3,970	57	4,027
Foreign currency translation differences	-	-	-	(110)	-	-	-	-	(110)	2	(108)
Fair Value for AFS	-	-	-	-	-	1,227	-	-	1,227	-	1,227
Cash Flow hedge reserves	-	-	-	-	-	-	(4,346)	-	(4,346)	(189)	(4,535)
Transfer of revaluation reserve (depreciation)	-	-	-	-	(10,461)	-	-	10,461	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(110)</b>	<b>(10,461)</b>	<b>1,227</b>	<b>(4,346)</b>	<b>14,431</b>	<b>741</b>	<b>(130)</b>	<b>611</b>
<b>Transactions with owners, recognised directly in equity</b>											
<b>Contributions by and distributions to owners</b>											
Equity-settled share-based payment transactions (Note 24)	-	-	-	-	-	-	-	1,968	1,968	86	2,054
Dividends distributed (note 13)	-	-	-	-	-	-	-	(3,500)	(3,500)	-	(3,500)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,532)</b>	<b>(1,532)</b>	<b>86</b>	<b>(1,446)</b>
<b>Changes in ownership interests in subsidiaries</b>											
Payments while having full control (Note 22)	-	-	-	-	-	-	-	(707)	(707)	(31)	(738)
Movement in ownership interest while retaining control (Note 22)	-	-	-	-	-	-	-	(2,991)	(2,991)	38	(2,953)
<b>Total changes in ownership interests in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,698)</b>	<b>(3,698)</b>	<b>7</b>	<b>(3,691)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,230)</b>	<b>(5,230)</b>	<b>93</b>	<b>(5,137)</b>
<b>Balance at 31 December 2015</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(31,726)</b>	<b>36,314</b>	<b>31,355</b>	<b>(4,346)</b>	<b>77,462</b>	<b>100,654</b>	<b>2,160</b>	<b>102,814</b>

## **DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**

### **Notes to the consolidated Financial Statements**

#### **for the year ended 31 December 2016**

*(all amounts are in thousand EUR, unless specified otherwise)*

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## **1. CORPORATE INFORMATION**

Digi Communications Group (“the Group” or “DIGI Group”) comprises Digi Communications N.V., RCS&RDS S.A. and their subsidiaries.

The parent company of the Group is Digi Communications N.V. (“DIGI” 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, and Digi Italy SL. DIGI registered office is located in Amsterdam (1043 BW), Naritaweg 165, Telestone 8, The Netherlands. On 11 April 2017 the Company changed its name, its former name being Cable Communications Systems N.V.

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, Spain and Italy. The largest operating company of the Group is RCS&RDS. At the end of 2016, DIGI Group had a total of 13,400 employees (2015: 12,453 employees).

The principal shareholder of the DIGI is RCS Management (“RCSM”) a company incorporated in Romania. The ultimate shareholder of DIGI is Mr. Zoltan Teszari, the controlling shareholder of RCSM. DIGI and RCSM have no operations, except for holding and financing activities, and their primary/ only asset is the ownership of RCS&RDS and respectively DIGI.

The consolidated financial statements were authorized for issue by the Board of Directors of DIGI on 11/04/2017.



## **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") as adopted by the European Union ("EU").

#### **(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. 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 of the Company, RCSM, will file its consolidated financial statements for the year ended 31 December 2016, prepared in accordance with IFRS as adopted by the EU, 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, land, network, 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.

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 DIGI 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 attractive content.

Please refer to Note 23 for a discussion of how management addresses 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).

## **DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**

### **Notes to the consolidated Financial Statements**

**for the year ended 31 December 2016**

*(all amounts are in thousand EUR, unless specified otherwise)*

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## **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 as adopted by EU 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;
- Senior Notes 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 22 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.

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 23 iv): measurement of available for sale financial assets;
- Note 2.2 (c) and Note 5: useful lives of property, plant and equipment;
- Note 5: revaluation of buildings, network, equipment and devices and customer premises equipment;
- Note 23 i): impairment of trade receivables;
- Notes 23 iv): fair value of financial instruments;
- Note 26: contingencies;
- Note 14 and 23 iv): bonds embedded derivatives;
- Note 20: recognition and measurement of deferred tax assets.

## **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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **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 2016:

- **IAS 27 Separate Financial Statements (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows 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 not made use of this amendment.

- **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 to IAS 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 not made use of this amendment.

- **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. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. 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 amortize intangible assets. Management has not made use of this amendment.

- **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. The Group had no transactions in scope of this amendment.

- **IAS 19 Defined Benefit Plans (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. The Group does not have any plans that fall within the scope of this amendment.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****• 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. The Group had no transactions in scope of this amendment.

• **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.

- 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.

These amendments did not have a significant effect on the financial position or performance of the Group.

• **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.

- 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.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

- 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.
- 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.

These 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 DIGI and its subsidiaries and the Group's interest in associates as at 31 December 2016. 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.

*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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### *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 significant 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.

Investments in insignificant associates are accounted for at cost less any accumulated impairment losses.

### *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.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 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 and Czech Republic:

Currency	2016			2015		
	Average for the			Average for the		
	Jan – 1	year	Dec – 31	Jan – 1	year	Dec – 31
RON per 1EUR	4.5245	4.4908	4.5411	4.4821	4.4450	4.5245
HUF per 1EUR	313.12	311.47	311.02	314.89	309.89	313.12
CZK per 1EUR	N/A	N/A	N/A	27.73	27.58*	N/A
USD per 1EUR (ecb.eu)	1.0887	1.1070	1.0510	1.2141	1.1095	1.0887

\*The average rate for CZK is the average of period starting 1 January 2015, ending 30 April 2015.

### 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, network, equipment and devices and customer premises equipment (“CPE”).

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**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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 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 mobile radio 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 at 31 December 2016, management completed its review of the estimated useful lives of property, plant and equipment. As the Group continued to build and utilise the network and related assets, there is a more consistent ground for estimating the consumption pattern of those assets. Consequently, useful lives for several asset sub-categories were revised in order to match the current best estimate of the period over which these assets will generate future economic benefits.

The change of estimated useful lives was applied prospectively from 1 January 2016 onwards:

	<b>Prior Useful life</b>	<b>Revised Useful life</b>
Buildings	40-50 years	40-50 years
Fixed Network	15 years	up to 25 years
Mobile Radio Network (sites)	10 years	20 years
Equipment and devices	3-12 years	3-10 years
Customer premises equipment	5 years	5-10 years
Vehicles	5 years	5 years
Furniture and office equipment	3-9 years	3-9 years

The effects of the change of estimated useful lives is presented in Note 5.

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.



## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### *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).

#### *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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### *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 broadcasting period 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, the 900 MHz, the 2600 MHz and the 3700 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.

As at 31 December 2016, management completed its review of the estimated useful lives of mobile telephony licenses. For certain mobile telephony licenses there are options for extension, automatic upon the request of the Group. Consequently, useful lives were revised in order to match the current best estimate of the period over which these licenses will generate future economic benefits. Estimated useful lives for mobile telephony licenses are now between 15-25 years (prior: 15 years).

## **DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**

### **Notes to the consolidated Financial Statements**

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## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

The change of estimated useful lives was applied prospectively from 1 January 2016 onwards. The effects of the change of estimated useful lives are presented in Note 6.

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.

### **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, cash and cash equivalents 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 and other long term receivables.

#### **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits at banks.

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, which are subject to an insignificant risk of changes in value.

#### **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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **Offsetting**

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.

### **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.

The Group established vendor financing and reverse factoring agreements with suppliers. In some cases, payment terms are extended in agreements between the supplier and the Group. Depending on the nature of the agreements' clauses, these transactions are classified as trade payables. If these agreements imply extended payment terms, trade payables are classified as long term. Corresponding cash flows are presented as Cash flow from operating activities.

### **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. When treasury shares are cancelled the excess of cost above nominal value is debited to retained earnings.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **Earnings per share**

The Group discloses both basic earnings per share and diluted earnings per share for continuing operations and discontinued operations:

- basic earnings per share are calculated by dividing net profit/(loss) for the year attributable to the equity holders of the Group, by the weighted average number of ordinary shares outstanding during the period;
- diluted earnings per share are calculated based on the net profit/(loss), adjusted by the impact on employee profit-sharing, net of the related tax effect. There are currently no instruments that have a dilutive effect on earnings.

Earnings per share are adjusted retrospectively for increases in the number of shares resulting from capitalisation, bonus issues or share splits, as well as for decreases resulting from reverse share splits, including when such changes occur subsequent to the reporting period but before the financial statements are authorized for issue.

#### *(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.

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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### *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.

### **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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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.

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. The main assumptions used by management in evaluating the level of the allowance include factors such as age of the balance, type of customers, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of counterparties, as well as the Group's historical loss experiences for the relevant aged category. 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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **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.

### **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 discounted cash flow ("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.

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.



## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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.

### **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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

Leases, including IRU leases and lease of satellite transponders, 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.

### *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 is 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.

## DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)

### Notes to the consolidated Financial Statements

for the year ended 31 December 2016

(all amounts are in thousand EUR, unless specified otherwise)

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## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The revenues from services 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.

- *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.

- *Customer loyalty programme*

Starting with 2016, the Group operates a loyalty programme in Romania which allows customers to receive vouchers on signing new or renewed contracts. The vouchers' fair value (which is the same as their nominal value) is deducted from the future subscription values and recognized as revenue when utilised or at expiration.

### **Equipment sales**

Revenue is recognized when the significant risks and rewards of ownership of the equipment have passed to the buyer, usually upon delivery.

### **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.

### **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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### ***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.

### ***Advertising***

Revenues obtained from publicity sales on our broadcasting channels (TV & radio) are recognized when the relating advertising is performed.

### ***Supply of electricity***

Realized results from trading of electricity are reported in the Profit and Loss account on a net basis as part of Operating expenses. Mark-to-market results (unrealised) from fair value assessment of energy trading contracts are reported as Other income/ (Other expense) in the Profit and Loss account.

Revenues from electricity production, including the related green certificates granted under Romania's renewable energy support scheme, are recognized when electricity is produced. Green certificates are recognized at fair value, which includes for the green certificates for which trading is deferred, the assessment of the related under-absorption risk.

### **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.

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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **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, or are recognized when their utilisation has become probable.

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.

### **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.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **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.

In 2016 no share based payment plan applied (no grants were made and all previous awards vested).

### **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-end 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 28. All other information included in the disclosure per segment is prepared under IFRSs as adopted by EU 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.

- **IFRS 9 Financial Instruments**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments 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 amendment will not have a significant 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 2018. 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.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

The Group has initiated the IFRS 15 impact analysis, which is still on-going. We have started the analysis of a sample of contracts and mix of services provided to subscribers in order to assess the impact of IFRS 15 implementation compared with our current accounting policies in accordance with IAS 18. Among others, we have analysed the mobile handsets component of a multiple element arrangements and the timing of the revenues recognized. Based on the sample analysed so far, we have identified the performance obligations and determined transaction price, as well as allocated the transaction price in accordance with IFRS 15. Based on the current status of the analysis, the impact of implementing IFRS 15 appears to be not very significant with respect to unbundling of revenues.

The analysis is scheduled to be continued during 2017 in order to finalize the estimation of the total impact. We have not yet analysed accounting for changes in contracts, accounting for subscriber acquisition costs and loyalty programs. The Group will implement IFRS 15 as at 1 January 2018. The transition policy to be adopted is still under review.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications have not yet been endorsed by the EU. Management is in the process of assessing the impact of adopting IFRS 15.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The management is in process of assessing the impact of this new standard on the consolidated financial position or performance of the Group. For details of the Group's operating leases as lessee, please refer to Note 26.

- **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. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IAS 12 Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. For example, the amendments clarify the accounting for deferred tax assets when an entity is not allowed to deduct unrealised losses for tax purposes or when it has the ability and intention to hold the debt instruments until the unrealised loss reverses. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.



**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

- **IAS 7 Statement of Cash Flows (Amendments): Disclosure Initiative**

The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendment will have impact on the disclosures from the consolidated financial statements of the Group.
- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Group does not currently operate a share based payment scheme.
- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Group does not hold investment property.
- **IFRIC 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Group has already applied the accounting treatment provided by this Interpretation before its issuance.
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. Management has assessed that these improvements will not have an impact on the consolidated financial position or performance of the Group.
  - **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

### **3. DETERMINATION OF FAIR VALUES**

- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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.

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 between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, on the date of acquisition and respectively on the revaluation date. 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 or unobservable on the market (such as the income approach for certain buildings). 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.

Please refer to Note 5 for disclosures of the revaluation performed in 2016.

#### **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.

**3. DETERMINATION OF FAIR VALUES (continued)**

**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.

Please refer to Notes 23 and 25 for additional disclosures regarding fair values of derivatives.

**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.

Please refer to Note 23 for additional disclosures regarding fair values of non-derivative financial instruments.

**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 24). 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.

Please refer to Note 24 for additional disclosures regarding share-based payments.

**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.

Please refer to Note 23 for additional disclosures regarding the fair valuation of AFS investments.

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**4. SEGMENT REPORTING**

<b>31 December 2016</b>	<b>Romania</b>	<b>Hungary</b>	<b>Spain</b>	<b>Other</b>	<b>Eliminations</b>	<b>Reconciling item</b>	<b>Group</b>
Segment revenue and other income	612,691	137,850	83,036	9,178	-	-	<b>842,755</b>
Inter-segment revenues	2,695	-	1,648	453	(4,796)	-	-
Segment operating expenses	(413,114)	(86,510)	(70,735)	(13,915)	4,796	-	<b>(579,478)</b>
<b>EBITDA (Note 28)</b>	<b>202,272</b>	<b>51,340</b>	<b>13,949</b>	<b>(4,284)</b>	-	-	<b>263,277</b>
Depreciation, amortization and impairment of tangible and intangible assets						(170,094)	<b>(170,094)</b>
Revaluation impact						(6,276)	<b>(6,276)</b>
Other expenses	(6,969)	-	-	-	-	-	<b>(6,969)</b>
Gain from sale of discontinued operations				(674)	-	-	<b>(674)</b>
	-	-	-	-	-	-	
<b>Operating profit</b>							<b>79,264</b>
Additions to tangible non-current assets	184,501	35,163	1,010	133	-	-	<b>220,807</b>
Additions to intangible non-current assets	31,897	1,606	2,814	987	-	-	<b>37,304</b>
<i>Carrying amount of:</i>							
Property, plant and equipment	708,992	115,426	1,450	121	-	-	<b>825,989</b>
Non-current intangible assets	171,408	30,747	3,434	1,223	-	-	<b>206,812</b>
Investments in associates and AFS	995	-	-	-	-	-	<b>995</b>

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

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**4. SEGMENT REPORTING (continued)**

<b>31 December 2015</b>	<b>Romania</b>	<b>Hungary</b>	<b>Spain</b>	<b>Other</b>	<b>Eliminations</b>	<b>Reconciling item</b>	<b>Group</b>
Segment revenue and other income	540,134	125,933	72,679	11,384	-	-	<b>750,130</b>
Inter-segment revenues	1,638	-	1,074	-	(2,712)	-	-
Segment operating expenses	(362,212)	(76,549)	(62,755)	(12,973)	2,712	-	<b>(511,777)</b>
<b>EBITDA (Note 28)<sup>(1)</sup></b>	<b>179,560</b>	<b>49,384</b>	<b>10,998</b>	<b>(1,589)</b>	-	-	<b>238,353</b>
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(187,905)	<b>(187,905)</b>
Other expenses <sup>(1)</sup>	(998)	-	-	-	-	-	<b>(998)</b>
Gain from sale of discontinued operations	-	-	-	20,882	-	-	<b>20,882</b>
<b>Operating profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,332</b>
Additions to tangible non-current assets	125,621	15,303	522	174	-	-	<b>141,620</b>
Additions to intangible non-current assets	27,600	1,017	2,962	670	-	-	<b>32,250</b>
<i>Carrying amount of:</i>							
Property, plant and equipment	575,008	98,711	954	70	-	-	<b>674,743</b>
Non-current intangible assets	169,529	31,208	3,510	881	-	-	<b>205,128</b>
Investments in associates and AFS	1,000	-	-	43,373	-	-	<b>44,373</b>

<sup>(1)</sup>As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealised mark-to-market loss of EUR 998 thousand was included in Operating expenses.

