DIGI communications n.v.

ANNUAL REPORT

For the year ended December 31, 2017

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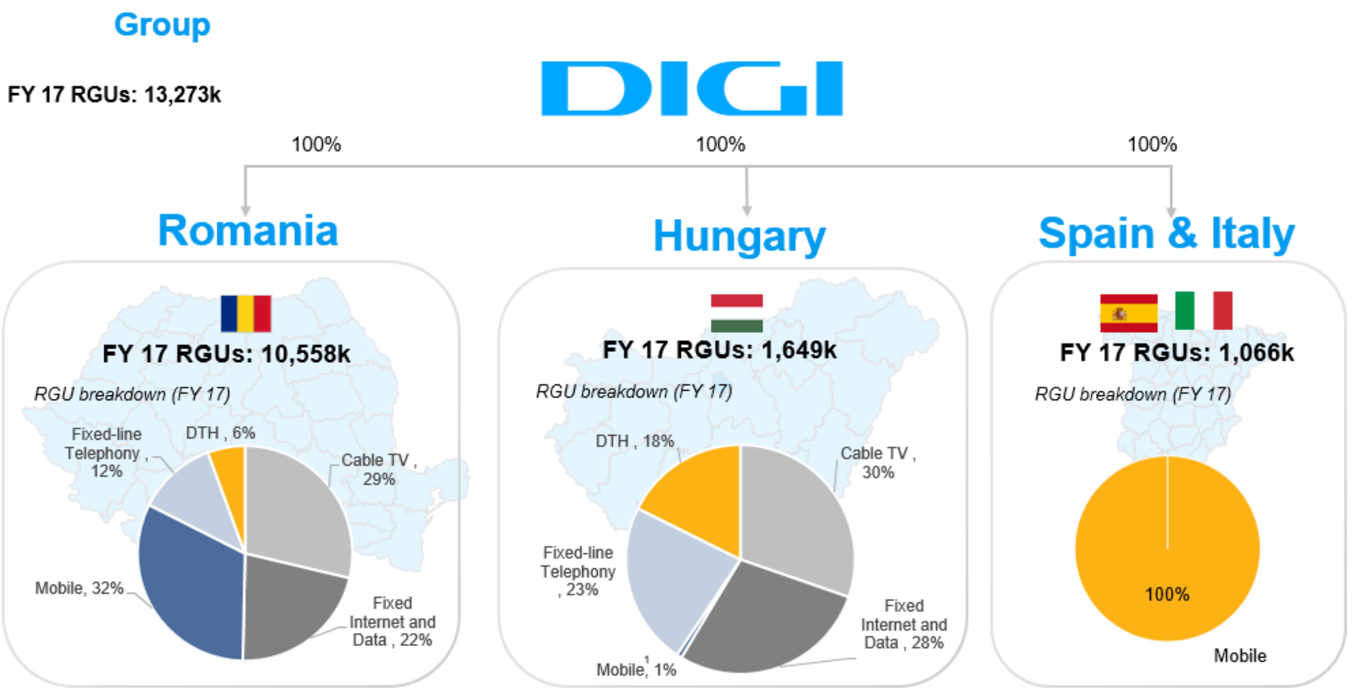
Key Figures for Digi Group

KEY FIGURES FOR DIGI GROUP

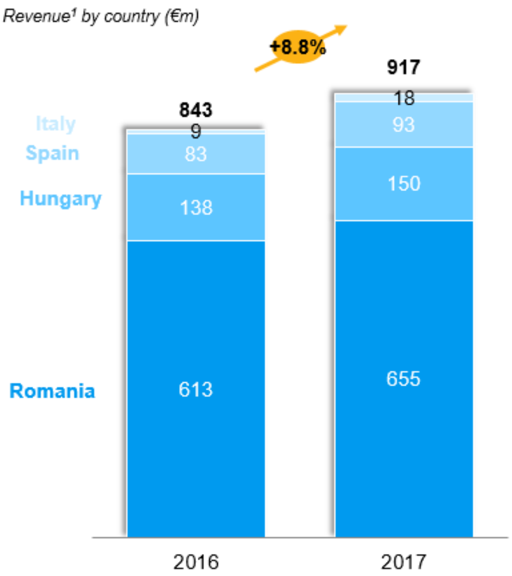
We are a leading provider of telecommunication services in Romania and Hungary based on number of revenue generating units ("**RGUs**"). Our offerings in both countries include cable and DTH television services, fixed internet and data and fixed-line telephony. Our fixed telecommunication and entertainment services are offered through our technologically advanced fiber optic network, covering approximately 68% and 27% 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 a fast growing, in terms of RGUs (Sources: Group and peer reports, Romanian National Authority for Administration and Regulations in Communications ("**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 Mobile Virtual Network Operator ("**MVNO**") to the large Romanian communities in Spain and Italy.

We have grown mainly organically from approximately 12.4 million RGUs as at December 31, 2016 to approximately 13.3 million RGUs as at December 31, 2017.

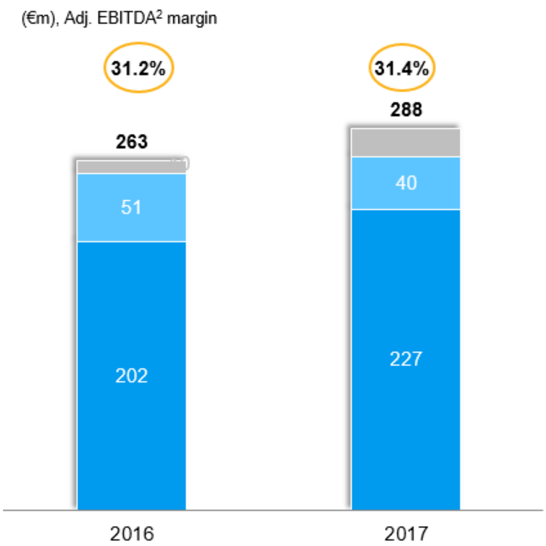
December 31, 2017, we had a total of approximately 3.5 million cable TV RGUs, approximately 2.8 million fixed internet and data RGUs, approximately 4.5 million mobile telecommunication services RGUs, approximately 1.6 million fixed-line telephony RGUs and approximately 0.9 million DTH RGUs.



1. Resale of a Telenor mobile internet product
Source: Company data



We have consistently generated strong revenue streams. We generated €916.6 million in year ended December 31, 2017, an increase of 8.8% compared to prior period.



The Group's operations generated 288 million EBITDA in the year ended December 31, 2017, an increase of 9.2% compared to prior period.

The Adjusted EBITDA margin was 31.4% in the year ended December 31, 2017, relatively stable compared to prior period.

Management Structure & Corporate Governance

MESSAGE FROM THE CEO

2017 was a year filled with accomplishments, the largest one being the listing of Digi Communications N.V. at the Bucharest Stock Exchange.

We maintained our leading position in the telecom industry and we continued to grow in all our main business lines. Our RGU base consistently increased in all geographical segments, up to 13.3 million RGUs.

In 2017 we continued to invest in our fixed and mobile networks. We operate approximately 90% of our Romanian and Hungarian fixed fiber optic networks using 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. We are in the process of extending further our fiber networks to fiber to the home standard.

We developed and up-graded our 3G and 4G mobile telecommunication services in Romania, covering approximately 99% and 54% of the population, respectively at the end of the year. In Hungary we continued building our own mobile network in order to be able to launch mobile services and become a convergent operator on that market as well.

Our technical capabilities, wide network coverage and multiple service offerings, 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.

Last but not least, I would like to mention our strong financial performance. Consistent with prior years, in 2017 we generated strong consolidated revenues streams (up with 8.8%) and increased Adjusted EBITDA levels (up with 9.2%).

These accomplishments would not have been possible without the dedication and devotment of our employees, without the support of our customers, investors and shareholders.

Serghei Bulgac
Chief Executive Officer and executive member of the Board of Directors

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Since April 2017, the Company applies a one-tier board structure comprising of two Executive Directors and five Non-executive Directors, of which two are independent Non-executive Directors (within the meaning of the BSE Corporate Governance Code).

Current Composition of the Board of Directors

As of April 2017, and until the date of this report, the Board of Directors is comprised of the Directors mentioned below.

Name	Age	Position
Zoltan Teszari	47	President (Non-executive Director)
Serghei Bulgac	41	Chief Executive Officer (Executive Director)
Valentin Popoviciu	43	Executive Director
Sambor Ryszka	38	Non-executive Director
Marius Varzaru	38	Non-executive Director
Bogdan Ciobotaru	39	independent Non-executive Director
Piotr Rymaszewski	53	independent Non-executive Director

Biographical Details of the Directors

Zoltán Teszári (President)

Mr. Teszari founded RCS & RDS in 1996 and is the controlling shareholder. Before starting Analog CATV (a precursor company to RCS & RDS), he founded TVS Holding Brasov in 1992, another large Romanian cable TV company that later was merged into RCS & RDS. Prior to founding TVS Holding Brasov, Mr. Teszari owned and ran his own business. Mr. Teszari has been a board member since 2000 and his current term as a Board of Directors' member is due to expire in 2020, though he can be re-appointed for an indefinite number of terms.

Serghei Bulgac (Chief Executive Officer)

Mr. Bulgac is a member of the Board of Directors and Chief Executive Officer. Mr. Bulgac was appointed the Chief Executive Officer of RCS & RDS in 2015. Prior to becoming Chief Executive Officer, he was Chief Financial Officer of RCS & RDS. Mr. Bulgac joined RCS & RDS in 2003. Prior to joining RCS & RDS, he worked as a corporate finance associate at EPIC (European Privatization and Investment Corporation) and as a research analyst at Eastbrokers, a brokerage company. Mr. Bulgac graduated from the Bucharest Academy of Economic Studies and holds an MBA degree from INSEAD. Mr. Bulgac has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

Valentin Popoviciu (Executive Director)

Mr. Popoviciu is an executive member of the Board of Directors. He is also a non-executive member and Vice-President of the board of directors of RCS & RDS, a position he has held since 2015. Prior to his appointment to the board of directors of RCS & RDS, Mr. Popoviciu had held the position of Business Development Manager of RCS & RDS since 1999, after joining the company in 1998 as a branch manager in the Constanta office. Mr. Popoviciu graduated from the economics faculty of the Constanta—Tomis University in 1997. Mr. Popoviciu has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

Dr. Sambor Ryszka (Non-executive Director)

Dr. Ryszka is a non-executive member of the Board of Directors. Dr. Ryszka has been a Managing Director of Digi Hungary since 2013. Dr. Ryszka joined Digi Hungary in 2011 as General Counsel. Prior to that, Dr. Ryszka worked in the Budapest office of law firm Hogan Lovells. Dr. Ryszka graduated in 2004 from the Faculty of

Law of ELTE University, Budapest. Dr. Ryszka has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

Marius Varzaru (Non-executive Director)

Mr. Varzaru was appointed in 2013 as a Director of the Company. Mr. Varzaru has been the Managing Director of Digi Spain since 2008. Mr. Varzaru joined RCS & RDS in 2005 as Reporting Manager and was shortly thereafter appointed to the position of Finance Director, a position he held up until 2008. Before joining RCS & RDS, Mr. Varzaru worked at KPMG. Mr. Varzaru graduated from the Bucharest Academy of Economic Studies in 2001. Mr. Varzaru has been a Board of Directors' member since 2013 and his current term is due to expire in 2020.

Bogdan Ciobotaru (Independent Non-executive Director)

Bogdan Ciobotaru is an independent, non-executive member of the Board. He is also a non-executive member of the board of directors of RCS & RDS, a position he has held since 2013. Prior to joining RCS & RDS, Mr. Ciobotaru held the position of Head of Financing for Central and Eastern Europe, Middle East & Africa at Renaissance Capital and the position of Executive Director in the Global Capital Markets, at Morgan Stanley in London, where he worked for over 10 years. Mr. Ciobotaru graduated from the Bucharest Academy of Economic Studies and holds an Executive MBA from Oxford University. Mr. Ciobotaru has been a board member since 2017 and his current term as a board member is due to expire in 2020.

Piotr Rymaszewski (independent Non-executive Director)

Mr. Rymaszewski is an independent, non-executive member of the Board of Directors. Mr. Rymaszewski also holds the position of CEO of Octava Asset Management, a Polish real- estate portfolio management company, part of the Elliott Group, a position he has held since 2014. Since 2007, Mr. Rymaszewski has also served as the CEO and president of the board of directors of Octava S.A., a Polish public company active in real estate and part of the Elliott Group. Mr. Rymaszewski's experience in advisory and supervisory roles includes serving on the Board of Nominees of Fondul Proprietatea S.A., a Romanian publicly traded AIF since 2012. Mr. Rymaszewski holds a Bachelor's degree in Physics from the University of Pennsylvania and a JD degree in International and Commercial Law from Cornell Law School. Mr. Rymaszewski has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

Senior Management team

The Group's current senior management team, in addition to the Executive Directors listed above, is as follows:

Name	Age	Position
Ioan Bendei	60	Vice President and Executive Director of RCS & RDS
Mihai Dinei	48	Non-executive Director of RCS & RDS
Smaranda Streanga	38	Co-Chief Financial Officer of RCS & RDS
Dan Ionita	39	Co-Chief Financial Officer of RCS & RDS
Silviu Georgescu	41	Chief Technology Officer of RCS & RDS
Emil Grecu	41	Technical Officer of RCS & RDS
Emil Jugaru	44	Head of RCS & RDS Sales and Customer Care Business Unit
Dragos Spataru	41	Head of Fixed Telephony and Mobile Communications Division of RCS & RDS
Ovidiu Bejan	46	Commercial Director for Mobile Communications of RCS & RDS
Mihaela Toroman	37	Accounts Manager and Treasurer of RCS & RDS
Florin Ungureanu	35	Managing Director of Digi Hungary
Dragos Chivu	46	Managing Director of Digi Italy

CORPORATE GOVERNANCE

Dear Investors and Shareholders,

I am pleased to outline the corporate governance rules and activity of the Company during the first year after the initial public offering of the Company's shares with the Bucharest Stock Exchange taking place on 16 May 2017.

As the Company is a Dutch law incorporated entity with its actual operations and shares listed in Romania, we are subject to the corporate governance standards applicable to both Romanian and Dutch issuers. During 2017 and the first quarter of 2018, we have been working to build our corporate governance practice by reference to the relevant applicable principles from the Corporate Governance Code of the Bucharest Stock Exchange and the Dutch Corporate Governance Code. This process is ongoing.

The financial and legal teams have been very busy during the year to comply with the applicable regulatory requirements for the issuing of current and periodic reports. Also, particular care was given to educating employees and our partners on the management of privileged information.

Our Audit Committee has been busy during the year to enhance a smoother internal and external auditing process, in close collaboration with the Company's financial team and our external auditors. Following a search exercise of interested candidates, we are pleased to announce that the Company has appointed in 2018 its Internal Audit Director. The selected individual will also have an oversight and management on the Group's internal audit activity.

During the year, we have also given particular attention to setting up a comprehensive and complete website for the Company, and to selecting the best IR, PR and HR Group functions. For some functions, we are currently in the process of meeting prospective individuals and firm candidates in view of appointing the most fitted candidates.

I am aware that the stability and continuous growth of our businesses is also dependent on the quality of our compliance and corporate functions. We are committed to progress in this respect and enrich the Company's experience as an established international bond issuer and as a young public stock issuer, with the support of our Board, employees and partners, to the ultimate benefit of our customers, investors and shareholders.

I hope you will find our report comprehensive and revealing.

Serghei Bulgac
Chief Executive Officer and executive member of the Board of Directors

Introduction

The Company is a public company with limited liabilities (*naamloze vennootschap*) organized under the laws of the Netherlands. The Company has its official seat in Amsterdam, the Netherlands, and its principal place of business in Bucharest, Romania. The Netherlands is the home member state (lidstaat van herkomst) of the Company for the purposes of Directive 2004/109/EC, also known as the Transparency Directive, as amended by Directive 2010/73/EU. As a company with shares listed on the Regulated Spot Market of the Bucharest Stock Exchange (the "**BSE**") (available through *www.bvb.ro*), we are subject to the BSE Corporate Governance Code, in effect starting from January 4, 2016 (the "**BSE CGC**"). As a Dutch company, the Company is also subject to the Dutch Corporate Governance Code, current version in effect starting from January 1, 2017 ("**DCGC**") (available through: *www.mccg.nl*) that applies, on a 'comply or explain' basis, to all companies which have their statutory seat in the Netherlands and whose shares are listed on a regulated market in the EU/EEA or a comparable system outside the EU/EEA.

However, with its shares listed on the Regulated Spot Market of the BSE and with its principle place of business located also in Romania, the Company has chosen to primarily apply the BSE Corporate Governance Code. In addition, the Company aims to comply with as many principles of the DCGC as possible.

Compliance with the Corporate Governance Code of the Bucharest Stock Exchange

During 2017 we aimed to comply with the "BSE CGC".

The main principles of the BSE CGC that we did not implement[1] are the following:

1. the directors are appointed following a nomination made by the Class A Meeting, instead of a nomination proposal by the nomination committee established by the Board of Directors (the "**Board of Directors**") and consisting of non-executive directors (the "**Non-executive Directors**"). The good corporate governance sought by the BSE CGC is achieved by applying this nomination procedure, as the Class A Meeting takes into account that the Board of Directors should be composed such that the requisite expertise, background, competences and – as regards certain of the Non-executive Directors – independence are present for them to carry out their duties properly;
2. the cash dividend distribution policy is approved by the General Meeting, rather than being approved at the level of the Board of Directors. This setup provides greater shareholder protection by escalating the decision to the General Meeting;
3. the president of the Audit Committee is not an independent director, as required by the BSE CGC. The good corporate governance sought by the BSE CGC is achieved by having the majority of committee members being independent and high standard terms of reference being applied to the work of the Audit Committee.

In accordance with the BSE CGC, the Company is required to report its compliance with the BSE corporate governance requirements by filling in and attaching to its annual report the pre-established regulatory statement set by the BSE. The Company's table is included in Appendix 2 to this report.

Compliance with the Dutch Corporate Governance Code

The Company does not comply with all principles of the DCGC. The principles of the DCGC that we did not implement[2] are the following:

- principle 2.1.5 of the DCGC: the Company does not have a diversity policy in relation to the Board of Directors. This deviation from the DCGC exists since April 2017 and will last for an indefinite period. The desired expertise and background of the candidates are decisive when Board Members are appointed or reappointed. The members of the Board of Directors, as well as all employees of the Company and the Group companies are recruited and promoted primarily based on professional achievements, experience and performance within the Group, irrespective of gender, age, origin or any other personal or social feature. Although the Company does not have in place a formal diversity policy,

[1] At the General Meeting of Shareholders on 20 April 2017 and in the Board of Directors meetings from 14 and 15 May 2017, the relevant corporate documentation and policies including these departures from the BSE CGC were put in vote and approved

[2] At the General Meeting of Shareholders on 20 April 2017 and in the Board of Directors meetings from 14 and 15 May 2017, the relevant corporate documentation and policies including these departures from the DCGC were put in vote and approved

in practice, the Company has not and does not intend to discriminate between potential candidates for any available Board position.

- principles 2.1.7 and 2.1.8 of the DCGC: the Company has 5 Non-executive Directors, of which 3 do not meet the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Board of Directors. When appointing the non-executive members of the Board of directors, the general shareholders meeting from 21 April 2017 aimed to set-up a Board made up from selected individuals with most extensive experience and insight into the Group. Therefore, Mr. Teszari Zoltan was appointed as the Non-executive Board Director and as the President of the Board of Directors, while Mr. Sambor Ryszka (current co-General Manager of Digi Kft.) and Mr. Marius Varzaru (current general manager of Digi Spain) were appointed as Non-executive members of the Board of Directors. Given the particularity of the business and operations of our Group companies and the need for business continuity and internal and industry awareness, the general shareholders meeting from 21 April 2017 gave priority to these functionality needs. However, the amended articles of association of the Company (the "**Articles**") and the corporate governance documents of the Company establish clear and detailed rules regarding independent behavior and the management of any conflict of interest that any member of the Board of Directors, and particularly all Non-executive members of the Board of Directors are strictly required to comply with.
- principle 2.1.9 of the DCGC: the president of the Board of Directors (the "**President**") does not meet the independence criteria contained in the DCGC. Mr. Zoltan Teszari's appointment as the President was voted by the general shareholders meeting of the Company from 21 April 2017 and will last during the entire period for which Mr. Teszari Zoltan will be a member of the Board of Directors. The President is the principal shareholder of the Company. The President is not a member of the Audit Committee.
- principles 2.2.2 of the DCGC: the President of the Board of Directors may be reappointed for an indefinite number of terms. For details regarding the expected applicability period of and rationale for the deviation, please see the explanations from above.
- principles 2.2.4, 2.2.5 and 2.3.2 of the DCGC: the Company does not have a nomination committee. Given the number of Non-Executive Board Members, the Board of Directors is not required to set up a nomination committee. The Company has decided not to set up a nomination committee as referred to in the DCGC, since the Class A Meeting as a whole will perform the duties of such nomination. In addition, the rotation schedule will not be applicable to the President. The Company has instead set up an Audit Committee and a Remuneration Committee.
- principle 2.3.1 of the DCGC: there are no rules in place for the Non-executive Directors. However, Chapter VII from the Articles include detailed provisions and rules regarding the Board of Directors, including on the composition, remuneration, the allocation of tasks and duties among the executive Directors (the "**Executive Directors**") and the Non-executive Directors, on the decision-making process and the management of any conflict of interest.
- principle 2.3.4: more than half of the members of the Remuneration Committee do not comply with the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Remuneration Committee. Explanations brought regarding the deviations from the principles 2.1.7 and 2.1.8 of the DCGC equally apply.
- principle 3.1.2, vi and vii: if shares options are being awarded, share options can be exercised before three years have lapsed after they have been awarded (minimum term required by the DCGC). The currently applicable Share Option Plan as agreed by the Company's general shareholders meeting from 20 April 2017 provides for a vesting period of at least one year. The Company intended to co-opt its management and deserving Group employees through the Share Option Plan in light of the successful initial public offering of the Company's Class B Shares that took place in May 2017.
- principle 3.3.1.: Non-executive Directors receive the same fixed base salary the Executive Directors receive and such fixed base salary is not related to the time spent by the Non-executive Directors and the specific responsibilities of their role as required by the DCGC. The remuneration conditions as provided in the general shareholders meeting from 20 April 2017 and in the Terms of reference of the Remuneration Committee and the Remuneration Policy

will apply for an indefinite period until further amendment. Non-executive Directors additionally sit in the Company's Audit and Remuneration Committees.

- principle 3.3.2.: Non-executive Directors who are directors in other Group companies or employees of other Group companies may be awarded remuneration in the form of share options. Any such grant of shares as part of share option plans will need to be expressly decided by the Company's general shareholders resolutions.
- principle 4.3.3 of the DCGC: which requires that a resolution of the General Meeting to cancel the binding nature of a nomination for the appointment of a Director or to remove such a Director, be passed with an absolute majority of the votes cast, representing at least one-third of the issued share capital. Instead, such resolution can be adopted by the General Meeting with the normal quorum and voting majority requirements. This deviation is provided within the Articles as approved by the Company's general shareholders resolutions from 20 April 2017. This deviation is meant to avoid vote inefficiencies or blockage upon the appointment or dismissal of any relevant Director.
- principle 3.4.2.: the main elements of the agreement of an Executive Director with the Company has not been published on the Company's website. However, sufficient information was disclosed regarding the remuneration of Directors (see for reference on this respect the Section 5.7 of the Prospectus from 26 April 2017).

In order to ease your review with respect to the Company's status of compliance or deviation from the DCGC, we have prepared and included in *Annex 3* to this report a descriptive table, similar to the explanations included in *Annex 2* with respect to the BSE CGC.

Publicly available corporate governance rules available on the Company's website and in the Company's Prospectus

The Company has made available since 2017 the relevant corporate information and corporate governance rules on the relevant sections of its website:

- identity and background information about the members of the Board of Directors: *http://www.digi-communications.ro/en/board-of-directors*;
- dedicated section to the documents regarding the General Shareholders' Meetings: *http://www.digi-communications.ro/en/general-share-holders*;
- internal corporate governance documents: *http://www.digi-communications.ro/en/corporate-governance*.

Any other details on relevant corporate and governance information regarding the Company are available in the relevant sections of the Prospectus from 26 April 2017 (*Section B.6. Major shareholders*, *Section C — Securities, C.3. Issued Share Capital, C.7. Dividend policy, the Section on "Risks relating to the offer and the shares", Part 3 – Directors, Secretary, Registered and Head Office and Advisers, Section "Corporate Structure", Section "Part 8 – Directors, Senior Management and Corporate Governance", Part 13 – "Additional Information" – "1. Incorporation and Share Capital, "2. Specific information on the class A shares and the class B shares including the offer shares", "3. Articles of Association of the Company", "4. General Meeting", "5. Board of Directors", "6. Obligations of shareholders, the Company and directors to notify holders of shares and voting rights", "11. Dutch Financial Reporting Supervision Act", 12. Directors' and Senior management's interests, "13. Directors' term of employment", "14. Employee Share Plans"*).

General provisions applicable to the activity of the Company's Board of Directors

Set out below is a summary of certain provisions of Dutch corporate law as at the date of this report, as well as relevant information concerning the BSE CGC, the Board of Directors and certain provisions of the Articles concerning the Board of Directors, in force since April 2017[3].

The Board of Directors is collectively responsible for the Company's general affairs. The Articles divide duties of the Board of Directors among its members. The Executive Directors are responsible for the continuity of the Company and its business, focusing on long-term value creation thereby taking into account the interests of the Company's stakeholders and should direct the day-to-day strategy of the Company. The Executive Directors are entrusted with managing the day-to-day affairs of the Company and are responsible to achieve the Company's

[3] *These descriptions do not purport to give a complete overview and should be read in conjunction with and is qualified in its entirety by reference to the relevant provisions of Dutch law and the BSE Corporate Governance.*

objectives, strategy and the accompanying risk profile, the performance trend and results and for the corporate social responsibility issues relevant to the business of the Company and its subsidiaries. The Non-executive Directors are, *inter alia*, responsible for the supervision of the management of the Executive Directors and of the general affairs of the Company and the business connected with it and providing advice to the Executive Directors. In addition, both Executive Directors and Non-Executive Directors must perform such duties as are specifically assigned to them by the Articles. Each Director has a duty to properly perform the duties assigned to him or her and to act in the corporate interest of the Company. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees, and other stakeholders. The General Meeting will appoint a Director either as an Executive Director or as a Non-executive Director.

An Executive Director may not be allocated the tasks of: (i) serving as chairperson of the Board of Directors; (ii) determining the remuneration of the Executive Directors; or (iii) nominating Directors for appointment. An Executive Director may not participate in the adoption of resolutions (including any deliberations in respect of such resolutions) relating to the remuneration of Executive Directors.

Tasks that have not been specifically allocated fall within the power of the Board of Directors as a whole. All Directors remain collectively responsible for proper management as a whole regardless of the allocation of tasks. The Board of Directors is comprised of seven members of which two members shall be Executive Directors and five members are Non-executive Directors. Three Non-executive Directors are non-independent within the meaning of the BSE CGC.

The Articles provide that Directors are appointed by the General Meeting upon a binding nomination by the Class A Meeting. The General Meeting may at all times deprive such a nomination of its binding character, following which the Class A Meeting shall draw up a new binding nomination. When making a nomination, the Class A Meeting shall take into account that the Board of Directors shall be composed such that the requisite expertise, background, competences and – as regards certain of the Non-executive Directors – independence are present for them to carry out their duties.

In accordance with the Articles, the General Meeting has appointed Mr. Zoltán Teszári from among the Non-executive Directors as President of the Board of Directors and Mr. Marius Varzaru as vice-president of the Board of Directors (the "**Vice-President**"). In addition, the Articles provide that the Board of Directors may grant titles to Executive Directors including, but not limited to, CEO and CFO. In accordance therewith, the Board of Directors has granted the title of CEO to Serghei Bulgac.

Operation of the Board of Directors

Rules regarding the meetings and the voting:

The Non-executive Directors are to meet together with the Executive Directors, unless the Non-executive Directors wish to meet without the Executive Directors being present. As a rule, the Board of Directors shall meet at least once every quarter, and other meeting of the Board of Directors may be called at any time by (i) the President, (ii) the Vice-President or (iii) any three Directors, of which at least one Executive Director, acting jointly. Except when the Non-executive Directors wish to meet without the Executive Directors being present, at any meeting of the Board of Directors a quorum shall be present if all Directors have been invited and at least four members are present or represented, which must include the President being present or represented. Absent Directors shall be informed immediately of the resolutions adopted in their absence. Except in emergencies, matters of the field of responsibility of an absent Director shall only be discussed and decided on after the absent Director has been contacted. The Executive Directors and the Non-executive Directors respectively may separately adopt legally valid resolutions with regard to matters that fall within the scope of their respective duties.

The Board of Directors may also adopt resolutions outside a meeting (whether physical, by videoconference or by telephone), in writing or otherwise, provided that the proposal concerned is submitted to all relevant Directors then in office (and in respect of whom no conflict of interest exists) and provided that none of them objects to such decision-making process. Adoption of resolutions in writing shall be effected by written statements from all relevant Directors then in office in respect of whom no conflict of interest exists.

The Board of Directors may only adopt resolutions by the favorable vote of the majority of the votes of the relevant Directors present or represented at the meeting of the Board of Directors. In a meeting of the Board of Directors, each Director, other than the President, is entitled to cast one vote. The President is entitled to cast as many votes as can be cast by all other Directors present or represented at that meeting in respect of whom no conflict of interest (as set out below) exists.

Dutch law provides that a Director may not participate in any discussions and decision making if he or she has a conflict of interest in the matter being discussed. The Articles provide that if for this reason no resolution can be taken by the Board of Directors, the General Meeting will resolve on the matter.

During 2017 and until the date of this report, the Board of Directors met twice, in April 2017 and in March 2018. Attendance of the Board of Directors in April 2017 was 100%, while in March 2018 out of seven two Board Directors participated by telephone. The meetings were held in Romania, Bucharest at the business premises of the Company. The other Board of Directors resolutions adopted in 2017 and until the date of this report were outside a meeting, in writing. The Board of Directors adopted during 2017 (since 21 April 2017) fifteen resolutions. These resolutions mainly regarded, amongst others, operational decisions (such as the appointment of the financial and accounting senior management, the appointment of the internal audit director), the approval of the quarterly and semester financial statements and the approval of several financial agreements entered into by the Group companies, including the Company. With the few exceptional situations of particular objective conflict of interest, all Board of Directors decisions were adopted unanimously.

The Board of Directors is advised and supported by the Senior Management Team formed by individuals playing key roles for the Company's subsidiaries in Romania, Hungary, Spain and Italy. The Senior Management Team is an operational decision-making body of the Company, which is responsible for operating performance of the business and making decisions on certain operational matters. The Senior Management Team comprises financial, accounting and legal specialists. The role of these specialists is to conduct the day-to-day operations and management of the Company, ensure compliance by the Company with applicable legal, financial, accounting, tax and any other relevant regulations, prepare the due filings and reporting incumbent on the Company, and advise the Board of Directors with respect to the daily operations during the Board of Director's decision-making process. The financial and legal members of the Senior Management Team with specific roles within the Company provide continuous support to the Audit Committee and have the duty to prepare and support the relationship and the meetings between the members of the Audit Committee and the external and internal auditors of the Company.

Board committees

The Board of Directors has established two board committees: an audit committee (the "**Audit Committee**") and a remuneration committee (the "**Remuneration Committee**"). The board committees have a preparatory and/or advisory role to the Board of Directors. The Board of Directors from 14 and 15 May 2017 have adopted rules on each board committee's role, responsibilities and functioning. The board committees consist of Non-executive Directors only. They report their findings to the Board of Directors, which pursuant to Dutch law remain fully responsible for all actions undertaken by such committees. The Audit Committee is to report to the Non-executive Directors separately on its deliberations and findings.