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

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**5. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
<b>Cost</b>									
<b>At December 31, 2015</b>	<b>12,043</b>	<b>62,190</b>	<b>476,482</b>	<b>83,397</b>	<b>142,637</b>	<b>226,347</b>	<b>30,140</b>	<b>18,473</b>	<b>1,051,709</b>
Additions	8,207	4,321	5,789	186,393	-	9,888	2,410	3,799	220,807
Transfer from construction in progress ("CIP")/reallocation	-	15,568	89,421	(185,197)	33,517	38,462	6,088	2,141	-
Transfers from inventories	-	-	-	9,973	-	-	-	-	9,973
Disposals	-	(269)	(2,201)	(311)	(178)	(143)	(142)	(15)	(3,259)
Disposals through deconsolidation of subsidiaries	-	-	(769)	-	-	-	-	(1)	(770)
Cancellation of accumulated depreciation against gross carrying amount of the revaluated asset	-	(3,694)	-	-	(115,722)	-	-	-	(119,416)
Revaluation surplus recognised in other comprehensive income	929	990	-	-	17,523	-	-	-	19,442
Revaluation deficit recognised in profit or loss	(3,264)	(647)	-	-	(2,365)	-	-	-	(6,276)
Effect of movements in exchange rates	(112)	(407)	(1,886)	(310)	(981)	(395)	(129)	(63)	(4,283)
<b>At December 31, 2016</b>	<b>17,803</b>	<b>78,052</b>	<b>566,836</b>	<b>93,945</b>	<b>74,431</b>	<b>274,159</b>	<b>38,367</b>	<b>24,334</b>	<b>1,167,927</b>
<b>Depreciation and impairment</b>									
<b>At December 31, 2015</b>	<b>-</b>	<b>7,402</b>	<b>114,068</b>	<b>-</b>	<b>102,074</b>	<b>117,797</b>	<b>23,283</b>	<b>12,342</b>	<b>376,966</b>
Depreciation charge	-	3,132	38,842	-	12,367	25,572	3,516	3,264	86,693
Impairment	-	-	-	128	1,702	-	-	-	1,830
Disposals	-	(26)	(2,201)	-	(171)	(98)	(72)	(15)	(2,583)
deconsolidation of subsidiaries	-	-	(493)	-	-	-	-	(1)	(494)
Cancellation of accumulated depreciation against gross carrying amount of the revaluated asset	-	(3,694)	-	-	(115,722)	-	-	-	(119,416)
Effect of movements in exchange rates	-	(52)	(434)	(1)	(250)	(174)	(101)	(46)	(1,058)
<b>At December 31, 2016</b>	<b>-</b>	<b>6,762</b>	<b>149,782</b>	<b>127</b>	<b>-</b>	<b>143,097</b>	<b>26,626</b>	<b>15,544</b>	<b>341,938</b>
<b>Net book value</b>									
<b>At December 31, 2015</b>	<b>12,043</b>	<b>54,788</b>	<b>362,414</b>	<b>83,397</b>	<b>40,563</b>	<b>108,550</b>	<b>6,857</b>	<b>6,131</b>	<b>674,743</b>
<b>At December 31, 2016</b>	<b>17,803</b>	<b>71,290</b>	<b>417,054</b>	<b>93,818</b>	<b>74,431</b>	<b>131,062</b>	<b>11,741</b>	<b>8,790</b>	<b>825,989</b>

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**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
<b>Cost</b>									
<b>At December 31, 2014</b>	<b>10,405</b>	<b>43,277</b>	<b>431,870</b>	<b>64,665</b>	<b>120,121</b>	<b>197,960</b>	<b>27,446</b>	<b>15,428</b>	<b>911,172</b>
Additions	1,894	3,234	5,038	119,749	442	7,918	1,171	1,880	141,326
Acquired through business combinations (note 22 b)	-	-	-	-	-	290	-	4	294
Transfer from construction in progress ("CIP")/reallocation	-	16,400	44,292	(111,294)	25,103	21,743	2,280	1,476	-
Transfers from inventories	-	-	-	11,967	-	-	-	-	11,967
Discontinued operations (note 21)	-	-	-	-	(1,122)	(28)	(116)	(68)	(1,334)
Disposals	(126)	-	(609)	(773)	(506)	(267)	(625)	(87)	(2,993)
Effect of movements in exchange rates	(130)	(721)	(4,109)	(917)	(1,401)	(1,269)	(16)	(160)	(8,723)
<b>At December 31, 2015</b>	<b>12,043</b>	<b>62,190</b>	<b>476,482</b>	<b>83,397</b>	<b>142,637</b>	<b>226,347</b>	<b>30,140</b>	<b>18,473</b>	<b>1,051,709</b>
<b>Depreciation and impairment</b>									
<b>At December 31, 2014</b>	<b>-</b>	<b>5,506</b>	<b>72,582</b>	<b>-</b>	<b>74,758</b>	<b>83,258</b>	<b>21,747</b>	<b>10,242</b>	<b>268,093</b>
Depreciation charge	-	1,971	43,267	-	29,297	35,867	2,242	2,332	114,976
Impairment	-	-	-	-	337	-	-	-	337
Discontinued operations (note 21)	-	-	-	-	(713)	(12)	(64)	(49)	(838)
Disposals	-	-	(431)	-	(443)	(251)	(629)	(80)	(1,834)
Effect of movements in exchange rates	-	(75)	(1,350)	-	(1,162)	(1,065)	(13)	(103)	(3,768)
<b>At December 31, 2015</b>	<b>-</b>	<b>7,402</b>	<b>114,068</b>	<b>-</b>	<b>102,074</b>	<b>117,797</b>	<b>23,283</b>	<b>12,342</b>	<b>376,966</b>
<b>Net book value</b>									
<b>At December 31, 2014</b>	<b>10,405</b>	<b>37,771</b>	<b>359,288</b>	<b>64,665</b>	<b>45,363</b>	<b>114,702</b>	<b>5,699</b>	<b>5,186</b>	<b>643,079</b>
<b>At December 31, 2015</b>	<b>12,043</b>	<b>54,788</b>	<b>362,414</b>	<b>83,397</b>	<b>40,563</b>	<b>108,550</b>	<b>6,857</b>	<b>6,131</b>	<b>674,743</b>

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***5. PROPERTY, PLANT AND EQUIPMENT (continued)***Property, plant and equipment additions*

Most of the additions in 2016 and 2015 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 mobile radio network coverage 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 12,915 as of 31 December 2016 (31 December 2015: 14,255) representing land and buildings as 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 14 (x)).

*Revaluation of land and buildings*

The Group engaged an accredited independent appraiser to determine the fair value of its land and buildings as of 31 December 2016. In terms of the buildings, only the owned buildings in Romania were subject to the fair value appraisal. Improvements to rented buildings from Romania and Hungary were excluded from the fair value appraisal. The revaluation registered a decrease in fair value of EUR 2,335 for land and an increase of EUR 343 for buildings. These values were recorded through profit and loss with a total negative impact of EUR 3,911 (as part of Operating expenses) and through other comprehensive income with a total positive impact of EUR 1,919.

The fair value was determined by reference to market-based evidence, using the market comparable method, the cost and income approach. The valuation techniques are selected by the independent appraiser, in accordance with International Valuation Standards. There were no changes in the valuation techniques compared to the previous revaluation.

The fair value is overall determined to be Level 3 in the fair value measurement hierarchy. The inputs used in the valuation were either:

- Level 2 inputs based on the IFRS 13 classification (e.g. current rents, prices per sqm, yields, occupancy rates, etc. publicly available on the market for similar assets and other market-corroborated inputs), or
- Level 3 (unobservable) inputs representing for example assumptions in respect to operational costs, replacement costs, depreciation adjustments - most of them derived based on publicly available technical studies (rather than direct inputs from the market), with orderly adjustments performed by the appraiser.

The valuation is sensitive to its main inputs, being the sales value per sqm (which was in the range of 224 EUR/sqm to 1,167 EUR/sqm for apartments located in different cities in Romania and 224 EUR/sqm to 637 EUR/sqm for market values estimated for the main land plots), the rental value per sqm (which was in the range of 12 EUR/sqm to 21.5 EUR/sqm for the main assets) and the yield (which was in the range of 7.5% to 10% for the main assets).

If land was measured using the cost model, the carrying amounts would be as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Cost</b>	<u>19,705</u>	<u>11,713</u>
<b>Fair value</b>	<u>17,803</u>	<u>12,043</u>



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**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

If buildings were measured using the cost model, the carrying amounts would be as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cost	81,470	62,253
Accumulated depreciation	(14,436)	(11,537)
<b>Net carrying amount</b>	<b>67,034</b>	<b>50,716</b>
<b>Fair value</b>	<b>71,290</b>	<b>54,788</b>

*Revaluation of network, equipment and devices and customer premises equipment*

Network, 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 (fair value is classified as Level 3 in the fair value measurement hierarchy, since this valuation was performed using a non-observable input). 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.

As of 31 December 2016 management has assessed that the replacement cost of network, equipment and devices which are not fully amortized did not vary significantly from the 31 December 2012 revaluation and respectively their acquisition cost for additions during 2013-2016. Given the new technologies used by the Group no significant instances of technological obsolescence were identified. Please refer to "Estimated useful lives" below for the changes in estimated useful lives.

Customer premises equipment were revalued as of 31 December 2016 on the basis of their depreciated replacement cost calculated by the Group's personnel (fair value is classified as Level 3 in the fair value measurement hierarchy, since this valuation was performed using non-observable inputs). Replacement cost was determined based on price quotations from suppliers and prices of the most recent acquisitions. Additionally, a ceiling was applied in the revaluation process by reference to the original acquisition prices (in RON equivalent at the applicable exchange rates as of 31 December 2016) and applying a yearly discount for the typical price decreases in telecommunications' industry. Given the new technologies used by the Group no significant instances of technological obsolescence were identified. Please refer to "Estimated useful lives" below for the changes in estimated useful lives.

The revaluation generated a net increase in fair value of EUR 15,158, recorded through profit and loss for revaluation deficit of EUR 2,365 (as part of Operating expenses) and through other comprehensive income for revaluation surplus of EUR 17,523.

Network, 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).

If network, equipment and devices, and customer premises equipment were measured using the cost model, the carrying amounts would be as follows:

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**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

*Network*

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cost	631,477	541,447
Accumulated depreciation	(251,244)	(216,408)
<b>Net carrying amount</b>	<b>380,233</b>	<b>325,039</b>
<b>Fair value</b>	<b>417,054</b>	<b>362,414</b>

*Equipment and devices*

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cost	382,018	334,719
Accumulated depreciation	(256,516)	(232,416)
<b>Net carrying amount</b>	<b>125,502</b>	<b>102,303</b>
<b>Fair value</b>	<b>131,062</b>	<b>108,550</b>

*Customer premises equipment*

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cost	517,672	484,842
Accumulated depreciation	(458,251)	(446,588)
Impairment	(6,585)	(4,883)
<b>Net carrying amount</b>	<b>52,836</b>	<b>33,371</b>
<b>Fair value</b>	<b>74,431</b>	<b>40,563</b>

*Estimated useful lives*

As at 31 December 2016, management reviewed the estimated useful lives of property, plant and equipment. As the Group continued to build and utilise the network and related assets, there is a more consistent ground for estimating the consumption pattern of those assets. Consequently, useful lives for several asset sub-categories were revised in order to match the current best estimate of the period over which these assets will generate future economic benefits.

The change of estimated useful lives was applied prospectively from 1 January 2016 onwards. For details, please see also Note 2.2 c) Basis of preparation and accounting policies.

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**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

The impact of revising the estimated useful lives of certain categories of property, plant and equipment on the value of depreciation charge recognized in profit or loss statement in year ended December 31, 2016 is presented below:

	<b>Depreciation charge 2016</b>		
	Prior estimated useful lives	Revised estimated useful lives	Difference arising from change in estimated useful lives
Buildings	3,132	3,132	-
Network	42,954	38,842	(4,112)
Customer premises equipment	23,791	12,367	(11,424)
Equipment and devices	33,209	25,572	(7,637)
Vehicles	3,516	3,516	-
Furniture and office equipment	3,264	3,264	-
<b>Total</b>	<b>109,866</b>	<b>86,693</b>	<b>(23,173)</b>

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

*Impairment*

An assessment of impairment indicators has been made for the CGUs, which do not include goodwill (such as the renewable energy production), as well as for specific assets (such as abandoned construction-in-progress).