Audit Committee – the Audit Committee's activity during 2017

The Audit Committee consists of three members, Mr. Marius Varzaru, Mr. Piotr Rymaszewski and Mr. Bogdan Ciobotaru, who are Non-executive Directors. The Audit Committee reports directly to the Non-executive Directors. The Audit Committee assists the Board of Directors with its oversight responsibilities regarding the quality and integrity of our Financial Statements, the Company's compliance with legal and regulatory requirements, the auditors' qualifications and independence, internal audits and other related matters.

Terms of reference of the Audit Committee

Set out below is a summary of the terms of reference of the Audit Committee.

The Audit Committee assists, supervises, reviews, advises and challenges the Board of Directors with respect to, *inter alia*:

- (a) the integrity and quality of the financial reporting of the Company and its subsidiaries;
- (b) the operation of the internal risk-management and control systems;
- (c) the provision of financial information by the Company (including the choice of accounting policies, application and assessment of the effects of new rules, and the treatment of estimated items in the Company's annual accounts);
- (d) compliance with recommendations and observations of the Company's internal and external auditors;
- (e) the role and functioning of the Company's internal auditors;
- (f) the Company's tax policy;

(g) the Company's relationship with its external auditor, including the independence and remuneration of the external auditor;
(h) the funding of the Company;
(i) the assessment of any situation that may generate a conflict of interest in transactions involving the Company, its subsidiaries and their respective related parties; and
(j) matters relating to information and communication technology.

During 2017, the Audit Committee also cooperated and met with the Company's external auditors and advised the Company regarding the Company's half-yearly figures and quarterly results.

In addition, the Audit Committee advised the Company in selecting the Company's internal control system function and assessed from time to time the management's responsiveness and effectiveness in dealing with identified internal control deficiencies or weaknesses. The Audit Committee also evaluated the efficiency of the Company's risk management system, as well as assessed the applicable situations of conflicts of interest.

The Audit Committee met three times during 2017, and twice in March 2018. Attendance during all meetings was of 100%, either in person or by telephone. During the meetings taking place in March 2018 (the first, on 6 March 2018, held in person and the second, on 16 March, held by telephone conference), the Audit Committee heard the main findings of the audit process in 2017 presented by the Company's external auditors. The Audit Committee met with the Company's external auditors twice during 2017 and twice in March 2018.

Remuneration Committee – the Remuneration Committee's activity during 2017

The Remuneration Committee is composed of three members, Mr. Zoltán Tesári, Mr. Sambor Ryszka and Mr. Piotr Rymaszewski, who are Non-executive Directors. The Remuneration Committee assists the Board of Directors with the implementation and development of remuneration and benefits policies, including bonuses for the Directors and employees.

The Remuneration Committee is responsible for preparing the decision-making of the Non-executive Directors regarding the determination of remuneration. In addition, the Remuneration Committee is further responsible for reporting to the Non-executive Directors on the implementation of the remuneration in each financial year in light of corporate goals and objectives relevant to the remuneration.

Terms of reference of the Remuneration Committee

Set out below is a summary of the terms of reference of the Remuneration Committee.

The Remuneration Committee assists the Board of Directors in supervising with respect to, *inter alia*:

(a) drafting a proposal to the Non-executive Directors for the remuneration policy to be pursued, which policy shall be adopted by the General Meeting;
(b) recommending to the Non-executive Directors and making a proposal for the remuneration of each Director, within the limits of the remuneration policy. Such proposal shall, in any event, deal with:
    (i) the remuneration structure; and
    (ii) the amount of the fixed remuneration, the shares and/or options to be granted and/or other variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the Company and its affiliated enterprise.

When drafting the proposal for the remuneration of the Directors, the Remuneration Committee shall take note of individual Directors' views with regard to the amount and structure of their own remuneration. The Remuneration Committee shall ask the Directors to pay attention to the aspects as included in the remuneration policy.

(c) preparing the remuneration report;
(d) making it aware of and advising the Board of Directors on any major changes in employee benefit structures throughout the Company or its subsidiaries; and
(e) administering all aspects of any executive share scheme operated by or to be established by the Company.

During 2017, the Company implemented the Remuneration Policy applicable to the Company's Directors and employees as approved by the Company's shareholders' resolutions from 20 April 2017. Neither the Board of Directors nor the Remuneration Committee agreed for or implemented deviating rules or practices.

With the due oversights and confirmation from the Remuneration Committee, and in accordance with the resolutions of the Company's shareholder's resolutions from 20 April 2017 and the Company's Share Option Plan from 20 April 2017, the Board of Directors resolved in December 2017 upon implementing a stock option plan covering the Romanian employees of the Group (for more details regarding the stock option plan from

December 2017, see for reference *Note 24 from the Consolidated Financial Statements for the year ended 31 December 2017*, presented in this Annual report).

Capital, Shares and Voting Rights

As at December 31, 2017, the authorized share capital of the Company amounts to €11,000,000 (the "**Authorized Share Capital**") and is divided into:

- 100,000,000 Class A Shares with a nominal value of €0.10 each in the share capital of the Company; and
- 100,000,000 Class B Shares with a nominal value of €0.01 each in the share capital of the Company.

The Authorized Share Capital consists of Class A and Class B shares. Class A Shares have not been admitted to trading on the Bucharest Stock Exchange. Only Class B Shares are listed and were admitted to trading on the Bucharest Stock Exchange.

The Shares are subject to and have been created under the laws of the Netherlands. All Class B Shares and all Class A Shares are registered shares and not in certificated form. No share certificates (*aandeelbewijzen*) are or may be issued.

The issued share capital of the Company amounts to €6,918,042.52 divided into:

- 65,756,028 Class A Shares with a nominal value of €0.10 each in the share capital of the Company; and
- 34,243,972 Class B Shares with a nominal value of €0.01 each in the share capital of the Company.

The issued share capital of the Company consists of 65,756,028 Class A Shares with a nominal value of €0.10 each (all of which were fully paid) as well as 34,243,972 Class B Shares with a nominal value of €0.01 each (all of which were fully paid).

General Meeting

Annual General Meetings

An annual General Meeting must be held within six months from the end of the preceding financial year of the Company. The purpose of the annual General Meeting is to discuss, amongst other things, the Directors' report, the applied remuneration, the adoption of the annual accounts, allocation of profits (including the proposal to distribute dividends), release of the Executive Directors from liability for their management and the Non-executive Directors from liability for their supervision thereon, filling of any vacancies and other proposals brought up for discussion by the Board of Directors.

Extraordinary General Meetings

Extraordinary General Meetings may be held as often as the Board of Directors deems such necessary or when the Class A Meeting makes use of any of its rights under the Articles to make a proposal to the General Meeting. In addition, Shareholders representing alone or in aggregate at least 10% of the issued and outstanding share capital of the Company may request the Board of Directors that a General Meeting be convened, the request setting out in detail matters to be considered. If no General Meeting has been held within 56 days of the Shareholder(s) making such request, that/those Shareholder(s) may request in summary proceedings a Dutch District Court to be authorized to convene a General Meeting. In any event, a General Meeting will be held to discuss any requisite measures within three months of it becoming apparent to the Board of Directors that the shareholders' equity of the Company has decreased to an amount equal to or lower than one-half of the issued and paid-up part of the capital.

Place of General Meetings

General Meetings of the Company will be held in Amsterdam or at Schiphol Airport, municipality of Haarlemmermeer, the Netherlands.

Convocation notice and agenda

General Meetings can be convened by the Board of Directors by a notice which must be published through an announcement on the website of the Company. The notice must specify the subjects to be discussed, the place and the time of the meeting, the record date, the manner in which persons entitled to attend the General Meeting may register and exercise their rights, the time on which registration for the meeting must have occurred ultimately, as well as the place where the meeting documents may be obtained. The notice must be given by at least 42 days prior to the day of the General Meeting. All convocations, announcements, notifications and communications to Shareholders are made in accordance with the relevant provisions of Dutch law. If a proposal is made to amend the Articles, the convening notice will note this and a copy of the proposed amendment must be deposited at the office of the Company for inspection by the Shareholders until the end of the meeting.

The agenda for the annual General Meeting must contain certain subjects, including, among other things, the discussion of the directors' report, the discussion of the applied remuneration, the discussion and adoption of the Company's annual accounts and dividend proposal (if applicable), insofar as this is at the disposal of the General Meeting. In addition, the agenda shall include such items as have been included therein by the Board of Directors or Shareholders (with due observance of the laws of the Netherlands as described below). If the agenda of the General Meeting contains the item of granting discharge to the Directors concerning the performance of their duties in the financial year in question, the matter of the discharge shall be mentioned on the agenda as separate items for the Executive Directors and the Non-executive Directors, respectively.

One or more Shareholders representing solely or jointly at least 3% of the Company's issued and outstanding share capital in value and the Class A Meeting are entitled to request the Board of Directors to include items on the agenda of the General Meeting. The Board of Directors must agree to such requests, provided that (a) the request was made in writing and (b) was received no later than the 60th calendar day before the date of the General Meeting. No resolutions will be adopted on items other than those which have been included in the agenda unless the resolution is adopted unanimously during a meeting where the entire issued capital of the Company is present or represented.

Shareholders who, individually or with other Shareholders, hold shares in the Company that represent at least 1% of the issued and outstanding share capital or a market value of at least €250,000, may request the Company to disseminate information that is prepared by them in connection with an agenda item for a General Meeting. The Company can only refuse disseminating such information, if received less than seven business days prior to the General Meeting, if the information gives or could give an incorrect or misleading signal or if, in light of the nature of the information, the Company cannot reasonably be required to disseminate it.

Admission and registration

The General Meeting is chaired by the President or the Vice-President. All Directors may attend a General Meeting. In these General Meetings, they have an advisory vote. The chairperson of the General Meeting may decide at his or her discretion to admit other persons to the General Meeting. Minutes of the meetings shall be prepared.

All Shareholders, and each usufructuary and pledgee to whom the right to vote on shares in the capital of the Company accrues, are entitled, in person or represented by a proxy authorized in writing, to attend and address the General Meeting and exercise voting rights pro rata to their shareholding. Shareholders may exercise their rights if they are the holders of shares in the Company on the record date as required by Dutch law, which is currently the 28th day before the day of the General Meeting, and they or their proxy have notified the Company of their intention to attend the General Meeting in writing or by any other electronic means that can be reproduced on paper ultimately at a date set for that purpose by the Board of Directors which date may not be earlier than the seventh day prior to the General Meeting, specifying such person's name and the number of shares for which such person may exercise the voting rights and/or meeting rights at such General Meeting. The convocation notice shall state the record date and the manner in which the persons entitled to attend the General Meeting may register and exercise their rights.

Voting rights

The Shares are denominated in euro. Each Share confers the right to cast one vote for each eurocent of nominal value. The Class B Shares have a nominal value of €0.01 and as such each Class B Share confers the right to cast 1 vote. The Class A Shares have a nominal value of €0.10 and as such each Class A Share confers the right to cast 10 votes. Under the Articles, blank and invalid votes shall not be counted as votes cast. Further, Shares in respect of which a blank or invalid vote has been cast and Shares in respect of which the person with meeting rights who is present or represented at the meeting has abstained from voting are counted when determining the part of the issued share capital that is present or represented at a General Meeting (for the avoidance of doubt, Shares held by the Company in its own share capital will not be counted when determining the part of the issued share capital that is present or represented at a General Meeting). The chairperson of the General Meeting shall determine the manner of voting and whether voting may take place by acclamation, subject to certain restrictions under the Articles. Shares in respect of which the law determines that no votes may be cast shall be disregarded for the purposes of determining the part of the issued share capital that is present or represented at a General Meeting. Pursuant to Dutch law, no votes may be cast at a General Meeting in respect of shares in the Company which are held by the Company.

Valid resolutions of the General Meeting can only be adopted at a General Meeting for which notice is given, a quorum of 50% of the issued and outstanding share capital (excluding any Shares held by the Company in its own share capital) plus 1 Share is present or represented and which is held in accordance with the relevant provisions of the law and the Articles. There will not be the possibility to hold a meeting without the quorum of 50% of the issued and outstanding share capital plus 1 share being present or represented. Therefore, no resolutions can be taken in the General Meeting if the Principal Shareholder is not present or represented. Resolutions are passed by a simple majority of the votes cast, unless Dutch law or the Articles prescribe a larger majority. The determination made by the chairperson of the General Meeting with regard to the results of a vote at a General Meeting shall be decisive. However, where the accuracy of the chairperson's determination is contested immediately after it has been made, a new vote shall take place if the majority of the General Meeting so requires or, where the original vote did not take place by response to a roll call or in writing, if any party with voting rights present at the General Meeting so requires.

The Board of Directors will keep a record of the resolutions passed at each General Meeting. The record shall be available at the offices of the Company for inspection by any person entitled to attend General Meetings and upon request a copy of or extract from the record will be provided to such person at no more than the cost price.

Dividend and Distributions

The Shares are entitled to dividends and other distributions, if and when declared. Any such distributions will be made to each Share equally, irrespective of the class and nominal value. All Shares rank equally in all respects and will be eligible for any dividend distribution, if and when declared, in the future. Tax impact upon dividend distributions should be carefully considered.

For more details, please see section *Dividend Policy* from this Annual report.

Principal Shareholder

The Company is controlled by Mr. Zoltán Teszári, our President. He holds a direct stake of 2,280,122 Class A Shares, representing approximately 3.6% of the voting rights in the Company. In addition, Mr. Teszári holds a stake of approximately 87.1% of the voting rights in RCS Management S.A., which in turn holds a direct stake of 57,866,545 Class A Shares, representing approximately 91.2% of the voting rights in the Company. Mr. Teszári's direct holding represents approximately 3% of the economic interest in the Company and RCS Management S.A.'s holding represents approximately 62% of the economic interest in the Company.

The Company has implemented various corporate governance measures as described in this section from this report, to help avoid any potential conflicts of interest involving the Principal Shareholder as President of the Company.

On April 26, 2017, the Company, RCS Management and the Principal Shareholder entered into an agreement which will, conditional upon Admission, regulate the ongoing relationship between them (the "**Relationship Agreement**"). The principal purpose of the Relationship Agreement is to help ensure that the Company and its subsidiaries are capable of carrying on their business independently of RCS Management S.A. and/ or the Principal Shareholder, that transactions and relationships with RCS Management S.A. and/or the Principal Shareholder (including any transactions and relationships with any member of the Group) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Company are maintained. The Relationship Agreement will continue for so long as (a) the Company is listed on the Regulated Spot Market of the BSE and (b) RCS Management S.A. and/or the Principal Shareholder together with their associates are entitled to exercise or to control the exercise of 30% or more of the votes able to be cast on all or substantially all matters at General Meetings of the Company.

The Directors believe that the terms of the Relationship Agreement will help enable the Group to carry on its business independently of RCS Management S.A. and the Principal Shareholder and help ensure that all transactions and relationships between the Company and/or the members of the Group (on the one hand) and RCS Management S.A. and/or the Principal Shareholder and/or their associates (on the other) are, and will be, on arm's length terms and on a normal commercial basis.

Conflict of interest

There are no potential conflicts of interest between any duties owed by the Directors or Senior Management to the Company and their private interests or other duties. Any potentially conflictual situation or incident will be solved by the non-conflicted members of the Audit Committee or by the non-conflicted independent Non-executive Directors in accordance with the corporate governance rules of the Company.

Risk Management, Risks and Internal Control Systems

Risk management

Although not having yet established a formal enterprise risk management system and mechanism, the Company regularly and periodically identifies and (re)evaluates the risks associated with the Company's and the Group's business activities, by managing business performance from a risk-return perspective. The Company's operational objectives and measures serve at optimizing business processes in terms of effectiveness and efficiency, protecting critical Group assets, monitor activities in accordance with the applicable regulations and corporate governance guidance and giving reasonable assurance on the reliability of the financial reporting. Regular risk assessment discussions have taken place during 2017 between the Executive Board members and at the level of the Audit Committee. Since the identification and management of risks is an ongoing process, in need of continuous improvement, risk management will continue to hold the attention of the Company's management and will be subject to further and regular discussions within the Audit Committee and the Board of Directors. It should however be noted that such systems cannot provide absolute assurance regarding achieving all or part of the Company's objectives, nor can such provide an absolute assurance that material errors, losses, fraud and the violation of laws or regulations will not occur.

This report states thoes material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of 12 months after the preparation of this report, and aims to provide reasonably sufficient insight into the most significant failings in the effectiveness of the relevant internal risk management and control systems that the Company has put in place or that would need to be further implemented.

Internal audit

Until the date of this report, the Company did not hold an effective internal audit function. This function will be ensured as of 1 April 2018 by a newly appointed professional that is expected to form an internal audit team and commit to an internal audit team plan. During 2017, the Board of Directors has instead communicated with the Group subsidiaries' existing internal audit functions and has delegated an active risk management role to the Audit Committee.

Risks

In the Prospectus from 26 April 2017 and in Section — *Risk Factors* from this report, the Company summarizes the potential overall risk exposure that could prevent the Company and the Group from achieving their objectives. Through its assessment process so far, the Company has identified up to 60 primary risk drivers systematized into 5 overall risk categories. The risk drivers refer to significant topics, such as regulatory compliance, legal and litigation risks, business operations or competitive factors.

A selective summary of main risks applicable for the year 2017 (and until the date of this report) is referenced below (however, for a complete and in-depth analysis with respect to the Company's risks and operational exposure, we kindly invite our investors and the market to read Prospectus from 26 April 2017 and in Section — *Risk Factors* from this report). The risk appetite of the Company is aligned with its strategy and priorities. Some of the risks and uncertainties the Company faces are outside its control, others may be influenced or mitigated. The Company has, with regards to certain of these risks, implemented or started implementing risk management procedures and protocols. This process is to a large extent ongoing and not finalized. The mentioning of these mitigating actions may not in any way be viewed as an implied or express guarantee that such mitigation will in practice be effective in limiting the risk exposure and/or the potential damage to the Company from any such risk materializing.

Risk type / category[4]	Description of main risk drivers	Risk appetite. Available mitigations, if any.
Preliminary note applicable to all risks mentioned below: The Company is not reasonably able to give clear or exact estimations on the likelihood of occurrence of any of the below risks. However, if materialized, each of the below are medium to high risks from the perspective of the potential (either relatively important or highly significant) impact on the Group's business and operations.		
Risk relating to our business and industry, and related to the countries where we operate	Strategic risks may affect the Company's strategic business plan performance targets and operational and development objectives. The strategic risks to which our operations are continuously exposed relate to, amongst others:	The Company has a (reasonably) responsible appetite concerning strategic and operational risks. By refference to the complexity, unpredictability of such risks, and the inability for the Company to prevent the occurrence of insur complete or successful reaction, for the future, the Company will continue to aim for a reasonably responsible risk appetite.
	- Competition pressure and changes in the client demand, client churn, technological changes, ARPU decrease, opportunistic growth, intensive capital needs, risks exposures for our energy supply business;	From a strategic and management perspective, the Group has so far proven to be relatively efficient in managing its growth and development expectations so far. However, we cannot guarantee that the significant competition that we face in all our markets and business lines will not encourage the movement of customers to our competitors and thereby adversely affect our revenue and profitability. We cannot benefit from same competitive advantages that our principal competitors in our core Romanian and Hungarian markets enjoy, such as greater economies of scale, easier access to financing and more comprehensive product offerings in certain business lines. From a technological and development perspective, we invest significant amounts to implementing investments to upgrade our network offerings. However, there is no assurance that customers will accept these developments to the extent required to generate a rate of return that is acceptable to us. Additionally, our working capital needs have substantially increased in recent years and we may be required to limit our operations and expansion plans if, for any reason, we are unable to

[4] This table does not describe all particular risks (such as for example relating to the Shares and the Notes, the Collateral, as well as any other risks that are explained in detail in the Prospectus from 26 April 2017 and the Offering Memorandum from 8 August 2017 and in the Section — *Risk Factors* of this report. This table particularly focuses on the below referenced main operational, strategic, financial, regulatory and legal risk categories.

Risk type / category[4]	Description of main risk drivers	Risk appetite. Available mitigations, if any.
		obtain adequate funding to meet these requirements. Our success is closely tied to general economic developments in Romania and Hungary and any negative developments may not be offset by positive trends in other markets, potentially jeopardizing our growth targets and adversely affecting our business, prospects, results of operations and financial condition. We did not put in place a mitigation system in this respect.
	- the general internal, European and international economic, political and social context, instability of the credit markets, currency risks, our credit rating, general tax matters;	Given its business profiles and presence on a reduced number of countries (Romania and Hungary), the Company's exposure to these countries' markets and industry risks cannot be at all times reasonably anticipated or mitigated.
	- system failure / shutdown, termination of main supplier agreements, failure to get sufficient / appropriate managerial resources, insufficient insurance coverage, failure of billing, credit control and other operational systems, health risks affecting the mobile site architecture and development, personal data leakage, logistics, quality control, labor relations, information technology, force majeure.	Customary contractual agreements are put in place to protect the Group. The Company aims to look for alternative supplies and partnership options. However, in some cases, the Company might not be able to have access to sufficient or substitute alternatives. The Group is actively recruiting talent and is actively making use of experienced middle-management. However, given the high specialization of the industry and know-how of skilled professionals, replacing or increasing several functions might not be a timely or successful process.
Risk relating to legal and regulatory matters and litigation	Compliance risks cover unanticipated failures to comply with applicable laws, regulations, policies and procedures. The telecommunications and media sectors are under constant scrutiny by national competition regulators in the countries in which we operate and by the European Commission. We have been in the past, and may continue to be, the subject of competition investigations and claims in relation to our behavior in the markets of the jurisdictions where we operate. 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	The Company has an adverse risk appetite with respect to legal and compliance risks. The Company will continue to keep (and work to enhance) the same adverse risk appetite with repsect to these risks. The Company aims to take appropriate measures in the event of a breach of applicable laws or the Company's corporate governance regulations. The Group endeavors to stay abreast of changes to legislation and to ensure compliance. The legal in-house teams at the level of all Group companies and the collaborations with independent legal counsels have been constantly increasing for the past years. The Group pursues to strengthen its legal and regulatory team, and to increase in-house and partner education on applicable compliance expectations. However, our reaction to law inconsistencies or legislation changes

Risk type / category[4]	Description of main risk drivers	Risk appetite. Available mitigations, if any.
	well as ongoing compliance with, among other things, telecommunications, audiovisual, environmental, health and safety, labor, building and urban planning, personal data protection and consumer protection laws, regulations and standards. Any increase in governmental regulation of our operations could increase our costs and could have a material adverse impact on our business, prospects, results of operations and financial condition. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operation. Additionally, we are not in full compliance, and from time to time may not be in full compliance, with applicable laws and regulations regarding permitting the construction of various components of our network. We have experienced, and may continue to experience, difficulties in obtaining some of these approvals and permits. Certain agreements 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. 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. Termination or cancellation of the agreements may result in additional costs for re-execution of such agreements or for the implementation of an alternative solution or, in the worst case, in a loss of business. 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 by third	cannot be always ensured in time.

Risk type / category[4]	Description of main risk drivers	Risk appetite. Available mitigations, if any.
	parties and claims based on allegations of patent and/or trademark infringement or other violations of intellectual property rights are common. 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.	
	The Company is subject to insider trading risks and potential violations of financial supervision laws due to unauthorized sharing of price sensitive information. In the event that any person involved with the Group (whether internal or external) is (alleged of being) involved in insider trading, this might cause significant reputational damage to the Group.	The Group has implemented an insider trading policy and has concluded trainings for the handling of price sensitive information. The Company endeavors to increase awareness of applicable insider trading prohibitions through dedicated non-disclosure agreement and acknowledgement correspondence.
	The Group's employees or any other independent partners or consultants may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could have a material adverse effect on the Group's business. If any actions for violation of regulatory standards are instituted against the Group, and the Group is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of significant fines or other sanctions, and its reputation. If allegations of fraudulent conduct are made against the Group this may significantly impact the Group's reputation.	The Company and the Group subsidiaries have been working during 2017 and until the date of this report to design and, to the possible extent, implement procedures to support compliance with these regulatory standards and requirements, including a code of conduct, a whistleblower policy and various other operational procedures. This process in ongoing.

Risk type / category[4]	Description of main risk drivers	Risk appetite. Available mitigations, if any.
Risk relating to our financial position	Financial risks include uncertainty of financial return and the potential for financial loss due to capital structure imbalances, inadequate cash flows, asset impairments and the volatility of financial instruments related to foreign exchange and interest rate exposure. Main risk financial risk drivers relate to: our substantial leverage and debt servicing obligations, applicable restrictive debt covenants, impairment of the ability to draw funds under the existing facilities agreements, ability to generate sufficient cash to service our debt, (in)ability to refinance maturing debt on favorable terms, exposure from derivative transactions.	The Company has a prudent risk appetite with respect to financial risks. The Company's desire is to keep the prudent risk appetite. The management aims to constantly monitor leverage ratios according to the covenants of the Group's facilities commitments and the Notes / Indenture documentation. The management aims to constantly monitor the optimal financing alternatives for its business plans. The Company has started implementing periodical cash management controls and reconciliations in order to ensure an efficient utilization for daily business needs. The management aims to constantly monitor the efficiency of the derivative instrument and the associated risks. The Company's financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Company's financial reporting includes those policies that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with management's approval or oversight. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. For more details regarding the management of certain risks, please see *Note 23 Financial Risk Management from the Consolidated Financial Statements for the year ended 31 December 2017* included in this report.

Code of Conduct

The Company adopted on 14 May 2017 its code of conduct in accordance with section 2.5.2 of the Dutch Corporate Governance Code (the "**Code of Conduct**"). The Code of Conduct summarizes the principles and standards that must guide the Group's actions. The Group shall conduct its business with fairness, honesty, integrity and respect for the interests of its stakeholders in a wide variety of social, political and economic environments. The Code of Conduct includes internal rules regarding the management of confidential information, the public disclosure of data, financial and accounting information, general rules on insider trading, fair competition, the management of conflict of interest, compliance with the laws and regulations, the working environment, health and safety, ethics at work, relevant environmental matters, etc. The Company and its Group subsidiaries are currently working to enhance exhaustive compliance with the Code of Conduct (more details with respect to compliance efforts regarding key topics regarded by the Code of Conduct are comprised in the Corporate Governance section herein). A copy of this Code of Conduct is published on the Company's website. This Code of Conduct may be amended by a resolution of the Board of Directors. Any amendments will be published on the Company's website.

Insider trading policy

The Board of Directors adopted in May 2017 its insider trading policy (the "**Insider Trading Policy**"). The Insider Trading Policy is intended to ensure that all employees comply with rules on insider dealing and do not abuse nor place themselves under suspicion of abusing inside information that they may be thought to have, including in periods leading up to an announcement of the Company's results. The Insider Trading Policy aims to promote compliance with the relevant obligations and restrictions under applicable securities laws, and beyond those imposed by law.

CORPORATE AND SOCIAL RESPONSIBILITY (NON-FINANCIAL REPORTING SECTION)

The Company is a holding entity, with no effective operational activities. Therefore, any relevant environment and social responsibility efforts rather apply to the relevant Company's Group subsidiaries. In conducting our business, we are committed to supply to our customers high standard services sustained by our high-quality network and quality end-user equipment and technology. Although our operations do not raise significant environmental challenges, we have set appropriate internal rules to prevent incidents from occurring and to enhance environment friendly behavior for both our employees and customers. We are aware that the quality of our services and the continuous development of our operations are highly dependent upon the professional and individual skills of our employees. One of the pivotal means to enhance the overall efficiency of our labor productivity is by offering our employees proper working conditions in a favorable and safe labor environment, where correct and lawful behavior are continuously entertained.

We summarize below the main focus efforts that the Group subsidiaries have undertaken during 2017 and until the date of this report with respect to main corporate and social responsibility areas:

Environmental matters

We are subject to a number of environmental laws and regulations, but we do not believe that our activities generally have a significant environmental impact. 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 have worked to put in place effective general internal environment policies and procedures targeting compliance with local regulations and, where necessary, EU standards, as follows:

- *Procedure on the identification of the environmental aspects and the associated impacts* that mainly focuses on exhaustively identifying the environment aspects that are related to the ongoing activities of operations, on collecting data about any relevant environmental aspect, setting up proper documentation and mechanism to enhance compliance and conducting internal investigations to verify compliance;
- *Procedure on the Emergency Situations and the Capacity to Respond to Emergency Situations* that *identifies* the critical points that are able to generate harmful impact over the environment, by reference to the environmental challenges identified through the Procedure on the identification of the environmental aspects and the associated impacts;
- *Procedure on waste management and removal* that mainly focuses on identifying significant waste that connects to our activities and instructing our employees to follow the approved Plan for the waste management. Based on this procedure, equipment that are no longer in use and returned by our customers are gathered and handed over for recycling. RCS & RDS also notifies on a monthly basis the National Environmental Fund Administration in Romania the quantity of equipment that we market, as well as the several notifiable categories of ancillary packaging.

The above-mentioned internal procedures follow the SR EN ISO 14001:2015 recognized management system. We have worked to update and enrich such procedures at the beginning of 2018. RCS&RDS, our main Group company, has an internal department particularly dedicated to preparing due environmental procedures and putting into effect compliance activities.

Given the continuous changes in the legal background and the frequent discrepancies between the national and EU regulations, as well as the contradictions between the legal requirements and the market and operational realities, the environmental regulations applicable to our activities are not always clear or easy to implement, thus causing our dedicated departments to not keep always pace with these laws.

We are required to obtain environmental permits, licenses and/or authorizations or provide prior notification to the appropriate authorities when building parts of our network, importing electronic equipment or opening new shops. Some of our sites also store small amounts of diesel fuel for back-up power generator use and/or have a history of previous commercial operations.

Other relevant 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. As a result of these activities or operations at our sites, we could in the future incur costs or additional liability. See Section *—Risk Factors* — "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."

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.

Employee statistics and diversity. Health and safety at work

As at December 31, 2017, we had 13,976 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

	As at December 31,	
Country	**2016**	**2017**
Romania	11,708	11,900
Hungary	1,522	1,821
Spain	120	187
Italy	49	63
The Netherlands	1	5
Total	**13,400**	**13,976**

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

	As at December 31,	
Department	**2016**	**2017**
Customer Service	2,395	2,457
Administrative, Purchasing, Logistics	1,686	1,686
Technical	6,242	6,665
Sales and marketing	1,836	1,931
TV	1,241	1,237
Total	**13,400**	**13,976**

Employee diversity and professional development

We favour employee diversity and work force expansion and development. We treat our employees equally with differentiations being made based on professional, experience, performance and specialization criteria. We do not discriminate by gender, age, disability or other subjective aspects, and we do not qualify our employees nor ask for information about sexual orientation, religion, ethnic origin or other non-work-related features of our employees' private life.

Although none of our Group companies have formal procedures or rules on employee diversity, the most important recruitment and promotion criteria being the professional experience and performance rather than artificial social or statistical factors, gender diversity is not an issue raising concerns, as gender spread is proportionately allocation by departments and specializations by reference to the type of industry where we operate. While, as at 31 December 2017, the top management of our Group was dominated by male members, a large proportion of the immediate management level and key middle management positions are occupied by female employees (see for example the financial and accounting departments, the several legal functions, relevant sales unit coordinators, client support and client and contract processing departments, etc.). At lower employee level, for instance in case of RCS & RDS, the largest company part of our Group, the statistics valid as at 31 December 2017 continue to show that male or female equally split the several functions, with technical specializations having male as the dominant team members, while administrative, financial, legal and several media occupations enjoying dominant female presence.

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 labour agreement; until now our employees have not expressed such interest.

None of the Group companies has set up generally applicable career, employability, remuneration, training or management of restructuring practice or policies. Each of these aspects are treated at department or business unit level, in accordance with each business unit's objective needs.

Health and safety

RCS & RDS and Digi Kft. routinely carry out the following work activities either by direct employees or contactors in the course of their operations: ground disturbance / excavation / trenching, working with or in close proximity to live electrical conductors, entering and / or working inside substantially enclosed areas / confined spaces, movement of mobile work equipment and work vehicles, accessing areas or working at height greater than 1m from ground level, carrying out mechanical lifting operations with loads.

During 2017, the relevant Group companies have worked to update the safety and health procedures at work. The implementation of the new health and safety procedures (following the SR OH SAS 18001:2008 recognized management system on healthy and occupational) is ongoing.

Based on existing internal procedures, we have worked to prevent labour incidents by closely monitoring the management of exposed operations and activities such as fixed and mobile network development and servicing departments. For the past years, the number of severe labour incidents has been lower, while the detected incidents have not resulted in significant liability for our Group companies. There have been three fatalities for the past six years. All have been solved with no fault for the regarded Group company. There were no other substantial incidents, such as material injuries, fires, property damage or other type of substantial occupation diseases. For example, in 2017, in connection with an investigation that was opened by the Nasaud First Instance Prosecutor's Office in relation to a work accident that resulted in the death of one of its employees in 2015, the inquiries regarding RCS & RDS's potential failure to comply with labour, health and safety legislation, and manslaughter in the case were closed in August 2017 with no consequences for RCS & RDS.

We are also satisfied to report that, as a result of our continuous efforts to ensure proper and safe working conditions, the time spent on medical care and recovery of our employees due to work events and accidents has been in 2017 three time shorter as compared to 2015.

Anti-corruption and bribery matters

Bribery and corruption, as well as money laundering are highly forbidden in our Group. The corporate requirements for proper and correct behaviour incumbent on our entire personnel has been regulated in the employment and services agreements concluded by our Group companies with each employee, manager and relevant business partners, as well as in RCS&RDS's general employee policies.

The internal controls performed to ensure that no employee acts in an unlawful manner was effected through the implementation of a centralized acquisition system, whereby every acquisition / business relationship at the level of each Group company requires for necessary approval filtering whereby the initiator cannot pursue a business acquisition relationship or partnership without the prior written approval from the legal and the accounting/financial department and top management endorsement. Interactions with public authorities and with public officers are reasonably scrutinized. Also, payments that the Company and its subsidiaries perform, as well as all amounts that are received by the Company and by any of its subsidiaries are correctly and faithfully reflected in the accounting and other necessary financial statements of the respective entities. In most cases, the payments are sufficiently documented through accompanying agreements, purchase orders, delivery confirmation, minutes, invoices, payment orders, etc.

During 2017 and at the beginning of 2018, we have been working to implement detailed procedures to prevent corruption and bribery risks and incidents at all levels within our Group. These detailed procedures of which adoption at the level of the Group and implementation process is ongoing add to the existing relevant procedures and the Code of Conduct, the Terms of Reference of the Audit Committee and the Whistleblowing policy as adopted during April – May 2017 by the Company.

Employee mismanagement and deviations at the level of the Group companies are detected and sanctioned by the management of each Group company. From time to time, the management identifies specific risk areas where immediate improvement is reached through clearer and stricter policies and more enhanced control mechanisms. However, 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, in July 2017, certain individuals, including three individuals currently in senior management positions at the Company's principal subsidiary, RCS & RDS, Ioan Bendei, Mihai Dinei and Serghei Bulgac, as well as, the former CEO of RCS& RDS, Alexandru Oprea were indicted by the National Anticorruption Directorate in Romania for alleged bribery and money laundering. For details in this respect, see "Section *—Risk Factors—*Failure to comply with anti-corruption laws, or allegations thereof, could have a material adverse effect on our reputation and business" and "*Note 26 Litigations and Legal proceedings from the Consolidated Financial Statements for the year ended 31 December 2017*, litigation— Investigation by the National Anti-Corruption Agency." We strongly believe that our Group companies and their current and former officers have acted appropriately and in compliance with the law, and we restate that we will continue to defend against all the above allegations.

OBJECTIVES AND STRATEGIC DIRECTIONS

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, 2017, our 3G and 4G mobile telecommunication services covered approximately 99% and 54% of the Romanian population, respectively. In Hungary, we hold certain licenses entitling us to develop our own mobile network and we are currently in the construction stage for 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. 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. One of the examples of such acquisition opportunity which we have pursued is the contemplated acquisition by our Hungarian subsidiary, DIGI Távközlési és Szolgáltató Kft. of of shares representing in total 99.998395% of the share capital and voting rights of Invitel Távközlési Zrt., in relation to which a share-purchase agreement has been concluded on July 21, 2017 and which is currently pending for approval from the Hungarian authorities. 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.
- **Offer premium and/or exclusive content to maintain the attractiveness of our product offerings.** We intend to maintain 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.

Share Capital Structure and Shares

SHARE CAPITAL STRUCTURE AND SHARES

The issued and paid-up capital as at 31 December 2017 in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (€ 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (€ 0.01) each). For details, please see section *Corporate Governance-Capital, Shares and Voting Rights*, included in this Annual report.

Class B Shares are listed on the Romanian Stock Exchange ("BVB") starting from 16 May 2017.

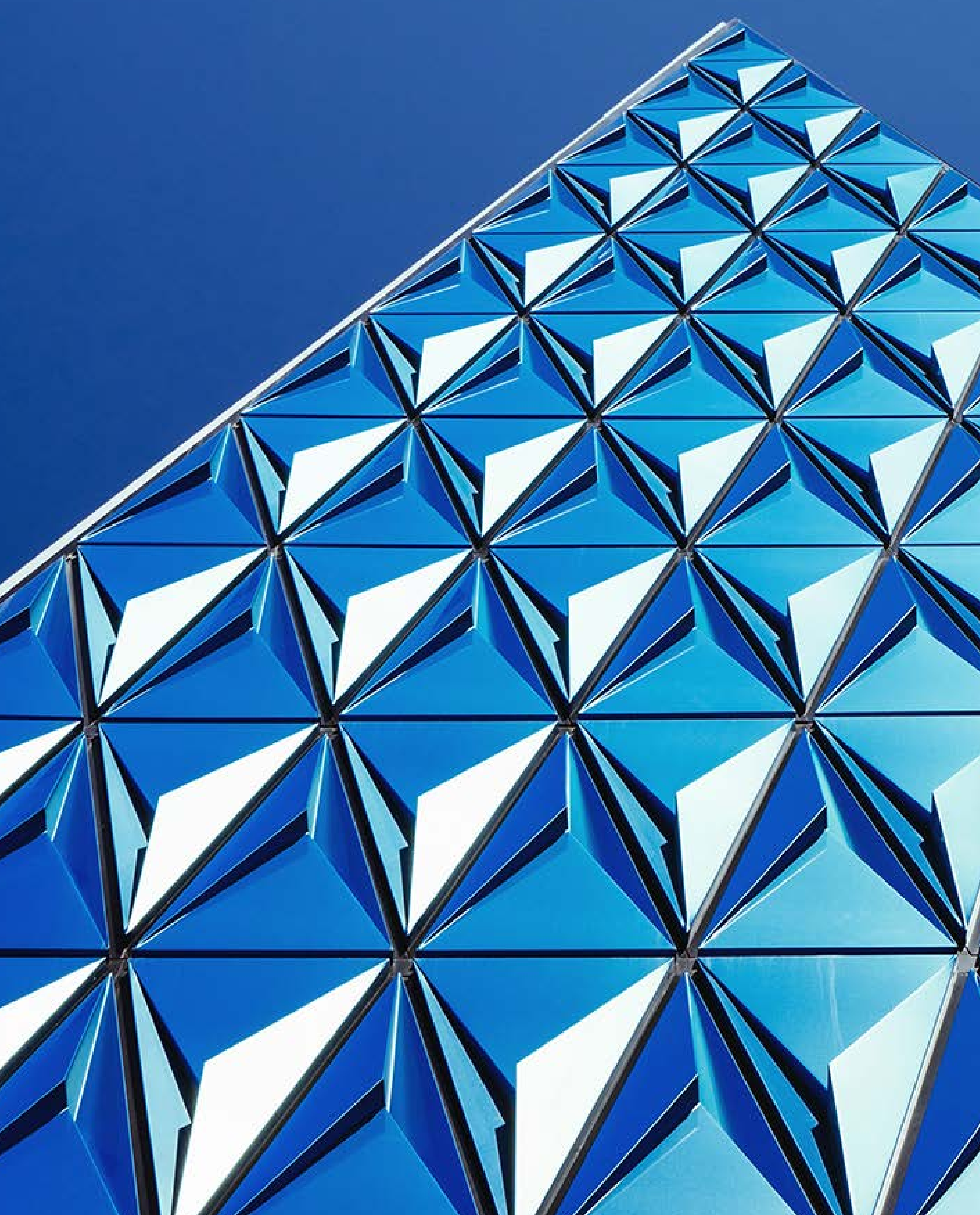
	31 December 2017
Class A:	
Ordinary Shares – Issued and Paid (No.)	65,756,028
Ordinary Shares – Unissued (No.)	34,243,972
Nominal Value	0.10 EUR per share
Class B:	
Ordinary Shares – Issued and Paid (No.)	34,243,972
Ordinary Shares – Unissued (No.)	65,756,028
Nominal Value	0.01 EUR per share
Share Capital Value (EUR thousand)	6,918,043

At 31 December 2017, the shareholders of DIGI are as follows:

	31 December 2017	
Shareholder name	**No. of shares**	**%**
Class A:		
RCS Management S.A.	57,866,545	57.87%
Teszari Zoltan	2,280,122	2.28%
DIGI-treasury shares	5,609,361	5.61%
Total class A	**65,756,028**	
Class B:		
Shares listed on BVB	33,246,818	33.25%
DIGI - treasury shares	997,154	1.00%
Total class B	**34,243,972**	
TOTAL	**100,000,000**	

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.

Dividend Policy



DIVIDEND POLICY

The Company intends to retain earnings and reinvest cashflows to capitalize on growth opportunities in its core markets.

The Company's ability and intention to return capital to shareholders in the future will depend on the Company's available investment opportunities, financial condition, results of operation, undertakings to creditors and other factors that the Board may deem relevant. Returns of capital to shareholders may be performed, at the discretion of the Company, through dividends.

At the Annual General Meeting of Shareholders, to be held on 2 May 2018, a gross dividend of RON 0.35 per share will be proposed in respect of 2017. For the calculation of dividends, treasury shares of the Company (6,606,515 shares) were not treated as outstanding ordinary shares and were excluded from the number of issued ordinary shares.

For details regarding profits distribution, please see excerpt from the Articles of Association in Chapter *Other information* included in the Annual report.

Group Overview

RISK FACTORS

Any investment in the Shares and/or the Notes is subject to a number of risks. Prior to investing in the Shares and the Notes, prospective investors should carefully consider the risk factors associated with any such investment, the Group's business and the industry in which it operates, together with all other information contained in this Report including, the risk factors described below.

The occurrence of any of the following events could have a material adverse effect on our business, prospects, results of operations and financial conditions. The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations and/or financial condition and, if any such risk should occur, the price of the Shares and/or the Notes may decline and investors could lose all or part of their investment. An investment in the Shares and/or 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 any such investment is suitable for them in the light of the information in this Report and their personal circumstances.

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 retains 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. For example, in February 2018, Orange Romania announced its partnership with Samsung Electronics and Cisco for testing Orange Romania's 5G capabilities for a period of one month, in the second half of 2018, in several urban areas of Romania. The purpose of this partnership is to show how 5G network capabilities complement fixed internet networks, with Samsung Electronics and Cisco delivering an end-to-end solution to Orange Romania during the relevant period. 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 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 at December 31, 2017 we had 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 of additional sports, film and other broadcasting rights;
- renewal of certain existing broadcasting rights;
- costs associated with customer premises equipment ("CPE") and the acquisition of new customers;
- investments associated with our electrical energy activities; and
- payments under telecommunication licenses.

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 or instability in, or related to, the political conditions in Romania and Hungary, including any changes to their respective political regimes, legal and regulatory frameworks or 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, changing the scope of social security taxes and transferring their payment from the employer to the employee 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 syndicated facility agreement dated February 1, 2018 (the "**Syndicated Facility**"), the short-term loan dated October 13, 2017 (the "**Bridge Loan**"), 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, 2017 we generated approximately 88% of revenue in our two principal functional currencies, the Romanian leu and the Hungarian forint (approximately 51% excluding revenue collected in local functional currencies, but denominated in euros). As at December 31, 2017, we had €421.0 million and US$70.2 million of obligations denominated in euros and U.S. dollars, respectively, compared to €408.3 million and US$43.7 million, respectively, as at December 31, 2016. 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 Syndicated Facility, the Bridge Loan, 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, 2017, we had approximately 4,000 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.

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.

We currently broadcast programming for our DTH services based on an agreement concluded with Intelsat Global Sales & Marketing Ltd ("**Intelsat**"). Our current contract with Intelsat has been renewed to operate until November 2022. As at December 31, 2017, under the agreement with Intelsat, we have leased 9 transponders to transmit our DTH signal, operated by Intelsat and Telenor (and used an additional transponder for the transmission of non DTH signal). The contract allows us to further reduce the number of dedicated transponders.

Satellite broadcasts may 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;
- unsuccessful migration process to alternate satellites from satellites reaching the end of operations;
- 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 repoint all our existing customers' receiving dishes to enable them to receive our signal. Accurate repointing requires specialist tools and expertise, and we believe that there could be substantial costs of repointing all of our existing subscribers' receiving dishes in the event the satellite networks we currently use fail. Moreover, the time needed to repoint our dishes to alternative satellites would vary depending on the market. Accordingly, the inability to use Intelsat's or Telenor's satellites or otherwise to obtain access to sufficient levels of satellite bandwidth on a timely basis and at commercially acceptable prices, or any system failure, accident or security breach that causes interruptions in our operations on the satellite networks we use could impair our ability to provide services to our 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 5.5% increase in RGUs in the year ended December 31, 2017, compared to an approximately 19.1% increase in RGUs in the year ended December 31, 2016. In the year ended December 31, 2017, our Romanian subsidiary, RCS & RDS S.A. has launched the services of Voce 4G (VoLTE) and Voce Wi-Fi (VoWiFi), as well as expanded the coverage of the 4G technology network in the Bucharest subway network, increased the percentage of sites connected to the fiber optic backbone, as well as improved the overall quality, coverage and speed of its mobile telecommunication services.

We may also launch a mobile telecommunications business in Hungary in 2018 or later. In addition, on July 21, 2017 our Hungarian subsidiary, DIGI Távközlési és Szolgáltató Kft. ("**Digi HU**"), acting as purchaser, has signed a share-purchase agreement with Ilford Holding Kft. and Invitel Technocom Távközlési Kft., acting as sellers (controlled by China Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF, which is managed by Luxembourg Investment Solutions S.A.) for the acquisition of shares representing in total 99.998395% of the share capital and voting rights of Invitel Távközlési Zrt. ("**Invitel**"), one of the key operators on the Hungarian telecommunications market, currently positioned as second-largest incumbent fixed line telecommunications and broadband internet services provider in the residential and small business customers segment in Hungary. We reasonably expect the transaction to be completed in the first half of 2018. In 2012 and 2015, respectively, we have also 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 the Notes and our credit facilities, particularly the Syndicated Facility 2018, the Bridge Loan, the Senior Facilities Agreement, the ING Facilities Agreement and other existing credit facilities. 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 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 (Top tier Romanian professional football league). 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 the top-flight national football competitions in Romania were not obtained directly from the respective organizers, but rather through a sublicense from a third-party. This sublicense is due to expire at the end of the 2018/2019 football season. Also, the Romanian Competition Council (the "**RCC**") has been investigating the circumstances under which the Romanian Professional Football League awarded the license. Should the current holder' 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 license 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. However, 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 total loss of 8.6 million EUR in the year ended December 31, 2017 from our electricyt 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, the enactment of Regulation (EU) No. 531/2012 on roaming on public mobile communications networks within the European Union ("**EU Roaming Regulation**"), which requires mobile communications providers within the European Union to end all retail roaming surcharges starting with June 15, 2017, while having to pay providers relevant wholesale charges, could 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. On June 30, 2017 ANCOM approved our request to apply a roaming surcharge under the terms of the EU Roaming Regulation, however unless we obtain an extension 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, NMIAH or the 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, 2016 and at the beginning of 2018 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 December 31, 2017 this process has not been completed.

In addition, on April 14, 2016, the General Data Protection Regulation (Regulation (EU) 2016/679) ("**GDPR**") has been formally adopted, which will apply to all EU member states from May 25, 2018 and will replace the Data Protection Directive 95/46/EC on that date. The GDPR introduces new and enhanced data protection requirements in the European Union, as well as and substantial fines for breaches of data protection rules. In light of these developments, we started to evaluated and to adjust our personal data protection mechanisms to ensure compliance with the GDPR, however, as at December 31, 2017 the implementation of such revised data protection mechanisms has not been completed and there can be no assurances that such adjustments as well as any other further up-dates or improvement are or will be sufficient from GDPR perspective. In addition, following the adoption of the GDPR, the European Commission published on January 11, 2017 a proposal for an e-Privacy regulation, replacing today's e-Privacy Directive 2002/58/EC that regulates privacy related issues in the electronic communications sector. However, the adoption of this proposal is not expected before June 2018.

Should any violations of data protection laws be identified as committed or perpetrated by us, they may result in significant 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. As an example, on July 21, 2017 our Hungarian subsidiary, Digi HU, acting as purchaser, has signed a share-purchase agreement with Ilford Holding Kft. and Invitel Technocom Távközlési Kft., acting as sellers (controlled by China Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF, which is managed by Luxembourg Investment Solutions S.A.) for the acquisition of shares representing in total 99.998395% of the share capital and voting rights of Invitel, one of the key operators on the Hungarian telecommunications market, currently positioned as second-largest incumbent fixed line telecommunications and broadband internet services provider in the residential and small business customers segment in Hungary. We reasonably expect the transaction to be completed in the first half of 2018.

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.

The Company operates and will continue to operate as a company that is resident in Romania for tax purposes; 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). The investigation was closed in November 2015 with non-discrimination commitments being undertaken by all investigated parties. See *"—Telecom market interconnection investigation" from Note 26 from the Consolidated Financial Statements for year ended 31 December 2017 included in this Report.*

Separately, Antena TV Group S.A. (a leading media group in Romania, "**Antena Group**"), 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 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 Distribuţie 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, that it 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 the 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 was finalized in the second half of 2017, with conclusions being published on December 4, 2017. Although we have expressed our disagreement with respect to some conclusions in the RCC report, the RCC report indicated that in the future the authority may consider defining relevant multiple-play markets (as opposed to the individual services market), as well as make a distinction between residential and business clients and define specific geographic markets. As a result of this sector inquiry, our market behavior could be subjected to stricter scrutiny. The RCC report also included information on potential abusive clauses in agreements concluded between providers of electronic communication services and their respective clients, in particular in connection with termination clauses, where the authority deemed that there is a lack of information and easy procedure upon termination. RCC alerted the Romanian National Authority for Consumer Protection ("**NACP**") to this fact, which in its turn indicated that it will re-direct certain aspects of the relevant matter to ANCOM. There is no further information available in connection with the scope or the outcome of NACP and/or ANCOM's potential analysis concerning such clauses and there is currently no foreseeable date for the finalization of such analysis. However, should NACP and/or ANCOM deem certain clauses or any of our market or consumer behaviour as abusive, we may be required to amend our existing customer agreements, as well as being exposed to the risk of fines being applied for past 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.

In 2017, RCS & RDS was notified that an investigation has been opened by the Nasaud First Instance Prosecutor's Office in relation to a work accident that resulted in the death of one of its employees in 2015. RCS & RDS, as employer, was investigated for failure to comply with labor, health and safety legislation, and manslaughter. The investigation was closed with no unfavourable consequences for RCS & RDS. As it was not challenged, this decision remaind final.

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 that 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 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 if 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 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 we have entered into for the purpose 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 significant 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. Reneawal of agreements concluded with these operators is aften delayed and problematic.

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. Until today, the claims were dismissed twice based on procedural grounds. Both decisions are not yet final. 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, publish on our websites or for any illegal or unauthorized online content that our internet clients have access to. 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 or block from our internet system the infringing content or information, which might cause our subscribers to migrate to any of our competitors not being affected by such claim or not having complied with it.

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 a review by the Romanian tax authorities in the tax affairs of RCS & RDS for the years 2013 to 2016 was performed in 2017. This review was for verification purposes only (i.e., not due to an infringement) and such reviews are common in Romania for companies of our size. 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 Distribuţie 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 Group (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 Distribuţie Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged 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 in court, arguing that the tender whereby we obtained the concession agreement was irregularly carried out. Furthermore, Electrica Distribuţie 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 S.R.L. with respect to a large events hall in Bucharest and question whether the agreement complied with Romanian anti-corruption laws. Bodu S.R.L. claimed to be connected to 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. On 7 June 2017, Mr. Bendei Ioan, member of the Board of directors of RCS&RDS, was indicted by the DNA in connection with the offences of bribery and accessory to money laundering. Mr. Bendei Ioan was also placed under judicial control. On 25 July 2017, RCS&RDS was indicted by the DNA in connection with the offences of bribery and money laundering, Integrasoft S.R.L. (one of RCS&RDS's subsidiaries in Romania) was indicted for the offence of accessory to money laundering, Mr. Mihai Dinei (member of the Board of directors of RCS&RDS), was indicted by the DNA in connection with the offences of accessory to bribery and accessory to money laundering. On 31 July 2017, Mr. Serghei Bulgac (Chief Executive Officer of the Company and General Manager and President of the Board of Directors of RCS&RDS), was indicted by the DNA in connection with the offence of money laundering.

The offences of bribery, of receiving bribes and the accessories to such offenses under investigation are alleged to have been committed through the 2009 joint-venture between RCS&RDS and Bodu S.R.L. with respect to the events hall in Bucharest in relation to agreements between RCS&RDS and LPF with regard to the broadcasting rights for Liga 1 football matches, while the offences of money laundering and accessory to money laundering are alleged to have been perpetrated through RCS&RDS's acquisition of the Bodu S.R.L. events hall in 2016.

On 22 August 2017, the DNA sent to court under the judiciary control Mr. Ioan Bendei in connection with the offences of bribery and accessory to money laundering, RCS&RDS in connection with the offences of bribery and money laundering, INTEGRASOFT S.R.L. in connection with the offence of accessory to money laundering, Mr. Mihai Dinei in connection with the offences of accessory to bribery and accessory to money laundering, and Mr. Serghei Bulgac in connection with the offence of money laundering. The DNA has also requested the Bucharest Tribunal to maintain the preventive and precautionary measures instituted by the DNA, including the attachment of the two real estate assets pertaining to RCS&RDS to secure an amount of up to Lei 13,714,414 (approximately € 3 million) that was instituted by the DNA on 25 July 2017, as well as of the judicial control with respect to Mr. Ioan Bendei instituted on 7 June 2017.

Mr. Ioan Bendei contested, amongst others, the judicial control imposed by the DNA. On 31 August 2017, based on the final decision published by the Bucharest Court of Appel, the court decided by final ruling to revoke the judicial control measure imposed by the DNA with respect to Mr. Ioan Bendei, with the consequence that the obligations and the communication restrictions imposed by the DNA on 7 June 2017 are no longer applicable.

INTEGRASOFT S.R.L., RCS&RDS, and their officers have also submitted other preliminary requests and objections against the allegations brought by the DNA in court. On 16 November 2017, the Bucharest Tribunal rejected all these requests and objections. On 2 March 2018, the Bucharest Court of Appeal rejected the appeal filed by INTEGRASOFT S.R.L., RCS&RDS's and their officers. The file was returned to the Bucharest Tribunal (as the initially invested court) for judgment on the substance.The first hearing in front on the Bucharest Tribunal will take place on 4 April 2018.

As a consequence of the same investigation, Mr. Dragomir was indicted for receiving bribes through the joint venture between RCS & RDS and Bodu S.R.L. in relation to agreements between RCS & RDS and LPF with regard to the broadcasting rights for Liga 1 football matches and for being an accessory to money laundering suspected to have been perpetrated through RCS & RDS's acquisition of the events hall owned by Bodu S.R.L.

We strongly believe that RCS&RDS, INTEGRASOFT S.R.L. and their current and former officers have acted appropriately and in compliance with the law, and we strongly restate that we will continue to defend against all the above allegations.

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 for Mr. Dragomir. The case is currently trialed in appeal. 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 this particular matter.

If we are alleged or found to have violated applicable anti-corruption laws in any matter, any such allegations or violation may have a material adverse effect on our reputation and business, including, among others, application of criminal fines against RCS & RDS and the individuals, disgorgement of property, exclusion of RCS & RDS from certain public or private tenders and imprisonment of those individuals under enquiry, as well as affect our ability to comply with certain covenants under a number of credit facilities.

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 refugee 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 issued 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 180 (most corrupt), ranked both Romania and Hungary in the 59th and 66th position (2016: 57 and 57; 2015: 58 and 50; 2014: 69 and 47, respectively).

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 and/or the Notes.

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 and/or Notes 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 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.). On November 15, 2017, the European Commission has issued its follow-up report concerning the issues previously identified. The report notes that progress has been achieved on a number of previous recommendations, in particular the recommendation to set up a system for checks on conflicts of interest in public procurement has been satisfactorily implemented and progress on other recommendations, subject to practical implementation. At the same time, the European Commission noted that the overall reform momentum in the course of 2017 has stalled, slowing down the fulfillment of the remaining recommendations, and with a risk of re-opening issues which the January 2017 report had considered as closed. 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 and/or the Notes. 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 and/or the Notes.

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 and/or the Notes more risky than investments in securities of an issuer that operates in a more developed legal and judicial system.

The legal and judicial systems in Romania and Hungary are less developed than those of other European countries. Commercial law, competition law, securities law, company law, bankruptcy law and other areas of law in these countries are relatively new to local judges and 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, principally in Romania, Hungary, Poland, Spain and United Kingdom. All or a substantial portion of the assets and the assets of our directors and executive officers are located outside of the United States and the United Kingdom, principally in Romania, Hungary, Poland and Spain.

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, 2017, our total net debt was €770.2 million and our net leverage ratio was 2.7x, which is based on our consolidated total net indebtedness to consolidated EBITDA, as per the SFA covenants of Senior Facility 2016. Our total gross debt was €779.9 million and gross leverage ratio was 2.7x, as per the 2016 Senior Notes covenants. Additionally, for the year ended December 31, 2017 and in accordance with the covenants agreed under our existing credit facilities, our EBITDA to total interest ratio (calculated as interest payable, less interest receivable, adjusted to take account of amounts in the nature of interest payable and receivable under our interest rate hedging arrangements) was 7.45 to 1.

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**"), the intercreditor agreement originally dated November 4, 2013, as amended and restated on October 26, 2016 and which establishes the relative rights of certain of our creditors under our financing arrangements (the "**Intercreditor Agreement**") and our certain existing credit facilities 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, such agreements do not prevent us from incurring obligations that do not constitute indebtedness as such term is defined therein. 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 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 net leverage ratio of 3.25 to 1 and a consolidated EBITDA to total interest ratio of 4.25 to 1 (for more details regarding the leverage ratio of the Senior Facilities Agreement from 2016, please see section Management's Discussion and Analysis of Financial Condition and

Results of Operations *–Financial Obligations)*. The Bridge Loan and the 2018 Syndicated Facility contains covenants that limit our ability to incur and assume debt and/or require us to maintain a total leverage ratio of 3.75 to 1 up to 30 June 2019, and starting with 1 July 2019 require us to maintain a net leverage ratio of 3.25 to 1.

For purposes of calculating these ratios, consolidated total net debt/total debt, as the case may be, 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, or as an amount equal to the aggregate amount (without duplication) of all financial indebtedness of the Group, as the case may be. 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). Our EBITDA to total interest ratio is the ratio of our EBITDA to our interest payable, less interest receivable, adjusted to take account of amounts in the nature of interest payable and receivable under our interest rate hedging arrangements. Additionally, the Syndicated Facility, the Bridge Loan and the Senior Facilities Agreement requires us to have positive equity. Further, our existing financing arrangements limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions.

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 the 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 Syndicated Facility, the Bridge Loan, 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 2016 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 Syndicated Facility, the Bridge Loan, 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 Syndicated Facility, the Bridge Loan, 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 to be able to meet our debt repayment obligations. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including 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 SHARES AND THE NOTES

Certain Shareholders hold a significant interest in and exert substantial influence over the Group and their interests may differ from or conflict with those of other Shareholders or with those of holders of the Notes.

Mr. Zoltán Teszári directly and indirectly beneficially owns 56.93% of the Company and 100% of the issued and outstanding Class A Shares (the Company holds 5,609,361 Class A Shares in its own capital) and therefore will have have 100% of the voting rights in a shareholders meeting for holders of Class A Shares ("**Class A Meeting**") (no votes can be cast on shares that the Company holds in its own capital).

Due to his ability to exercise control over the Class A Shares and their voting rights as well as the special rights attached to Class A Shares, including in relation to the appointment of the Board of Directors, Mr. Zoltán Teszári will be able to exercise control over all decisions of the Board of Directors and matters requiring shareholder approval, including payment of dividends and approval of significant corporate transactions. Furthermore, the interests of Mr. Zoltán Teszári may not always be aligned with those of other holders of Shares.

If the Principal Shareholder no longer holds a direct or indirect interest in at least 30% in the issued and outstanding nominal share capital of the Company, the rights accruing to the Class A Meeting as set out in the Articles shall cease to exist. For the avoidance of doubt, the provisions relating to the binding nomination right cease to apply in that circumstance.

Holders of Class B Shares have lower voting rights than holders of Class A Shares which may impact the trading price of Class B Shares as well as control over the Company.

Holders of Class A Shares and Class B Shares have different voting rights. Each Class A Share has 10 votes, and each Class B Share has one vote. When holders of Class A Shares and Class B Shares vote together, holders having a majority of the votes (or 66.67%, in the case of a vote requiring a special resolution for which a quorum requirement exists and such quorum is not present or represented (i.e. can only be adopted by a majority of at least two-thirds of the votes cast, if less than one half of the issued share capital is presented or represented at the General Meeting)) present and voting will be in a position to control the outcome of the vote even if the matter involves a conflict of interest among the Shareholders or has a greater impact on one group than the other. Therefore, holders of Class A Shares will have more control over the outcome of Shareholder votes and decision-making. As only the Class B Shares are listed on the Bucharest Stock Exchange, the value of Class B Shares may be adversely affected given this distribution of voting rights and control. Our equity capital structure may inhibit or prevent acquisition bids, may decrease the value of the listed Shares and may make it difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders. The existence of different classes of Shares with different voting rights limits the amount of control that holders of Class B Shares have over the Company.

There is no assurance that the holders of the Shares and/or Notes will be able to sell them.

The Shares are listed on the regulated market of the Bucharest Stock exchange and the Notes are listed on the regulated market of the Irish Stock Exchange. We cannot guarantee the liquidity of any market that may develop for the Shares and/or the Notes, the ability of the holders of the Shares and/or the Notes to sell such Shares and/or Notes or the price at which they may be able to sell. Liquidity and future trading prices of the Shares and/or 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 securities such as the Shares and/or the Notes and changes in our financial performance in the markets in which we operate may adversely affect the liquidity of any trading market in the Shares and/or the Notes that does develop and any market price quoted for the Shares and/or the Notes. As a result, we cannot ensure that an active trading market will be available for the Shares and/or the Notes.

Trading on the Bucharest Stock Exchange may be suspended.

The FSA is authorized to suspend securities from trading or to request the Bucharest Stock Exchange to suspend the trading of securities of a company listed on the Bucharest Stock Exchange if such continuation of trading would negatively affect investors’ interests or to the extent the relevant issuer is in breach of its obligations under the relevant securities laws and regulations. Also, the Bucharest Stock Exchange is entitled to suspend from trading Shares in other circumstances, in accordance with its regulations. Any suspension could affect our Shares’ trading price and would impair the transfer of the Shares.

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

Although the Company, in the Indenture, agreed to use its commercially reasonable efforts to maintain the listing of the Notes on the Irish Stock Exchange as long as they are outstanding, the Company cannot assure existing and prospective investors that the Notes will remain listed. If the Company cannot maintain the listing of the Notes on the regulated market of the Irish Stock Exchange or it becomes unduly onerous to make or maintain such listing, it may cease to make or maintain such listing, 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 the Company will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Irish Stock Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, the delisting of the Notes from the rish 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.

The Shares and/or the Notes may be subject to market price volatility and the market price of may decline disproportionately in response to developments that are unrelated to the Company's operating performance.