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**6. INTANGIBLE ASSETS**

**a) Non-current intangible assets**

	<b>Goodwill</b>	<b>Customer relationships</b>	<b>Trade marks</b>	<b>Subscriber acquisition costs ("SAC")</b>	<b>Licences and software</b>	<b>Total non-current intangible assets</b>
<b>Cost</b>						
<b>At December 31, 2015</b>	<b>77,240</b>	<b>74,782</b>	<b>2,883</b>	<b>64,172</b>	<b>153,426</b>	<b>372,503</b>
Additions	-	645	-	14,587	22,072	37,304
Disposals	-	-	-	-	(12)	(12)
Effect of movement in exchange rates	(62)	(126)	-	55	(518)	(651)
<b>At December 31, 2016</b>	<b>77,178</b>	<b>75,301</b>	<b>2,883</b>	<b>78,814</b>	<b>174,968</b>	<b>409,144</b>
<b>Depreciation</b>						
<b>At December 31, 2015</b>	<b>-</b>	<b>56,560</b>	<b>577</b>	<b>57,809</b>	<b>52,429</b>	<b>167,375</b>
Amortization	-	10,309	733	7,126	16,835	35,003
Impairment	-	-	-	398	-	398
Effect of movement in exchange rates	-	(254)	(3)	21	(208)	(444)
<b>At December 31, 2016</b>	<b>-</b>	<b>66,615</b>	<b>1,307</b>	<b>65,354</b>	<b>69,056</b>	<b>202,332</b>
<b>Net Book Value</b>						
<b>At December 31, 2015</b>	<b>77,240</b>	<b>18,222</b>	<b>2,306</b>	<b>6,363</b>	<b>100,997</b>	<b>205,128</b>
<b>At December 31, 2016</b>	<b>77,178</b>	<b>8,686</b>	<b>1,576</b>	<b>13,460</b>	<b>105,912</b>	<b>206,812</b>

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
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**6. INTANGIBLE ASSETS (continued)**

	<b>Goodwill</b>	<b>Customer relationships</b>	<b>Trade marks</b>	<b>Subscriber acquisition costs ("SAC")</b>	<b>Licences and software</b>	<b>Total non-current intangible assets</b>
<b>Cost</b>						
<b>At December 31, 2014</b>	<b>80,994</b>	<b>69,255</b>	<b>235</b>	<b>58,298</b>	<b>133,839</b>	<b>342,621</b>
Additions	-	2,838	-	6,249	20,467	29,554
Reclassifications	(3,321)	3,321	-	-	-	-
Disposals	-	-	-	-	-	-
Additions from acquisition of subsidiaries (note 22 b)	-	-	2,695	-	1	2,696
Discontinued operations (note 21)	-	-	-	(256)	(4)	(260)
Effect of movement in exchange rates	(433)	(632)	(47)	(119)	(877)	(2,108)
<b>At December 31, 2015</b>	<b>77,240</b>	<b>74,782</b>	<b>2,883</b>	<b>64,172</b>	<b>153,426</b>	<b>372,503</b>
<b>Depreciation</b>						
<b>At December 31, 2014</b>	-	<b>47,080</b>	<b>146</b>	<b>54,011</b>	<b>41,643</b>	<b>142,880</b>
Amortization	-	9,876	438	4,180	11,100	25,594
Disposals	-	-	-	-	-	-
Discontinued operations (note 21)	-	-	-	(256)	(4)	(260)
Effect of movement in exchange rates	-	(396)	(7)	(126)	(310)	(839)
<b>At December 31, 2015</b>	-	<b>56,560</b>	<b>577</b>	<b>57,809</b>	<b>52,429</b>	<b>167,375</b>
<b>Net Book Value</b>						
<b>At December 31, 2014</b>	<b>80,994</b>	<b>22,175</b>	<b>89</b>	<b>4,287</b>	<b>92,196</b>	<b>199,741</b>
<b>At December 31, 2015</b>	<b>77,240</b>	<b>18,222</b>	<b>2,306</b>	<b>6,363</b>	<b>100,997</b>	<b>205,128</b>

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
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**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 telephony), 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 for telecom activities. Mobile telephony and television production do not represent separate CGUs in Romania due RCS&RDS strategy, structure of subscribers and revenues generated.

In addition, solar electricity production companies are also considered distinct CGUs.

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.

	<b>Goodwill</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>CBT</b>		<b>76,868</b>	<b>76,908</b>
Romania		55,600	55,781
Hungary		21,040	20,899
Spain		228	228
<b>DTH</b>		<b>310</b>	<b>332</b>
Romania		310	332
<b>Total</b>		<b>77,178</b>	<b>77,240</b>

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 five-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 8.17% p.a. (2015: 8.48%);
- for the Hungarian territory 9.14% p.a. (2015: 9.40%).

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.

## **DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**

### **Notes to the consolidated Financial Statements for the year ended 31 December 2016**

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#### **6. INTANGIBLE ASSETS (continued)**

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 1.7% p.a. (2015: 1.7%);
- for Hungarian CBT CGU 1.7% p.a. (2015: 1.7%).

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, being also in line with publicly available market expectations.

##### *EBITDA margins*

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.

The Company does not disclose information regarding prospective 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 2016 no reasonable change in the main assumptions could result in an impairment charge (31 December 2015: same).

#### **(iii) Subscriber acquisition costs ("SAC")**

SAC represents third party costs for acquiring and connecting customers of the Group. In 2016 SAC was generated in relation with contracting customers in Romania (EUR 10,810), Spain (EUR 2,721), Hungary (EUR 326) and Italy (EUR 730). In 2015 SAC was generated in relation with contracting customers in Romania (EUR 2,567), in Spain (EUR 2,942), Hungary (EUR 328) and Italy (EUR 412).

#### **(iv) Licences and software**

##### Estimated useful lives

As at 31 December 2016, management reviewed the estimated useful lives of mobile telephony licenses. For certain mobile telephony licenses there are options for extension, automatic upon the request of the Group. Consequently, useful lives were revised in order to match the current best estimate of the period over which these licenses will generate future economic benefits. For details, please see also Note 2.2 d) Basis of preparation and accounting policies.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***6. INTANGIBLE ASSETS (continued)**

The impact of revising the estimated useful lives of certain mobile telephony licences on the value of amortization charge recognized in profit or loss statement in year ended December 31, 2016 is presented below:

	<b>Amortization charge 2016</b>		
	Prior estimated useful lives	Revised estimated useful lives	Difference arising from change in estimated useful lives
Licenses	17,557	16,835	(722)

*2100 MHz license (Romania)*

In January 2007 the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") granted to RCS&RDS a 2100 MHz license for a period of 15 years which may be extended at the request of the Company for another 10 years, 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 RCS&RDS). The carrying amount of the 2100 MHz license as of 31 December 2016 is EUR 6,550 (2015: EUR 7,011).

*900 MHz license (Romania)*

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 2016 is EUR 32,158 (2015: EUR 34,911).

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 (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 2016 is EUR 28,726 (2015: EUR 30,137). The license has no coverage obligations assumed.

*2600 MHz license (Romania)*

In August 2015 the purchase of a 2600 MHz license from 2K Telecom for a total consideration of EUR 6,600 was approved by the Romanian General Inspectorate for Communication and Information Technology ("IGCTI"). The carrying amount of the 2600 MHz license as of 31 December 2016 is EUR 3,563 (2015: EUR 5,722).

*3700 MHz license (Romania)*

In October 2015 RCS&RDS has participated in an auction and acquired from the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") a 3700 MHz license for a total consideration of EUR 1,880. The license was granted and came into effect starting with December 2015 and its carrying amount as of 31 December 2016 is EUR 1,227 (2015: EUR 1,847).



**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements  
for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***6. INTANGIBLE ASSETS (continued)***FM Radio frequency licenses (Romania)*

In 2015 RCS&RDS obtained the right of use of several audiovisual licences, through a transfer of licenses approved by the National Audiovisual Council of Romania. These licences are currently used to broadcast the Digi FM, Pro FM, Dance FM and Music FM radio stations.

*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 14 (xiv).

**b) Current intangible assets - programme assets**

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Balance at 1 January</b>	<b>29,536</b>	<b>16,838</b>
Additions	47,058	60,074
Amortization (Note 18)	(46,170)	(46,999)
Effect of movement in exchange rates	(112)	(377)
<b>Balance at 31 December</b>	<b>30,312</b>	<b>29,536</b>

Included in "Additions" is an amount of EUR 34,376 representing broadcasting rights for sports competitions for 2016/2017 season (2015: EUR 42,956 for 2015/2016 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 26.

**7. AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)**

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Balance at 1 January</b>	<b>43,373</b>	<b>41,296</b>
Additions	1,653	850
Fair value adjustment - OCI	2,367	1,227
Non-cash distribution of dividends (Note 13)	(47,393)	-
<b>Balance at 31 December</b>	<b>-</b>	<b>43,373</b>

The above available for sale financial assets comprise shares in RCSM. As at 31 December 2016 the percentage of ownership of DIGI in RCSM is nil (31 December 2015: 9.17%). For additional disclosures on the fair values of the AFS refer to Note 23 (iv).

As of 31 December 2016 the AFS assets were derecognized and the entire fair value gain accumulated in fair value reserve, amounting to EUR 33,722, was reclassified to Profit or Loss (as Finance income).

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements  
for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***8. EARNINGS PER SHARE (EPS)**

	2016	2016	2016	2015	2015	2015
	<i>Continuing Operations</i>	<i>Discontinued Operations</i>	<i>Total</i>	<i>Continuing Operations</i>	<i>Discontinued Operations</i>	<i>Total</i>
Net profit/(loss) for the year	12,457	(674)	11,783	(17,501)	21,528	4,027
Non-controlling interests	977	26	1,003	834	(891)	(57)
<b>Net profit/(loss) attributable to equity holders of the parent</b>	<b>13,434</b>	<b>(648)</b>	<b>12,786</b>	<b>(16,667)</b>	<b>20,637</b>	<b>3,970</b>
<b>Weighted average number of ordinary shares outstanding (number of shares)</b>						
Weighted average number of ordinary shares outstanding – basic*			46,459			46,459
Weighted average number of shares outstanding – diluted*			46,459			46,459
Earnings/(loss) per share (EUR/share)	289.2	(13.9)	275.2	(358.7)	444.2	85.5
<b>Weighted average number of ordinary shares outstanding (number of shares), retrospectively adjusted for the share split (1:10) and bonus issuance decided in February 2017 (see Note 27)</b>						
Weighted average number of ordinary shares outstanding - basic			99,958,650			99,958,650
Weighted average number of shares outstanding - diluted			99,958,650			99,958,650
Earnings/(loss) per share (EUR/share)	0.13	(0.01)	0.13	(0.17)	0.21	0.04

\* The number of outstanding shares excludes treasury shares

In February 2017, the general meeting of shareholders of the Company has unanimously resolved among others to amend the articles of association pursuant to which, inter alia, two classes of shares will be created being: class A shares with a nominal value of ten eurocent (EUR 0.10) each and in respect of which for each share A, ten (10) votes may be cast and class B shares with a nominal value of one eurocent (EUR 0,01) each and in respect of which for each share B one (1) vote may be cast.

The above-mentioned resolutions and the changes approved therein are set to take effect only following the lapse of a two-month mandatory wait period, occurred on 11 April 2017 (please see also Note 27).

For details about the share split and bonus issuance of shares, please see Note 27.

**9. INVENTORIES**

	31 December 2016	31 December 2015
Merchandise and equipment	6,255	7,603
Materials and consumables	12,297	5,602
<b>Total inventories, net</b>	<b>18,552</b>	<b>13,205</b>

*Merchandise and equipment*

This category includes terminal equipment sold to the customers. Such equipment includes mostly mobile phones.

*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 14 (xiv).

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements  
for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***10. TRADE AND OTHER RECEIVABLES**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Trade receivables	107,096	76,685
Receivable from related parties (refer to Note 14)	1,014	974
Other taxes receivable	380	180
Other receivables	475	4,706
<b>Total trade and other receivables</b>	<b><u>108,965</u></b>	<b><u>82,545</u></b>

For details regarding credit risk please refer to Note 23.

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

**11. OTHER ASSETS**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Advances to suppliers	4,291	6,167
Prepayments	2,030	2,042
<b>Total other assets</b>	<b><u>6,321</u></b>	<b><u>8,209</u></b>

For details regarding credit risk please refer to Note 23.

**12. CASH AND CASH EQUIVALENTS**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Bank accounts	14,340	49,423
Petty cash	285	239
<b>Total cash and cash equivalents</b>	<b><u>14,625</u></b>	<b><u>49,662</u></b>

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

**13. EQUITY**

As of 31 December 2016, DIGI has an authorised share capital of EUR 250 comprised of 250,000 units of ordinary shares with nominal value of EUR/share 1 each. At the date of the balance sheet 50,594 ordinary shares were issued and fully paid. There are no other issued shares.

	<u>31 December 2016</u>	<u>31 December 2015</u>
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)	<u>51</u>	<u>51</u>

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
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**13. EQUITY (continued)**

At 31 December 2016 and 2015, the shareholders of DIGI are as follows:

Shareholder name	31 December 2016		31 December 2015	
	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	19.67%
Celest Limited (Cyprus)	2,694	5.32%	2,694	5.32%
DIGI - treasury shares	4,135	8.17%	4,135	8.17%
Other	2,209	4.38%	2,209	4.38%
<b>Total</b>	<b>50,594</b>	<b>100.00%</b>	<b>50,594</b>	<b>100.00%</b>

The 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 DIGI) and minority shareholder of DIGI and RCS&RDS.

*Dividends*

As stated previously, these financial statements are not the statutory financial statements of DIGI. The profit available for distribution is the profit for the year and retained earnings recorded in the Dutch GAAP statutory financial statements, which differs from the result in these financial statements, prepared in accordance with IFRS.

In 2016 a gross dividend of EUR 57,545 (2015: EUR 3,500) was distributed from the DIGI statutory retained earnings of 2016 (2015).

On December 27, 2016 the general shareholders meeting of DIGI has approved the distribution of cash dividends in amount of 300 EUR/share for shareholders; RCSM has exercised the option to receive instead of the cash dividends all the RCSM shares that were held by DIGI at the date (20,400 shares).

The 2016 distributions consisted of EUR 10,154 cash and EUR 47,392 distribution in kind representing all the available-for-sale shares in RCSM. The related amount of dividend per share for 2016 was EUR/share 1,726.32 for RCSM and respectively EUR/share 407.62 for the other shareholders; the amount of dividend per share for 2015 was EUR/share 75.34.

*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.

*Cash flow hedges*

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument.

*Revaluation reserve*

The revaluation reserve relates to the revaluation of property, plant and equipment.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***14. INTEREST BEARING LOANS AND BORROWINGS**

<b>Long term portion</b>		<b>Nominal interest rate</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
2013 Bonds	(i)	7.5% p.a.	-	439,176
2016 Bonds	(ii)	5% p.a.	349,638	-
2015 Senior Facilities Agreement	(iv)	3M ROBOR + 2.5%p.a.	-	179,005
2016 Senior Facilities Agreement	(v)	3M ROBOR + 2.65%p.a.	307,296	-
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	3,990	6,716
Other	(x)		4,616	
<b>Total long term portion</b>			<b>665,540</b>	<b>624,897</b>

<b>Current portion</b>		<b>Nominal interest rate</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
2015 Senior Facilities Agreement	(iv)	3M ROBOR + 2.5%p.a.	-	48,287
2016 Senior Facilities Agreement	(v)	3M ROBOR + 2.65%p.a.	25,085	-
Overdrafts	(vi-vii)	Variable linked to EURIBOR/ROBOR/LIBOR+ respective margin	7,217	4,757
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	1,782	2,046
Other	(x)-(xiii)		9,962	8,028
<b>Total current portion</b>			<b>44,047</b>	<b>63,118</b>

**(i) 2013 Bonds**

In November 2013, DIGI 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 included several call options as well as one put option. (Please refer to Notes 23 and 25 for details regarding the separated embedded derivative). 2013 Bonds were fully redeemed and refinanced in October 2016 by a new bond issuance and Senior Facilities Agreement. Please see point ii).

*Arrangement fees*

The total cost of concluding the 2013 Bonds was amortised using the effective interest method over the life of the Bonds. Upon redemption in 2016 the unamortized balance of 2013 Bond issuance related fees was recognized as finance expense, in amount of EUR 8,802. As at 31 December 2016 the balance was nil. (2015: EUR 10,822).

*Pledges*

Details on pledges are presented further in section (xiv) of the Note 14.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

*Covenants*

The Group had agreed to certain covenants with respect to the 2013 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 was 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.

In accordance with the terms of the Notes, the Group was 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. The Consolidated Leverage Ratio would not exceed 3.50 to 1.

The Group was in compliance with all the covenants under the 2013 Bonds as at 31 December 2015.

**(ii) 2016 Bonds**

On October 26, 2016 the Company issued Bonds with a value of EUR 350 million with a 5% coupon yield falling due in October 2023.

*Arrangement fees*

The total cost of concluding the 2016 Bonds is amortised using the effective interest method over the life of the Bonds. As of 31 December 2016 the unamortized balance of bond issuance related fees was EUR 8,637 (2015: nil).

*Drawing*

As of 31 December 2016, the nominal balance is EUR 350,000 (EUR 349,638 presented net of borrowing fees and including bifurcation of fair value of embedded derivative at inception).

*Pledges*

Details on pledges are presented further in section (xiv) of the Note 14.

*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.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

In accordance with the terms of the Notes, the Group is 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. The Consolidated Leverage Ratio should not exceed 3.75 to 1.

The Group is in compliance with all the covenants under the 2016 Bonds as at 31 December 2016.

**(iii) 2013 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 the existing facilities and for general corporate purposes (the "2013 Senior Facilities Agreement"). The 2013 Senior Facilities Agreement consisted 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 RCS&RDS drew the remaining EUR 45 million under the term loan. On May 22, 2015 RCS&RDS repaid the facility using the proceeds of the 2015 Senior Facilities Agreement and own funds.

**(iv) 2015 Senior Facilities Agreement**

On April 30, 2015 RCS&RDS entered into a committed facility agreement, as borrower, with BRD-Groupe Societe Generale, Citibank, London branch, ING Bank, and Unicredit Tirioc Bank as mandated lead arrangers, for the repayment of the 2013 Senior Facilities Agreement (the "2015 Senior Facilities Agreement").

At signing the 2015 Senior Facilities Agreement consisted of a term loan facility with a capacity of RON 994.2 million and a revolving credit facility with a capacity of RON 39.8 million. The facility had an option to be increased by EUR 25 million (in RON at the exchange rate from the date of the notice) until the end of 2015. RCS&RDS exercised the option and drew EUR 23.3 million (RON 105.4 million) from the term loan and the revolver credit on 29 December 2015 (the "Accordion" agreement).

The interest rate under the 2015 Senior Facilities Agreement was floating at a margin of 2.5% per annum plus ROBOR. On May 22, 2015 RCS&RDS concluded an interest rate swap for the entire initial term loan facility through which interest is fixed at 5.75% until maturity date. The interest rate swap is secured by the Collateral pursuant to the terms of the Intercreditor Agreement (balance of the initial term loan as at 31 December 2015: EUR 197.8 million excluding borrowing costs; balance of the initial revolver loan as at 31 December 2015: EUR 8.8 million excluding borrowing costs).

The interest rate for the additional amount drawn in December 2015 (the "Accordion" agreement) is floating at a margin of 2.5% per annum plus ROBOR for the term loan facility portion (the interest rate was fixed at 5.50% until maturity date, through an interest rate swap concluded in January 2016) and floating ROBOR + 2.5% for the revolver credit portion (balance of the additional amount related to the term loan as at 31 December 2015: EUR 21 million; balance of the initial revolver loan as at 31 December 2015: EUR 2.3 million).

On October 26, 2016, RCS & RDS repaid all of the amounts outstanding under the 2015 Senior Facilities Agreement using the proceeds of the Senior Facilities Agreement.

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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

*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 2015 the unamortized balance of borrowings related fees was EUR 2,568.

The Senior Facilities Agreement concluded on October 2016 was accounted for as a modification of the previous 2015 Senior Facilities Agreement since there were no substantially different terms compared to the previous agreement, therefore the unamortized borrowing costs of the 2015 Senior Facilities Agreement in amount of EUR 2,045 as at 31 December 2016 will continue to be amortised over the life of the 2016 Senior Facility Agreement using the effective interest method (please see also Note 19).

*Drawing*

On May 22, 2015 RCS&RDS drew the entire amount available from both the term loan facility and the revolving credit facility. On 29 December 2015 RCS&RDS drew an additional amount under the "Accordion" agreement. As of 31 December 2015, RCS&RDS drew in total EUR 229,860 (EUR 227,292 - presented net of borrowing fees).

*Maturities and repayment schedule*

The term loan facility was repayable in 10 equal semi annual instalments starting with October 30, 2015 and the revolving credit facility was repayable in full on April 30, 2018. On October 30, 2015 RCS&RDS has repaid the first principal instalment in amount of EUR 22 million (equivalent of 99.4 million RON at exchange rate as at 31 December 2015). In October 2016 the facility was refinanced by the Senior Facilities Agreement.

*Pledges*

The 2015 Senior Facilities Agreement was unconditionally guaranteed by DIGI on a senior secured basis, and shares in the Collateral pursuant to the terms of the Intercreditor Agreement.

*Covenants*

The Group had agreed under the 2015 Senior Facilities 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 financial ratio covenants included in 2015 Senior Facilities Agreement included maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.75 until December 31, 2016 and afterwards a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 3.75 until December 31, 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25.

The Group was in compliance with all the covenants under the 2015 Senior Facility Agreement as at 31 December 2015.



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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

**(v) Senior Facilities Agreement (“SFA”)**

On October 7, 2016, RCS & RDS, as borrower, entered into the Senior Facilities Agreement with, among others, BRD-Groupe Société Générale S.A., Citibank, N.A., London Branch, ING Bank, and Unicredit Bank, as lead arrangers. The Senior Facilities Agreement consists of (i) the SFA Facility A1; (ii) the SFA Facility A2; and (iii) the SFA Facility B. The SFA Facility A1 can be drawn for the purposes of funding the refinancing of the 2015 Senior Facilities Agreement and capital expenditure requirements of the Group. The SFA Facility A2 can be drawn for the purpose of funding the refinancing of the 2013 Bonds. The SFA Facility B can be drawn for the general corporate and working capital purposes of the Group. All facilities mature in October 2021.

*Drawing*

On October 26, 2016, the Company drew (a) RON 930.0 million (EUR 204.8 million equivalent as at 31 December 2016) under the SFA Facility A1 and repaid the 2015 Senior Facilities Agreement in full; and (b) RON 600.0 million (EUR 132.1 million equivalent as at 31 December 2016) under the SFA Facility A2. Facility B has a capacity of RON 157 million.

The interest rate under the Senior Facilities Agreement is floating at a margin of 2.65% per annum plus ROBOR. Interest is payable every three months. The interest rate swaps concluded for the 2015 Senior Facilities Agreement remained valid and the hedging relationship continues to apply

*Maturities and repayment schedule*

The repayment schedule for any principal amount drawn under the SFA Facility A1/A2 is as follows:

<b>Repayment instalment Repayment date</b>	<b>%*</b>
28-Apr-17	3.75
30-Oct-17	3.75
30-Apr-18	6.25
30-Oct-18	6.25
30-Apr-19	8.75
30-Oct-19	8.75
30-Apr-20	8.75
30-Oct-20	8.75
30-Apr-21	8.75
Termination date for the SFA Facility A1/ A2	36.25
<b>Total</b>	<b>100</b>

*\*(percentage of the SFA Facility A1/A2 loan outstanding as at the end of the availability period for the SFA Facility A1/A2);*

*Arrangement fees*

The total cost of concluding the loan is amortised using the effective interest method over the remaining term of the Senior Facilities Agreement. As of 31 December 2016 the unamortized balance of borrowings related fees incurred in 2016 was EUR 2,496.

The Senior Facilities Agreement concluded on October 2016 was accounted for as a modification of the previous 2015 Senior Facilities Agreement therefore the unamortized borrowing costs of the 2015 Senior Facilities Agreement in amount of EUR 2,045 as at 31 December 2016 will continue to be amortised over the life of the 2016 Senior Facility Agreement using the effective interest method (please see also Note 19).

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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

*Pledges*

The Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with the Notes, the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Letters of Guarantee Facility, pursuant to the terms of the Intercreditor Agreement.

*Covenants*

The Group has agreed under the Senior Facilities 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 financial ratio covenants included in Senior Facilities Agreement include maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.75 until December 31, 2016 and afterwards a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 3.75 until December 31, 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25.

The Group is in compliance with all the covenants under the Senior Facility Agreement as at 31 December 2016.

**(vi) 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 5.0 million and (ii) an uncommitted facility for letters of guarantee of up to EUR 5.0 million.

*Drawings*

As of 31 December 2016 EUR 4,163 (31 December 2015: EUR 4,757) were drawn under the overdraft facility. In addition EUR 1,973 and RON 13,122 Letters of Guarantee were issued under the letters of guarantee facility.

In addition to the ING Facilities Agreement, on April 28, 2016 RCS & RDS entered into an uncommitted letter of guarantee facility of up to EUR 5.0 million with ING Bank N.V., Bucharest Branch. The letter of guarantee issued under this facility has expired.

**(vii) 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.

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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

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:

- a) an uncommitted overdraft/bank guarantee facility in the amount of USD 5,545, as at 31 December 2016
- b) an uncommitted bank guarantee facility in the amount of USD 4,650, as at 31 December 2016
- c) an uncommitted bank guarantee facility in the amount of EUR 500, as at 31 December 2016.

As of 31 December 2016, the overdraft was utilised in amount of EUR 3,054 equivalent (31 December 2015: nil) and bank letters of guarantee were issued in amount of USD 750, EUR 1,031 and RON 16,264.

**(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 August 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.

On December 15, 2015, RCS & RDS entered into an agreement with UniCredit Bank S.A. for an uncommitted overdraft/bank guarantee facility in the amount of EUR 2.0 million. As at December 31, 2016 this facility remained undrawn.

**(ix) BRD Letters of Guarantee Facility**

As of 31 December 2016 the Group had letters of guarantee issued by BRD with a value of EUR 680 and RON 2,045.

**(x) Libra Loan Agreement**

On February 25, 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON 32.0 million repayable in 5 years with Libra Bank (the "Libra Loan Agreement"). RCS&RDS drew RON 31.6 million and used the funding to acquire certain real property in Bucharest, which has been mortgaged in favour of Libra Bank as security for the Libra Loan Agreement. As at 31 December 2016 RON 26,898 (EUR 5,923 equivalent using exchange rate as at 31 December 2016) was outstanding under the Libra Loan Agreement.

**(xi) Santander Facility**

On October 30, 2015, Digi Spain entered into a new EUR 1.5 million short-term facility agreement with Banco Santander (the "Santander Facility"). This facility was renewed from October 30, 2016 for one additional year, and at the same time the limit was increased to EUR 2.0 million, with maturity on October 21, 2017. As at December 31, 2016, the balance drawn under the Santander Facility was EUR 1,065 (31 December 2015: EUR 950).

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**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

**(xii) Caixa Facility**

On February 6, 2014, Digi Spain entered into a facility agreement with Caixabank, S.A. (the “Caixa Facility”), containing an overdraft and a reverse factoring option. On January 30, 2015, the agreement was renewed and on July 28, 2015 an amendment to lower interest rates was agreed. On January 17, 2017, the agreement has been renewed again. The term of the Caixa Facility is indefinite and the maximum amount which can be used is EUR 500,000. As at December 31, 2016, the balance drawn under the Caixa Facility overdraft was EUR 388 (31 December 2015: EUR 82).

On October 21, 2016, Digi Spain entered into a short-term loan with Caixabank, S.A for EUR 1.8 million with maturity on February 28, 2017 (the “Caixa Loan”), when the loan was repaid. As at December 31, 2016, the balance was EUR 1,200.

**(xiii) OTP Bank Hungary Loan Agreement**

In December 2016, Digi Hungary has entered into a short term loan of HUF 1,300 million (EUR 4.2 million equivalent using exchange rate as at 31 December 2016) with OTP bank in Hungary. Out of this loan, as at December 31, 2016 HUF 500 million (EUR 1.6 million equivalent using exchange rate as at December 31, 2016) was drawn and outstanding. The remaining amount was drawn in January 2017.

**(xiv) Collateral for all facilities of RCS & RDS and DIGI**

The obligations of the Group under the Bonds, as well as their obligations under the Senior Facilities Agreement, under the ING Facilities Agreement and the Citi Facilities Agreement on a pari passu basis pursuant to the terms of the Intercreditor Agreement dated 4 November 2013 and amended on 26 October 2016, are secured by a first-ranking security interest in certain assets of RCS&RDS and DIGI, namely:

(a) Certain Capital Stock that DIGI 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 as at 31 December 2016 accounted for 95.8% of the issued Capital Stock of RCS&RDS, as per Trade Register;

(b) All bank accounts of DIGI, including any new bank accounts;

(c) Receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by DIGI to its subsidiary, RCS&RDS on 4 November 2013 amended and restated on 26 October 2016 – currently EUR 350,000)

(d) Treasury shares of RCS&RDS held by itself, which on the Issue Date accounted for 8.55% of its issued Capital Stock (as of 31 December 2016: nil, since RCS&RDS cancelled treasury shares in December 2016);

(e) 100% of the issued Capital Stock of DIGI T.S. Kft Hungary;

(f) 100% 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.

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The Group financed the acquisition of certain assets (buildings and land) through finance leases. As at 31 December 2016 there are four leasing contracts in place.

One leasing contract is with Raiffeisen Leasing (the initial contract was signed with ING Lease Romania, which sold its portfolio to Raiffeisen Leasing at the beginning of 2014) (in December 2015 this lease was refinanced in EUR) and another one is with Piraeus Leasing. The remaining length of these lease contracts is 42 months for Raiffeisen Leasing and 97 months for Piraeus Leasing.