The market price of the Shares and/or the Notes may be volatile and subject to wide fluctuations. The market price of the Shares and/or the Notes may fluctuate as a result of a variety of factors, including, but not limited to, those referred to in these "*Risk Factors*," as well as period to period variations in operating results or changes in revenue or profit estimates by the Group, industry participants or financial analysts. The market price could also be adversely affected by developments unrelated to the Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Group, speculation about the Group in the press or the investment community, unfavorable press, strategic actions by competitors (including acquisitions and restructurings), changes in market conditions and regulatory changes. Any or all of these factors could result in material fluctuations in the price of Shares and/or the Notes, which could lead to investors getting back less than they invested or a total loss of their investment.

Not all rights available to shareholders in the United States or other countries outside the Netherlands or Romania will be available to holders of the Shares.

In the event of an increase in our ordinary share capital, holders of Shares are generally entitled to full pre-emptive rights unless these rights are restricted or excluded by a resolution of the General Meeting, which requires a proposal thereto by the Board of Directors which in turn requires the approval by resolution of the shareholders of the relevant class in respect of the pre-emptive rights of the holders of such class only or, if such increase can be decided by the Board of Directors and the Articles so permit, by a resolution of the Board of Directors. However, certain holders of Shares outside the Netherlands may not be able to exercise pre-emptive rights unless local securities laws have been complied with.

Securities laws of certain jurisdictions may restrict the Group's ability to allow participation by shareholders in future offerings. In particular, shareholders in the United States may not be able to exercise their pre-emptive rights or participate in a rights offer, as the case may be, unless such rights and Shares are registered under the Securities Act or such rights and Shares are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Shareholders in other jurisdictions outside the Netherlands or Romania may be similarly affected if the rights and Shares being offered have not been registered with, or approved by, the relevant authorities in such jurisdictions. We intend to evaluate at the time of any issue of Shares subject to pre-emptive rights or in a rights offer, as the case may be, the costs and potential liabilities associated with any such registration or other means of making the rights available to U.S. Shareholders, as well as the indirect benefits to us of enabling the exercise of U.S. Shareholders of their pre-emptive rights to Shares or participation in a rights offer, as the case may be, and any other factors considered appropriate at the time and then to make a decision as to whether to file such a registration statement or take other steps to enable such holders to participate in the rights offer.

The issuance of additional Shares in the Company in connection with future acquisitions, any share incentive, share option plan or de-leveraging or otherwise may dilute all other shareholdings.

The Group may seek to raise financing to fund future acquisitions and other growth opportunities, may issue shares in relation to share incentives or share option plans, or may raise finance for the purposes of de-leveraging. We may, for these and other purposes, issue additional equity or convertible equity securities. As a result, existing holders of Shares may suffer dilution in their percentage ownership or the market price of the Shares may be adversely affected.

Our ability to pay dividends to Shareholders may be constrained.

We are a holding company and our ability to generate income and pay dividends is dependent on the ability of our subsidiaries to declare and pay dividends to us. The actual payment of future dividends by us and the payment of dividends, if any, to us by our subsidiaries and the amounts thereof will depend on a number of factors, including (but not limited to) the amount of distributable profits and reserves and investment plans, earnings, level of profitability, ratio of debt to equity, credit ratings, applicable restrictions on the payment of dividends under applicable laws and financial restrictions on the debt instruments of our subsidiaries, compliance with covenants in our debt instruments, the level of dividends paid by other comparable listed companies and such other factors as the Board of Directors may deem relevant from time to time. As a result, our ability to pay dividends in the future may be limited and/or our dividend policy may change. If dividends are not paid in the future, capital appreciation, if any, of the Shares would be investors' sole source of gains.

Foreign shareholders may be subject to exchange rate risk.

The Shares are denominated in euro, but traded in Romanian lei. An investment in the Shares by an investor whose principal currency is not the leu exposes the investor to foreign currency exchange rate risk. Any depreciation of the leu in relation to such foreign currency will reduce the value of the investment in the Shares or any dividends in foreign currency terms. In addition, we are required, under Romanian law, to pay our dividends through the system operated by the Central Depository.

Transfers of the Shares and/or the Notes may be restricted, which may adversely affect the value of the Shares and/or the Notes.

The Shares and the Notes have been offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws of the United States. The Shares and the Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Therefore, an investor in the Shares and the Notes may not transfer or sell the Shares and/or the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement, and may be required to bear the risk of an investment in the Shares/ and or the Notes for an indefinite period of time. It is the investors' obligation to ensure that their offers and sales of Shares and/or the Notes within the United States and other countries comply with applicable securities laws.

We are subject to additional regulatory obligations and incur additional costs in connection with the trading of our Shares and Notes on the regulated market.

We are required to meet regulatory requirements pertaining to entities with shares admitted to trading on the Bucharest Stock Exchange and notes admitted to trading on the regulated market of the Irish Stock Exchange, as well as those pertaining to entities registered in the Netherlands, in particular with respect to disclosure, corporate governance and financial reporting, and allocate staff and resources to such purposes. Such increased costs could have a material adverse effect on our business, prospects, results of operations and financial condition. In addition, the regulations and requirements applicable to companies whose securities are listed on the Bucharest Stock Exchange and/or the Irish Stock Exchange are subject to change, and any future changes can be difficult to predict, increasing the risk that the Company may in the future be in violation of such rules and regulations, which can result in extensive fines and administrative fees. In addition, the Board of Directors and management may be required to devote time and effort to ensure compliance with such rules and regulations, which may entail that less time and effort can be devoted to other aspects of the business.

The rights of minority shareholders may be limited under Dutch law.

The Company is organized under the laws of the Netherlands. The rights of holders of the Shares, including the Shares, are governed by the Company's Articles and by Dutch law. These rights, including the rights of minority shareholders, as well as other matters affecting such rights, may be different in the Netherlands from those elsewhere, and an investor's ability to exercise such rights may be limited.

OTHER RISKS

The Company intends to operate so as to be treated as exclusively resident in Romania for tax purposes, but the relevant tax authorities may treat it as also being tax resident elsewhere.

The Company is not a company incorporated in Romania. Therefore, whether it is resident in Romania for tax purposes will depend on whether its "central management and control" is located (in whole or in part) in Romania. The test of "central management and control" is largely a question of fact and degree based on all the circumstances, rather than a question of law.

The Company operates and will continue to operate as a company that is resident in Romania for tax purposes; other tax authorities may treat the Company as being tax resident elsewhere. 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.

In addition, even if its "central management and control" is in Romania, in principle, the Company will be resident in the Netherlands for Dutch corporate income tax and Dutch dividend withholding tax purposes on the basis that it is incorporated there. A tax ruling with the Netherlands tax authorities has been obtained, however, in which the Netherlands tax authorities have confirmed that as from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania in accordance with clause 4(3) of the Convention between the Kingdom of the Netherlands and Romania for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital (the "**DTT-ROM/NL**"), which states that "*a person other than an individual is a resident of both States, then it shall be deemed to be a resident only of the State in which its place of effective management is situated*" (hereafter, the "**Tax Ruling**"). If there is a change over time to the facts upon which the Tax Ruling is based, the Tax Ruling may be withdrawn.

The Shareholders may be subject to double withholding taxation with respect to dividends or other distributions made by the Company.

Any dividends or other distribution the Company makes to the Shareholders will, in principle, be subject to withholding tax in Romania, where the Company has its principal place of business, and in the Netherlands, where the Company has been incorporated. As a result, the Shareholders may be subject to withholding tax in respect to dividends or other distributions made by the Company in both Romania and the Netherlands.

Based on, and for purposes of, the DTT-ROM/NL, and as confirmed by the Tax Ruling, the Company should, however, be considered solely tax resident in Romania, as it will be effectively managed from Romania. Therefore, in principle, there should be no risk of double taxation.

If there is a change over time to the facts upon which the Tax Ruling is based, the Tax Ruling may be withdrawn. The Netherlands might then consider the Company to be a tax resident in the Netherlands due to its incorporation under Netherlands law, and may not accept that effective management truly takes place in Romania. This could result in (double) corporate income tax at the level of the Company, (double) withholding tax on dividends and/or (double) taxation for certain Shareholders, for instance with respect to non-resident taxation on income from a substantial interest (*aanmerkelijk belang*) in the Company, as the Company would then generally be required to withhold dividend withholding tax imposed by the Netherlands at a rate of 15% on dividends distributed by the Company in respect of the Shares.

Other conditions, however, may apply and Shareholders should consult their advisors regarding the tax consequences of dividends or other distributions made by the Company.

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 68% and 27% 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 a fast 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, 2017 our Romanian operations accounted for €655.2 million, or 71%, of our total revenue; our Hungarian operations accounted for €150.4 million, or 16%, of our total revenue; our Spanish operations accounted for €92.7 million, or 10%, of our total revenue; and our Italian operations accounted for €18.3 million, or 2%, of our total revenue. At December 31, 2017, we had a total of approximately 13.3 million RGUs, of which approximately 3.5 million were cable TV RGUs, approximately 2.8 million were fixed internet and data RGUs, approximately 4.5 million were mobile telecommunication services RGUs, approximately 1.6 million were fixed-line telephony RGUs and approximately 0.9 million were DTH RGUs.

We have consistently generated strong revenue streams. In recent years we invested heavily in the development of our mobile business in Romania. We have reported Adjusted EBITDA and Adjusted EBITDA margins for continuing operations of €287.5 million and 31.4%, respectively, for the year ended December 31, 2017.

We offer five principal types of service:

- **Cable TV** is our original line of business. As at December 31, 2017, we had approximately 3.0 million Romanian RGUs and approximately 500,000 Hungarian RGUs for cable TV services. Cable TV services accounted for 25.1% of our revenue in the year ended December 31, 2017.

- Our **fixed internet and data** are primarily offered through our FTTB/FTTH networks using GPON or comparable technology in Romania and Hungary. As at December 31, 2017, we had approximately 2.3 million fixed internet and data RGUs in Romania and approximately 467,000 RGUs in Hungary. Fixed internet and data services accounted for 23.2% of our revenue in the year ended December 31, 2017.

- We provide **mobile telecommunication** services using our 3G and 4G networks in Romania, and as an MVNO mainly targeted at the Romanian communities in Spain and Italy. As at December 31, 2017, we had approximately 3.4 million mobile telecommunication services RGUs in Romania, approximately 12,000 RGUs in Hungary (where we offer mobile internet and data services as a reseller through Telenor's network), approximately 896,000 RGUs in Spain and approximately 170,000 RGUs in Italy. Mobile telecommunication services accounted for 30.1% of our revenue in the year ended December 31, 2017.

- We offer **fixed-line telephony** services through our networks in Romania and Hungary. As at December 31, 2017, we had approximately 1.3 million Romanian fixed-line telephony RGUs and approximately 379,000 Hungarian fixed-line telephony RGUs. Fixed-line telephony services accounted for 3.2% of our revenue in the year ended December 31, 2017.

- Our **DTH satellite television** services are offered in Romania and Hungary. As at December 31, 2017, we had approximately 593,000 DTH RGUs in Romania and approximately 291,000 DTH RGUs in Hungary. DTH services accounted for 7.6% of our revenue in the year ended December 31, 2017.

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 operations in Romania and Hungary accounted for approximately 71% and 16%, respectively, of our consolidated revenue for the year ended December 31, 2017.
- **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 and the third supplier in Hungary. We also lead Romania's fixed internet and data market while being third in Hungary as at December 31, 2017. In addition, we are the second largest provider of fixed-line telephony services in Romania and are the third in Hungary as at December 31, 2017. Finally, we are the fourth-largest provider of mobile telecommunication services in Romania as at December 31, 2017. We are focused 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; which led to a total number of RGUs across all business lines to approximately 13.3 million as at December 31, 2017
- **Advanced infrastructure, including nationwide fiber networks in Romania and Hungary and fast growing, in terms of RGUs, mobile network in Romania.** Our fixed fiber optic networks in Romania and Hungary are technologically advanced and cover approximately 68% and 27%, respectively, of households in those countries as at December 31, 2017 (Source: Eurostat; Hungarian Central Statistical Office). We have upgraded approximately 90% 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, 2017, our 3G and 4G mobile telecommunication services in Romania covered approximately 99% and 54% of the population, respectively, and, as at December 31, 2017, were provided via approximately 3,900 and 2,400 mobile base stations, respectively, approximately 70% of which shared the backbone of our fixed fiber optic network.
- **Leading commercial proposition for customers.** Our technical capabilities, wide network coverage and multiple service offerings, 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).

- **Robust financial performance.** Our business has consistently generated strong revenue streams. For the year ended December 31, 2016 and 2017 we had total revenue (excluding intersegment revenue, other income and gain from sale of discontinued operations) of €842.8 million and €916.6 million, respectively. We have historically had robust Adjusted EBITDA and a disciplined approach to capital expenditure. For the year ended December 31, 2016 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, 2017 we reported Adjusted EBITDA of €287.5 million, whilst our capital expenditure was €243.2 million, or 26.5% of revenue. In addition, we have historically maintained prudent capital and liquidity structures with a Leverage Ratio (as defined below) at the level of 2.9x and 2.7x for the years ended December 31, 2016 and 2017.
- **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 of RCS & RDS 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.

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:

	Cable TV	Fixed Internet and Data	Mobile Telecommunication services	Fixed-line Telephony	DTH
Romania	✓	✓	✓	✓	✓
Hungary	✓	✓	✓(1)	✓	✓
Spain			✓(2)		
Italy			✓(2)		

(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, 2017:

	Romania	Hungary	Spain(3)	Italy(3)	Total RGUs per service
					(thousands)
Cable TV	3,030	500	—	—	**3,530**
Fixed Internet and Data	2,284(1)	467	—	—	**2,751**
Mobile Telecommunication Services	3,391	12(2)	896	170	**4,469**
Fixed-line Telephony	1,260(1)	379	—	—	**1,639**

DTH	593	291	—	—	**884**
Total RGUs per country	**10,558**	**1,649**	**896**	**170**	**13,273**

(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, 2017.

As at December 31, 2017, we had approximately 3.0 million cable TV RGUs in Romania and approximately 500,000 in Hungary and a combined number of homes passed in the two countries of approximately 6.2 million.

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.

In the years ended December 31, 2017 cable TV services generated revenue of €230.0 million, representing 25.1% 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 a reduced version, which is addressed to customers in rural areas, on EOC infrastructure. At December 31, 2017, 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.

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, 2017, we generated €212.4 million from fixed internet and data services (representing around 23.2% of our revenue), of which €182.4 million was generated in Romania. As at December 31, 2017, we had approximately 2.3 million fixed internet and data RGUs in Romania (including business subscribers) and approximately 467,000 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, 2017, we had approximately 140,000 business internet and data RGUs.

Fixed internet and data product packages

We offer several residential fixed internet and data services packages at competitive prices 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 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.

Mobile Telecommunication Services (voice and data)

As at December 31, 2017, 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 mainly 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 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.

As at December 31, 2017, our 3G and 4G networks coverage extended to approximately 99% and 54% 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.

We are the leader in inbound number porting in mobile with 1,381,589 numbers ported from 2008 until the end of 2017. In 2017, there were 859,602 mobile telephony number ported in Romania, the largest number towards us (384,801). (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 99% 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. We offer 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).
- **Digi Mobil Avantaj.** Digi Mobil Avantaj offers 3 types of subscriptions together with a handset. 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.** DIGI Mobil Pre-paid offers 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 a 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, 2017, we had approximately 3.4 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, specialized in the large Romanian community in Spain. We offer mobile data services under the brand name DIGI Naveg@ for the internet on smartphones. We offer prepaid and postpaid tariff packages for voice, SMS and mobile data in Spain. Starting from March 2017, new lower tariffs were introduced which were very well received by the market.At December 31, 2017, we had approximately 896,000 mobile telecommunication services RGUs in Spain generating revenue of €92.7 million for the year ended December 31, 2017.

Italy

We offer MVNO voice mobile service in Italy under the brand name Digi Mobil using the TIM network. The service is mainly 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, 2017, we had approximately 170,000 mobile telecommunication services RGUs in Italy generating revenue of €18.3 million for the year ended December 31, 2017.

Fixed-line telephony

As at December 31, 2017, we were the second largest fixed-line telephony operator in Romania and the third largest operator in Hungary (Source: Group, peer reports, ANCOM, NMHH).

As at December 31, 2017, we had approximately 1.3 million fixed line telephony RGUs in Romania (including business subscribers) and approximately 379,000 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 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 that 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 132,000 fixed-line telephony business RGUs in Romania as at December 31, 2017.

In Hungary, we offered the following main types of packages as at December 31, 2017:

- **Digitel 200**. Digitel 200 is a package that is available to customers that also subscribe to cable TV and fixed internet and data and includes unlimited free minutes for calls within our own network in Hungary and our fixed network in Romania.
- **Digitel 500**. Digitel 500 is a package that is available to customers that also subscribe to cable TV and fixed internet and data.
- **Digitel 900**. Digitel 900 is a package that is available to all our customers in Hungary and includes unlimited free minutes for calls within our own network in Hungary and our fixed network in Romania.

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 a contract with Intelsat (which includes the lease of two transponders on the Telenor satellite) that was extended in November 2017 for a period of 5 years.

We are a leading DTH operator in our main markets, Romania and Hungary. In the year ended December 31, 2017, we generated €69.6 million from DTH services (representing approximately 7.6% of our revenue). As at December 31, 2017, we had approximately 593,000 DTH RGUs in Romania and approximately 291,000 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.

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.

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, Ligue 1 and the WTA Circuit. Furthermore, we are one of the 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), Belgian Football League and Scottish Premier League, ATP tournaments, Basketball Euroleague and for UEFA Europa League (Hungary).

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

Sport	**Competition**	**Romania**	**Hungary**	**Period**
Football	Romanian Football Championship 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	ATP 1000 Masters & world tour finals	✓	✓	2017 – 2019
Tennis	WTA Tennis Tournament(1)	✓	✓	2017 – 2021

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

The aggregate value of the licensing fees under these agreements is approximately €113.7 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.

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 2.3 and the percentage of network customers using more than one service was approximately 74% as at December 31, 2017. 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, 2017.

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, 2017:

	Romania	Hungary
Single-play	26%	20%
2 or more	74%	80%
Of which 3 or more	43%	54%
Of which quad-play	16%	0.4%

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, 2017, 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 2017, sales of green certificates received from our solar energy projects generated €1.8 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. 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 the year ended December 31, 2017 we purchased electricity from both the forward electricity market as well as from the spot market.

Due to the fact that demand from our larger business customers is subject to higher variation and thus, more difficult to predict than from residential and mid-sized and smaller business customers and because of 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. In the first quarter of 2017, we incurred losses of €7.4 million (€8.6 million loss from energy supply during year ended December 31, 2017).

To reduce our exposure to such volatility, from March 2017 we started to refocus our energy supply business on residential and mid-sized and smaller business customers and decrease the overall volume of electricity supplied to business customers. In 2017, we supplied, in aggregate, approximately 0.55 million MWh to a mix of business and residential customers (compared to 1.1 million MWh in 2016), of which business customers accounted for approximately 84% of consumption.

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, 2017, we had distribution agreements in place with approximately 71 content providers. In total we have the right to retransmit in Romania and Hungary approximately 320 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.

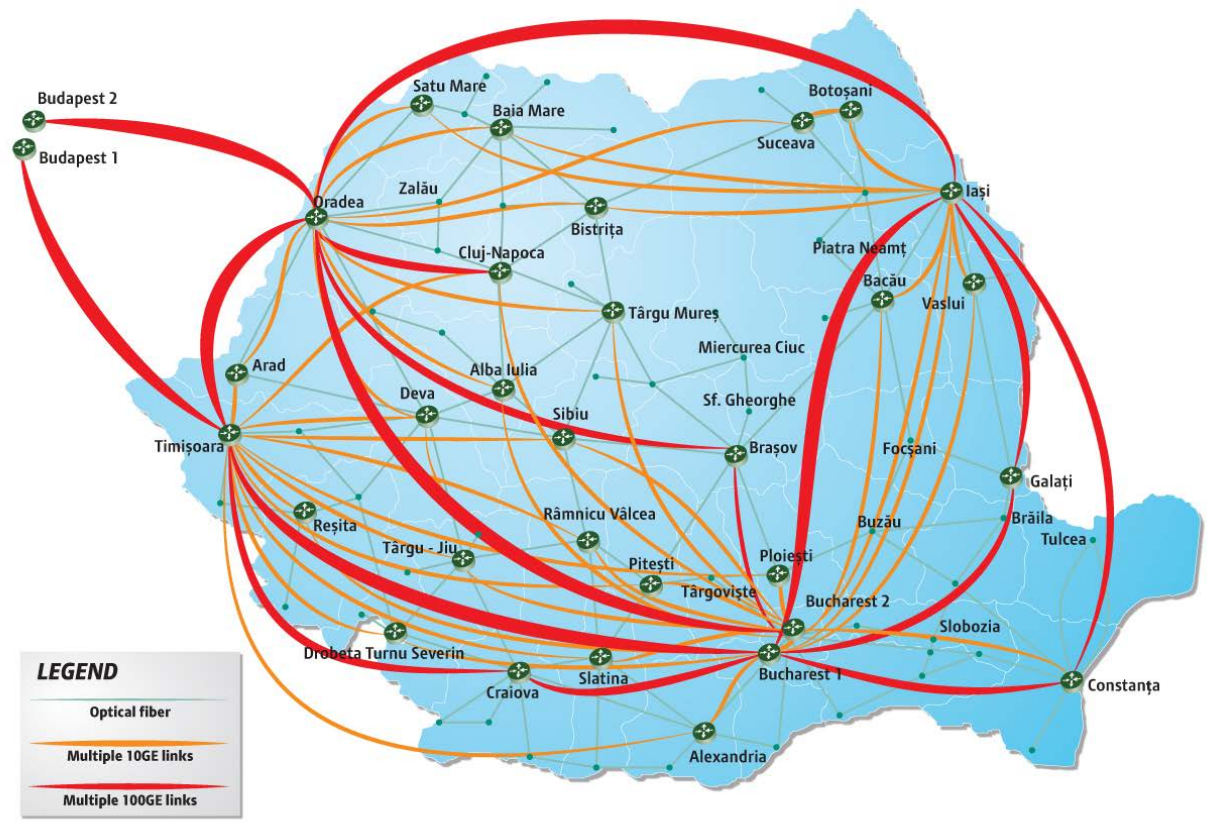
The programming content acquired is retransmitted as part of the packages offered both through our cable TV service and our DTH service. The costs are allocated on a contract-by-contract basis between the cable TV subscribers and the DTH subscribers.

Fiber Networks

In Romania, we own and operate an advanced, fully digitalized and two-way capable fiber optic network. The network architecture provides approximately 90% 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.

In Romania, we have an intercity backbone network of approximately 25,000 kilometers. 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 5.0 million homes as at December 31, 2017. We service business customers in all counties and major cities of Romania.

The map below shows our backbone in Romania as at December 31, 2017:



In Hungary our FTTB/FTTH network has similar technical capabilities to our Romanian network. Our Hungarian fiber network passes approximately 1.2 million homes. We use approximately 4,612 thousand km of backbone fiber optic network, approximately 31% of which is owned by us, 44% is subject to long-term leases and the remaining 25% is subject to regular lease contracts.

The map below shows our backbone in Hungary as at December 31, 2017:

	As at December, 31	
	2016	**2017**
Romania		
Number of homes passed (millions)	4.7	5.0
Percentage of homes passed[(1)]	62%	68%
Hungary		
Number of homes passed (millions)	1.1	1.2
Percentage of homes passed[(1)]	24%	27%

(1) Calculated based on the total number of households from Eurostat for Romania and 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 2017 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.

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 and standard 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. 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.

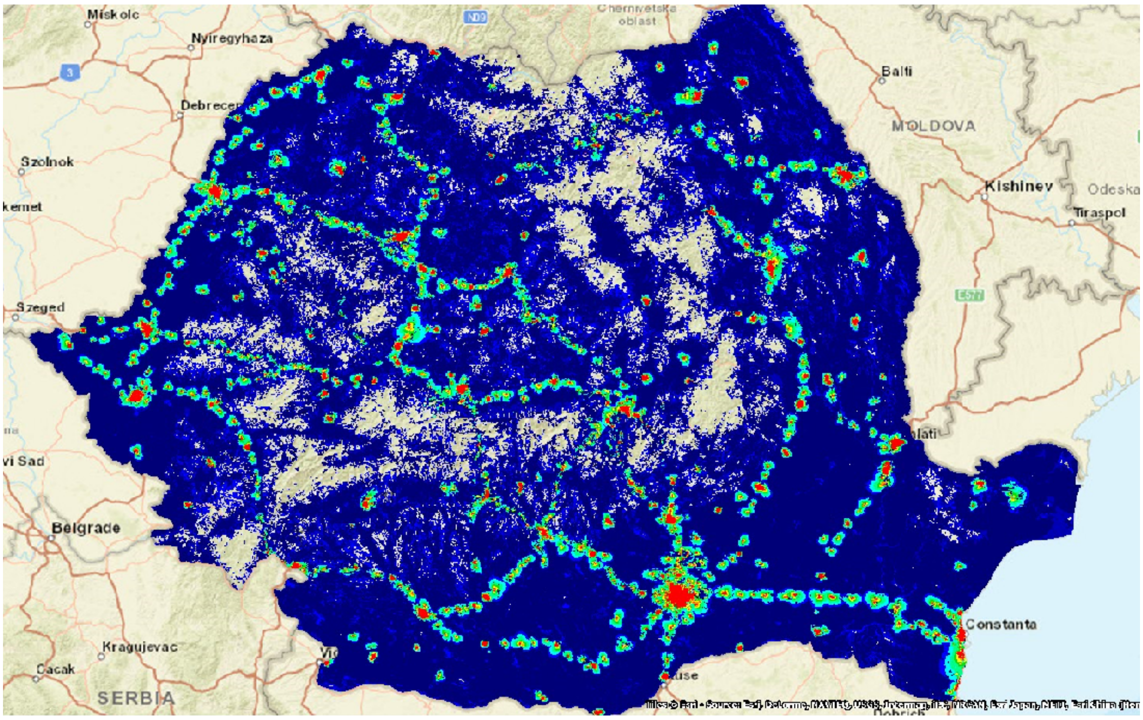
Mobile Telecommunication Services Network

Our mobile telecommunication network in Romania is based on the equipment and solutions provided by leading vendors (Huawei, Nokia, Ericsson). 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, 2017, our 3G and 4G mobile telecommunication and mobile internet and data services covered approximately 99% and 54% of the Romanian population, respectively. As of December 31, 2017, our 3G and 4G mobile telecommunication and mobile internet and data services were comprised of approximately 3,900 and 2,400 base stations, respectively (in total approximately 4,000 base stations).

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.

The map below shows the territorial coverage of our own 3G & 4G mobile network as at December 31, 2017:



In order to minimize the potential for a system failure in our 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, 2017, we use 9 high-powered transponders, seven on the IS-10-02 satellite and 2 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) which was set to expire on November 30, 2017 was extended for a 5 year period. 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 9 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.

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.

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.

In Romania, we had 397 sales and collection points and a sales force of approximately 1,723 individuals. In Hungary, we have 57 sales points and a sales force of 77 individuals as at December 31, 2017. As at December 31, 2017 we had approximately 2,930 external sales points in Spain and approximately 2,000 external sales points in Italy.

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

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, 2017, our customer service department in Romania consisted of 1,901 employees spread across all of our national service centers and six call centers (servicing our Romanian, Spanish and Italian clients). As at December 31, 2017, our customer service department in Hungary consisted of 479 employees spread across all of our physical service centers and two call centers in Budapest and Debrecen. In 2017 a call center was launched in Spain for local clients.

As at December 31, 2017, out of the total customer service department, we have a total of 984 call center employees, of whom 775 are in Romania, 153 are in Hungary and 56 in Spain.

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.

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, in 2017 we offered 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.

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”, “DIGI COMMUNICATIONS N.V.” 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 2018 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 has an aggregate coverage of up to approximately €39 million equivalent as at December 31, 2017). 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. Additionally, we have liability insurance for our directors.

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 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 own some of our original headquarter’s offices in Romania, 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:

Country	Location	ID	Primary Function	Owned/ leased	Size (sqm)
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	owned	2,488
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	lease-back	4,493
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	leased	2,067
Romania	Bucharest		Administrative, Warehouse	leased	3,257
Romania	Bucharest	Panduri	Call Center, TV Studios	owned	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 Sever in		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	4,200
Hungary	Budapest		Administrative, Call Center	leased	1,064
Hungary	Budapest		Administrative, land	owned	4,207
Hungary	Budapest		Administrative offices	owned	775
Hungary	Budapest		Land	owned	1,961
Spain	Madrid		Administrative	leased	1,800
Spain	Madrid		Warehouse	leased	383
Italy	Milano		Administrative, Sales, Warehouse	leased	498
Italy	Milano		Warehouse	leased	410

Employees

As at December 31, 2017, we had 13,976 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

	As at December 31,	
Country	**2016**	**2017**
Romania	11,708	11,900
Hungary	1,522	1,821
Spain	120	187
Italy	49	63
The Netherlands	1	5
Total	**13,400**	**13,976**

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

	As at December 31,	
Department	**2016**	**2017**
Customer Service	2,395	2,457
Administrative, Purchasing, Logistics	1,686	1,686
Technical	6,242	6,665
Sales and marketing	1,836	1,931
TV	1,241	1,237
Total	**13,400**	**13,976**

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

For details regarding Litigation and Legal Proceedings please see Note 26 from the Annual Consolidated Financial Statements for the year ended 31 December 2017 included in this Annual report.

Financial Results

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 consolidated financial statements of the Group as of December 31, 2017.

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” 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. 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 a fast 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.

For the year ended December 31, 2017, we had revenues of €916.6 million, net profit of €62.0 million and Adjusted EBITDA of €287.5 million.

Recent Developments

On 1 February 2018, RCS & RDS S.A. (the Company’s subsidiary in Romania – „RCS&RDS”), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.’s subsidiary in Hungary – „Digi Kft.”), as the borrowers, the Company, as a guarantor, Citibank N.A., London Branch and ING Bank N.V. as the arrangers, ING Bank N.V. as the facility agent, and several other financial institutions as the lenders have concluded a syindicated loan providing for three facilities in HUF, RON and EURO currencies (the „2018 Syndicated Facility”).

The 2018 Syndicated Facility is a medium-term loan agreement that partially refinances the 2017 Bridge Loan. The 2018 Syndicated Facility replaces the 2017 Bridge Loan for a corresponding value of approximately EUR 163 million equivalent.

On 9 March 2018, the availability under the existing 2018 Syndicated Facility was increased with an additional amount of approximately EUR 16 million equivalent. Therefore, the total current availability under the 2018 Syndicated Facility is of approximately EUR 179 million equivalent.

The 2018 Syndicated Facility is meant to be used partially for the financing of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt (approximately 140 million EUR). The remainder is intended to be used for general corporate purposes and/or capital expenditures (approximately 39 million EUR).

The 2018 Syndicated Facility has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

In March 2018, RCS & RDS acquired 2 floors from the headquarters building in amount of EUR 2,500, the rest of the building being still part of the existing sale and leaseback agreement.

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 during 2017 we incurred operating expenses of the Company in the Netherlands and Romania (during 2016 we incurred operating expenses of the Company in the Netherlands). 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, 2016 and 2017 was as follows:

	For the year ended December 31,	
	2016	**2017**
	(€ millions)	
Romania	612.7	655.2
Hungary	137.9	150.4
Spain	83.0	92.7
Other[(1)]	9.2	18.3
Total revenue	**842.8**	**916.6**

(1) Includes revenue from operations in Italy.

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, 2016 and 2017 were as follows:

	For the year ended December 31,	
	2016	**2017**
	(€ millions)	
Romania	411.3	429.6
Hungary	86.5	110.7
Spain	68.8	66.1
Other[(1)]	12.9	22.8
Depreciation, amortization and impairment of tangible and intangible assets	176.4	171.8
Total operating expenses	**755.8**	**800.8**

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

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:

Mobile telephony interconnection fees	**For the year ended December 31,**	
	2016	**2017**
	(eurocents/minute)	
Romania	0.96	0.96
Spain	1.09	1.09*
Italy	0.98	0.98

**Starting From February 2018, the interconnection fees decreased to 0.7 eurocents/minute. Other fees reductions will follow, as per the announcements made by the Reglementation Authority in Spain.*

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.