In December 2015 the Group entered into two new lease agreements with Unicredit Leasing IFN for two buildings in Timisoara and Arad. The lease agreement for the Timisoara property was terminated on August 11, 2016. The remaining length of the building in Arad lease contract is 36 months.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31-Dec-16		31-Dec-15	
	Net	Gross	Net	Gross
Within one year	1,782	1,989	2,046	2,345
Later than one but less than five years	3,275	3,615	5,688	6,208
More than five years	715	755	1,027	1,118
Less: future finance charges (interest)		(587)		(909)
<b>Total</b>	<b>5,772</b>	<b>5,772</b>	<b>8,762</b>	<b>8,762</b>

**15. TRADE AND OTHER PAYABLES, OTHER LONG TERM LIABILITIES****15.1 TRADE AND OTHER PAYABLES**

	31 December 2016	31 December 2015
Trade payables and payables to fixed assets suppliers	253,539	188,431
Accruals	62,639	49,869
Value added tax ("VAT")	10,106	1,069
Other payables related to investments	5,011	3,062
Salary and related taxes	19,649	15,677
Amounts payable to related parties (Note 16)	1,285	631
Dividends payable (Note 16)	15,354	9,413
Other	6,386	2,966
<b>Total trade and other payables</b>	<b>373,969</b>	<b>271,118</b>

Included in payables to suppliers and accruals above is EUR 138,936 (31 December 2015: EUR 78,752) representing amounts due for property, plant and equipment and EUR 24,909 (31 December 2015: EUR 19,227) representing payment obligations for intangible assets.

Other payables related to investments refer mostly to scheduled payments for purchase of shares of newly acquired subsidiaries and non controlling interests, and payments for customer relationships.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements  
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	<u>31 December 2016</u>	<u>31 December 2015</u>
Other long term liabilities	46,076	7,598

Other long term liabilities include long term payables due to vendor financing agreements with our suppliers, according to which we have negotiated longer payment terms especially for network and equipment as well as customer premises equipment (CPE). The increase in Other long term liabilities as at 31 December 2016 is in line with the sustained roll-out of our mobile network during 2016.

**16. RELATED PARTY DISCLOSURES**

The consolidated financial statements include the financial statements of DIGI and its subsidiaries (the main subsidiaries are included in Note 22(a)); RCSM is the Group's ultimate holding company.

The following tables provide the total amount of balances with related parties:

**Receivables from related parties**

		<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Party</b>			
Ager Imobiliare S.R.L.	(ii)	698	673
Digi Serbia	(ii)	218	211
Music Channel S.R.L.	(ii)	52	51
RCSM	(i)	37	26
Other		9	13
<b>Total</b>		<u><u>1,014</u></u>	<u><u>974</u></u>

**Payables to related parties**

		<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Party</b>			
Related parties - shares	(ii)	1,082	453
RCSM	(i)	5,711	5,628
Digi Serbia	(ii)	117	114
Mr. Zoltan Teszari	(iii)	648	700
Other		9,081	3,149
<b>Total</b>		<u><u>16,639</u></u>	<u><u>10,044</u></u>
<i>Of which: dividends payable (Note 15.1)</i>		15,354	9,413

- (i) Shareholder of DIGI
- (ii) Entities affiliated to a shareholder of the parent
- (iii) Ultimate beneficial shareholder

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 DIGI for loans and borrowings (refer to Note 14 (xiv)). For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2015: nil).

For dividends distributed, please refer to Note 13.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**  
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**16. RELATED PARTY DISCLOSURES (continued)**

**Compensation of key management personnel of the Group**

	<b>2016</b>	<b>2015</b>
Short term employee benefits – salaries, including employer contribution to State pension plan	2,258	2,013
Share-based payments	-	2,054

In 2015 certain members of the management team (including key management personnel) benefitted from a share based payment plan at the level of RCS&RDS. In 2016 the share based payment plan was not applied (no grants were made and all previous awards vested). Total share options granted to key management personnel during the 2016 financial year amounted to nil shares (2015: 935,000 shares), in addition to the salaries shown above (refer to Note 24).

The transactions with related parties, except for the compensation of key management personnel presented above, were insignificant during the years 2016 and 2015.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements  
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Allocation of revenues from services through business lines and geographical areas is as follows:

	<u>2016</u>	<u>2015</u>
<b>Revenues from continuing operations</b>	<b>842,755</b>	<b>746,290</b>
<b>Cable TV</b>		
Romania	175,673	166,845
Hungary	40,993	36,586
	<u><b>216,666</b></u>	<u><b>203,431</b></u>
<b>Internet and data*</b>		
Romania	163,627	155,931
Hungary	37,954	33,398
Italy	-	-
Spain	-	-
	<u><b>201,581</b></u>	<u><b>189,329</b></u>
<b>Telephony Revenues*</b>		
Romania	147,107	109,955
Hungary	8,040	8,329
Spain	82,709	72,242
Italy	8,997	7,353
	<u><b>246,853</b></u>	<u><b>197,878</b></u>
<b>DTH Revenue</b>		
Romania	38,714	40,176
Hungary	31,378	30,479
	<u><b>70,092</b></u>	<u><b>70,655</b></u>
<b>Other revenues</b>		
Romania	87,568	67,227
Hungary	19,485	17,141
Spain	328	438
Italy	182	191
	<u><b>107,563</b></u>	<u><b>84,997</b></u>
<b>Revenues from discontinued operations</b>	-	<b>3,840</b>
<b>DTH Revenue</b>		
Czech Republic	-	3,816
	-	<b>3,816</b>
<b>Other revenues</b>		
Czech Republic	-	24
	-	<b>24</b>
<b>Total revenues</b>	<u><b>842,755</b></u>	<u><b>750,130</b></u>

\*Starting with 30 June 2016, we aggregate the mobile telephony and mobile data revenue and present them as revenues from mobile telecommunication services (voice and data) reported under Telephony revenue category. Revenue for the year ended 31 December 2015 was restated accordingly: the amount of EUR 38,021 coming from Internet and data revenues were partially reclassified to Telephony line (Romania, Hungary, Spain and Italy).

Other revenues include mainly sales of CPE, but also contain services of filming sport events, advertising revenue, rental of CPE and penalties invoiced to subscribers. Sales of CPE include mainly mobile handsets and other equipment.

The significant increase in telephony revenues is entirely due to the increase in Mobile telephony revenues.



**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements  
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	<u>2016</u>	<u>2015</u>
<b><i>Operating expenses from continuing operations</i></b>	<b><u>755,848</u></b>	<b><u>696,567</u></b>
Depreciation of property, plant and equipment (Note 5)	86,693	114,838
Amortization of programme assets (Note 6)	46,170	46,998
Amortisation of non-current intangible assets (Note 6)	35,003	25,594
Revaluation impact (Note 5)	6,276	-
Impairment of property, plant and equipment (Note 5)	1,830	337
Impairment of non-current intangible assets (Note 6)	398	-
Salaries and related taxes	119,049	113,618
Contribution to pension related fund	19,171	16,181
Programming expenses	73,915	67,445
Telephony expenses*	123,406	94,464
Cost of goods sold	57,996	48,006
Rentals	50,322	42,727
Invoicing and collection expenses	13,812	13,476
Taxes and penalties	12,676	12,025
Utilities	14,657	13,403
Copyrights	8,851	8,408
Internet connection and related services*	19,303	16,353
Impairment of receivables and other assets, net of reversals	9,677	10,068
Other expenses**	56,643	52,626
<b><i>Operating expenses from discontinued operations</i></b>	<b><u>-</u></b>	<b><u>3,115</u></b>
<b>Total operating expenses</b>	<b><u>755,848</u></b>	<b><u>699,682</u></b>

\* As of 31 December 2016 we have reclassified the mobile internet expenses for Spain and Italy from Telephony expenses line to Internet connection and related services line because of their increasing significance. The comparatives for year ended 31 December 2015 were reclassified accordingly for disclosure purposes.

\*\* As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts separately from Operating expenses, as Other expenses. Comparative disclosure as at December 31, 2015 was restated accordingly.

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.

The significant increase in telephony expenses is mainly due to the increase in Mobile telephony expenses.

Salaries and related taxes capitalized for the development of network during the year ended 31 December 2016 amount to EUR 25,416 (2015: EUR 21,179).

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**19. NET FINANCE COSTS**

	<u>2016</u>	<u>2015</u>
<b><i>Finance income</i></b>		
Interest from banks	49	64
AFS gain reclassified from OCI	33,722	-
Gain on derivative financial instruments and other financial revenue	11,541	9,805
	<u>45,312</u>	<u>9,869</u>
<b><i>Finance expenses</i></b>		
Interest expense	(45,173)	(49,342)
Loss on derivative financial instruments	(5,216)	(3,207)
Other financial expenses	(47,746)	(12,725)
Foreign exchange differences (net)	(3,332)	(5,452)
	<u>(101,467)</u>	<u>(70,726)</u>
<i>Net Finance Costs from continuing operations</i>	<b>(56,155)</b>	<b>(60,857)</b>
<i>Net Finance Costs from discontinued operations</i>	-	<b>(23)</b>
<b>Net Finance Costs total</b>	<u><b>(56,155)</b></u>	<u><b>(60,880)</b></u>

The 2013 Bonds were refinanced on 26 October 2016. Other financial expenses in 2016 include redemption interest and penalties in amount of EUR 17,627, the expensing of the unamortized transaction costs of the 2013 Bond, in amount of EUR 8,802, and the de-recognition of the embedded derivative asset of the 2013 Bond upon exercise of call option, in amount of EUR 14,211.

Other financial expenses in 2015 include expensing of the unamortised transaction costs of EUR 4.9 million relating to 2013 Senior Facilities Agreement repaid in 2015. Other financial expenses in 2016 and 2015 also include fees related to short-term vendor financing and reverse factoring agreements, commitment fees for undrawn facilities and other bank charges.

In 2016 finance income includes fair value gain from embedded derivative assets related to the 2016 Bonds in amount of EUR 5,474 and fair value gain from embedded derivative assets related to the 2013 Bonds in amount of EUR 4,956 (2015: EUR 9,255 from embedded derivative asset related to the 2013 bonds).

In October 2016 RCS & RDS concluded the Senior Facilities Agreement. The Senior Facilities Agreement was treated as a modification of the 2015 Senior Facilities Agreement. Therefore, the discounted present value of the cash flows under the Senior Facility Agreement was recalculated using the original effective interest rate of the 2015 Senior Facilities Agreement and compared with the amortised cost of the existing facility. The resulting adjustment to the amortised cost of the financial liability was recognised as finance income at the date of the modification, in amount of EUR 784.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***20. INCOME TAX**

The statutory tax rate applied in Netherlands during 2016 was 25% (2015: 25%)

*Other entities*

The statutory tax rate applied in the Romanian entities during 2016 was 16% (2015: 16%).

The statutory tax rate applied in Hungary during 2016 was 19% (2015: 19%).

The statutory tax rate applied in Czech Republic during 2015 was 19%.

The statutory tax rate applied in Spain during 2016 was 25% (2015: 28%).

The statutory tax rate applied in Italy during 2016 was 31.4% (2015: 31.4%).

Components of income tax expense for the periods ended 31 December 2016 and 2015 respectively were:

	<u>2016</u>	<u>2015</u>
Current income tax charge	5,505	6,605
Deferred income tax relating to origination and reversal of temporary differences	<u>5,821</u>	<u>(1,236)</u>
<b>Income tax expense/ (credit) recognised in profit or loss for continuing operations</b>	<b><u>11,326</u></b>	<b><u>5,369</u></b>
<i>Income tax expense/ (credit) recognised in profit or loss for discontinuing operations</i>	<u>-</u>	<u>56</u>

*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 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
<b>Net profit/(loss) before income tax for continuing operations</b>	<b>23,110</b>	<b>(12,132)</b>
At statutory income tax rate of the Company	5,777	(3,033)
Effect of difference in tax rates applicable for foreign subsidiaries	613	2,346
Non-deductible expenses / (Non-taxable income)	5,031	5,632
Fiscal losses for which no deferred tax has been recognized	-	1,010
Fiscal credit	-	(586)
Changes in percentage rate	(95)	-
<b>Effective tax expense / (credit) from continuing operations</b>	<b><u>11,326</u></b>	<b><u>5,369</u></b>
<i>Effective tax expense from discontinuing operations</i>	-	56

Deferred taxes in the consolidated statement of financial position are:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Deferred tax assets	3,126	3,951
Deferred tax liabilities	<u>(34,812)</u>	<u>(26,981)</u>
	<b><u>(31,686)</u></b>	<b><u>(23,030)</u></b>

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**20. INCOME TAX (continued)**

Movement of deferred taxes:

	<u>2016</u>	<u>2015</u>
<b>Deferred taxes recognized in the statement of financial position</b>	<b>(31,686)</b>	<b>23,030</b>
Difference from prior year balance	8,656	(2,241)
<i>Of which:</i>		
Recognized in profit or loss	5,822	(1,327)
Deferred tax liability resulted from business combinations	-	-
Deferred tax liability disposed on sale of subsidiary	-	(184)
Deferred tax liability related to interest rate swaps and related to revaluation, recognised in other comprehensive income	2,930	(864)
Effect of movement in exchange rates	(96)	134

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**20. INCOME TAX (continued)**

The deferred tax (asset)/ liability for the financial year 2016 comprises the tax effect of temporary differences related to:

	Balance 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Disposed on sale of subsidiary	Effect of movement in exchange rates	Balance 31 December 2016
Property, plant and equipment	33,207	9,768	2,804	-	(277)	45,502
Intangibles	3,205	83	-	-	1,684	4,972
Intangible acquired through business combination	1,540	-	-	-	(1,540)	-
Accounts receivable	2,408	(1,345)	-	-	47	1,110
Accounts payable	(1,015)	(330)	-	-	9	(1,336)
Long term borrowings	974	(103)	-	-	(3)	868
Inventory	-	-	-	-	-	-
<b>Deferred tax liabilities</b>	<b>40,319</b>	<b>8,072</b>	<b>2,804</b>	<b>-</b>	<b>(79)</b>	<b>51,116</b>
Intangibles	160	-	-	-	-	160
Accounts receivable	40	-	-	-	(40)	-
Accounts payable	-	-	-	-	-	-
Interest expense postponed for deduction	(9,509)	(3,076)	-	-	69	(12,516)
Inventory	(358)	(592)	-	-	(2)	(952)
Cash Flow hedge reserves	(864)	-	126	-	2	(736)
Fiscal losses	(6,758)	1,418	-	-	(46)	(5,386)
<b>Deferred tax assets</b>	<b>(17,289)</b>	<b>(2,250)</b>	<b>126</b>	<b>-</b>	<b>(17)</b>	<b>(19,430)</b>
<i>Offsetting (refer to Note 2.2 o)</i>	(13,337)	-	-	-	-	(16,304)
<i>Recognition</i>						
Deferred tax liabilities	26,981	-	-	-	-	34,812
Deferred tax assets	(3,951)	-	-	-	-	(3,126)
Net deferred tax liability	23,030	-	-	-	-	31,686
<b>Deferred tax (benefit) / expense</b>	<b>-</b>	<b>5,822</b>	<b>2,930</b>	<b>-</b>	<b>(96)</b>	<b>-</b>

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**20. INCOME TAX (continued)**

The deferred tax (asset)/ liability for the financial year 2015 comprises the tax effect of temporary differences related to:

	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Disposed on sale of subsidiary	Effect of movement in exchange rates	Balance 31 December 2015
Property, plant and equipment	33,183	267	-	(184)	(59)	<b>33,208</b>
Intangibles	2,229	2,345	-	-	171	<b>4,745</b>
Accounts receivable	1,027	1,415	-	-	(34)	<b>2,408</b>
Accounts payable	(4,069)	3,068	-	-	(15)	<b>(1,015)</b>
Long term borrowings	7,080	(6,147)	-	-	42	<b>974</b>
Inventory	59	-	-	-	(59)	-
<b>Deferred tax liabilities</b>	<b>39,508</b>	<b>948</b>	-	<b>(184)</b>	<b>46</b>	<b>40,319</b>
Intangibles	160	-	-	-	-	<b>160</b>
Accounts receivable	(54)	95	-	-	(1)	<b>40</b>
Accounts payable	(110)	110	-	-	-	-
Interest expense postponed for deduction	(4,357)	(5,285)	-	-	133	<b>(9,508)</b>
Inventory	(550)	195	-	-	(3)	<b>(358)</b>
Cash Flow hedge reserves	-	-	(864)	-	-	<b>(864)</b>
Fiscal losses	(9,327)	2,608	-	-	(39)	<b>(6,758)</b>
<b>Deferred tax assets</b>	<b>(14,238)</b>	<b>(2,276)</b>	<b>(864)</b>	-	<b>89</b>	<b>(17,289)</b>
<i>Offsetting (refer to Note 2.2 o)</i>	<i>(11,304)</i>	-	-	-	-	<i>(13,337)</i>
<i>Recognition</i>						
Deferred tax liabilities	<b>28,204</b>	-	-	-	-	<b>26,981</b>
Deferred tax assets	<b>(2,933)</b>	-	-	-	-	<b>(3,951)</b>
Net deferred tax liability	<b>25,271</b>	-	-	-	-	<b>23,030</b>
<b>Deferred tax (benefit) / expense</b>	<b>-</b>	<b>(1,327)</b>	<b>(864)</b>	<b>(184)</b>	<b>134</b>	<b>-</b>

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***20. 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 11,569 at 31 December 2016 (31 December 2015: EUR 18,917), are not subject to preapproval by tax authorities and can be carried forward until 2025.

In addition, in 2016 and 2015 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 5,781 (2015: EUR 6,826), for which a deferred tax liability is recognised.

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. Uncertainties associated with the fiscal and legal system are disclosed in Note 26.

**21. DISCONTINUED OPERATIONS**

In April 2015 the Czech subsidiary, Digi Czech Republic sro was sold.

As of 31 December 2016 we have recorded an additional provision regarding the sale transaction of the Czech subsidiary in net amount of EUR 674.

**22. BUSINESS COMBINATIONS****a) Subsidiaries**

The consolidated financial statements incorporate the financial information of the following main subsidiaries in each of the countries:

DIGI owns shares 96.1% in RCS&RDS (2015: 87.6%), as per shares transactions. Below are the presented the main subsidiaries of RCS&RDS (excluding inactive subsidiaries):

Subsidiary	Country of Incorporation	Field of activity	Legal Ownership	
			2016	2015
Digi T.S. Kft	Hungary	CATV, Internet, DTH, Telephony	100.00%	100.00%
DIGI SPAIN TELECOM S.L.U.	Spain	Telephony	100.00%	100.00%
DIGI ITALY SL	Italy	Telephony	100.00%	100.00%
ITV.	Hungary	CATV	100.00%	100.00%
CFO Integrator	Romania	Duct Rent	100.00%	100.00%
S.C. ENERGIAFOTO SRL	Romania	Solar energy	100.00%	100.00%
S.C. NOVITAS Electro	Romania	Solar energy	100.00%	100.00%
S.C. DELALINA S.R.L.	Romania	Solar energy	100.00%	100.00%

**22. BUSINESS COMBINATIONS (continued)**

**b) Business acquisitions**

	<b>2016</b>	<b>2015</b>
<b>Total consideration payable in cash</b>	<b>-</b>	<b>2,990</b>
Customer relationships	-	-
Other intangibles	-	2,696
Deferred tax liabilities	-	-
Property, plant and equipment	-	294
Payables	-	-
Cash and cash equivalents	-	-
Other	-	-
<b>Total identifiable net assets</b>	<b>-</b>	<b>2,990</b>
<b>Goodwill</b>	<b>-</b>	<b>-</b>

None of the goodwill recognized is expected to be deductible for tax purposes.

**c) Changes in ownership interests while retaining control**

In 2016 DIGI acquired 1,070,000 (2015: 1,924,100) shares in RCS&RDS, for a total amount of EUR 1,646 (2015: EUR 2,953).

During 2016 the Group acquired no other non-controlling interests (31 December 2015: EUR 738) from previous owners of the non-controlling interest.

**23. 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, interest rate risk and price 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.



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**23. FINANCIAL RISK MANAGEMENT (continued)**

**(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.

Management mitigates credit risk mainly by monitoring the subscribers base and identifying bad debt cases, which are suspended in general in an average of 15 days period after the invoice due date.

The maximum exposure to credit risk at the reporting date was:

	<u>Note</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Trade and other receivables	10	108,965	82,545
Other assets	11	6,321	8,209
Cash and cash equivalents	12	14,340	49,423
Derivative assets	25	17,049	9,937
Long term receivables*		3,927	2,926
<b>Total</b>		<b>150,602</b>	<b>153,041</b>

\* The long term receivables position does not include green certificates balance as at 31 December 2015.

The carrying amount of the financial assets, net of the recorded impairment allowances, 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 allowances already recorded.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Citibank	146	1,710
ING Bank	9,658	42,041
Banca Comerciala Romana	13	277
BRD Groupe Societe Generale	231	118
Unicredit Tiriatic Bank	304	2,540
Other	3,988	2,737
<b>Total</b>	<b>14,340</b>	<b>49,423</b>

Cash and cash equivalents are placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

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.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***23. FINANCIAL RISK MANAGEMENT (continued)****Impairment losses**

The ageing of trade and other receivables, and other assets, at the reporting date was:

	<b>Gross 31-Dec-16</b>	<b>Impairment 31-Dec-16</b>	<b>Net 31-Dec-16</b>	<b>Gross* 31-Dec-15</b>	<b>Impairment* 31-Dec-15</b>	<b>Net* 31-Dec-15</b>
<b>1. Neither past due nor impaired</b>	92,131	-	92,131	57,778	-	57,778
<b>2. Past due but not impaired*</b>	23,155	-	23,155	32,967	-	32,976
<b>3. Impaired</b>	45,058	(45,058)	-	77,439	(77,439)	-
<b>Total</b>	<b>160,343</b>	<b>(45,058)</b>	<b>115,286</b>	<b>168,193</b>	<b>(77,439)</b>	<b>90,754</b>
<b>* Ageing past due but not impaired</b>						
Past Due less 30 days	14,917	-	-	28,152	-	-
Past Due 30-90 days	4,124	-	-	3,950	-	-
Past Due 90-180 days	4,114	-	-	875	-	-
<b>Total</b>	<b>23,155</b>	<b>-</b>	<b>-</b>	<b>32,976</b>	<b>-</b>	<b>-</b>

The majority of receivables classified as neither past due nor impaired refer to residential subscribers. The allowances recorded are mainly determined as collective assessment, based principally on ageing of balances due.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<b>2016</b>	<b>2015*</b>
Balance at 1 January	77,439	71,949
Impairment loss recognized (Note 18)	9,051	10,069
Impairment related to receivables of discontinued operations	-	(1,598)
Amounts written off	(41,381)	(2,302)
Effect of movement in exchange rates	(51)	(679)
<b>Balance at 31 December</b>	<b>45,058</b>	<b>77,439</b>

\* Information related to 2015 from above tables regarding ageing and movement of allowances was changed to include also "other assets" (Note 11).

**(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 Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, vendor financing and reverse factoring agreements. Management monitors on a monthly basis the forecast of cash outflows and inflows in order to determine its funding needs.

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**23. FINANCIAL RISK MANAGEMENT (continued)**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2016:

	31 December 2016						
	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
<b>Non derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds	703,814	846,859	42,324	30,999	76,127	697,408	-
Finance lease liabilities	5,772	6,359	994	994	1,932	1,683	755
Trade and other payables and other liabilities	409,939	416,340	314,432	55,437	32,745	13,725	2
<b>Derivative financial liabilities</b>							
Interest rate swaps used for hedging	5,318	8,021	1,969	1,754	2,579	1,718	-
Energy trading acquisitions	1,264	1,268	934	317	18	-	-
<b>Total</b>	<b>1,126,106</b>	<b>1,278,847</b>	<b>360,654</b>	<b>89,502</b>	<b>113,400</b>	<b>714,534</b>	<b>757</b>

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2015:

	31 December 2015						
	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
<b>Non derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds	679,254	889,422	52,734	55,179	92,170	689,339	-
Finance lease liabilities	8,761	9,701	1,107	1,238	2,476	3,732	1,148
Trade and other payables and other liabilities	277,646	278,206	245,669	24,823	7,714	-	-
<b>Derivative financial liabilities</b>							
Interest rate swaps	6,094	12,715	2,330	2,335	3,737	4,313	-
Foreign currency swaps	493	493	493	-	-	-	-
Energy trading acquisitions	14,520	14,585	8,671	5,914	-	-	-
<b>Total</b>	<b>986,768</b>	<b>1,205,122</b>	<b>311,004</b>	<b>89,488</b>	<b>106,097</b>	<b>697,384</b>	<b>1,148</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***23. FINANCIAL RISK MANAGEMENT (continued)**

At 31 December 2016, the Group had net current liabilities of EUR 251,818 (31 December 2015: EUR 171,756). 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.

**(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, market electricity prices 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 (other than the functional currency of each legal entity), 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 imports services and equipment and attracts substantial amount of foreign currency denominated borrowings.

The Board of Directors actively manages the exposure to EUR and USD currency only for borrowings.

The Group's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2016		31 December 2015	
	USD	EUR	USD	EUR
Trade and other receivables	3,973	4,690	3,938	3,637
Cash and cash equivalents	6	5,486	50	3,087
Interest bearing loans and borrowings, including bonds	-	(352,797)	-	(446,161)
Bank overdraft	1	-	-	(4,757)
Finance lease liabilities	-	(5,770)	-	(8,759)
Trade and other payables	(47,714)	(59,870)	(36,712)	(42,288)
<b>Gross statement of financial position exposure</b>	<b>(43,734)</b>	<b>(408,261)</b>	<b>(32,724)</b>	<b>(495,241)</b>
Derivative financial instruments*	-	-	-	25,406
<b>Gross exposure</b>	<b>(43,734)</b>	<b>(408,261)</b>	<b>(32,724)</b>	<b>(469,835)</b>

\*Represents amounts to be received as part of the cross currency interest rate swaps in place at the end of each period.

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**23. FINANCIAL RISK MANAGEMENT (continued)**

The following significant exchange rates applied for the year ended 31 December 2016:

	<u>2016</u>	<u>2015</u>
<b>Romania</b>		
USD	4.3033	4.1477
EUR	4.5411	4.5245
<b>Hungary</b>		
USD	293.69	286.63
EUR	311.02	313.12
<b>Czech Republic</b>		
USD	n/a	24.82
EUR	n/a	27.02

*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 profit / increased loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant, and does not take into account the currency swaps existing as of 31 December 2015.

	<u>Effect on profit before tax 2016</u>	<u>Effect on profit before tax 2015</u>
EUR	40,826	49,524
USD	4,144	3,000
<b>Total</b>	<u><b>44,970</b></u>	<u><b>52,524</b></u>

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 profit and loss, on the basis that all other variables remain constant.

The effect in equity is the effect in profit or loss before tax, net of tax (16%) (excluding translation effect into presentation currency).

The Group had in effect a currency swap as of 31 December 2015 in order to mitigate the currency exposure of the bond interest denomination in EUR, for an amount of EUR 450 million. This currency swap was in effect until September 2016.

**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 are disclosed in Note 14.

The Board of Directors performs from time to time ad-hoc analysis of exposure to variable rate borrowings and decides if it should change the structure of variable / fixed rate borrowings or whether to hedge through IRS.

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*(all amounts are in thousand EUR, unless specified otherwise)*

**23. FINANCIAL RISK MANAGEMENT (continued)**

At the reporting date the interest rate repricing profile of the variable rate interest-bearing financial instruments was:

	<b>All reprice at 6 months or less</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Interest bearing payables	77,319	18,127
Finance lease liabilities	2,129	2,369
Senior Facility Agreement	336,923	229,860
Interest rate swap	5,318	6,587
Other	13,140	4,757
<b>Total</b>	<b>434,828</b>	<b>261,700</b>

The 2015 Senior Facilities Agreement bears variable interest rate but the Group has entered into fixed for floating interest rate swaps, as follows:

- In May 2015 RCS&RDS concluded an interest rate swap for the entire initial term loan facility through which interest is fixed at 5.75%, and
- The interest rate for the “Accordion” agreement was fixed at 5.50% through an interest rate swap concluded in January 2016

Consequently the interest rate of the combined instrument (loan and swap) was fixed until maturity on 30 April 2020 – more details are included in Note 14 (ii).

The 2016 Senior Facilities Agreement bears variable interest rate. The interest rate swaps concluded by the Group in for the 2015 Senior Facilities Agreement are still valid under the same terms (amounts, maturities, interest rates etc).

Except for the ones presented in the table above there are no other major interest bearing financial instruments.

*Sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates, after taking into consideration the effect of the IRS, at the reporting date would have increased (decreased) profit or loss before tax by:

	<b>Profit or loss</b>	
<b>31 December 2016</b>		
Variable rate instruments, after IRS effect	(1,924)	1,924
	<b>Profit or loss</b>	
	100 basis points increase	100 basis points decrease
<b>31 December 2015</b>		
Variable rate instruments, after IRS effect	(350)	350

The effect in equity is the effect in profit or loss before tax, net of tax (16%).

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***23. FINANCIAL RISK MANAGEMENT (continued)****Exposure to electricity price risk**

Through its electricity production and trading activities, the Group is exposed to electricity price risk, due to the volatility of prices on the electricity market and the potential mismatches between purchase prices and selling prices. In particular, due to the fixed prices we charge customers related to our electricity supply activities, increases in the cost of the electricity we acquire from third parties could adversely affect our financial condition.

**iv) Fair values**

The Group measures at fair value available for sale investments, embedded derivatives, interest rate swaps, cross currency swaps, electricity trading assets (term contracts) and electricity trading liabilities (term contracts).

**Fair value hierarchy**

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation techniques with all significant inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: valuation techniques using significant inputs that are not observable or based on observable market data (i.e. unobservable inputs).