We also generate revenue and incur expenses in relation to sales of third-party manufactured handsets and accessories.

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 71% of our consolidated revenue for the year ended December 31, 2017 had one of the highest real gross domestic product (**"GDP"**) growth rates, according to Eurostat.

The effect of the last 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. 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 last 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. This tax was discontinued in January 2017 (expenses amounted to 0.6% of our revenue in Romania for the year ended December 31 2016).

In Hungary, special infrastructure, financial transactions, and certain other taxes applicable to us were introduced in 2012, amounted to approximately 2% of our revenue in both 2016 and 2017 from Hungarian operations. VAT decreased in Romania from 20% to 19% from January 2017. In Hungary VAT for internet services decreased from 27% to 18% from January 2017 and from 18% to 5% from January 2018.

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, 2016 and 2017:

	For the year ended December 31,	
	2016	**2017**
	(€ millions, unless otherwise stated)	
Revenue[(1)]	**842.8**	**916.6**
Operating profit	79.3	115.4
Depreciation, amortization and impairment	176.4[(5)]	171.8
EBITDA[(2)]	**255.6**	**287.2**
(Gain from sale of discontinued operations)	0.7	-
(Other income)[(3)]	-	(2.5)
Other expenses[(4)]	7.0	2.8
Adjusted EBITDA	**263.3**	**287.5**
Adjusted EBITDA Margin (%)	**31.2%**	**31.4%**

(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 IPO related expenses recovered from the selling shareholders in the IPO, as well as income from the disposal of Digi SAT d.o.o participation
(4) Represents mark-to-market loss from fair value assessment of energy supply contracts and IPO related expenses, which we exclude from our calculations of Adjusted EBITDA.
(5) Includes revaluation deficit in amount of €6.3 million from revaluation of land and buildings and CPE as at December 31, 2016.

The change in our Adjusted EBITDA and Adjusted EBITDA Margin from €263.3 million and 31.2%, respectively, for the year ended December 31, 2016 to €287.5 million and 31.4% respectively, for the year ended December 31, 2017 was primarily due to the rapid development of our mobile business line in Romania and the stable contribution and steady growth of the fixed services. This resulted in an increase in our operating profit from €79.3 million for the year ended December 31, 2016 to €115.4 million for the year ended December 31, 2017 primarily due to development in the scaling of our operations and the expansion of our subscriber base.

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 68% and 27% of households in those countries as at December 31, 2017. 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 90% of our networks and are currently able to offer communication speeds of up to 1Gbps in both countries, higher than any competing product.

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, 2017, we had approximately 3,900 mobile network base stations covering approximately 99% 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, 2017, we had approximately 2,400 4G base stations and our 4G offering covered approximately 54% 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 it was not renewed.

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.

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, 2017, we had €421.0 million of obligations denominated in euros and US$70.2 million of obligations denominated in U.S. dollars, (2016: €408.3 million and US$43.7 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 37.4% of our total revenue for the year ended December 31, 2017. 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 declines of approximately 1.7% and appreciation of approximately 0.7%, respectively. 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, 2016 and 2017 of the euro against each of our principal functional currencies and the U.S. dollar:

Value of one euro in the relevant currency	As at and for the year ended December 31,	
	2016	2017
Romanian leu (RON)[(1)]		
Period end rate	4.54	4.66
Average rate	4.49	4.57
Hungarian forint (HUF)[(2)]		
Period end rate	311.02	310.14
Average rate	311.47	309.30
U.S. dollar (USD)[(1)]		
Period end rate	1.05	1.20
Average rate	1.11	1.13

(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, 2017, we had a net foreign exchange loss of €4.3 million (year ended December 31, 2016: net loss of €3.3 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. 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 12.4 million RGUs as at December 31, 2016 to 13.3 million RGUs as at December 31, 2017, representing an increase of 7%. 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, 2016 and 2017:

	As at and for the three months ended December 31,		**As at and for the year ended December 31,**	
	2016	**2017**	**2016**	**2017**
	(RGUs: thousands; ARPU: €/period)		**(RGUs: thousands; ARPU: €/period)**	
RGUs/ARPU				
Group				
RGUs	12,443	13,273	12,443	13,273
ARPU	5.2	5.4	5.1	5.3
Romania				
Cable TV				
RGUs	2,865	3,030	2,865	3,030
ARPU	5.2	5.2	5.2	5.2
Fixed internet and data				
RGUs				
Residential	2,000	2,144	2,000	2,144
Business	115	140	115	140
ARPU				
Residential	5.1	5.0	5.0	5.0
Business	34.6	29.4	35.8	31.9
Mobile telecommunication services(1)				
RGUs	3,213	3,391	3,213	3,391
ARPU	3.6	4.3	3.4	4.1
Fixed-line telephony				
RGUs				
Residential	1,210	1,128	1,210	1,128
Business	129	132	129	132
ARPU				
Residential	1.3	1.3	1.3	1.3
Business	3.7	3.5	3.7	3.5
DTH				
RGUs	641	593	641	593
ARPU	4.9	4.9	4.9	4.9
Hungary				
Cable TV				
RGUs	473	500	473	500
ARPU	7.9	8.3	7.5	8.2
Fixed internet and data				
RGUs	428	467	428	467
ARPU	8.0	7.5	7.8	7.6
Mobile telecommunication services(2)				
RGUs	14	12	14	12
ARPU	6.9	6.9	6.8	7.1
Fixed-line telephony				
RGUs	353	379	353	379
ARPU	1.7	1.2	1.7	1.4
DTH				
RGUs	307	291	307	291

	As at and for the three months ended December 31,		As at and for the year ended December 31,	
	2016	2017	2016	2017
	(RGUs: thousands; ARPU: €/period)		(RGUs: thousands; ARPU: €/period)	
ARPU	8.8	9.2	8.2	9.2
Spain				
Mobile telecommunication services[(1) (3)]				
RGUs	609	896	609	896
ARPU	11.4	10.1	11.6	10.5
Other[(4)]				
Mobile telecommunication services[(1) (3)]				
RGUs	86	170	86	170
ARPU	10.6	10.6	10.9	10.6

(1) Includes mobile telephony and mobile internet and data RGUs
(2) Includes mobile internet and data services offered as a reseller through the Telenor network under our "Digi" brand.
(3) As an MVNO.
(4) 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. 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, 2017, each of our residential customers in Romania (excluding DTH customers) subscribed to an average of 2.3 services (as compared with an average of 2.4 as at December 31, 2016). 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 2016 and 2017:

	As at December 31,	
	2016	2017
	(thousands)	
Cable TV	3,338	3,530
Fixed internet and data	2,543	2,751
Mobile telecommunication services	3,922	4,469
Fixed-line telephony	1,692	1,639
DTH	948	884
Total	**12,443**	**13,273**

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, 2016 and 2017:

	For the year ended December 31,	
	2016	**2017**
	(€ millions)	
Depreciation of property, plant and equipment	86.7	96.0
Amortization of non-current intangible assets	35.0	31.6
Amortization of programme assets	46.2	41.6
Impairment of property, plant and equipment and non-current intangible assets	2.2	2.6
Revaluation impact[1]	6.3	-
Total	**176.4**	**171.8**

(1) 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.

As at 31 December 2017, management completed its annual review of the estimated useful lives of property, plant and equipment and usefull lives were considered adequate for the type of asset and pattern of use.

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 2.3 (excluding DTH) and the percentage of customers using more than one service was approximately 74% as at December 31, 2017. 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, 2017; 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&4G mobile network in Romania and the building of a 4G mobile network in Hungary; (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, 2017, we had capital expenditure of €243.2 million, which was lower than our Adjusted EBITDA by €44.3 million and represented 26.5% of our revenue for this period. 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

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;

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.

Our current contract with Intelsat has been renewed to operate until 30 November 2022. As at December 31, 2017, under the agreement with Intelsat, we leased 9 transponders to transmit our DTH signal (and used an additional transponder for transmitting non-DTH signals). The contract allows us to further reduce the number of dedicated transponders.

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

On 21 July 2017 DIGI Távközlési és Szolgáltató Kft. ("Digi HU"), acting as purchaser, has signed a share-purchase agreement ("SPA") with Ilford Holding Kft. and Invitel Technocom Távközlési Kft., acting as sellers (the "Sellers"; the Sellers are controlled by China Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF, which is managed by Luxembourg Investment Solutions S.A.) for the acquisition of shares representing in total 99.998395% of the share capital and voting rights of Invitel Távközlési Zrt. (the "Target") (the "Proposed Transaction").

Pursuant to the SPA, the total consideration to be paid by Digi HU to the Sellers for the acquisition of shares in the Target is EUR 140 million, this amount being subject to further price adjustments, as customary for transactions of this size in the telecommunications industry.

The Proposed Transaction, once completed, will consolidate Digi HU's and, respectively, the Company's group position on the Hungarian telecommunications market, allowing it to expand its customer reach and experience, and creating better operational synergies.

During the periods 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 2017.

Revenue

Our revenue (excluding intersegment revenue, other income and gain from sale of discontinued operations) for the year ended December 31, 2017 was €916.6 million, compared with €842.8 million for the year ended December 31, 2016, an increase of 8.8%.

The following table shows the distribution of revenue by geographic segment and business line for the years ended December 31, 2016 and 2017:

	For the year ended December 31,		% change
	2016	**2017**	**2016 v 2017**
		(€ millions)	
Romania			
Cable TV	175.7	182.4	3.8%
Fixed internet and data	163.6	171.6	4.9%
Mobile telecommunication services(2)	122.0	164.2	34.6%
Fixed-line telephony	25.1	23.4	-6.8%
DTH.	38.7	36.1	-6.7%
Other revenue(1)	87.6	77.6	-11.4%
Total	**612.7**	**655.2**	**6.9%**
Hungary			
Cable TV	41.0	47.7	16.3%
Fixed internet and data	38.0	40.8	7.4%
Mobile telecommunication services(2)	1.2	1.1	-8.3%
Fixed-line telephony	6.8	6.3	-7.4%
DTH	31.4	33.5	6.7%
Other revenue(1)	19.5	21.1	8.2%
Total	**137.9**	**150.4**	**9.1%**
Spain			
Mobile telecommunication services(2)	82.7	92.5	11.9%
Other revenue(1)	0.3	0.2	-33.3%
Total	**83.0**	**92.7**	**11.7%**
Other(3)			
Mobile telecommunication services(2)	9.0	18.2	102.2%
Other revenue(1)	0.2	0.1	-50.0%
Total	**9.2**	**18.3**	**98.9%**
Total revenue	**842.8**	**916.6**	**8.8%**

(1) 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, as the case may be.
(2) Includes mobile internet and data revenue.
(3) Includes revenue from operations in Italy.

Revenue in Romania for the year ended December 31, 2017 was €655.2 million, compared with €612.7 million for the year ended December 31, 2016, an increase of 6.9%. 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. Mobile telecommunication services RGUs increased from approximately 3.2 million as at December 31, 2016 to approximately 3.4 million as at December 31, 2017, an increase of approximately 5.5%. ARPU from mobile telecommunication services also increased in the year ended December 31, 2017 to an average €4.1/month from an average €3.4/month in the year ended December 31, 2016, an increase of 19.2%, primarily as a result of certain changes in the mix of subscription packages, customers upgrading to higher-value services and interconnection. Our cable TV RGUs increased from approximately 2.9 million as at December 31, 2016 to approximately 3.0 million as at December 31, 2017, an increase of approximately 5.8%, and our fixed internet and data RGUs increased from approximately 2.1 million as at December 31, 2016 to approximately 2.3 million as at December 31, 2017, an increase of approximately 8%. 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 641,000 as at December 31, 2016 to approximately 593,000 as at December 31, 2017, a decrease of approximately 7.5%. 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 1.2 million as at December 31, 2016 to approximately 1.1 million as at December 31, 2017, a decrease of approximately 6.8% and fixed-line telephony ARPU remained relatively stable at an average of €1.3/month for the year ended December, December 31, 2017.

Revenue in Hungary for the year ended December 31, 2017 was €150.4 million, compared with €137.9 million for the year ended December 31, 2016, an increase of 9.1%. This increase was principally due to an increase in our fixed internet and data and cable TV RGUs. Our cable TV RGUs increased from approximately 473,000 as at December 31, 2016 to approximately 500,000 as at December 31, 2017, an increase of approximately 5.7%, our fixed internet and data RGUs increased from approximately 428,000 as at December 31, 2016 to approximately 467,000 as at December 31, 2017, an increase of approximately 9.1%, and our fixed-line telephony RGUs increased from approximately 353,000 as at December 31, 2016 to approximately 379,000 as at December 31, 2017, an increase of approximately 7.4%. These increases were partially driven by our investments in expanding and upgrading our fixed fiber optic network in Hungary. Our DTH RGUs decreased from approximately 307,000 as at December 31, 2016 to approximately 291,000 as at December 31, 2017, a decrease of approximately 5.2%. 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, 2017 was €92.7 million, compared with €83.0 million for the year ended December 31, 2016, an increase of 11.7%. The increase in revenue was principally due to an increase in the number of our mobile telecommunication services RGUs from approximately 609,000 as at December 31, 2016 to approximately 896,000 as at December 31, 2017, an increase of approximately 47.1%, 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, 2017 and was €18.3 million, compared with €9.2 million for the year ended December 31, 2016, an increase of 98.9%. The increase in revenue was principally due to new customer acquisitions as a result of more attractive mobile and data offerings.

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, 2017 were €800.8 million, compared with €755.8 million for the year ended December 31, 2016, an increase of 6.0%.

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, 2016 and 2017.

	For the year ended December 31,			
	2016		2017	
	(€ millions)	(% of revenue)	(€ millions)	(% of revenue)
Romania	411.3	67.1%	429.6	65.6%
Hungary	86.5	62.7%	110.7	73.6%
Spain	68.8	82.9%	66.1	71.3%
Other(1)	12.9	140.2%	22.8	124.6%
Total	**579.5**		**629.0**	

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

Operating expenses in Romania for the year ended December 31, 2017 were €429.6 million, compared with €411.3 million for the year ended December 31, 2016, an increase of 4.4%. This was principally in line with the development of our business, representing mainly increases in telephony expenses as a result of the interconnection charges related to the mobile business. The operational loss from energy supply activity impacted the results mainly in Q1 2017, when it generated a negative gross margin in amount of €7.4 million (€8.6 million loss from energy supply activity for year ended December 31, 2017). During the period we also incurred increases in salaries and legal fees. These were partially offset by the decrease of cost of goods sold as a result of changes in the offerings for handsets in instalments starting from the end of Q1 2017.

Operating expenses in Hungary for the year ended December 31, 2017 were €110.7 million, compared with €86.5 million for the year ended December 31, 2016, an increase of 28.0%. This trend was principally due to costs associated with the development of the mobile network, increase in direct costs associated with increases in RGUs, mainly programming expenses, as well as increase in salaries.

Operating expenses in Spain for the year ended December 31, 2017 were €66.1 million, compared with €68.8 million for the year ended December 31, 2016, a decrease of 3.9%. This resulted from economies of scale reached by the operation.

Operating expenses in Other represented expenses of our operations in Italy and expenses of the Company and for the year ended December 31, 2017 were €22.8 million, compared with €12.9 million for the year ended December 31, 2016, an increase of 76.7%. The increase was primarily due to increased interconnection charges resulting from increased data traffic and higher RGUs in Italy.

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, 2016 and 2017.

	For the year ended December 31,	
	2016	**2017**
	(€ millions)	
Depreciation of property, plant and equipment	86.7	96.0
Amortization of non-current intangible assets	35.0	31.6
Amortization of program assets	46.2	41.6
Impairment of property, plant and equipment	2.2	2.6
Revaluation impact of land and buildings[(1)]	6.3	-
Total	**176.4**	**171.8**

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

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment was €96.0 million for the year ended December 31, 2017, compared with €86.7 million for the year ended December 31, 2016, an increase of 10.7%. This increase was primarily due to the investments made in the mobile network in Hungary and Romania.

The estimated useful lives of certain categories of property, plant and equipment were re-assessed as at December 31, 2016, with the revised useful lives applied prospectively from 1 January 2016.

	Prior Useful life	**Revised Useful life**
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 revised useful lives are presented below:

Amortization of non-current intangible assets

Amortization of non-current intangible assets for continuing operations was €31.6 million for the year ended December 31, 2017, compared with €35.0 million for the year ended December 31, 2016, a decrease of 9.7%, mainly as a result of the end of amortization period of certain customer relationship acquired in previous periods, which generated lower amortization expense in the reported period.

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.

Amortization of program assets

Amortization of program assets for continuing operations was €41.6 million for the year ended December 31, 2017, compared with €46.2 million for the year ended December 31, 2016, a decrease of 10.0%. During 2017 certain sports rights for football and tennis competition ended, which generated lower amortization of programe assets compared to prior period.

Other income/expense

We recorded €2.8 million of Other expenses in the year ended December 31, 2017, compared to €7.0 million in the year ended December 31, 2016. During 2017 Digi recorded €2.6 million IPO related costs (presented as Other expenses) out of which €2.4 million were recovered from the selling shareholders in the IPO (presented as Other income). Mark-to-market loss from fair value assessment of energy trading contracts of €0.2 million is also presented as Other expenses in the year ended December 31, 2017.

Other income includes the IPO related costs recovered from the selling shareholders as well as income from the disposal of Digi SAT d.o.o participation.

Operating profit

For the reasons set forth above, our operating profit was €115.4 million for the year ended December 31, 2017, compared with €79.3 million for the year ended December 31, 2016.

Net finance income/(expense)

We recognized net finance expense of €35.9 million in the year ended December 31, 2017, compared with net finance expense of €56.2 million in the year ended December 31, 2016, a decrease of 36.0%.

In the year ended December 31, 2016, Net finance expense position was impacted by additional expenses due to the refinancing of the 2013 Bonds (additional redemption interest and penalities, additional unamortized borrowing costs) and financial revenues fom the fair value gain related to the derecognition of available for sale financial assets.

In the year ended December 31, 2017 the interest expense was lower than in previous year mainly due to lower coupon of the €350 million Senior Notes from 2016 (coupon 5%) compared with the previous issuance of €450 million Senior Notes from 2013 (coupon 7.5%).

The fair value difference of €19.9 million for the embedded derivative asset as at December 31, 2017 is recognized as finance income in the period (compared to €10.4 million as at December 31, 2016).

Profit/(Loss) before taxation

For the reasons set forth above, our profit before taxation was €79.5 million for the year ended December 31, 2017, compared with a profit of €23.1 million for the year ended December 31, 2016.

Income tax credit/(expense)

An income tax expense of €17.4 million was recognized in the year ended December 31, 2017 compared to a tax expense of €11.3 million recognized in the year ended December 31, 2016.

Profit/(loss) for the year

For the reasons set forth above, our net profit for the year ended December 31, 2017 was €62.0 million, compared with a profit of €11.8 million for the year ended December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows as well as debt financing. Going forward, we expect to fund our cash obligations and capital expenditures primarily out of our operating cash flows, 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, 2016 and 2017, 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,	
	2016	**2017**
	(€ millions)	
Cash flows from operations before working capital changes	**266.6**	**295.5**
Cash flows from changes in working capital (1)	(11.3)	(4.3)
Cash flows from operations	**255.3**	**291.2**
Interest paid	(44.0)	(33.4)
Income tax paid	(7.8)	(10.2)
Net cash flows from operating activities	**203.5**	**247.6**
Net cash flows used in investing activities	**(216.0)**	**(242.3)**
Net cash flows from (used in) financing activities	**(21.8)**	**(3.9)**
Net increase (decrease) in cash and cash equivalents	(34.2)	1.4
Cash and cash equivalents at the beginning of the period	49.7	14.6
Effect of exchange rate fluctuation on cash and cash equivalent held	(0.8)	0.0
Cash and cash equivalents at the closing of the period	**14.6**	**16.1**

(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 €295.5 million in the year ended December 31, 2017 and €266.6 million in the year ended December 31, 2016. The increase from 2016 to 2017 were due to the reasons discussed in *"—Historical Results of Operations—Results of operations for the years ended December 31, 2016 and 2017."*

The following table shows changes in our working capital:

	For the year ended December 31,	
	2016	**2017**
	(€ millions)	
Decrease/(increase) in trade receivables and other assets	(29.5)	(2.4)
Increase in inventories	(6.0)	8.5
Increase in trade payables and other current liabilities	31.4	(7.0)
(Decrease) in deferred revenue	(7.2)	(3.4)
Total	**(11.3)**	**(4.3)**

We had a working capital requirement of €4.3 million in the year ended December 31, 2017. This was primarily due to the decrease of the impact of the handests on the working capital, as a result of the change in offering starting from Q1 2017, as well as decrease of the exposure on the energy activity.

Cash flows from operating activities were €247.6 million in the year ended December 31, 2017 and €203.5 million in the year ended December 31, 2016. Included in these amounts are deductions for interest paid and income tax paid, which were €43.6 million in the year ended December 31, 2017 and €51.8 million in the year ended December 31, 2016. Interest paid was €33.4 million in the year ended December 31, 2017, compared with €44.0 million in the year ended December 31, 2016. Income tax paid was €10.2 million in the year ended December 31, 2017, compared with €7.8 million in the year ended December 31, 2016 mainly as a result of increased payments made by our operations in Spain and Romania. The increase in cash flows from operating activities in the year ended December 31, 2017, as compared to the year ended December 31, 2016, was due to an increase in our subscribers base and the improved performance of certain business lines.

Cash flows used in investing activities were €242.3 million in the year ended December 31, 2017, €216.0 million in the year ended December 31, 2016.

The following table shows our capital expenditures by category for the years ended December 31, 2016 and 2017:

	For the year ended December 31,	
	2016	**2017**
	(€ millions)	
Network and equipment[1]	149.3	134.0
Customer Premises Equipment (CPE)[2]	36.0	32.0
Program assets—content for our own channels[3]	47.1	34.1
License and software[4]	22.1	20.7
Customer relationships[5]	0.6	3.8
Other additions to tangible assets[6]	35.6	27.5
Other additions to intangible assets[7]	14.6	19.7
Total additions to tangible and intangible assets	**305.3**	**271.8**
Differences between capital expenditures for tangible and intangible assets and additions to tangible and intangible assets[8]	(91.9)	(30.3)
Capital expenditures for the acquisition of tangible and intangible assets	**213.4**	**241.5**
Acquisitions of shares[9]	3.1	1.7
Total	**216.5**	**243.2**

(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, 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 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 to aqcuire new subscribers in Romania, 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, 2017, we acquired tangible and intangible assets for €271.8 million. We had €134.0 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 €34.1 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions for contracts entered into in this and prior years. We had €20.7 million in additions to our intangible assets, primarily to recognize software licenses for equipment for our mobile networks in Romania and Hungary. In addition, we had additions of €32.0 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 €3.8 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 €30.3 million lower than additions to tangible and intangible assets in the year ended December 31, 2017. This was primarily due to longer payment terms, especially for part of the network, as well as equipment and CPE additions. Payments made for acquisition of shares in amount of €1.7 million are related to acquisitions of RCS & RDS shares from previous years.

Cash flows used in financing activities were a €3.9 million outflow for the year ended December 31, 2017. During 2017 we have drew the entire balance of Facility B from 2016 SFA in amount of €33.7 million. We also paid dividends of €21 million prior to the IPO, financing costs of €4.5 million, settlement of derivative transactions of €3.8 million and installments under our finance leases of €1.6 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.

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;
- investments associated with our electrical energy activities and
- payments under telecommunication licenses.

As at December 31, 2017, 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 €54.1 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.

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, 2017, 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, 2017	Contractual cash flows as at December 31, 2017	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
				(€ millions)			
Non-derivative financial liabilities							
Interest bearing loans and borrowings, including bonds(1)	**725.8**	**838.0**	76.4	37.9	123.3	600.4	0.0
Finance lease liabilities(1)	**4.2**	**4.6**	1.0	1.0	1.2	1.1	0.4
Trade and other payables and other liabilities(2)	**390.4**	**392.8**	314.4	41.6	32.6	4.2	0.0
Capital expenditure and operating expenditure contractual commitments(3)	**268.9**	**268.9**	47.1	47.1	72.9	58.6	43.2
Derivative financial liabilities							
Interest rate swaps	**0.6**	**2.4**	0.8	0.7	0.8	0.2	0.0
Energy trading mark to market	**22.5**	**22.9**	11.7	7.0	4.2	0.0	0.0
Total	**1,412.4**	**1,529.6**	**451.4**	**135.2**	**235.0**	**664.4**	**43.6**

(1) Includes estimated interest. Interest was estimated by using 3-month ROBOR or a fixed rate as at December 31, 2017 for all future periods. Interest for the 2016 Bonds does not include the estimated WHT charge of approximately €3.3 million per year.

(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

The 2016 Notes

On October 26, 2016 the Company issued the 2016 Notes with a value of €350.0 million falling due in 2023. The 2016 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's 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 4, 2013 as amended and extended between the Company, as lender, and RCS & RDS, as borrower. The collateral is shared with the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, an uncommitted bank guarantee facility and an uncommitted Letters of Credit facility between RCS & RDS and BRD (the "**BRD Letters of Guarantee and Letters of Credit Facilities**"), RCS Management loan, 2017 Bridge Loan and 2018 Senior Facility on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

2016 Senior Facilities Agreement *("2016 SFA")*

On October 7, 2016, the Company, as original guarantor, and RCS & RDS, as borrower, entered into the Senior Facilities Agreement with, among others, BRD, Citibank, N.A., London Branch, ING Bank, and UniCredit Bank S.A. ("**UniCredit Bank**"), as lead arrangers. The Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with the 2016 Notes, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan, 2017 Bridge Loan and 2018 Senior 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 was 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 was drawn for the purpose of funding the refinancing of the 2013 Notes. The SFA Facility B was drawn for the purposes of refinancing the 2016 Facility Agreement and the general corporate and working capital purposes of the Group.
In October 2016, the Company drew SFA Facility A1 (RON930.0 million) and SFA Facility A2 (RON600.0 million) in full. During 2017 Facility B was fully drawn as well (RON157 million) for the general corporate and working capital purposes of the Group.

As at December 31, 2017 the outstanding principal amounts for SFA A1 was RON860.3 million (€184.6 million equivalent), for SFA A2 was RON555.0 million (€119.1 million equivalent) and for SFA B was RON157.0 million (€33.7 million equivalent).

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.

Under the SFA, the covenants are from the date of the SFA to 31 December 2016, a Consolidated Total Net Indebtedness to EBITDA ratio of 3.75:1 and an EBITDA to total interest ratio of 3.75:1 and, from 31 December 2016, a Consolidated Total Net Indebtedness to EBITDA ratio of 3.25:1 and an EBITDA to total interest ratio of 4.25:1. For a period of 18 months starting from the date of completion of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt, the Consolidated Total Net Indebtedness to EBITDA ratio shall not be more than 3.75:1.

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

	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)
Repayment date	
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%
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%
Total	100%

The Termination date for Facility B is in 2019**.**

2017 Bridge Loan

On 13 October 2017, RCS & RDS S.A. („**RCS&RDS”**), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság („**Digi Kft.**”), as the borrowers, the Company, as a guarantor, and Citibank N.A., London Branch and ING Bank N.V. as the arrangers, have concluded a short-term loan with two facilities in the aggregate amount of €200 million. 2017 Bridge Loan shares in the Collateral, together with the 2016 Notes, the Senior Facilities Agreement, ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan and 2018 Senior Facility on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

One facility, in amount of €140 million, was concluded for the purpose of financing the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt.

The other facility, in amount of €60 million, was concluded for general corporate purposes.

The 2017 Bridge Loan has a maturity of 12 months. It can be extended for an additional period of up to 6 or 12 months.

As at December 31, 2017 these facilities were not drawn. After the year end, the Bridge Loan committments was partially refinanced by the Syndicated Facility signed in February 2018.

2018 Senior Facilities Agreement *(“2018 SFA”)*

On 1 February 2018, RCS & RDS S.A. (the Company’s subsidiary in Romania – „RCS&RDS”), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.’s subsidiary in Hungary – „Digi Kft.”), as the borrowers, the Company, as a guarantor, Citibank N.A., London Branch and ING Bank N.V. as the arrangers, ING Bank N.V. as the facility agent, and several other financial institutions as the lenders have concluded a syindicated loan providing for three facilities in HUF, RON and EURO currencies (the „2018 Syndicated Facility”).

The 2018 Syndicated Facility is a medium-term loan agreement that partially refinances the 2017 Bridge Loan. The 2018 Syndicated Facility replaces the 2017 Bridge Loan for a corresponding value of approximately €179 million equivalent (including the Ammendment from 9 March 2018).

The 2018 Syndicated Facility is meant to be used partially for the financing of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt. The remainder is intended to be used for general corporate purposes and/or capital expenditures.

The 2018 Syndicated Facility has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

ING Agreements

On November 4, 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 2016 Notes, the Senior Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan, 2017 Bridge Loan and 2018 Senior Facility on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of multipurpose facility to be used as overdraft and for issuance of letters of guarantee. Under the ING Facilities Agreement, the Company covenanted to maintain a debt to EBITDA ratio of 3.25:1 and an EBITDA to total interest ratio of 4.25:1. As at December 31, 2017, the Company had €4.3 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 RON3.0 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.

On February 3, 2017, RCS & RDS contracted a short-term loan from ING Bank N.V., Bucharest branch, for financing working capital needs in the amount of RON7 million which was fully repaid in August 2017.

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 2016 Notes, the Senior Facilities Agreement, the ING Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan, 2017 Bridge Loan and 2018 Senior Facility, on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The Citi Facilities Agreement consists of uncommitted overdraft, bank guarantee and letters of guarantee facilities. The overdraft facility was extended in 2018 with an additional amount of RON 50 million.

As at December 31, 2017, (i) the cash overdraft facility had an outstanding balance of €10.9 million, and (ii) we had letters of guarantee issued in the amount of €13.3 million and RON9.2 million.

BRD Letters of Guarantee and Letters of Credit Facilities

On July 13, 2015, RCS & RDS entered into the BRD Letters of Guarantee Facility. As at December 31, 2017, we had letters of guarantee issued by BRD with a value of €0.5 million.

On 20 September 2017, RCS & RDS entered into the BRD Letters of Credit Facility.

The BRD Letters of Guarantee and Letters of Credit Facilities shares in the Collateral, together with the 2016 Notes, the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, RCS Management loan, 2017 Bridge Loan and 2018 Senior Facility on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

As at December 31, 2017, the outstanding amount for these facilities was USD9.4 million (€7.9 million equivalent, representing letters of credit).

Unicredit Agreements

On October 5, 2010, RCS & RDS entered into a cash collateral agreement with UniCredit Bank, for €59,484 for the issuance of a letter of counter guarantee, which expired in August 2017.

On December 15, 2015, RCS & RDS entered into an agreement with UniCredit Bank for an uncommitted overdraft/bank guarantee facility. As at December 31, 2017 the outstanding amount was €2.0 million.

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, 2017 RON21.1 million (€4.5 million equivalent) was outstanding under the Libra Loan Agreement.

RCS Management loan

On 12 May 2017, RCS&RDS entered into a short term loan with RCS Management, for a principal amount of €5 million. This loan shares in the Collateral, together with the 2016 Notes, the Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and BRD Letters of Guarantee and Letters of Credit Facilities, 2017 Bridge Loan and 2018 Senior Facility on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement. The loan bears a 5.5% per annum interest rate, the repayment date being set for 10 May 2018. As at December 31, 2017 the outstanding amount is €3.7 million.

Santander Facility

On October 30, 2015, Digi Spain entered into a €1.5 million short-term facility agreement with Banco Santander (the "**Santander Facility**") which was increased in 2016 up to €2.0 million. In 2017 this facility was renewed until October, 2018. As at December 31, 2017, the balance drawn under the Santander Facility was €2.0 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, the agreement was renewed and on July 28, 2015 an amendment to lower interest rates was agreed. On January 17, 2017, the agreement was renewed for a second time. The term of the Caixa Facility is indefinite and the maximum amount which can be used is €500,000. As at December 31, 2017, 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, when the loan was repaid.

BBVA Letter of Guarantee & Facility

As at December 31, 2017, Digi Spain had letters of guarantee issued by BBVA with a value of 0.9 million, out of which €0.3 million (cash collateral).

In October 2017, Digi Spain entered into a short-time loan with BBVA for an amount of €2.0 million with maturity until July 2018. As at December 31, 2017, the outstanding amount is €1.6 million.

In March 2018, Digi Spain entered into a new credit facility annually renewable for an amount of up to EUR 3,000.

OTP Bank Hungary Loan Agreement

In December 2016, Digi Hungary entered into a short term loan of HUF1,300 million (€4.2 million equivalent) with OTP Bank plc in Hungary. In 2017 the maturity of the loan was extended until May 2018. As at December 31, 2017, the entire amount is outstanding.

Financial leasing agreements

As at December 31, 2017, we had leasing agreements in place with a total outstanding value of approximately €4.2 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, 2017, the outstanding amount under this sale-leaseback agreement was €1.9 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, 2017, the outstanding amount under this leasing agreement was €1.9 million.

The lease agreements with UniCredit Leasing IFN for a building in Arad, as at December 31, 2017, the outstanding amount under this leasing agreement was €0.2 million.

As at December 31, 2017 we also hold leasing contracts for vehicles and equipment with total outstanding value of €0.2 million.

In March 2018, RCS & RDS entered into a new leasing agreement for autovehicles with UniCredit for a total amount of EUR 2,000.

In February 2018, Digi Spain entered into a leasing agreement for equipment with Caixabank for an amount up to EUR 1,500.

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.

MAIN VARIATIONS OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2017

Main variations for the consolidated financial position captions as at December 31, 2017 are presented below (for details, please see *Consolidated Financial Statements for the year ended 31 December 2017* included in this Anuual report):

ASSETS

Available for sale financial assets (AFS)

The available for sale financial assets of €42.1 million as at December 31, 2017 (December 31, 2016: nil) comprise of shares in RCSM obtained as result of the Share swap contracts between the Company and minority shareholders which were enforced during the reported period. In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment at year end was made based on the quoted price/share as of the valuation date, which is a relevant method of estimating the market value of a minority ownership in its equity.

For details, please see *Note 23 from the Consolidated Financial Statements as at December 31, 2017*.

Inventories

As at December 31, 2017 inventories were €10.1 million (December 31, 2016:18.6 million). The decrease in inventories is mainly the result of the changes in the offerings for handsets in instalments starting from the end of Q1 2017, as well as the increase in stock consumption for the on-going construction of the sites during the year.

Trade and other receivables

As at December 31, 2017 trade and other receivables were €82.5 million (December 31, 2016: 109.0 million). During the year we have refocused our energy supply business on residential and mid-sized and smaller business customers and decrease the overall volume of electricity supplied to business customers, which lead to decrease in trade and other receivabled balances. Starting with the end of Q1 2017 there were changes in the offerings for handsets in instalments, which resulted in lower balances for receivables accruels.

Other assets

As at December 31, 2017 other assets were €11.0 million (December 31, 2016: 6.3 million). The increase is mainly the result of higher prepayments made to suppliers.

Derivative financial assets

As at December 31, 2017 derivative assets included embedded derivative assets for the 2016 Senior Notes measured at fair value, in amount of €33.3 million (December 31, 2016: €13.9 million) and electricity trading assets (term contracts) of €1.6 million being mark to market gain from fair valuation of electricity trading contracts (December 31, 2016: €3.1 million). For details, please see *Note 25 from the Consolidated Financial Statements for year ended December 31, 2017*.

LIABILITIES

Interest bearing loans and borrowings

As at December 31, 2016 the non-current portion of the interest bearing loans and borrowings were in amount of €648.0 million (December 31, 2016: €665.5 million) and the current portion was in amount of €82.0 million (December 31, 2016: €44.0 million) including the effect of borrowing costs. The increase in the current portion is due to the amortization schedule for the principal repayment of the 2016 SFA and the overdraft and short term facilities balances. For details, please see caption "Financial obligations" from above.

Derivative financial liabilities

As at December 31, 2017 derivative liabilities included interest rate swap liability measured at mark-to market value, in amount of €0.6 million (December 31, 2016: €5.3 million) and electricity trading liabilities (term contracts) of €9.5 million being mark to market loss from fair valuation of electricity trading contracts (December 31, 2016: €11.0 million). For details, please see *Note 25 from the Consolidated Financial Statements for year ended December 31, 2017*.

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. 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).

For more details please see *Note 23 from the Consolidated Financial Statements for the year ended 31 December 2017* presented in this Annual report.

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.

For more details please see *Note 2 from the Consolidated Financial Statements for the year ended 31 December 2017* included in this Annual report.

FINANCIAL INDICATORS

Below are presented consolidated financial indicators for the year ended 31 December 2017:

Financial Indicator	**As at 31 December 2017**
Current ratio	
Current assets/Current liabilities	0.38
Debt to equity ratio	
Long term debt/Equity x 100 (where Long term debt = Borrowings over 1 year)	480%
Long term debt/Capital employed x 100 (where Capital employed = Long term debt+ Equity)	83%
Trade receivables turnover	
Average receivables/Revenues	37.60 days
Non-current assets turnover	
(Revenues/Non-current assets)	0.79

BOARD OF DIRECTORS' STATEMENTS

The Board of Directors is responsible for preparing the annual accounts and board report, in accordance with Dutch law and International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union ("EU-IFRS").

In accordance with Section 5:25c, paragraph 2 of the Dutch Financial Supervision Act, the Board of Directors states that, to the best of its knowledge, the annual accounts prepared in accordance with applicable accounting standards provide a true and fair view of the assets, liabilities, financial position and profit or loss for the year for the Company and its subsidiaries and that the board report provides a true and a fair view of the performance of the business during the financial year and the position at balance sheet date of the Company and its subsidiaries, together with a description of the principal risks and uncertainties that the Company and its group face.

In accordance with the Dutch Decree Implementing Article 10 EU-Directive on Takeovers (*Besluit artikel 10 overnamerichtlijn*) the Company makes the following disclosures:

a. for information on the capital structure of the Company, the composition of the issued share capital and the existence of the two classes of shares, please refer to *Corporate Governance* in this annual report. For information on the rights attached to the Class A Shares, please refer to the Articles which can be found on the Company's website. For information on the rights attached to the Class B Shares, please refer to the Articles which can be found on the Company's website. As at 31 December 2017, the issued share capital of the Company amounted to €6,918,042.52 and consisted of 65,756,028 Class A Shares, representing 65.76% of the total issued share capital and 34,243,972 Class B Shares representing 34.24% of the total issued share capital.

b. except for the restriction imposed on RCS Management S.A. and Mr. Zoltan Teszari in the Relationship Agreement (whereby any such shareholder can only covert any of the Class A shares into Class B shares prior to, or concurrently with, their delivery to the counterparty where such transfer: (i) does not trigger a mandatory tender offer; and (ii) is not in connection with a joint venture, share swap, merger, acquisition or similar strategic transaction), the Company has imposed no limitations on the transfer of Class A Shares and Class B Shares. The Company is not aware of any depository receipts having been issued for shares in its capital.

c. for information on participations in the Company's capital in respect of which pursuant to Sections 5:34, 5:35 and 5:43 of the Dutch Financial Supervision Acts (*Wet op het financieel toezicht*) notification requirements apply, please refer to *Corporate Governance* of this annual report. There you will also find a list of shareholders who are known to the Company to have holdings of 3% or more.

d. Mr. Zoltán Teszári directly and indirectly, exercises control over 100% of the Company's Class A Shares. Mr. Zoltán Teszári owns 2.4% of the Class A Shares directly and controls the rest of the Class A Shares through his 87.1% share ownership of RCS Management S.A. The Class A Shares have special rights in the Company. For information on the special rights attached to the Class A Shares, please refer to the Articles which can be found on the Company's website. To summarize, each Class A Share confers the right to cast 10 votes, members of the Board of Directors are appointed and dismissed on nomination of the meeting of holders of Class A Shares, the meeting of holders of Class A Shares holds the right to make proposals to the general meeting of shareholders for remuneration of members of the Board of Directors in the form of shares, certain decisions of the Board of Directors concerning disposal or encumbrance of assets requires the approval from the meeting of holders of Class A Shares and amendment of the Articles of association of the Company which affect the rights of the Class A Shares, require the prior approval of the meeting of holders of Class A Shares.

e. current equity incentive plans adopted by the Company are administered by the Remuneration Committee.

f. no restrictions apply to voting rights attached to shares in the capital of the Company, nor are there any deadlines for exercising voting rights. The Articles do not allow the Company to cooperate with the issue of depository receipts for shares.

g. except for the Relationship Agreement referred to at letter b) from above, the Company is not aware of the existence of any agreements with shareholders which may result in restrictions on the transfer of shares or limitation of voting rights.

h. the rules governing the appointment and dismissal of members of the Board of Directors of the Company are stated in the Articles of the Company. All members of the Board of Directors are appointed by the general meeting of shareholders upon a binding nomination by the meeting of holders of Class A Shares. The general meeting of shareholders has the power to dismiss any member of the Board of Directors at any time. The rules governing an amendment of the Articles are stated in the Articles and require a resolution of the general meeting of shareholders which can only be passed pursuant to a prior proposal of the Board of Directors of the Company. Any amendment of the Articles which affect the rights of the Class A Shares, requires the prior approval of the meeting of holders of Class A Shares.

i. the general powers of the Board of Directors are stated in the Articles of the Company which can be found on the Company's website. The Board of Directors does not hold the authority to resolve upon the issuance of shares. The Board of Directors is authorized to acquire shares in the capital of the Company for no consideration. Further rules governing the acquisition of shares by the Company in its own share capital are set out in article 5 of the Articles.

j. the Company is not a party to any significant agreements which will take effect, will be altered or will be terminated upon a change of control of the Company as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), provided that certain financing and bonds agreements entered into by the Company do contain provisions that, as is customary for such documentation, may require early repayment or termination in the event of a change of control of the Company which in fact would mean that Mr. Zoltán Teszári would cease to control the Company Class A Shares. The Company's subsidiaries are also parties to a number of agreements concluded in the ordinary course of business that contain customary change of control clauses able to lead to the termination of the respective agreements.

k. the Company is not a party to any agreement with a Director or employee providing for payments upon termination of directorship or employment as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*)

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Consolidated Financial Statements for the year ended 31 December 2017

DIGI COMMUNICATIONS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

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

For the year ended 31 December 2017

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For the Independent Auditor’s Report for the Consolidated Financial Statements for the year ended 31 December 2017, please see section *Other Information* included in this Report.

GENERAL INFORMATION

Directors:

Serghei Bulgac

Bogdan Ciobotaru

Valentin Popoviciu

Piotr Rymaszewski

Sambor Ryszka

Marius Catalin Varzaru

Zoltan Teszari

Registered Office:

Digi Communications N.V.

Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5, Bucuresti, Romania

Auditors:

Ernst & Young Accountants LLP.

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

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	900,691	825,989
Intangible assets	6a	215,248	206,812
Available for sale financial assets (AFS)	7	42,146	-
Investment in associates		784	995
Long term receivables		2,018	3,927
Deferred tax assets	20	2,828	3,126
Total non-current assets		**1,163,715**	**1,040,849**
Current assets			
Inventories	9	10,063	18,552
Programme assets	6b	22,250	30,312
Trade and other receivables	10	82,472	108,965
Income tax receivable		1,727	2,804
Other assets	11	11,046	6,321
Derivative financial assets	25	34,883	17,049
Cash and cash equivalents	12	16,074	14,625
Total current assets		**178,515**	**198,628**
Total assets		**1,342,230**	**1,239,477**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	6,918	51
Share premium		3,406	8,247
Treasury shares		(13,922)	(16,703)
Reserves		1,248	9,096
Retained earnings		138,869	40,474
Equity attributable to equity holders of the parent		**136,519**	**41,165**
Non-controlling interest		6,029	1,438
Total equity		**142,548**	**42,603**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings, including bonds	14	648,040	665,540
Deferred tax liabilities	20	45,517	34,812
Decommissioning provision		5,409	-
Other long term liabilities	15.2	36,738	46,076
Total non-current liabilities		**735,704**	**746,428**
Current liabilities			
Trade and other payables	15.1	360,571	373,969
Interest-bearing loans and borrowings	14	82,009	44,047
Income tax payable		-	1,390
Derivative financial liabilities	25	10,131	16,356
Deferred revenue		11,267	14,684
Total current liabilities		**463,978**	**450,446**
Total liabilities		**1,199,682**	**1,196,874**
Total equity and liabilities		**1,342,230**	**1,239,477**

The financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
_____________	_____________	_____________	_____________	_____________	_____________	_____________

		2017	**2017**	**2017**	**2016**	**2016**	**2016**
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
	Notes						
Revenues	17	916,551	-	916,551	842,755	-	842,755
Other income	28	2,509	-	2,509	-	-	-
Loss from sale of discontinued operations	21	-	-	-	-	(674)	(674)
Operating expenses	18	(800,841)	-	(800,841)	(755,848)	-	(755,848)
Other expenses	28	(2,820)	-	(2,820)	(6,969)	-	(6,969)
Operating profit		**115,399**	**-**	**115,399**	**79,938**	**(674)**	**79,264**
Finance income	19	19,977	-	19,977	45,312	-	45,312
Finance expenses	19	(55,903)	-	(55,903)	(101,467)	-	(101,467)
Net finance costs		**(35,926)**	**-**	**(35,926)**	**(56,155)**	**-**	**(56,155)**
Profit / (loss) before taxation		**79,473**	**-**	**79,473**	**23,783**	**(674)**	**23,109**
Income tax	20	(17,442)	-	(17,442)	(11,326)	-	(11,326)
Net profit / (loss)		**62,031**	**-**	**62,031**	**12,457**	**(674)**	**11,783**
Other comprehensive income							
Items not to be reclassified to profit or loss							
Revaluation of property, plant and equipment, net of tax		-	-	-	16,660	-	16,660
Items that are or may be reclassified to profit or loss, net of tax							
Foreign operations – foreign currency translation differences		(601)	-	(601)	1,609	-	1,609
Change in fair value available for sale asset	7	(3,667)	-	(3,667)	2,367		2,367
Available for sale financial asset, reclassification of gain	7	-	-	-	(33,722)		(33,722)
Cash Flow hedge reserves		3,603	-	3,603	654	-	654
Other comprehensive income for the year, net of tax		**(665)**	**-**	**(665)**	**(12,432)**	**-**	**(12,432)**
Total comprehensive income for the year		**61,366**	**-**	**61,366**	**25**	**(674)**	**(649)**

The financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
_____________	_____________	_____________	_____________	_____________	_____________	_____________

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

	Notes	2017 Continuing Operations	2017 Discontinued Operations	2017 Total	2016 Continuing Operations	2016 Discontinued Operations	2016 Total
Profit / (Loss) attributable to:							
Equity holders of the parent		58,268	-	58,268	13,434	(648)	12,786
Non-controlling interest		3,763	-	3,763	(977)	(26)	(1,003)
Net profit / (loss) for the year		**62,031**	**-**	**62,031**	**12,457**	**(674)**	**11,783**
Total comprehensive income attributable to:							
Equity holders of the parent		57,419	-	57,419	221	(648)	(427)
Non-controlling interests		3,947	-	3,947	(196)	(26)	(222)
Total comprehensive income for the year		**61,366**	**-**	**61,366**	**25**	**(674)**	**(649)**
Earnings per share (in EUR) attributable to equity holders	8						
Net profit/(loss)		**58,268**	**-**	**58,268**	**13,434**	**(648)**	**12,786**
Basic earnings/(loss) per share (EUR/share)		**0.625**	**-**	**0.625**	**0.146**	**(0.007)**	**0.139**
Diluted earnings/(loss) per share (EUR/share)		**0.624**	**-**	**0.624**	**0.146**	**(0.007)**	**0.139**

The financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
____________	____________	____________	____________	____________	____________	____________

	Notes	2017	2016
Cash flows from operating activities			
Profit/(loss) before taxation		**79,473**	**23,109**
Adjustments for:			
Depreciation, amortization and impairment	5, 6	171,812	170,094
Revaluation deficit recognised in profit or loss		-	6,276
Interest expense, net	19	36,368	45,173
Derecognition of unamortized borrowing costs	14	-	26,505
Impairment of trade and other receivables	18	9,368	9,677
Losses/(gains) on derivative financial instruments	23	(16,159)	14,547
Equity settled share-based payments	24	1,642	-
Unrealised foreign exchange loss/(gain)		13,322	5,741
Reclassification of fair value adjustment of AFS		-	(33,722)
Gain on sale of assets		(342)	(1,462)
(Gain)/loss on disposal of subsidiary	21	-	674
Cash flows from operations before working capital changes		**295,484**	**266,612**
Changes in:			
Decrease/(increase) in trade receivables and other assets		(2,393)	(29,540)
Increase in inventories		8,489	(5,974)
Increase in trade payables and other current liabilities		(6,965)	31,424
(Decrease)/increase in deferred revenue		(3,416)	(7,248)
Cash flows from operations		**291,199**	**255,274**
Interest paid		(33,419)	(43,981)
Income tax paid		(10,172)	(7,823)
Net cash flows from operating activities		**247,608**	**203,470**
Cash flow used in investing activities			
Purchases of property, plant and equipment	5,15	(169,828)	(142,629)
Purchases of intangibles	6,14	(71,706)	(70,767)
Acquisition of subsidiaries, net of cash and acquisition of NCI	22	(1,666)	(2,124)
Acquisition of AFS	22	-	(939)
Proceeds from sale of property, plant and equipment		948	505
Net cash flows used in investing activities		**(242,252)**	**(215,954)**
Cash flows from financing activities			
Dividends paid to shareholders		(21,289)	(4,428)
Cash outflows from acquisition of treasury shares		(2,459)	-
Proceeds from borrowings	14	56,966	496,304
Repayment of borrowings	14	(27,290)	(477,628)
Financing costs paid	14	(4,546)	(26,779)
Settlement of derivatives		(3,764)	(5,802)
Payment of finance lease obligations		(1,566)	(3,428)
Net cash flows (used in)/from financing activities		**(3,948)**	**(21,761)**
Net increase/(decrease) in cash and cash equivalents		**1,408**	**(34,245)**
Cash and cash equivalents at the beginning of the year	12	**14,625**	**49,662**
Effect of exchange rate fluctuations of cash and cash equivalents held		41	(792)
Cash and cash equivalents at the end of the year	12	**16,074**	**14,625**

(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
Balance at 1 January 2017	**51**	**8,247**	**(16,703)**	**(30,181)**	**42,996**	**-**	**(3,719)**	**40,474**	**41,165**	**1,438**	**42,603**
Comprehensive income for the period											
Profit/(loss) for the year	-	-	-	-	-	-	-	58,268	**58,268**	3,763	**62,031**
Foreign currency translation differences	-	-	-	(543)	-	-	-	-	**(543)**	(58)	**(601)**
Movements Fair Value reserves for AFS (Note 7)	-	-	-	-	-	(3,667)	-	-	**(3,667)**	-	**(3,667)**
Cash Flow hedge reserves	-	-	-	-	-	-	3,361	-	**3,361**	242	**3,603**
Transfer of revaluation reserve (depreciation)	-	-	-	-	(6,765)	-	-	6,765	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**(543)**	**(6,765)**	**(3,667)**	**3,361**	**65,033**	**57,419**	**3,947**	**61,366**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Increase of share capital through conversion of share premium and reserves	9,949	(8,247)	-	-	-	-	-	(1,702)	-	-	-
Conversion of class A shares to class B shares	(3,082)	-	-	-	-	-	-	3,082	-	-	-
Purchase of Treasury Shares	-	-	(2,459)	-	-	-	-	-	**(2,459)**	-	**(2,459)**
Swap of treasury shares against AFS (Note 7)	-	3,406	1,030	-	-	-	-	-	**4,436**	-	**4,436**
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	1,642	**1,642**	-	**1,642**
Dividends distributed (Note 13)	-	-	-	-	-	-	-	(6,000)	**(6,000)**	(416)	**(6,416)**
Total contributions by and distributions to owners	**6,867**	**(4,841)**	**(1,429)**	**-**	**-**	**-**	**-**	**(2,978)**	**(2,381)**	**(416)**	**(2,797)**
Changes in ownership interests in subsidiaries											
Swap of NCI against AFS (Note 7)	-	-	-	1,349	(1,955)	-	193	39,923	**39,510**	1,866	**41,376**
Swap of treasury shares against NCI (Note 22)	-	-	4,210	*(582)*	*844*	-	(83)	(3,583)	**806**	(806)	-
Total changes in ownership interests in subsidiaries	**-**	**-**	***4,210***	***767***	***(1,111)***	**-**	***110***	**36,340**	**40,316**	**1,060**	**41,376**
Total transactions with owners	***6,867***	***(4,841)***	***2,781***	***767***	***(1,111)***	**-**	***110***	**33,362**	**37,935**	**644**	**38,579**
Balance at 31 December 2017	***6,918***	***3,406***	***(13,922)***	***(29,957)***	***35,120***	***(3,667)***	***(248)***	**138,869**	**136,519**	**6,029**	**142,548**

(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
Balance at 1 January 2016	**51**	**8,247**	**(16,703)**	**(31,726)**	**36,314**	**31,355**	**(4,346)**	**77,462**	**100,654**	**2,160**	**102,814**
Comprehensive income for the period											
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	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**1,545**	**6,682**	**(31,355)**	**627**	**22,074**	**(427)**	**(222)**	**(649)**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Dividends distributed (Note 13)	-	-	-	-	-	-	-	(57,546)	**(57,546)**	(370)	**(57,916)**
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(57,546)**	**(57,546)**	**(370)**	**(57,916)**
Changes in ownership interests in subsidiaries											
Movement in ownership interest while retaining control (Note 22)	-	-	-	-	-	-	-	(1,516)	**(1,516)**	(130)	**(1,646)**
Total changes in ownership interests in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,516)**	**(1,516)**	**(130)**	**(1,646)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(59,062)**	**(59,062)**	**(500)**	**(59,562)**
Balance at 31 December 2016	**51**	**8,247**	**(16,703)**	**(30,181)**	**42,996**	**-**	**(3,719)**	**40,474**	**41,165**	**1,438**	**42,603**

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, with place of business and registered office in Romania. 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 Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5, Bucuresti, Romania.

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 2017, DIGI Group had a total of 13,976 employees (2016: 13,400 employees).

The controlling shareholder of DIGI is RCS Management ("RCSM") a company incorporated in Romania. The ultimate controlling 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 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 21 March 2018.

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) Consolidated financial statements

These financial statements (consolidate and separate) from the legal financial statements of DIGI, to be filed with the The Dutch Authority for the Financial Markets ("AFM") and serve as a basis for determining distributions to shareholders.

(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), or in which the main economic transactions are undertaken.

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, if the estimates affects that period only, and future periods, if the change affects both

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:

- Notes 2.2 (d): recognition and classification of programme assets;
- Notes 2.2 (c) and 5: recognition of customer premises equipment;
- Notes 7 and 22b: recognition and valuation of share swap contracts.

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 6: key assumptions used in discounted cash flow projections in relation to goodwill impairment testing;
- Note 2.2 (c) and Note 5: useful lives of property, plant and equipment;
- Notes 3a and 5: revaluation of buildings, network, equipment and devices and customer premises equipment;
- Note 23 i): impairment of trade receivables;
- Notes 3 and 23 iv): fair value of financial instruments, in particular available for sale financial assets (Note 3f and Note 7);
- 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 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments did not have a significant effect on the financial position or performance of the Group.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Group has provided the required disclosures in Note 14.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. This improvement did not have an effect on the Group's financial statements.
  - ***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) 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 2017. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using consistent accounting policies. Upon consolidation adjustments are recorded in order to align the few inconsistent accounting policies.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using consistent accounting policies. Upon consolidation adjustments are recorded in order to align the few inconsistent standalone 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity, unless it can be clearly demonstrated that the Group lacks the ability to exercise such influence over its investee.

Investments in 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, 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.

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

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 through OCI 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:

Currency	**2017**			**2016**		
	Jan – 1	**Average for the year**	**Dec – 31**	**Jan – 1**	**Average for the year**	**Dec – 31**
RON per 1EUR	4.5411	4.5681	4.6597	4.5245	4.4908	4.5411
HUF per 1EUR	311.02	309.30	310.14	313.12	311.47	311.02
USD per 1EUR	1.0510	1.1293	1.1993	1.0887	1.1070	1.0510

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”).

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Each year, the management assesses whether revaluation is necessary as per IAS 16.

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 direct to home (“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 estimated useful lives applied prospectively from 1 January 2016 onwards are as follows:

	Useful life
Buildings	40-50 years
Fixed Network	up to 25 years
Mobile Radio Network (sites)	20 years
Equipment and devices	3-10 years
Customer premises equipment	5-10 years
Vehicles	5 years
Furniture and office equipment	3-9 years

As at 31 December 2017, management completed its annual review of the estimated useful lives of property, plant and equipment and usefull lives were considered adequate for the type of asset and pattern of use.

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.

Decommissioning
The present value of the expected cost for the decommissioning of the mobile radio network sites after their use, is included in the cost of the respective assets if the recognition criteria for a provision are met.

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 MH mobile telephony licenses in Romania, the 1800 MHz and 3800 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. The change of estimated useful lives was applied prospectively from 1 January 2016 onwards.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

As at 31 December 2017, management completed its annual review of the estimated useful lives of intangible assets and useful lives were considered adequate for the type of asset and pattern of use.

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 investing or operating activities, as applicable.

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 A shares between shareholders are considered completed at the date when the transfer of ownership has been agreed upon by the parties in a written contract. Transactions with B shares are trading on the stock exchange and are considered completed at the transaction date.

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, except for transactions with non-controlling interest, for which the resulting surplus or deficit on the transaction is credited or debited to retained earnings. When treasury shares are cancelled the excess of cost above nominal value is debited to retained earnings.

Share and repurchase agreements related to treasury shares do not result in the derecognition of the respective treasury shares and do not affect their cost.

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 dilutive effect of employee stock-options, net of the related tax effect.

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:

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

f) Impairment

i) Non-financial assets

Property, plant and equipment and intangible assets other than goodwill

The carrying amount of the Group's property, plant and equipment and intangible assets other than goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An asset's or cash generating unit's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss, except for property, plant and equipment previously revalued where the revaluation was recognised in other comprehensive income. In this case the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless that asset is carried at revalued amount, in which case the reversal in excess of previous impairment loss recognised in profit or loss is treated as a revaluation increase.

After recording impairment losses or reversals the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

Goodwill is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lower level within the Group at which the goodwill is monitored for internal management purposes.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Decommissioning provision

The Company records a provision for decommissioning costs of its telecom sites. Decommissioning costs are provided for at the present value of expected costs of dismantling using estimated cash flows and are recognized as part of the cost of the relevant asset. The cash flows are discounted at the risk-free rate. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the site and the expected timing of those costs
The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

j) Leases

The Group as a lessee

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Contracts meeting these criteria are then evaluated to determine whether they are either an operating lease or finance lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalized leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Group will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Indefeasible Rights of Use (IRUs) represent the right to use a portion of the capacity of a terrestrial transmission cable granted for a fixed period. IRUs are recognized as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. Such assets are included in property, plant and equipment in the consolidated statement of financial position. They are depreciated over the shorter of the expected period of use and the life of the contract.

Leases, including IRU leases 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

k) Contingencies

Management applies its judgment to the fact patterns and advice it receives from its attorney, advocates and other advisors in assessing if an obligation is probable or not or remote. This judgment application is used to determine if the obligation is recognized as a liability or disclosed as a contingent liability.

Contingent liabilities are not recognized in the accompanying consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits if remote.

A contingent asset is not recognized in the accompanying consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

l) Revenue and other income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenues from services

The Group’s main sources of revenue from services are:

- Revenue from the provision of video, cable TV (“CATV”) and direct-to-home (“DTH”) TV, subscription services;
- Revenue from the provision of internet and data communication subscription services (fixed and mobile);
- Revenue from the provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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 include individuals that are principal owners, management and members of the Board of Directors and members of their families, or any company that is related party to Group's entities.

o) Income tax

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or are recognized when their utilisation has become probable.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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.

q) Share-based payment transactions

Certain members of the management team and certain employees of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments (‘equity- settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date on which they are granted, as evidenced by their market price.

The cost of equity-settled transactions is recognized as “Salaries and related taxes” expense, together with a corresponding increase in retained earnings, 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 period’). 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 expense 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.

Service and performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed by the Group as best estimate of the number of equity instruments that will ultimately vest. Performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also also service / performance conditions.

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 vested 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, the minimum expense recognized is the grant date fair value of the unmodified award, provided that the original terms of the award are met. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment transaction, 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 through profit or loss. 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). In 2017 a new share option plan was applied for certain management members and certain employees.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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.

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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: Classification and Measurement**
  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.

  Classification and measurement
  IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).
  The financial assets available-for-sale of the Group will be designated as financial assets at fair value through OCI under IFRS 9. In this case, the fair value gain or losses would not be recycled through profit and loss upon derecognition, and there will be no impairment accounting.
  There are no other anticipated changes to classification and measurement arising from the implementation of IFRS 9.

  Impairment
  The new impairment model requires the recognition of impairment allowances based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. Financial assets measured at amortized cost will be subject to the impairment requirements of IFRS 9. In general, the application of the expected credit loss model will result in earlier recognition of credit losses and increase the amount of loss allowance recognized for the relevant items.
  The only impact on the financial statements of the Group due to the new requirements of IFRS 9 will result from applying the probability of default as it results from historical patterns also to the trade and other receivables which are not yet due (as the Group was already applying a method compliant with IFRS 9 for amounts due), with expected loss given default being assessed at 100%. The additional amount of allowances to be recorded as a consequence is not significant (approximately EUR 1,242).
  With respect to cash and cash equivalent amounts, due to the fact that the Group's exposure is towards banks with very low probability of default there would be no allowance to be recorded as the amounts will be immaterial.

  Hedging
  Under IFRS 9, generally more hedging instruments and hedged items will qualify for hedge accounting. The Group's hedges existing as of 31 December 2017 will suffer no changes.

  The Group will apply retrospectively IFRS 9 but will not restate the comparative period, as permitted by IFRS 9.

- **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)

Recognition and unbudling of revenues
Owing to the nature of the Group's revenues, which mainly consist of subscription revenues (both for residential customers as well as the majority of business customers), the impact of IFRS 15 compared to the current IAS 18 is not significant, and consists of the following:

- Reclassifications between categories of revenues (cable, internet, telephony) due to re-allocation of promotions
- Reclassification between categories of revenues (cable, DTH, other) in respect of equipment in custody for which no rental fees are perceived
- Earlier recognition of revenues for sale of mobile phones, which is in part a reclassification of revenues (from telephony, cable, internet to other) and partly will create a contract asset (which will be thereafter included in the calculation of the impairment allowance under IFRS 9, as described above).

The net estimated impact of the IFRS 15 implementation for year ended 31 December 2017 for the Romanian operations is as follows:

Type of revenues	Decrease/(Increase) In million EUR
Revenues from Mobile subscription	(0.5)
Revenues from CATV/DTH subscription	14.7
Revenues from Fixed internet subscription	0.5
Revenues from rent	(14.3)
Revenues from mobile handsets	(1.4)
Contract asset	1.0

For the operations of the Group in other countries the impact is not significant.

Costs to obtain a contract
Amounts currently capitalized by the Group as subscriber acquisition costs (intangible assets) meet the criteria to be classified as costs to obtain a contract under IFRS 15. The amortization period has also been analyzed and found to be compliant with IFRS 15 requirements.