The significance of a valuation input is assessed against the fair value measurement in its entirety.

**Recurring fair value measurements**

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements of financial instruments are categorised are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>31 December 2016</b>				
Available for sale financial assets	-	-	-	-
Cross currency swaps	-	-	-	-
Interest rate swaps	-	-	(5,318)	<b>(5,318)</b>
Embedded derivatives	-	-	13,908	<b>13,908</b>
Electricity trading assets (term contracts)	-	-	3,141	<b>3,141</b>
Electricity trading liabilities (term contracts)	-	-	(11,038)	<b>(11,038)</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>693</b>	<b>693</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>31 December 2015</b>				
Available for sale financial assets	-	-	43,373	<b>43,373</b>
Cross currency swaps	-	-	(493)	<b>(493)</b>
Interest rate swaps	-	-	(6,094)	<b>(6,094)</b>
Embedded derivatives *	-	-	9,255	<b>9,255</b>
Electricity trading assets (term contracts)	-	-	682	<b>682</b>
Electricity trading liabilities (term contracts)	-	-	(1,666)	<b>(1,666)</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>45,057</b>	<b>45,057</b>

\* Disclosure restated for 2015 from Level 2 to Level 3

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***23. FINANCIAL RISK MANAGEMENT (continued)**Available for sale financial assets

As at 31 December 2015, available for sale assets comprised shares in RCSM, not traded on active markets. The valuation model used to assess their fair value is based on the income approach. Cash flows were projected based on financial budgets approved by senior management covering a five-year period, after which a terminal annual revenue growth was used. This assessment is made in compliance with IFRS 13, which may be different from other valuation standards, including those set by ANEVAR.

The significant unobservable inputs used in the model include:

- Forecast terminal annual revenue growth rate (2016: n/a ; 2015: 1.7%).
- Risk-adjusted discount rate (2016: n/a ; 2015: 8.48%).

Note 6 a) (ii) 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 valuation model used is based on the Equity value of the Group, determined using DCF method).

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).

As at 31 December 2016 there are no longer available for sale financial assets.

Sensitivity analysis for available for sale financial assets

A change in growth rate and/ or WACC at the reporting date would have an impact as follows:

	<b>WACC</b>		<b>Growth rate</b>	
	100 basis points increase	100 basis points decrease	50 basis points decrease	50 basis points increase
<b>31-Dec-16</b>				
Available for sale financial assets	-	-	-	-
<b>31-Dec-15</b>				
Available for sale financial assets	(10,747)	14,484	(3,160)	8,054

Cross-currency and interest rate swaps

The fair value of derivatives acquired for risk management purposes was obtained from the counterparty financial institutions. The management has determined that such prices were developed in accordance with the requirements of IFRS 13. However the management has not performed a due diligence to understand in detail how the prices were developed, consequently the fair value was categorised in Level 3 of the fair value hierarchy.

Embedded derivatives

The fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a "plain vanilla" bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds. The fair value was obtained from a third party financial institution. The management has determined that such prices were developed in accordance with the requirements of IFRS 13.



**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)**
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**23. FINANCIAL RISK MANAGEMENT (continued)**
Electricity trading assets and liabilities

The Company uses a discounted cash flow valuation technique to measure the fair value of the term electricity sale and acquisition contracts as these are not traded on active markets. The valuation model is based on the spot-forward parity formula and the significant inputs are represented by:

- the electricity spot price as estimated based on transaction on PZU market (OPCOM) around the valuation date. The spot price used for valuation as at 31 December 2016: RON/MWh 210.15 (31 December 2015 RON/MWh 158) , and
- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date (2016: 1.20%; 2015: 1.14%).

A change in electricity spot price or in the discount rate at the reporting date would have an impact as follows:

	spot price		discount rate	
	Average 10% increase	Average 10% decrease	0.5 points increase	0.5 points decrease
<b>31-Dec-16</b>				
Electricity trading assets	441	(400)	2	(2)
Electricity trading liabilities	(3,643)	3,312	(65)	66

	spot price		discount rate	
	Average 10% Increase	Average 10% decrease	0.5 points increase	0.5 points decrease
<b>31-Dec-15</b>				
Electricity trading assets	277	(279)	3	(3)
Electricity trading liabilities	(1,339)	1,348	(8)	8

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2016 is as follows:

	Available for sale (Notes 7, 13)	Cross currency swaps	Embedded derivatives	Interest rate swaps	Trading assets	Trading liabilities
<b>1 January 2016</b>	<b>43,373</b>	<b>(493)</b>	<b>9,255</b>	<b>(6,094)</b>	<b>682</b>	<b>(1,666)</b>
Gains or (losses) recognised in profit or loss for the year	-	-	5,433*	(4,958)	2,459	(9,372)
Gains or (losses) recognised in other comprehensive income	2,367	-	-	779	-	-
Purchases	1,653	-	8,474*	-	-	-
Sales	-	-	-	-	-	-
Settlements**	(47,393)	493	(9,255)	4,955	-	-
<b>31 December 2016</b>	<b>-</b>	<b>-</b>	<b>13,908</b>	<b>(5,318)</b>	<b>3,141</b>	<b>(11,038)</b>

\* Net effect of gain on 2013 Bond embedded derivative in 2016 of EUR 4,956, expense of EUR 14,211 upon exercising the call option on 2013 Bond and recognition of fair value gain on 2016 Bond embedded derivative of EUR 5,433 after taking into consideration fair value of the embedded derivative asset at inception of EUR 8,474.

\*\*As of 31 December 2016 the AFS assets were derecognized and the entire fair value gain accumulated in fair value reserve, amounting to EUR 33,722, was reclassified to Profit or Loss and accordingly reclassified from OCI (EUR 33,722).

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**23. FINANCIAL RISK MANAGEMENT (continued)**

	Available for sale	Cross currency swaps	Embedded derivatives	Interest rate swaps	Trading assets	Trading liabilities
<b>1 January 2015</b>	<b>41,296</b>	<b>(993)</b>	-	-	-	-
Gains or (losses) recognised in profit or loss for the year	-	500	9,255	(4,434)	682	(1,666)
Gains or (losses) recognised in other comprehensive income	1,227	-	-	(5,399)	-	-
Purchases	850	-	-	-	-	-
Sales	-	-	-	-	-	-
Settlements	-	-	-	3,739	-	-
<b>31 December 2015</b>	<b>43,373</b>	<b>(493)</b>	<b>9,255</b>	<b>(6,094)</b>	<b>682</b>	<b>(1,666)</b>

**Assets and liabilities not measured at fair value but for which the fair value is disclosed**

The fair value of long term loans and their corresponding carrying amount (excluding the interest accrued at 31 December 2016) and fair value measurement hierarchy are presented in the table below:

	<b>31 December 2016</b>		
	Carrying amount	Fair Value	Hierarchy
<b>Loans (Note 14)</b>	<b>687,911</b>	<b>729,167</b>	
Bonds*	349,638	372,164	Level 1
2016 Senior Facilities	332,382	350,835	Level 3
Other	5,892	6,168	
	<b>31 December 2015</b>		
	Carrying amount	Fair Value	Hierarchy
<b>Loans (Note 14)</b>	<b>666,468</b>	<b>709,202</b>	
Bonds*	439,176	477,852	Level 1
2015 Senior Facilities**	227,292	231,350	Level 3

\* Fair value of bonds is disclosed at mid-market price, which includes the embedded derivative asset

\*\* Disclosure restated for 2015 from Level 2 to Level 3

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/ROBOR reset rate, after giving effect to interest rate swaps, plus the market credit spread received by the Group for financial liabilities with similar features).

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, other interest bearing loans and borrowings, other long term liabilities and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (or recognized recently carrying values for other long term liabilities) and low transaction costs of these instruments.

**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 Senior Facilities Agreement. Currently the ratio is 2.9 (2015: 2.8), level which, as mentioned, is constantly monitored.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***24. 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. In 2016 the share-based payments plan was not applied.

Share options were granted to eligible employees under the share based payment plan in 2016 nil (2015: 935,000). The related share option expense of EUR has been recorded as an expense in 2016 EUR nil (2015: EUR 2,054) in the Consolidated statement of profit or loss and other comprehensive income in the line item Operating expenses, within salaries and related taxes. (Note 18).

**25. DERIVATIVE FINANCIAL INSTRUMENTS**

As at 31 December 2016 the Group had both derivative financial liabilities and derivative financial assets.

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Fair value</b>	<b>Notional</b>	<b>Fair value</b>	<b>Notional</b>
<b>Derivative financial asset</b>				
<b>(see also Note 23)</b>	<b>17,049</b>		<b>9,937</b>	
Embedded derivatives	13,908	n/a	9,255	n/a
Electricity trading assets (term contracts)	3,141	95 GWh	682	92 GWh

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Fair value</b>	<b>Notional</b>	<b>Fair value</b>	<b>Notional</b>
<b>Derivative financial liability</b>				
<b>(see also Note 23)</b>	<b>16,356</b>		<b>8,253</b>	
Interest rate swaps	5,318	197,651	6,094	197,769
Cross currency swaps	-	-	493	450,000
Electricity trading liabilities (term contracts)	11,038	787 GWh	1,666	733 GWh

As at 31 December 2016 the Group had derivative financial assets in amount of EUR 17,049 (31 December 2015: 9,937), which included:

- Embedded derivatives of EUR 13,908 related to the bond (31 December 2015: 9,255) (both the 2016 Bond and the 2013 Bond include several call options as well as one put option, for which the combined fair value of these embedded options was assessed through the Option Adjusted Spread model and recognized a separate embedded derivative asset). The fair value of the embedded derivatives was also assessed at inception date, in October 2016, in amount of EUR 8,474 and recognized as embedded derivative asset with a corresponding increase of the bond liability.
- Electricity trading assets (term contracts) of EUR 3,141 being mark to market gain from fair valuation of electricity trading contracts (31 December 2015: 682).

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**25. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

As at 31 December 2016 the Group had derivative financial liabilities in amount of EUR 16,356 (31 December 2015: EUR 8,253), which included:

- Cross currency swaps: In 2014 were concluded coupon swaps for the interest of the 2013 Proceeds Loan's value (EUR 450 million), all with a termination date of 23 September 2016. As of 31 December 2016 the cross currency swaps are no longer valid. As of 31 December 2016 the balance is nil (31 December 2015: EUR 493).
- Interest rate swaps liability in amount of EUR 5,318 (31 December 2015: EUR 6,094): On May 22, 2015 and in January 2016 RCS & RDS concluded interest rate swaps for the entire term loan facility and Accordion term loan facility under the 2015 SFA, through which RCS&RDS hedged against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e.: ROBOR). Under the interest rate swaps RCS&RDS pays fixed and receives variable cash flows on the same dates on which it settles the interest on its hedged borrowings. Hedged cash flows occur periodically, on the settlement of the interest on hedged loans, and impact profit or loss throughout the life of the loan, through accrual. Given that critical terms of the hedging instrument match the critical terms of the hedged cash flows, there is no significant ineffectiveness. The interest rate swaps remain valid until the maturity of the agreement in 2021.
- Electricity trading liabilities (term contracts) of EUR 11,038 being mark to market loss from fair valuation of electricity trading contracts (31 December 2015: 1,666).

**26. CONTINGENCIES AND COMMITMENTS**

**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, others from the domestic fiscal policy) and often subject of contradictory interpretations, which might be applied retrospectively.

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 parties 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.

**26. CONTINGENCIES AND COMMITMENTS (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. Specifically, for the litigations described below the Group did not recognize provisions as management assessed that the outcome of these litigations is not more likely than not to result in significant cash outflows for the Group.

**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 litigations**

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 EUR 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 EUR 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 EUR 65 million monetary damages was suspended until 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 EUR 65 million monetary damages. Please note that this decision is not final as it has been challenged by Antena Group. The next hearing in the appeal is scheduled for 11 April 2017.

In the case regarding the injunctive relief request, both the court of first instance and the court of appeal ruled in our favour 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 Bucharest Tribunal annulled the monetary claims (EUR 65 million) filed in the case file (because Antena Group's failure to pay the stamp duties) and suspended the proceedings until a final settlement will be issued in the lawsuit we initiated to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

**26. CONTINGENCIES AND COMMITMENTS (continued)**

Separately, Antena Group has also filed two lawsuits claiming (i) monetary damages of approximately EUR 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 EUR 24 million out of these claims are related to our refusal to carry GSP TV, while the remaining EUR 11 million is related to our refusal to carry Antena 2. Because Antena Group assigned to First Quality Debt Recovery the claims regarding the EUR 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. The decision of the Bucharest Tribunal remained final.

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 only with regards to the judicial expenses. Initially, the appeal was rejected in October 2014, but following a retrial ordered by the High Court of Cassation and Justice, the court of appeals modified in part the first court's decision, by granting approx. EUR 2 (two) as judicial expenses to Antena Group. The decision is subject to higher appeal.

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. Both lawsuits have been suspended until the final settlement of the trial initiated by RCS&RDS to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

We have also challenged, but failed to overturn in court a number of NAC (National Audiovisual Council of Romania) 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 EUR 24 million).

Antena Group has not yet provided any objective criteria for the determination of their claims in damages.

**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.

**26. CONTINGENCIES AND COMMITMENTS (continued)**

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 issue 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. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until the final settlement of the lawsuit including the EUR 65 million monetary damages. The decision on suspension of the trial was challenged by Antena Group on 14 December 2015. RCS&RDS opposed the appeal of Antena Group, but at the same time submitted its own appeal regarding the first court's solution with respect to the request for the suspension of the proceedings until the final settlement of three other trials. On 15 June 2016, the Bucharest Tribunal rejected Antena Group's higher appeal as ungrounded, while the challenge filed by RCS&RDS's was rejected for lack of interest.

**c) The copyright related litigation**

In June 2014, Antena Group filed a new monetary claim against RCS&RDS, requesting approximately EUR 40 million 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 until 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. On 16 March 2016, the Bucharest Court of Appeals admitted Antena Group's appeal, annulled the first court's decision and sent the file back to the Bucharest Tribunal for a trial on the merits of the case. The full decision of the Court of Appeals has been communicated to us on 11 July 2016 and the deadline for a higher appeal expired on 11 August 2016.

We have decided not to challenge this decision because, although it granted Antena Group standing in the file, it contains favourable conclusions on the merits of the case. More specifically, the Court of Appeals stated that the relation between Antena Group and RCS&RDS regarding the retransmission of the must carry channels is not subject to an agreement between the parties.

After the annulment decision of the Bucharest Court of Appeal, the case file returned to the Bucharest Tribunal. In front of the Bucharest Tribunal, RCS&RDS requested the court to bring into this claim RCS&RDS' competitors on the retransmission market in Romania. This request was dismissed by the court. The next hearing of this case by the Bucharest Tribunal is scheduled for 11 May 2017.