Principal versus agent
Under IFRS 15, the principal vs. agent assessment will be based on whether the Group controls the specific goods or services before transferring to the customer, rather than whether it has exposure to significant risks and rewards associated with the sale of the goods or services. The Group has not identified revenue arrangements in which it would be an agent under IFRS 15, thus changing the current treatment under IFRS 15.

Disclosures
Disclosures will be enhanced as per the new standard's requirements, starting with 1 January 2018.

The Group will transition to IFRS 15 application by applying the modified retrospective approach (therefore will not restate the comparative period).

- **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.

The Group has considered there clarifications when performing the analysis of the IFRS 15 implementation impact, as detailed above.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- **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 Group has started an assessment of the impact of IFRS 16 on its consolidated financial statements. The application of IFRS 16 will have a significant impact on the consolidated statement of financial position, as the Group will recognize new assets and liabilities for most of its operating leases (please refer to Note 26 for details of the Group's operating leases as lessee, and additional items such as the spectrum fees which will also be in the scope of IFRS 16). In profit or loss statement, depreciation expense and interest expense will be reported instead of lease expense.

- **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. The amendments have not yet been endorsed by the EU. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance 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. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **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..

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. 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 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. These amendments have no impact on the Group's consolidated financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. For the moment the Group had no transactions in scope of these amendments.

- **IFRIC INTERPRETATION 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. This interpretation has no impact on the Group's consolidated financial statements as the Group was already applying this treatment.

- 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 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. 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.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that this iinterpretation will not have an impact on the consolidated financial position or performance of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. 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 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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.

3. DETERMINATION OF FAIR VALUES (continued)

b) Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. Main assumptions used are the churn rate, EBITDA %, the discount rate.

c) Derivatives

The fair value of the derivative financial instruments is based on generally accepted valuation techniques. It reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

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 price of shares at the grant date (please refer to Note 24 for additional details). 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.

Please refer to Note 24 for additional disclosures regarding share-based payments.

f) Available for sale financial assets

The market value of the shares was determined in 2016 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.

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment of the available for sale shares held in RCSM at year end was performed based on the quoted price/share of the shares of the Company as of the valuation date, adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

Please refer to Note 23 for additional disclosures regarding the fair valuation of AFS investments.

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

4. SEGMENT REPORTING

31 December 2017	**Romania**	**Hungary**	**Spain**	**Other**	**Eliminations**	**Reconciling item**	**Group**
Segment revenue and other income	655,172	150,424	92,691	18,264	-	-	**916,551**
Inter-segment revenues	3,125	-	1,205	572	(4,902)	-	-
Segment operating expenses	(431,332)	(110,673)	(68,063)	(23,863)	4,902	-	**(629,029)**
EBITDA (Note 28)	**226,965**	**39,751**	**25,833**	**(5,027)**	**-**	**-**	**287,522**
Depreciation, amortization and impairment of tangible and intangible assets						(171,812)	**(171,812)**
Other income (Note 28)	156	-	-	2,353	-	-	**2,509**
Other expenses (Note 28)	(217)	-	-	(2,603)	-	-	**(2,820)**
Operating profit	-	-	-	-	-	-	**115,399**
Additions to tangible non-current assets	150,134	39,926	2,835	213	-	-	**193,108**
Additions to intangible non-current assets	35,311	1,030	5,351	2,878	-	-	**44,570**
Carrying amount of:							
Property, plant and equipment	752,698	144,083	3,662	248	-	-	**900,691**
Non-current intangible assets	177,628	29,610	5,603	2,407	-	-	**215,248**
Investments in associates and AFS	784	-	-	42,146	-	-	**42,930**

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

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

4. SEGMENT REPORTING (continued)

31 December 2016	**Romania**	**Hungary**	**Spain**	**Other**	**Eliminations**	**Reconciling item**	**Group**
Segment revenue and other income	612,691	137,850	83,036	9,178	-	-	**842,755**
Inter-segment revenues	2,695	-	1,648	453	(4,796)	-	-
Segment operating expenses	(413,114)	(86,510)	(70,735)	(13,915)	4,796	-	**(579,478)**
EBITDA (Note 28)	**202,272**	**51,340**	**13,949**	**(4,284)**	**-**	**-**	**263,277**
Depreciation, amortization and impairment of tangible and intangible assets						(170,094)	**(170,094)**
Revaluation impact						(6,276)	**(6,276)**
Other expenses (Note 28)	(6,969)	-	-	-	-	-	**(6,969)**
Loss from sale of discontinued operations				(674)	-	-	**(674)**
	-	-	-				
Operating profit							**79,264**
Additions to tangible non-current assets	184,501	35,163	1,010	133	-	-	**220,807**
Additions to intangible non-current assets	31,897	1,606	2,814	987	-	-	**37,304**
Carrying amount of:							
Property, plant and equipment	708,992	115,426	1,450	121	-	-	**825,989**
Non-current intangible assets	171,408	30,747	3,434	1,223	-	-	**206,812**
Investments in associates and AFS	995	-	-	-	-	-	**995**

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At 31 December 2016	**17,803**	**78,052**	**566,836**	**93,945**	**74,431**	**274,159**	**38,367**	**24,334**	**1,167,927**
Additions	4,416	3,004	14,176	156,884	4,825	6,634	1,633	1,536	**193,108**
Transfer from construction in progress ("CIP")/reallocation (assets taken into use)	-	8,246	77,557	(163,186)	28,051	43,612	3,897	1,823	-
Disposals	-	(438)	-	(582)	(23)	(151)	(1,513)	(5)	**(2,712)**
Effect of movements in exchange rates	(456)	(2,148)	(14,109)	(1,644)	(2,459)	(5,548)	(855)	(490)	**(27,709)**
At 31 December 2017	**21,763**	**86,716**	**644,460**	**85,417**	**104,825**	**318,706**	**41,529**	**27,198**	**1,330,614**
Depreciation and impairment									
At 31 December 2016	-	**6,762**	**149,782**	**127**	-	**143,097**	**26,626**	**15,544**	**341,938**
Depreciation charge	-	4,580	42,238	-	14,847	27,468	3,522	3,381	**96,036**
Impairment	-	-	-	-	2,040	-	-	-	**2,040**
Disposals	-	(8)	-	-	(19)	(118)	(1,385)	(5)	**(1,535)**
Effect of movements in exchange rates	-	(305)	(4,160)	(3)	(290)	(2,862)	(617)	(319)	**(8,556)**
At 31 December 2017	-	**11,029**	**187,860**	**124**	**16,578**	**167,585**	**28,146**	**18,601**	**429,923**
Net book value									
At 31 December 2016	**17,803**	**71,290**	**417,054**	**93,818**	**74,431**	**131,062**	**11,741**	**8,790**	**825,989**
At 31 December 2017	**21,763**	**75,687**	**456,600**	**85,293**	**88,247**	**151,121**	**13,383**	**8,597**	**900,691**

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At 31 December 2015	**12,043**	**62,190**	**476,482**	**83,397**	**142,637**	**226,347**	**30,140**	**18,473**	**1,051,709**
Additions	8,207	4,321	5,789	186,393	-	9,888	2,410	3,799	**220,807**
Transfer from construction in progress (“CIP”)/reallocation (assets taken into use)	-	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)**
At 31 December 2016	**17,803**	**78,052**	**566,836**	**93,945**	**74,431**	**274,159**	**38,367**	**24,334**	**1,167,927**
Depreciation and impairment									
At 31 December2015	-	**7,402**	**114,068**	-	**102,074**	**117,797**	**23,283**	**12,342**	**376,966**
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)**
At 31 December 31, 2016	-	**6,762**	**149,782**	**127**	**-**	**143,097**	**26,626**	**15,544**	**341,938**
Net book value									
At 31 December 2015	**12,043**	**54,788**	**362,414**	**83,397**	**40,563**	**108,550**	**6,857**	**6,131**	**674,743**
At 31 December 2016	**17,803**	**71,290**	**417,054**	**93,818**	**74,431**	**131,062**	**11,741**	**8,790**	**825,989**

(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 2017 and 2016 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 in Romania and the set-up of the mobile radio network in Hungary, 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 12,251 as of 31 December 2017 (31 December 2016: EUR 12,915) 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:

	31 December 2017	31 December 2016
Cost	**23,533**	**19,705**
Fair value	**21,763**	**17,803**

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

If buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2017	31 December 2016
Cost	90,363	81,470
Accumulated depreciation	(18,742)	(14,436)
Net carrying amount	**71,621**	**67,034**
Fair value	**75,687**	**71,290**

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.

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.

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:

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Network

	31 December 2017	31 December 2016
Cost	711,729	631,477
Accumulated depreciation	(289,753)	(251,244)
Net carrying amount	**421,976**	**380,233**
Fair value	**456,600**	**417,054**

Equipment and devices

	31 December 2017	31 December 2016
Cost	427,933	382,018
Accumulated depreciation	(282,819)	(256,516)
Net carrying amount	**145,114**	**125,502**
Fair value	**151,121**	**131,062**

Customer premises equipment

	31 December 2017	31 December 2016
Cost	548,534	517,672
Accumulated depreciation	(468,198)	(458,251)
Impairment	(8,625)	(6,585)
Net carrying amount	**71,711**	**52,836**
Fair value	**88,247**	**74,431**

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.

As at 31 December 2017, management completed its annual review of the estimated useful lives of property, plant and equipment and useful lives were considered adequate for the type of assets and pattern of use.

Collateral

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

Impairment

In addition to the compulsory impairment test for the CGUs which include goodwill, 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).

Commitments for property, plant and equipment
For details regardging commitments for property, plant and equipmentm please see Note 26.

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

6. INTANGIBLE ASSETS

a) Non-current intangible assets

	Goodwill	Customer relationships	Trade marks	Subscriber acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
Cost						
At 31 December 2016	**77,178**	**75,301**	**2,883**	**78,814**	**174,968**	**409,144**
Additions	267	3,839	-	19,731	20,733	44,570
Disposals	-	-	-	-	(1,938)	(1,938)
Effect of movement in exchange rates	(1,356)	(1,992)	(67)	(929)	(3,641)	(7,985)
At 31 December 2017	**76,089**	**77,148**	**2,816**	**97,616**	**190,122**	**443,791**
Depreciation						
At 31 December 2016	**-**	**66,615**	**1,307**	**65,354**	**69,056**	**202,332**
Amortization	-	6,871	416	13,549	10,781	31,617
Impairment	-	-	-	546	-	546
Disposals	-	-	-	-	(1,848)	(1,848)
Effect of movement in exchange rates	-	(1,655)	(36)	(871)	(1,542)	(4,104)
At 31 December 2017	**-**	**71,831**	**1,687**	**78,578**	**76,447**	**228,543**
Net Book Value						
At 31 December 2016	**77,178**	**8,686**	**1,576**	**13,460**	**105,912**	**206,812**
At 31 December 2017	**76,089**	**5,317**	**1,129**	**19,038**	**113,675**	**215,248**

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

6. INTANGIBLE ASSETS (continued)

	Goodwill	Customer relationships	Trade marks	Subscriber acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
Cost						
At 31 December 2015	**77,240**	**74,782**	**2,883**	**64,172**	**153,426**	**372,503**
Additions	-	645	-	14,587	22,072	37,304
Disposals	-	-	-	-	(12)	(12)
Effect of movement in exchange rates	(62)	(126)	-	55	(518)	(651)
At 31 December 2016	**77,178**	**75,301**	**2,883**	**78,814**	**174,968**	**409,144**
Depreciation						
At 31 December 2015	**-**	**56,560**	**577**	**57,809**	**52,429**	**167,375**
Amortization		10,309	733	7,126	16,835	35,003
Impairment	-	-	-	398	-	398
Effect of movement in exchange rates		(254)	(3)	21	(208)	(444)
At 31 December 2016	**-**	**66,615**	**1,307**	**65,354**	**69,056**	**202,332**
Net Book Value						
At 31 December 2015	**77,240**	**18,222**	**2,306**	**6,363**	**100,997**	**205,128**
At 31 December 2016	**77,178**	**8,686**	**1,576**	**13,460**	**105,912**	**206,812**

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

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), mobile telephony services, in countries where the Group is providing CBT, mobile telephony services and DTH services, the Group identified separate CGUs for CBT, mobile telephony services and DTH respectively. Television production does not represent separate CGUs in Romania due to the RCS&RDS strategy, structure of subscribers and revenues generated. In 2016 mobile telephony was not considered a separate CGU, for the same reasons as television production, however in 2017 management decided to separate it due to the current growth of the standalone mobile subscriptions.

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;
- Mobile Spain.

Goodwill	**31 December 2017**	**31 December 2016**
CBT	**75,811**	**76,868**
Romania	54,483	55,600
Hungary	21,100	21,040
Mobile		
Spain	228	228
DTH	**278**	**310**
Romania	278	310
Total	**76,089**	**77,178**

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 (level 3 on fair value hierarchy).

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 8.23 % p.a. (2016: 8.17%);
- for the Hungarian territory 8.91% p.a. (2016: 9.14%).

6. INTANGIBLE ASSETS (continued)

The discount rate applied to the cash flows of each CGU is based in the Group's Weighted Average Cost of Capital (WACC). WACC is the average cost of sources of financing (debt and equity), each of which is weighted by its respective use.

Key inputs to the WACC calculation are the risk free rate, beta (reflecting the risk of the Group relative to the market as a whole) as well as assumptions regarding the spread for credit risk and the market risk premium for the cost of equity. Group WACC is adjusted for risk relative to the country in which the CGU operates.

Terminal growth rates

- for Romanian CBT CGU 2% p.a. (2016: 1.7%);
- for Hungarian CBT CGU 2% p.a. (2016: 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 2017 no reasonable change in the main assumptions could result in an impairment charge (31 December 2016: no reasonable change).

(iii) Subscriber acquisition costs ("SAC")

SAC represents third party costs for acquiring and connecting customers of the Group. In 2017 SAC was generated in relation with contracting customers in Romania (12,069 EUR), Spain (5,287 EUR), Hungary (258 EUR) and Italy (2,117 EUR). In 2016 SAC was generated in relation with contracting customers in Romania (EUR 10,810), in Spain (EUR 2,721), Hungary (EUR 326) and Italy (EUR 730).

(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.

As at 31 December 2017, management completed its annual review of the estimated useful lives of intangible assets and useful lives were considered adequate for the type of assets and pattern of use.

6. INTANGIBLE ASSETS (continued)

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 2017 is EUR 5,961 (2016: EUR 6,550).

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 2017 is EUR 28,781 (2016: EUR 32,158).

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. We fulfilled our license obligations, as reviewed by ANCOM.

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 2017 is EUR 27,189 (2016: EUR 28,726). 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 2017 is EUR 5,278 (2016: EUR 3,563).

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 2017 is EUR 1,435 (2016: EUR 1,227).

3800 MHz license (Hungary)

The 3800 MHz license obtained for a total consideration of EUR 820 by Digi Hungary has a carrying amount as of 31 December 2017 of EUR 765 (2016: EUR 809).

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).

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

6. INTANGIBLE ASSETS (continued)

b) Current intangible assets - programme assets

	31 December 2017	31 December2016
Balance at 1 January	**30,312**	**29,536**
Additions	34,122	47,058
Amortization (Note 18)	(41,573)	(46,170)
Effect of movement in exchange rates	(611)	(112)
Balance at 31 December	**22,250**	**30,312**

Included in “Additions” is an amount of EUR 28,540 representing broadcasting rights for sports competitions for 2017/2018 season (2016: EUR 34,376 for 2016/2017 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)

	31 December 2017	31 December 2016
Balance at 1 January	**-**	**43,373**
Additions	45,813	1,653
Fair value adjustment - OCI	(3,667)	2,367
Non-cash distribution of dividends (Note 13)	-	(47,393)
Balance at 31 December	**42,146**	**-**

The above available for sale financial assets comprise shares in RCSM (which is the parent of the Company). As at 31 December 2017 the percentage of ownership of DIGI in RCSM is 9.0% (31 December 2016: nil). For additional disclosures on the fair values of the AFS refer to Note 23 (iv).

On 9 March 2017 three share swaps agreements were concluded between the Company and three minority shareholders of RCSM, through which the minority shareholders of RCSM exchanged 16,582 shares of RCSM for 17,367,832 shares in RCS&RDS, which became effective on 7 April 2017. Given the fact that the fair value of RCSM shares as of the transaction date was not determined, the most objective measure for the cost of the shares was assessed to be the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed in Note 3f). The difference between the value of the non-controlling interest that was the consideration given for the RCSM shares, which is represented by the percentage of interest from the consolidated net asset value of RCS&RDS Group as of 31 March 2017, namely EUR 1,866, and the fair value of the AFS shares acquired was credited to retained earnings.

On 24 March 2017 another swap agreement was concluded between the Company and a minority shareholder of RCSM, through which the minority shareholder of RCSM exchanged 1,778 shares of RCSM for 255 shares of the Company (before the split of the shares performed in preparation of the IPO), which became effective on 7 April 2017. Given the fact that the fair value of RCSM shares as of the transaction date was not determined, the most objective measure for the cost of the shares was assessed to be the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed in Note 3f). The difference between cost of the treasury shares that were the consideration given for the RCSM shares, namely EUR 1,030, and the fair value of the AFS shares acquired was credited to share premium.

As of 31 December 2017 the fair value of the RCSM shares was determined as detailed in Note 3f.

As of 31 December 2016 the AFS assets, that consisted of RCSM shares as well, were derecognized, following the distribution of dividends in kind on 27 December 2016 (please see Note 13), 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).

The decrease in the fair value of the AFS shares during 2017, as reported in OCI, is not considered to be an impairment.

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

8. EARNINGS PER SHARE (EPS)

	2017 *Continuing Operations*	2017 *Discontinued Operations*	2017 *Total*	2016 *Continuing Operations*	2016 *Discontinued Operations*	2016 *Total*
Net profit/(loss) for the year	62,031	-	62,031	12,457	(674)	11,783
Non-controlling interests	(3,763)	-	(3,763)	977	26	1,003
Net profit/(loss) attributable to equity holders of the parent	**58,268**		**58,268**	**13,434**	**(648)**	**12,786**
Weighted average number of ordinary shares outstanding (number of shares)						
Weighted average number of ordinary shares outstanding – basic*	-	-	**93,226,786**			**91,827,804**
Share option plan	-	-	172,337	-	-	-
Weighted average number of shares outstanding – diluted*			**93,399,123**			**91,827,804****
Earnings/(loss) per share (EUR/share) basic	**0.625**	**-**	**0.625**	**0.146**	**(0.007)**	**0.139**
Earnings/(loss) per share (EUR/share) diluted	**0.624**	**-**	**0.624**	**0.146**	**(0.007)**	**0.139**

* The number of outstanding shares excludes treasury shares
** The weighted average number of shares outstanding has been subject to a correction compared to the 2016 consolidated financial statements, in which 99,958,650 shares were included. The earnings per share have also been changed accordingly.

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 weighted average number of shares outstanding was retrospectively adjusted for the comparative period. For details about the share split and bonus issuance of shares, please see Note 13.

During 2017 a share option plan was implemented for management and employees. These share options have a dilutive effect on earnings. For details, please see Note 24.

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

9. INVENTORIES

	31 December 2017	31 December 2016
Merchandise and equipment	3,366	6,255
Materials and consumables	6,697	12,297
Total inventories, net	**10,063**	**18,552**

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).

10. TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
Trade receivables	75,304	107,096
Receivable from related parties (refer to Note 14)	779	1,014
Other taxes receivable	349	380
Other receivables	6,040	475
Total trade and other receivables	**82,472**	**108,965**

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

	31 December 2017	31 December 2016
Advances to suppliers	4,051	4,291
Prepayments	6,995	2,030
Total other assets	**11,046**	**6,321**

For details regarding credit risk please refer to Note 23.

12. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Bank accounts	15,800	14,340
Petty cash	274	285
Total cash and cash equivalents	**16,074**	**14,625**

Collateral
For details on the pledges placed on the Group assets and restricted cash please refer to Note 14 (xiv).

13. EQUITY

As of 31 December 2016, DIGI had 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 were no other issued shares.

	31 December 2016
Ordinary Shares – Issued and Paid (No.)	50,594
Ordinary Shares – Unissued (No.)	199,406
Nominal Value	1 EUR per share
Share Capital Value (EUR thousand)	51

At 31 December 2016, the shareholders of DIGI were as follows:

	31 December 2016	
Shareholder name	**No. of shares**	**%**
RCSM	29,277	57.87%
Teszari Zoltan	2,326	4.60%
Carpathian Cable Investment Ltd	9,953	19.67%
Celest Limited (Cyprus)	2,694	5.32%
DIGI - treasury shares	4,135	8.17%
Other	2,209	4.38%
Total	**50,594**	**100.00%**

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

- 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 increase of the share capital by issuing up to 100 million class A shares pro-rata to the shareholdings, subject to availability of reserves.

These resolutions took effect 11 April 2017.

In April 2017 the Board of DIGI was authorized 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).

Therefore, as at 31 December 2017, the authorized capital of the company amounts to EUR 11,000,000. The authorized capital is divided into shares as follows:
(a) one hundred million (100,000,000) class A shares, with a nominal value of ten eurocents (EUR 0.10) each; and
(b) one hundred million (100,000,000) class B shares, with a nominal value of one eurocent (EUR 0.01) each.

The issued and paid-up capital as at 31 December 2017 is in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

Class B Shares are listed on the Romanian Stock Exchange ("BVB") starting from 16 May 2017.

13. EQUITY (continued)

	31 December 2017
Class A:	
Ordinary Shares – Issued and Paid (No.)	65,756,028
Ordinary Shares – Unissued (No.)	34,243,972
Nominal Value	0.10 EUR per share
Class B:	
Ordinary Shares – Issued and Paid (No.)	34,243,972
Ordinary Shares – Unissued (No.)	65,756,028
Nominal Value	0.01 EUR per share
Share Capital Value (EUR thousand)	6,918,043

The rights attaching to the class B shares are uniform in all respects except for the voting rights to the class A shares.

At 31 December 2017, the shareholders of DIGI are as follows:

	31 December 2017	
Shareholder name	**No. of shares**	**%**
Class A:		
RCS Management S.A.	57,866,545	57.87%
Teszari Zoltan	2,280,122	2.28%
DIGI-treasury shares	5,609,361	5.61%
Total class A	**65,756,028**	
Class B:		
Shares listed on BVB	33,246,818	33.25%
DIGI - treasury shares	997,154	1.00%
Total class B	**34,243,972**	
TOTAL	**100,000,000**	

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

The profit available for distribution is the profit for the year and retained earnings recorded in the IFRS stand-alone statutory financial statements, which differs from the result in these financial statements.

In April 2017 the Company declared dividends of 6 million EUR for year ended 31 December 2016, which were paid in May 2017; the related amount of dividend per share was EUR/share 0.063.

On 27 December 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 distribution in kind, representing all the RCSM shares that were held by DIGI at the date (20,400 shares),instead of the cash dividends.

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 was EUR/share 1,726.32 for RCSM and respectively EUR/share 407.62 for the other shareholders.

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

13. EQUITY (continued)

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.

14. INTEREST BEARING LOANS AND BORROWINGS

Long term portion		**Nominal interest rate**	**31 December 2017**	**31 December 2016**
2016 Bonds	(i)	5% p.a.	349,384	349,638
2016 Senior Facilities Agreement	(ii)	3M ROBOR + 2.65%p.a.	293,079	307,296
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	2,395	3,990
Other	(vii)		3,182	4,616
Total long term portion			**648,040**	**665,540**

Current portion		**Nominal interest rate**	**31 December 2017**	**31 December 2016**
2016 Senior Facilities Agreement	(ii)	3M ROBOR + 2.65%p.a.	40,091	25,085
Overdrafts	(iii-v)	Variable linked to EURIBOR/ROBOR/ LIBOR+ respective margin	25,062	7,217
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	1,814	1,782
Other	(ix)-(xiii)		15,042	9,962
Total current portion			**82,009**	**44,047**

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

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

For details regarding cash inflows and outflows for interest bearing borrowings please see the table below:

	Long term loans	Bonds	Short term loan	Interest	Total
Balance as at 1 January 2017	**338,274**	**349,636**	**10,708**	**5,197**	**703,815**
Proceeds from borrowings	33,693	-	23,273	-	**56,966**
Repayment of borrowings	(24,626)	-	(2,664)	-	**(27,290)**
Interest expense	-	-	-	35,203	**35,203**
Interest paid	-	-	-	(33,419)	**(33,419)**
New finance cost*	(864)	(357)	-	-	**(1,221)**
Amortisation of deferred finance costs and inception value of embedded derivative	1,072	93	-	-	**1,165**
Effects of movements in exchange rates	(9,874)	12	1,077	(594)	**(9,379)**
Balance as at 31 December 2017	**337,675**	**349,384**	**32,394**	**6,387**	**725,840**

**New finance cost presented above in amount of EUR 1,220 includes additional borrowing cost during the period. In the Cashflow statements, the amount of EUR 4,546 represents finance cost paid in 2017 related to 2016 borrowings.*

(i) 2016 Bonds

On 26 October 2016 the Company issued Bonds with a value of EUR 350,000 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 2017 the unamortized balance of bond issuance related fees was EUR 7,498 (2016: EUR 8,637).

Drawing

As of 31 December 2017, the nominal balance is EUR 350,000 (EUR 349,384 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.

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

In accordance with the terms of the Bonds, 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 Bonds, being adjusted with certain items such as share option plan expense and net fixed assets sale) 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. Please see Note 23 vii).

The Group is in compliance with all the covenants under the 2016 Bonds as at 31 December 2017.

On 8 August 2017, the 2016 Senior Secured Bonds, were admitted to trading on the Main Securities Market of the Irish Stock Exchange. In connection with this listing, DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (the Hungarian subsidiary of RCS & RDS S.A., the Company’s subsidiary) acceded as an additional guarantor under to the Indenture and the Intercreditor Agreement dated 26 October 2016 relating to the Bonds, as well as under the Senior Facility Agreement dated 7 October 2016.

(ii) 2016 Senior Facilities Agreement (“2016 SFA”)

On 7 October 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 was 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 was drawn for the purpose of funding the refinancing of the 2013 Bonds. The SFA Facility B was drawn for the general corporate and working capital purposes of the Group. Facilities A1 and A2 mature in October 2021. Facility B matures in 2019.

Drawing

On 26 October 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. During 2017 Facility B was fully drawn for the general corporate and working capital purposes of the Group, amounting to RON 157 million.

As at 31 December 2017 the outstanding principal amounts for SFA A1 was RON 860.3 million (EUR 184.6 million equivalent), for SFA A2 was RON 555.0 million (EUR 119.1 million equivalent) and for SFA B was RON 157.0 million (EUR 33.7 million equivalent).

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.

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.

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).

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

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

Maturities and repayment schedule

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

Repayment date	Repayment instalment %*
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
Total	**100**

**(percentage of the SFA Facility A1/A2 loan outstanding as at the end of the availability period for the SFA Facility A1/A2);*

Facility B is due to be repaid in full in October 2019.

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 2017 the unamortized balance of borrowings related fees incurred in 2017 was EUR 2,664 (31 December 2016: 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 1,581 (31 December 2016: EUR 2,045) as at 31 December 2017 will continue to be amortised over the life of the 2016 Senior Facility Agreement using the effective interest method (please see also Note 19).

Pledges

The Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with the 2016 Bonds, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan, 2017 Bridge Loan and 2018 Senior 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 31 December 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 31 December 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25. For a period of 18 months starting from the date of completion of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt, the Consolidated Total Net Indebtedness to EBITDA ratio shall not be more than 3.75:1.

The Group is in compliance with all the covenants under the Senior Facility Agreement as at 31 December 2017.

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(iii) 2013 ING Facilities Agreement

On 1 November 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 multipurpose facility to be used as overdraft and for issuance of letters of guarantee.

Drawings

As of 31 December 2017 EUR 4,291 (31 December 2016: EUR 4,163) were drawn under the overdraft facility. In addition EUR 2,034 and RON 2,979 Letters of Guarantee were issued under the letters of guarantee facility (31 December 2016: EUR 1,973 and RON 13,122).

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.

(iv) Citi Facilities Agreement

On 25 October 2013, RCS&RDS entered into the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes.

On 25 October 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 4 November 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 uncommitted overdraft, bank guarantee and letters of guarantee facilities.

As of 31 December 2017, the overdraft was utilised in amount of EUR 10,903 equivalent (31 December 2016: 3,054) and bank letters of guarantee were issued in amount of EUR 13,282 and RON 9,198 (31 December 2016: USD 750, EUR 1,031 and RON 16,264). The overdraft facility was extended in 2018 with an additional amount of RON 50,000 thousand.

(v) Unicredit agreements

On 5 October 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 expired in August 2017 (the "Unicredit Cash Collateral Agreement").

On 15 December 2015, RCS & RDS entered into an agreement with UniCredit Bank S.A. for an uncommitted overdraft/bank guarantee facility in amount of EUR 2,000. As at 31 December 2017 EUR 1,996 (31 December 2016: nil) were drawn under the overdraft facility.

(vi) BRD Letters of Guarantee Facility

As of 31 December 2017 the Group had letters of guarantee issued by BRD with a value of EUR 500.

On 20 September 2017, RCS & RDS entered into the BRD Letters of Credit Facility. As at 31 December 2017, the outstanding amount for these facilities was USD 9,426 (EUR 7,872 equivalent, representing letters of credit).

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(vii) Libra Loan Agreement

On 25 February 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON 32,000 thousand repayable in 5 years with Libra Bank (the "Libra Loan Agreement"). RCS&RDS drew RON 31,555 thousand 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 2017 RON 21,105 thousand (EUR 4,529 equivalent using exchange rate as at 31 December 2017) was outstanding under the Libra Loan Agreement (31 December 2016: EUR 5,923).

(viii) 2017 Bridge Loan

On 13 October 2017, RCS & RDS S.A. („RCS&RDS"), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság („Digi Kft."), as the borrowers, the Company, as a guarantor, and Citibank N.A., London Branch and ING Bank N.V. as the arrangers, have concluded a short-term loan with two facilities in the aggregate amount of EUR 200 million. 2017 Bridge Loan shares in the Collateral, together with the 2016 Bonds, the Senior Facilities Agreement, ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan and 2018 Senior Facility on a pari passu basis pursuant to the terms of the Intercreditor Agreement.

One facility, in amount of EUR 140,000, was concluded for the purpose of financing the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt. The other facility, in amount of EUR 60,000 was concluded for general corporate purposes.

The 2017 Bridge Loan has a maturity of 12 months. It can be extended for an additional period of up to 6 or 12 months.
As at 31 December 2017 these facilities were not drawn. After the year end, the Bridge Facility committments was partially refinanced by the Syndicated Facility signed in February 2018. For details see Note 27.

(ix) RCS Management loan

On 12 May 2017, RCS&RDS entered into a short term loan with RCS Management, for a principal amount of EUR 5,000. The loan bears a 5.5% per annum interest rate, the repayment date being set for 10 May 2018. As at 31 December 2017 the outstanding amount is EUR 3,694.

(x) Santander Facility

On 30 October 2015, Digi Spain entered into a new EUR 1,500 short-term facility agreement with Banco Santander (the "Santander Facility"). This facility was renewed in October and at the same time the limit was increased up to EUR 2,000. In 2017 this facility was renewed until 30 October 2018. As at 31 December 2017, the balance drawn under the Santander Facility was EUR 1,950 (31 December 2016: EUR 1,065).

(xi) Caixa Facility

On 6 February 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 17 January 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. As at 31 December 2017, the balance drawn under the Caixa Facility overdraft was EUR 391 (31 December 2016: EUR 388).

On 21 October 2016, Digi Spain entered into a short-term loan with Caixabank, S.A for EUR 1,800 with maturity on February 28, 2017 (the "Caixa Loan"), when the loan was repaid. As at 31 December 2017, the balance was nil.

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

(xii) BBVA Letter of Guarantee & Facility

As at 31 December 2017, Digi Spain had letters of guarantee issued by BBVA with a value of EUR 0.9 million, out of which EUR 0.3 million (cash collateral).

In October 2017, Digi Spain entered into a short-time loan with BBVA for an amount of EUR 2,000 with maturity until July 2018. As at 31 December 2017, the outstanding amount is EUR 1,556.