**d) Litigation regarding the outcome of the GSP investigation**

On 3 March 2015, the Romanian Competition Council dismissed Antena Group's complaint regarding an alleged abuse of dominant position of RCS&RDS in relation to the GSP TV channel.

**26. CONTINGENCIES AND COMMITMENTS (continued)**

On 10 April 2015, Antena Group challenged the Competition Council's decision and requested the courts of law to: (i) annul that decision, as the conduct of RCS&RDS with respect to the GSP channel fulfils the legal criteria to be considered an abuse of dominant position and (ii) order the Competition Council to reopen the investigation and issue a decision taking into consideration all arguments raised by Antena Group. The main grounds of this court claim regard the Competition Council's alleged wrongful analysis of the RCS&RDS' refusal to negotiate the retransmission of GSP TV channel, as well as the authority's alleged lack of a proper analysis regarding RCS&RDS' (alleged) discriminatory behaviour.

Antena Group initiated the proceedings only against the Competition Council, but the court decided that RCS & RDS needs to be introduced in the trial as defendant. On 3 October 2016, the court decided to reject Antena Group's claim in its entirety. This decision may be appealed by Antena Group within 30 days after the court issues the written reasoning of the decision. Should the court decide in favour of Antena Group's claim, it might force the Competition Council to reopen the investigation against RCS&RDS, which could ultimately lead to the application of antitrust fines amounting up to 10% of RCS&RDS' turnover.

**e) Reciprocal contractual claims with the Intact Media Group***Compensation of damage to reputation*

In November 2012, we initiated proceedings against Antena Group and other Intact Media Group entities for compensation in respect of the damage to our business reputation inflicted by a media campaign conducted via media assets of Intact Media Group that we consider defamatory. We requested: (i) a declaration that the adversary media campaign was being conducted in abuse of Intact Media Group's rights; (ii) an order obliging Intact Media Group to publish such declaration via its TV and newspaper network; and (iii) monetary compensation in the aggregate amount of approximately EUR 1.2 million for damage to our business reputation.

On March 7, 2016, the Bucharest Court of Appeal ruled in our favor on most counts and required Antena Group to pay us EUR 780,000 in moral damages. Antena Group filed a higher appeal to the Romanian Supreme Court against the decision of the appeal court. On November 24, 2016 the Romanian Supreme Court admitted the higher appeal and sent the case for retrial to the Bucharest Court of Appeal. The retrial has not been scheduled yet.

*Violation of certain contracts*

In 2011 and 2012, we initiated two proceedings against Antena Group claiming approximately EUR 2.6 million in damages resulting from their breaches of certain contractual arrangements. In 2012, Antena Group responded with counterclaims in both proceedings in the total aggregate amount of approximately EUR 3.3 million.

In the first proceedings we sought a refund of certain retransmission fees we had paid to Antena Group until 2010 in relation to two of its channels (Antena 3 and Antena 4). In turn, Antena Group sought further retransmission fees from us for 2010 and 2011. On November 2, 2015, the first instance court dismissed our claim and granted Antena Group's counterclaim in part, ordering us to pay approximately EUR 1.9 million to Antena Group in retransmission fees and legal expenses. Both parties have appealed that decision. On March 16, 2017 the Bucharest Court of Appeal partially admitted both appeals and consequently awarded approx. EUR 315,000 to us and approx. EUR 900,000 to Antena Group.

We have already filed a higher appeal against this decision, the first hearing before the Romanian Supreme Court being scheduled for May 17, 2017. We are currently unaware if Antena Group has also submitted a higher appeal.



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#### **26. CONTINGENCIES AND COMMITMENTS (continued)**

In the second proceedings the court of the first instance fully dismissed both our claim and Antena Group's counterclaim. Both parties are currently appealing the court's decisions. The next hearing in the court of appeal is scheduled for April 24, 2017.

##### **Pecuniary claim filed by the National Cinematography Centre**

On 19 April 2016, the National Cinematography Centre in Romania (which is the Romanian public entity under the Romanian Ministry of Culture) filed against RCS&RDS a payment injunction amounting to at least EUR 1.6 million, including principal amount and penalties for late payment.

Under the law, the National Cinematography Centre is entitled, amongst others, to collecting 1% of the monthly aggregate income gained from the cable and satellite carriage of TV channels, as well as from the digital retransmission of TV content. We have dully declared our income to the National Cinematography Centre and have paid the outstanding principal amounts up to date, while we refuse to pay for the accessories that are claimed by the National Cinematography Centre, as being abusive and illegal. The total amount of these accessories is of approximate EUR 1 million.

On 3 April 2017, the Court of Appeal rejected the claim against us. The decision of the court of first instance is final.

While the above mentioned case file involves an urgent (extraordinary) proceeding through which the National Cinematography Centre aimed at forcing RCS&RDS to pay the above mentioned amounts, given the rejection of the above claim by the court of first instance for lack of ground, on 4 November 2016, the National Cinematography Centre additionally filed before the Bucharest Tribunal the principal (ordinary) claim for payment, but with respect to a lower amount, in approximate value of EUR 1.2 million, including principal and accessories. In connection with this second case file, the first hearing is set for 24 April 2017.

For great part of the amounts claimed by the National Cinematography Centre we consider the claim as ungrounded and abusive, and we will continue to resist to these claims, as the amounts that we deem legitimate to be paid by RCS&RDS are significantly smaller.

##### **Litigation with Electrica Distribuție Transilvania Nord in relation to a concession agreement between the Company and the Oradea municipality**

In 2015, Electrica Distribuție Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged in a court the concession agreement we have concluded with the local municipality from Oradea regarding the use of an area of land for the development of an underground cable trough, arguing that the tender whereby we obtained the concession agreement was irregularly carried out. Furthermore, Electrica Distribuție Transilvania Nord S.A. claims that the cable trough is intended to include electricity distribution wires that would breach its alleged exclusive right to distribute electricity in the respective area.

Based on our request, the trial was suspended pending final settlement of (i) our challenge regarding the failure by the claimant to pay required stamp duties and (ii) a separate lawsuit in which two Group companies are challenging the validity of the alleged exclusivity rights of incumbent electricity distributors. Should the final court decision be unfavourable to us, it may result in a partial loss of our investment in the underground cable trough.

##### **Competition Council Investigations**

RCS&RDS has been until the date of this report subject to two infringement investigations by the Competition Council. As per our knowledge, no other infringement investigation is pending against RCS&RDS.

## **26. CONTINGENCIES AND COMMITMENTS (continued)**

### **Telecom market interconnection investigation**

In February 2011, the RCC 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.

By decision no 33/2015 the RCC decided to close the investigation in exchange for all operators undertaking and complying with a general commitment not to discriminate between the level of the tariffs charged for the on-net and the off-net calls. We will need to implement this commitment for 2 years. During the term of the commitments, RCS&RDS is required to provide to the RCC, upon request, business information, and to commission periodic independent market studies on the evolution of the mobile telephony sector.

The RCC's decision accepting our commitment has closed the investigation without the application of any fines for the alleged anticompetitive conduct. The offering of commitments does not imply any admission of wrongdoing. A failure to comply with the terms of the commitment as accepted by the RCC may lead to penalties of up to 10 per cent of our aggregate turnover.

### **GSP investigation**

In May 2011, Antena TV Group S.A., a leading media group in Romania and our former commercial partner, made a complaint to the RCC based on our refusal to retransmit one of its channels, GSP TV. The RCC opened an investigation against us in relation to this matter in August 2011. We have fully cooperated during this investigation and we consider the demands of Antena TV Group S.A. to be abusive and groundless, we have started retransmitting GSP TV following an injunctive relief that Antena TV Group S.A. obtained against us on grounds that starting July 2011 GSP TV became a "must-carry" channel.

The RCC issued its decision on March 3, 2015 declaring our initial refusal to retransmit GSP TV channel not abusive and not in violation of any competition laws. The RCC 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.

The RCC also issued a formal recommendation us to produce general terms to be complied by third party broadcasters wishing to retransmit their content via our network. Our relations with "must-carry" and pay-tv channels are expressly excluded from the scope of that recommendation.

The RCC's decision is not final and is subject to judicial review. Antena TV Group S.A. challenged the decision and that trial is ongoing (the details of this case are explained in a dedicated section above: "Litigation regarding the outcome of the GSP investigation").

### **Material commitments**

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, and pillars/land for mobile network in Romania;
- 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.

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Minimum lease payments under operating lease agreements (both non-cancellable and cancellable but which are not expected to be cancelled) are as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	27,339	21,948
Between one and five years	50,332	41,276
More than five years	14,941	6,562
	<u><b>92,612</b></u>	<u><b>69,786</b></u>

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 over 400 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 1,396.

*Capital expenditure*

The capital expenditure the Group has assumed until 31 December 2016 is mostly made of commitments for the purchase of mobile and fixed network equipment amounting to approximately EUR 85,642 (31 December 2015: EUR 86,045).

*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 7,373 (31 December 2015: EUR 17,528).

*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 15,452 (31 December 2015: EUR 12,131). The increase of the commitment relates to the third frequency block in 2016.

*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 20,324 (31 December 2015: EUR 21,721).

*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 5,843 (31 December 2015: EUR 6,033).

*2600 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 2600 MHz radio spectrum license awarded until 31 April 2029 inclusively, amounting to a cumulated value of EUR 13,318 (31 December 2015: EUR 14,228).

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**26. CONTINGENCIES AND COMMITMENTS (continued)**

*3700 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 3700 MHz radio spectrum license awarded until 31 November 2025 inclusively, amounting to a cumulated value of EUR 2,505 (31 December 2015: EUR 2,744).

*Sports rights and TV films and documentaries*

As of 31 December 2016, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 49,167 (31 December 2015: EUR 71,448).

*Letters of guarantee and letters of credit*

As of 31 December 2016, there were bank letters of guarantee and letters of credit issued in amount of EUR 11,375 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2015: EUR 12,717).

**27. SUBSEQUENT EVENTS**

In February 2017, the general meeting of shareholders of the Company has unanimously resolved the following:

- to change the name of the Company from Cable Communications Systems N.V. to DIGI Communications N.V.;
- to amend the articles of association pursuant to which, inter alia, two classes of shares will be created being: class A shares with a nominal value of ten eurocent (EUR 0.10) each and in respect of which for each share A ten (10) votes may be cast and class B shares with a nominal value of one eurocent (EUR 0,01) each and in respect of which for each share B one (1) vote may be cast;
- a conversion and split of each currently issued ordinary share in the Company with a nominal value of EUR 1 into ten (10) class A shares with a nominal value of EUR 0.10 each;
- the cancellation of shares held by the Company in its own share capital; and
- the increase of the share capital by issuing up to 100 million class A shares pro-rata to the shareholdings, subject to availability of reserves.

The above-mentioned resolutions and the changes approved therein are set to take effect only following the lapse of a two-month mandatory wait period, expected on 11 April 2017.

In February 2017 RCS&RDS has contracted a short-term loan from ING Bank NV-Bucharest branch for financing working capital needs in amount of RON 7 million.

In February 2017 the Company converted dividend payables to 2 minority shareholders into short term loans in amount of EUR 8.1 million, with maturity until 30 June 2017 and interest expense of 5% p.a. (secured on pari passu basis, same as the terms of the Intercreditor Agreement, please refer to note xiv).

In March 2017 a share swap agreement was concluded between Mr Teszari and the Company through which Mr Teszari exchanges a number of 7,500,000 shares of RCS&RDS for 1,042 shares of the Company.

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**27. SUBSEQUENT EVENTS (continued)**

In March 2017 share swaps agreements were concluded between the Company and several minority shareholders, through which the minority shareholders of RSCM exchange 16,582 shares of RSCM for 17,367,832 shares in RCS&RDS, which became effective in April 2017 after the lapse of a two-month mandatory wait period.

On 7 April 2017, the General Meeting of the shareholders of DIGI decided the following:

- revocation of the resolution of the general meeting of shareholders of DIGI from February 2017 to cancel the shares held by the Company in its own share capital;
- approval of several operations with shares held by DIGI in its own share capital between DIGI and RSCM, as part of the pre-IPO restructuring process;
- the authorization for the Board of DIGI to issue a number of 99,494,060 class A shares at a total nominal value of EUR 9,949,406 through incorporation of share premium and reserves (bonus issuance, based on the shareholders resolutions from February 2017);
- resolutions on the intention to float class B shares on the regulated spot market of the Bucharest Stock Exchange, International Tier, and related offering and admission.

The Group acquires the electricity it then sells to its customers on the Romanian wholesale trading platforms, in line with applicable legal provisions which forbid “over the counter” agreements. Due to the fixed prices that the Group charges its customers for electricity supply, increases in the cost of the electricity acquired from third parties on the trading platforms have adverse effects on the financial condition and results of the Group. During the first quarter of 2017 the Group estimates that will record a realized loss before taxes of approximately EUR 7 million from electricity supply activities due to the unusual volatility in the cost of electricity.

In connection with the IPO, the company is proposing to become tax resident in Romania. This should not affect materially the corporate income tax incurred by the Company. Due to misalignment of Romanian and EU legislation, the Company's 350 million Euro 2023 Notes may be subject to Romanian withholding taxes on interest (approximately EUR 3.3 million per year which will be treated as interest expense). The Company believes that the imposition of any such withholding tax is incorrect. However, the Company expects as a prudential matter to pay to such withholding taxes. The Company intends to claim back any amounts so paid. The Company is prepared to litigate in pursuit of such reclaim. Any such litigation is likely to be relatively lengthy and complex.

In April 2017 we have drawn RON 15 million from SFA 2016 Facility B for general corporate and working capital purposes of the Group.

For developments in legal proceedings in which the Group was involved (both as a plaintiff and a defendant), subsequent to 31 December 2016, please refer to Note 26.

**DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)****Notes to the consolidated Financial Statements****for the year ended 31 December 2016***(all amounts are in thousand EUR, unless specified otherwise)***28. 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 calculated by adding back to consolidated operating profit/(loss) the charges for depreciation, amortization and impairment of assets. Our Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark to market results (unrealized) from fair value assessment of energy trading contracts.

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>	<b>842,755</b>	<b>750,130</b>
Operating profit	79,264	70,332
Depreciation, amortization and impairment	176,370	187,905
<b>EBITDA</b>	<b><u>255,634</u></b>	<b><u>258,237</u></b>
(Gain)/loss from sale of discontinued operations (Note 21)	674	(20,882)
Other expenses <sup>(1)</sup>	6,969	998
<b>Adjusted EBITDA</b>	<b><u>263,277</u></b>	<b><u>238,353</u></b>
Adjusted EBITDA (% of revenue)	31.24%	31.77%

<sup>(1)</sup>As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealised mark-to-market loss of EUR 998 thousand was included in Operating expenses.

For breakdown of depreciation, amortization and impairment refer to Notes 5 and 6(a) and 6(b). Gain from sale of discontinued operations in 2015 represents the net gains from discontinued operations in Czech Republic and Slovakia.