In February 2018, Digi Spain entered into a new credit facility annually renewable for an amount of up to EUR 3,000.

(xiii) OTP Bank Hungary Loan Agreement

In December 2016, Digi Hungary has entered into a short term loan of HUF 1,300 million (EUR 4,192) with OTP bank in Hungary. Out of this loan, as at 31 December 2016 HUF 500 million (EUR 1,608) was drawn and outstanding. The remaining amount was drawn in January 2017. In 2017 the maturity of the loan was extended until May 2018.

(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 2017 accounted for 93.58% 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) 100% of the quota in DIGI T.S. Kft Hungary;

(e) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and

(f) 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 networks, 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.

(xv) Obligations under finance leases

The Group financed the acquisition of certain assets (buildings and land) through finance leases. As at 31 December 2017 there are several 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 30 months for Raiffeisen Leasing and 85 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 24 months.

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

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

In March 2018, RCS & RDS entered into a new leasing agreement for autovehicles with UniCredit for a total amount of EUR 2,000.

In March 2018, Digi Spain entered into a leasing agreement for equipment with Caixabank for an amount up to EUR 1,500.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31 December 2017		31 December 2016	
	Net	**Gross**	**Net**	**Gross**
Within one year	1,814	1,956	1,782	1,989
Later than one but less than five years	2,015	2,252	3,275	3,615
More than five years	380	393	715	755
Less: future finance charges (interest)	-	(392)	-	(587)
Total	**4,209**	**4,209**	**5,772**	**5,772**

15. TRADE AND OTHER PAYABLES, OTHER LONG TERM LIABILITIES

15.1 TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Trade payables and payables to fixed assets suppliers	263,087	253,539
Accruals	52,970	62,639
Value added tax ("VAT")	6,904	10,106
Other payables related to investments	5,741	5,011
Salary and related taxes	21,243	19,649
Amounts payable to related parties (Note 16)	3,842	1,285
Dividends payable (Note 16)	574	15,354
Other	6,210	6,386
Total trade and other payables	**360,571**	**373,969**

Included in payables to suppliers and accruals above is EUR 138,631 (31 December 2016: EUR 138,936) representing amounts due for property, plant and equipment and EUR 23,076 (31 December 2016: EUR 24,909) 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.

15.2 OTHER LONG TERM LIABILITIES

	31 December 2017	31 December 2016
Other long term liabilities	36,738	46,076

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).

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

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			
		31 December 2017	**31 December 2016**
Party			
Ager Imobiliare S.R.L.	(ii)	718	698
Digi Serbia	(ii)	-	218
Music Channel S.R.L.	(ii)	51	52
RCSM	(i)	1	37
Other		9	9
Total		**779**	**1,014**

Payables to related parties			
		31 December 2017	**31 December 2016**
Party			
Related parties - shares	(ii)	-	1,082
RCSM	(i)	3,825	5,711
Digi Serbia	(ii)	-	117
Mr. Zoltan Teszari	(iii)	-	648
Other		591	9,081
Total		**4,416**	**16,639**
Of which: dividends payable (Note 15.1)		*574*	*15,354*

(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 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2016: nil).

For dividends distributed, please refer to Note 13.

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

16. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel of the Group

	2017	2016
Short term employee benefits – salaries, including employer contribution to State pension plan	2,572	2,258
Share-based payments (at vesting)	-	-

In 2017 a share option plan was implemented for certain members of management and employees. None of the share options have vested during the reported period. For details, please refer to Note 24.

	2017
Transactions with related parties **Revenues**	
Selling shareholders IPO cost recovery (Note 28)	2,353
Total	**2,353**

	2017
Transactions with related parties **Expenses**	
Interest	174
Total	**174**

	2017
Transactions of the Company with group entities **Revenues**	
RCS&RDS SA - Dividend	10,340
RCS&RDS SA - Interest	20,284
RCS&RDS SA – Cost recovery	2,356
Total	**32,979**

	2017
Transactions of the Company with group entities **Expenses**	
RCS&RDS SA – Cost recovery	485
Total	**485**

During 2017 the Group also had the following transactions with its shareholders:

a) swaps of shares as described in Note 7 (4 minority shareholders)
b) swap of shares as described in Note 22b
c) purchase of 977,154 Company’s class B shares (treasury shares) from one minority shareholder in April 2017, for an amount of EUR 2,459
d) sale and repurchase agreement of Company’s treasury shares between the Company and RCSM as part of the pre-IPO restructuring process.

The transactions with related parties, except for the compensation of key management personnel presented above, were insignificant during 2016.

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

17. REVENUES

Allocation of revenues from services through business lines and geographical areas is as follows:

	2017	2016
Cable TV		
Romania	182,374	175,673
Hungary	47,652	40,993
	230,026	**216,666**
Internet and data		
Romania	171,566	163,627
Hungary	40,822	37,954
Italy	-	-
Spain	-	-
	212,388	**201,581**
Telephony Revenues		
Romania	187,519	147,107
Hungary	7,397	8,040
Spain	92,466	82,709
Italy	18,163	8,997
	305,545	**246,853**
DTH Revenue		
Romania	36,116	38,714
Hungary	33,480	31,378
	69,596	**70,092**
Other revenues		
Romania	77,598	87,568
Hungary	21,073	19,485
Spain	225	328
Italy	100	182
	98,996	**107,563**
Total revenues	**916,551**	**842,755**

Other revenues include mainly sales of CPE, but also contain services of filming sport events, advertising revenue, rental of CPE. Sales of CPE include mainly mobile handsets and other equipment.

The significant increase in telephony revenues is due to the increase in Mobile telephony revenues.

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

18. OPERATING EXPENSES

	2017	2016
Depreciation of property, plant and equipment (Note 5)	96,036	86,693
Amortization of programme assets (Note 6)	41,573	46,170
Amortisation of non-current intangible assets (Note 6)	31,617	35,003
Revaluation impact (Note 5)	-	6,276
Impairment of property, plant and equipment (Note 5)	2,040	1,830
Impairment of non-current intangible assets (Note 6)	546	398
Salaries and related taxes	141,318	119,049
Contribution to pension related fund	20,490	19,171
Programming expenses	83,301	73,915
Telephony expenses*	154,886	141,032
Cost of goods sold	34,898	57,996
Rentals	56,934	50,322
Invoicing and collection expenses	15,094	13,812
Taxes and penalties*	9,447	10,525
Utilities	17,188	14,657
Copyrights	9,068	8,851
Internet connection and related services*	3,712	3,828
Impairment of receivables and other assets, net of reversals	9,368	9,677
Taxes to authorities	9,420	7,233
Other materials and subcontractors	9,214	6,918
Other services	22,613	18,219
Miscellaneous operating expenses	32,078	24,273
Total operating expenses	**800,841**	**755,848**

** In 2017 Mobile data connection expenses for Digi Spain are presented on the "Telephony expenses line", not on the "Internet connection and related services line". For comparability purposes, the presentation of comparatives for 2016 was restated accordingly, by reclassifying an amount of EUR 15,475.*

In 2017 expenses of EUR 2,057 related to telephony taxes were presented under the "Telephony expenses line"as opposed to the previous year presentation under "Taxes and penalties". Due to this presentation change the comparative figures for 2016 were ammended accordingly for an amount of EUR 2,151 presented under "Telephony expenses line" as opposed to the prior year's presentation as "Taxes and penalties".

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 2017 amount to EUR 24,809 (2016: EUR 25,416).

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

19. NET FINANCE COSTS

	2017	2016
Finance income		
Interest from banks	59	49
AFS gain reclassified from OCI	-	33,722
Gain on derivative financial instruments and other financial revenue	19,918	11,541
	19,977	**45,312**
Finance expenses		
Interest expense	(36,368)	(45,173)
Loss on derivative financial instruments	(3,378)	(5,216)
Other financial expenses	(11,928)	(47,746)
Foreign exchange differences (net)	(4,229)	(3,332)
	(55,903)	**(101,467)**
Net Finance Costs total	**(35,926)**	**(56,155)**

In 2017 finance income includes the fair value gain from embedded derivative asset related to the 2016 Bonds. For details, please see Note 25.

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.

In 2016 finance income includes the 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.

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.

20. INCOME TAX

Up to 21 April 2017 the Company was a Dutch Tax resident. In the context of the IPO concluded on 16 May 2017, the Company became a tax resident in Romania. As from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania. The Company is a Romanian tax resident having its place of effective management in Bucharest, Romania, where all the strategic and commercial decisions are made, as well as the day-to-day management is carried out.

The statutory tax rate applied in Netherlands during 2016 and up to 21 April 2017 was 25%.
The statutory tax rate applied in Romanian entities during 2017 (after 21 April 2017) was 16%.

Other entities

The statutory tax rate applied in the Romanian entities during 2017 was 16% (2016: 16%).
The statutory tax rate applied in Hungary during 2017 was 9% (2016: 19%).
The statutory tax rate applied in Spain during 2017 was 25% (2016: 25%).
The statutory tax rate applied in Italy during 2017 was 31.4% (2016: 31.4%).

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

20. INCOME TAX (continued)

Components of income tax expense for the periods ended 31 December 2017 and 2016 respectively were:

	2017	2016
Current income tax charge	7,154	5,505
Deferred income tax relating to origination and reversal of temporary differences	10,288	5,821
Income tax expense/ (credit) recognised in profit or loss for continuing operations	**17,442**	**11,326**
Income tax expense/ (credit) recognised in profit or loss for discontinuing operations	-	-

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate applicable to the net result before tax to the income tax expense at the Group's effective income tax rate for the financial years 2017 and 2016 is as follows:

	2017	2016
Net profit before income tax for continuing operations	**79,473**	**23,110**
At statutory income tax rate of the Company	12,716	5,777
Effect of difference in tax rates applicable for foreign subsidiaries	1,150	613
Non-deductible expenses / (Non-taxable income)	4,621	5,031
Exit tax in the Netherlands for change of Company's fiscal domicile	449	-
Effect of fiscal profit of the Company in the Netherlands before moving fiscal domicile (including higher taxe rate 20/25%)	225	-
Taxes in respect of prior years (RCS&RDS due to fiscal control, the Company due to rectifications in tax declarations)	1,374	-
Changes in tax rate (Hungary in 2017, Spain in 2016)	(3,093)	(95)
Effective tax expense / (credit) from continuing operations	**17,442**	**11,326**

Deferred taxes in the consolidated statement of financial position are**:**

	31 December 2017	31 December 2016
Deferred tax assets	2,828	3,126
Deferred tax liabilities	(45,517)	(34,812)
	(42,689)	**(31,686)**

Movement of deferred taxes:

	2017	2016
Deferred taxes recognized in the statement of financial position	**(42,689)**	**(31,686)**
Difference from prior year balance	11,003	8,656
Of which:		
Recognized in profit or loss	10,288	5,822
Deferred tax liability related to interest rate swaps and related to revaluation, recognised in other comprehensive income	683	2,930
Effect of movement in exchange rates	32	(96)

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

20. INCOME TAX (continued)

The deferred tax (asset)/ liability for the financial year 2017 comprises the tax effect of temporary differences related to:

	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Disposed on sale of subsidiary	Effect of movement in exchange rates	Balance 31 December 2017
Property, plant and equipment	45,502	2,895			164	**48,561**
Intangibles	4,972	2,789			39	**7,800**
Accounts receivable	1,110	2,038			1	**3,149**
Accounts payable	(1,336)	(889)			-	**(2,225)**
Long term borrowings	868	13			-	**881**
Deferred tax liabilities	***51,116***	***6,846***			***204***	***58,166***
Intangibles	160	-			(160)	**-**
Accounts receivable	-	(127)			-	**(127)**
Interest expense postponed for deduction	(12,516)	2,195			-	**(10,321)**
Inventory	(952)	(235)			(2)	**(1,189)**
Cash Flow hedge reserves	(736)	-	683		-	**(53)**
Fiscal losses	(5,386)	1,610			(11)	**(3,787)**
Deferred tax assets	***(19,430)***	***3,443***	***683***		***(173)***	***(15,477)***
Offsetting (refer to Note 2.2 o)	*(16,304)*					*(12,649)*
Recognition						
Deferred tax liabilities	**34,812**					**45,517**
Deferred tax assets	**(3,126)**					**(2,828)**
Net deferred tax liability	**31,686**					**42,689**
Deferred tax (benefit) / expense						

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

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**
Deferred tax liabilities	**40,319**	***8,072***	***2,804***	**-**	***(79)***	***51,116***
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)**
Deferred tax assets	**(17,289)**	***(2,250)***	***126***	**-**	***(17)***	***(19,430)***
Offsetting (refer to Note 2.2 o)	*(13,337)*	-	-	-	-	*(16,304)*
Recognition						
Deferred tax liabilities	**26,981**	-	-	-	-	**34,812**
Deferred tax assets	**(3,951)**	-	-	-	-	**(3,126)**
Net deferred tax liability	**23,030**	-	-	-	-	**31,686**
Deferred tax (benefit) / expense	**-**	**5,822**	**2,930**	**-**	**(96)**	**-**

(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 6,658 at 31 December 2017 (31 December 2016: EUR 11,569), are not subject to preapproval by tax authorities and can be carried forward until 2025.

In addition, in 2016 a deferred tax asset was recognized for interest expenses of RCS&RDS which were postponed for deduction until the gearing ratio falls again below 3. Such interest expenses became deductible in 2017 and the related fiscal loss (minus the amount utilized in 2017 against the 2017 fiscal profit) generated a deferred tax asset which was recognized.

Deferred tax asset in respect of the fiscal loss from Italy was recognised in amount of EUR 3,188 , similar to previous year.

For statutory purposes, RCS&RDS has performed several revaluations of its property, plant and equipment in year ended 31 December 2016. 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 7,174 (2016: EUR 5,781), 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, which resulted into classification of discontinued operations. In 2016 we have recorded an additional provision regarding the sale transaction of the Czech subsidiary in net amount of EUR 674. This provision has not been changed in 2017. No further discontinued operations transactions occured in 2017.

22. SUBSIDIARIES AND NON-CONTROLLING INTEREST

a) Subsidiaries

The consolidated financial statements incorporate the financial information of the following main subsidiaries in each of the countries:

As of 31 December 2017 DIGI owns shares in RCS&RDS 93.58% (2016: 96.1%). Below are the presented the main subsidiaries of RCS&RDS (excluding inactive subsidiaries):

Subsidiary	**Country of Incorporation**	**Field of activity**	**Legal Ownership**	
			2017	**2016**
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%
ENERGIAFOTO SRL	Romania	Solar energy	100.00%	100.00%
NOVITAS Electro	Romania	Solar energy	100.00%	100.00%
DELALINA S.R.L.	Romania	Solar energy	100.00%	100.00%

22. SUBSIDIARIES AND NON-CONTROLLING INTEREST (continued)

b) Changes in ownership interests while retaining control

In March 2017 a share swap agreement was concluded between Mr Teszari and the Company through which Mr Teszari exchanged a number of 7,500,000 shares of RCS&RDS for 1,042 shares of the Company (before the split of the shares performed in preparation of the IPO).

In the consolidated financial statements the transaction is between equity owners and was accounted as follows:

a) the non-controlling interest decreased by the respective percentage of interest from the consolidated net asset value of RCS&RDS Group as of 31 March 2017, namely EUR 806
b) the treasury shares value was decreased by the cost of the respective shares, namely EUR 4,210
c) the difference between the value of the treasury shares given and the non-controlling interest acquired was debited to retained earnings.

In 2017 DIGI also acquired 100 shares in RCS& RDS for the amount of EUR 0.1.

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.

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

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:

	Note	31 December 2017	31 December 2016
Trade and other receivables	10	82,472	108,965
Other assets	11	11,046	6,321
Cash and cash equivalents	12	15,801	14,340
Derivative assets	25	34,883	17,049
Long term receivables		2,018	3,927
Total		**146,220**	**150,602**

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:

	31 December 2017	31 December 2016
Citibank	6,492	146
ING Bank	2,951	9,658
Banca Comerciala Romana	95	13
BRD Groupe Societe Generale	448	231
Unicredit Tiriac Bank	373	304
Other	5,442	3,988
Total	**15,801**	**14,340**

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.

(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:

	Gross 31-Dec-17	Impairment 31-Dec-17	Net 31-Dec-17	Gross 31-Dec-16	Impairment 31-Dec-16	Net 31-Dec-16
1. Neither past due nor impaired	78,239	-	78,239	98,452*	-	98,452*
2. Past due but not impaired*	15,279	-	15,279	16,834*	-	16,834*
3. Impaired	48,421	(48,421)	-	45,058	(45,058)	-
Total	**141,939**	**(48,421)**	**93,518**	**160,343**	**(45,058)**	**115,286**
*** Ageing past due but not impaired**						
Past Due less 30 days	6,979	-	-	8,596*	-	-
Past Due 30-90 days	6,593	-	-	4,124	-	-
Past Due 90-180 days	1,707	-	-	4,114	-	-
Total	**15,279**	**-**	**-**	**16,834**	**-**	**-**

** As at 31 December 2017 we present Other assets as Neither past due nor impaired. The presentation of comparative amounts was changed for previous year, as at 31 December 2016.*

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:

	2017	2016
Balance at 1 January	45,058	77,439
Impairment loss recognized (Note 18)	9,368	9,051
Amounts written off	(5,818)	(41,381)
Effect of movement in exchange rates	(188)	(51)
Balance at 31 December	**48,420**	**45,058**

(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.

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

23. FINANCIAL RISK MANAGEMENT (continued)

The following are the contractual maturities of financial liabilities, including estimated future interest payments and excluding the impact of netting agreements as at 31 December 2017:

	31 December 2017						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**725,840**	**837,993**	76,414	37,866	123,341	600,372	-
Finance lease liabilities	**4,209**	**4,598**	994	961	1,162	1,088	393
Trade and other payables and other liabilities	**390,404**	**392,842**	314,431	41,617	32,587	4,207	-
Derivative financial liabilities							
Interest rate swaps used for hedging	**601**	**2,413**	799	650	804	161	-
Energy trading acquisitions	**22,461**	**22,866**	11,664	7,023	4,179	-	-
Total	**1,143,515**	**1,260,712**	**404,302**	**88,117**	**162,073**	**605,828**	**393**

The following are the contractual maturities of financial liabilities, including estimated future 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**
Non derivative financial liabilities							
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
Derivative financial liabilities							
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	-	-
Total	**1,126,106**	**1,278,847**	**360,654**	**89,502**	**113,400**	**714,534**	**757**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

23. FINANCIAL RISK MANAGEMENT (continued)

At 31 December 2017, the Group had net current liabilities of EUR 285,462 (31 December 2016: EUR 251,818). 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 2017		**31 December 2016**	
	USD	**EUR**	**USD**	**EUR**
Trade and other receivables	3,638	5,984	3,973	4,690
Cash and cash equivalents	598	6,357	6	5,486
Interest bearing loans and borrowings, including bonds	-	(353,695)	-	(352,797)
Bank overdraft	(9,426)	(2,006)	1	-
Finance lease liabilities	-	(4,209)	-	(5,770)
Trade and other payables	(60,726)	(61,086)	(47,714)	(59,870)
Gross exposure	**(65,916)**	**(408,655)**	**(43,734)**	**(408,261)**

The following significant exchange rates applied for the year ended 31 December 2017:

	2017	**2016**
Romania		
USD	3.8915	4.3033
EUR	4.6597	4.5411
Hungary		
USD	258.82	293.69
EUR	310.14	311.02

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

23. FINANCIAL RISK MANAGEMENT (continued)

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 before tax/increased the loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Effect on profit before tax 2017	Effect on profit before tax 2016
EUR	40,866	40,826
USD	5,505	4,144
Total	**46,371**	**44,970**

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).

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.

At the reporting date the interest rate repricing profile of the variable rate interest-bearing financial instruments was:

	All reprice at 6 months or less	
	31 December 2017	**31 December 2016**
Interest bearing payables	10,986	77,319
Finance lease liabilities	1,875	2,129
Senior Facility Agreement	337,414	336,923
Interest rate swap	601	5,318
Other	29,592	13,140
Total	**380,468**	**434,828**

The Group has entered into fixed for floating interest rate swaps for the 2015 SFA (this Facility was refinanced through the 2016 SFA, but the IRS agreements are still in force until 2020), 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 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.

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

23. FINANCIAL RISK MANAGEMENT (continued)

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:

	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2017		
Variable rate instruments, after IRS effect	(1,929)	1,929
	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2016		
Variable rate instruments, after IRS effect	(1,924)	1,924

The effect in equity is the effect in profit or loss before tax, net of tax (16%).

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.

In the year ended 31 December 2017 we increased significantly the weight of electricity purchased from the forward electricity market in order to naturally hedge our exposure. Moreover, to reduce our exposure to price volatilities, from March 2017 we started to refocus our energy supply business on residential and mid-sized and smaller business customers and decrease the overall volume of electricity supplied to business customers.

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.

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

23. FINANCIAL RISK MANAGEMENT (continued)

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:

	Level 1	Level 2	Level 3	Total
31 December 2017				
Available for sale financial assets			42,146	**42,146**
Interest rate swaps			(601)	**(601)**
Embedded derivatives			33,264	**33,264**
Electricity trading assets (term contracts)			1,619	**1,619**
Electricity trading liabilities (term contracts)			(9,530)	**(9,530)**
Total			**66,898**	**66,898**

	Level 1	Level 2	Level 3	Total
31 December 2016				
Interest rate swaps	-	-	(5,318)	**(5,318)**
Embedded derivatives	-		13,908	**13,908**
Electricity trading assets (term contracts)	-	-	3,141	**3,141**
Electricity trading liabilities (term contracts)	-	-	(11,038)	**(11,038)**
Total	**-**		**693**	**693**

<u>Available for sale financial assets</u>

As at 31 December 2016 the Group did not own available for sale financial assets.
As at 31 December 2017, the Company acquired AFS through swap of shares. For details, please see Note 7.

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. As at 31 December 2017, the fair value assessment of the available for sale shares held in RCSM was consequently performed based on the quoted price/share of the shares of the Company as of the valuation date (RON/share 37.4), adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

Sensitivity analysis for available for sale financial assets

A change in share price at the reporting date would have an impact as follows:

	Share price	
	10% increase	10% decrease
31-Dec-17		
Available for sale financial assets	4,180	(4,180)
31-Dec-16		
Available for sale financial assets	-	-

<u>Embedded derivatives</u>

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.

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

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 2017: RON/MWh 111.03 (31 December 2016 RON/MWh 210.15) , and
- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date (2017: 2.94%; 2016: 1.20%).

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 percentage points increase**	**0.5 percentage points decrease**
31-Dec-17				
Electricity trading assets	(270)	270	(9)	9
Electricity trading liabilities	1,293	(1,292)	67	(68)

	spot price		discount rate	
	Average 10% Increase	**Average 10% decrease**	**0.5 percentage points increase**	**0.5 percentage points decrease**
31-Dec-16				
Electricity trading assets	441	(400)	2	(2)
Electricity trading liabilities	(3,643)	3,312	(65)	66

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.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2017 is as follows:

	Available for sale (Notes 7, 13)	**Embedded derivatives**	**Interest rate swaps**	**Trading assets**	**Trading liabilities**
1 January 2017	**-**	**13,908**	**(5,318)**	**3,141**	**(11,038)**
Gains or (losses) recognised in profit or loss for the year	-	19,356	(3,373)	(1,522)	1,508
Gains or (losses) recognised in other comprehensive income	(3,667)	-	4,326	-	-
Purchases	45,813	-	-	-	-
Settlements	-	-	3,764	-	-
31 December 2017	**42,146**	**33,264**	**(601)**	**1,619**	**(9,530)**

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

23. FINANCIAL RISK MANAGEMENT (continued)

	Available for sale (Notes 7, 13)	Cross currency swaps	Embedded derivatives	Interest rate swaps	Trading assets	Trading liabilities
1 January 2016	**43,373**	**(493)**	**9,255**	**(6,094)**	**682**	**(1,666)**
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*	-	-	-
Settlements**	(47,393)	493	(9,255)	4,955	-	-
31 December 2016	**-**	**-**	**13,908**	**(5,318)**	**3,141**	**(11,038)**

** 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).*

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 2017 and 2016) and fair value measurement hierarchy are presented in the table below:

			31 December 2017
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 14)	**687,060**	**721,632**	
Bonds*	349,384	376,199	Level 1
2016 Senior Facilities	333,170	340,800	Level 3
Other	4,506	4,633	

			31 December 2016
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 14)	**687,911**	**729,167**	
Bonds*	349,638	372,164	Level 1
2016 Senior Facilities	332,382	350,835	Level 3
Other	5,892	6,168	

** Fair value of bonds is disclosed at mid-market price, which includes the embedded derivative asset*

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).

23. FINANCIAL RISK MANAGEMENT (continued)

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 2.7 (2016: 2.9), level which, as mentioned, is constantly monitored.

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 vested if and when certain performance conditions, such as revenue, subscriber targets and other targets of the Group were met. In 2016, the share-based payment plan was not applied.

On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions of the stock option plan for Class B Shares, applicable to the executive Board members of the Company. A total number of 280,000 class B shares were granted as part of the stock option plan, with vesting date in one year's time. Stock options granted to Executive Directors will be subject to performance criteria which, for the year 2017, include the (i) successful closing of the Offer and Admission, (ii) duration of employment with the Company and (iii) growth in EBITDA and in RGUs. At vesting date, the plan will be settled in shares, at no cost for the executive Board members.

In December 2017, the Board of Directors approved a stock option plan whereby a number of directors, officers and employees of certain subsidiaries of the Group in Romania were granted options to acquire for free class B shares of the Company, with up to 1.6% out from the total number of shares issued by the Company being allocated for this program. The beneficiaries will be able to exercise the stock option (the vesting) only after the lapse of one year from the grant date. Fair value at granting date was EUR 2,435.

In 2017, 1.5 million shares were granted as options to eligible employees under the share based payment plan. A total number of 2,746 employees are included in the share based payment plan. Fair value at granting date was EUR 12,387. At vesting date, the plan will be settled in shares.

As at 31 December 2017 the related share option expense of EUR 1,642 (2016: nil) in the Consolidated statement of profit or loss and other comprehensive income included uner the line item Operating expenses, within salaries and related taxes. (Note 18).

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2017 the Group had both derivative financial liabilities and derivative financial assets.

	31 December 2017		31 December 2016	
	Fair value	**Notional**	**Fair value**	**Notional**
Derivative financial asset (see also Note 23)	**34,883**		**17,049**	
Embedded derivatives	33,264	n/a	13,908	n/a
Electricity trading assets (term contracts)	1,619	113 Gwh	3,141	95 GWh

	31 December 2017		31 December 2016	
	Fair value	**Notional**	**Fair value**	**Notional**
Derivative financial liability (see also Note 23)	**10,131**		**16,356**	
Interest rate swaps	601	197,651	5,318	197,651
Electricity trading liabilities (term contracts)	9,530	542 GWh	11,038	787 GWh

As at 31 December 2017 the Group had derivative financial assets in amount of EUR 34,883 (31 December 2016: 17,049), which included:

- Embedded derivatives of EUR 33,264 related to the bond (31 December 2016: 13,908) (the 2016 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).

- Electricity trading assets (term contracts) of EUR 1,619 being mark to market gain from fair valuation of electricity trading contracts (31 December 2016: 3,141).

As at 31 December 2017 the Group had derivative financial liabilities in amount of EUR 10,131 (31 December 2016: EUR 16,356), which included:

- Interest rate swaps liability in amount of EUR 601 (31 December 2016: EUR 5,318): 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 is 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 2020.

- Electricity trading liabilities (term contracts) of EUR 9,530 being mark to market loss from fair valuation of electricity trading contracts (31 December 2016: 11,038).

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 prices at arm's length. Transfer pricing documentation requirements have been introduced so that taxpayers who carry out transactions with affiliated parties are required to prepare a transfer pricing file that needs to be presented to the tax authorities upon request.

The Company and its subsidiaries entered into various transactions within the Group, as well as other transactions with related parties. In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result of the Company and/ or its subsidiaries with additional taxable revenues/ non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

Group management believes that it has paid or accrued all taxes, penalties and interest that are applicable, at the Company and subsidiaries level.

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 €100 million and have requested that the court impose other non-monetary remedies, such as requiring that we provide the Intact Media Group channels to our subscribers free of charge and in compliance with the highest technical standards.

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

The First Quality claim regarding the €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 15 April 2015, the Bucharest Tribunal partially admitted RCS&RDS' claim and annulled the assignment of receivables from Antena Group to First Quality Debt Recovery. We expect this decision to have a significant positive impact on RCS&RDS' defence against Antena Group's claim regarding the €65 million monetary damages. Antena Group challenged the ruling of the Bucharest Tribunal, but the Bucharest Court of Appeal rejected the appeal in its entirety and upheld the decisions issued by the first court. RCS&RDS appealed limited aspects in connection to the reasoning of the Court of Appeal's decision, only in view of preserving its rights for the event Antena Group's challenge is successful. As neither First Quality Debt Recovery (company which has been deleted from the trade registry as a consequence of its dissolution and liquidation) nor Antena Group filed a higher appeal against this decision, we have decided not to pursue with our appeal. Therefore, on 18 January 2018 the court annulled our appeal and closed the case, with the motion already issued in our favour becoming irrevocable.

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 as ungrounded. However, in February 2014, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality Debt Recovery and overturned 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. In the retrial, the Bucharest Tribunal annulled the monetary claims (€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 €35 million consisting of loss of revenue due to our temporary refusal to carry the tv channels GSP TV and Antena 2 which allegedly breached, among other things, the must carry rules; and (ii) injunctive relief that would require us to provide the disputed channels to our customers in compliance with the highest technical standards. Approximately €24 million out of these claims are related to our refusal to carry GSP TV, while the remaining €11 million is related to our refusal to carry Antena 2. Because Antena Group assigned to First Quality Debt Recovery the claims regarding the €35 million monetary damages as well, First Quality Debt Recovery became involved in these proceedings. Consequently, the court split both the GSP TV and the Antena 2 lawsuits into two: in each case, the monetary claim formed one lawsuit and the claim for injunctive relief another one. At our request, both the GSP TV and the Antena 2 claims for monetary damages were suspended until the final settlement of the lawsuit we initiated for challenging the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

The case regarding the injunctive relief sought in relation to the GSP TV channel was settled by the Bucharest Tribunal in favour of Antena Group, the court ordering us to include the channel in our network in compliance with several technical requirements. However, we have been carrying the channel as of January 2012, and therefore the decision did not impact our network. The appeal filed by RCS&RDS against the first court decision was rejected in October 2014. 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. € 2 (two) as judicial expenses to Antena Group. This decision was upheld by the Bucharest Court of Appeal. Given the financial immateriality of the case file, we have decided not to challenge this decision. However, Antena Group filed a higher appeal. On 15 November 2017, the High Court of Cassation and Justice rejected Antena Group's appeal as ungrounded, thus the decision of the Bucharest Court of Appeal remained final.

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).

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.R.L.

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 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).

26. CONTINGENCIES AND COMMITMENTS (continued)

In March 2015, RCS&RDS requested the court to stay the proceedings until the final settlement of four other trials of whose outcome may prove the existence of a justification for the alleged refusal to negotiate with Antena Group and Antena 3. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until the final settlement of the lawsuit including the €65 million monetary damages. Although the decision on suspension of the trial was challenged by Antena Group, the Bucharest Tribunal rejected on 15 June 2016 Antena Group's higher appeal as ungrounded, this decision being final. In October 2017, Antena Group and Antena 3 filed an extraordinary appeal against the Bucharest Tribunal's decision. Basically, these two companies argue that the court awarded more than the parties requested when it stated that the settlement of this lawsuit depends on the settlement of the injunctive relief and the €65 million monetary claim. On 19 December2017, the court rejected Antena Group's extraordinary appeal as not being admissible.

c) The copyright related litigation

In June 2014, Antena Group filed a new monetary claim against RCS&RDS, requesting approximately €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 Appeal 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. 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 Appeal 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. At this stage in the judicial file, the judge is currently hearing the parties with respect to the evidence. The next hearing of this case by the Bucharest Tribunal is scheduled for 5 April 2018.

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.

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 re-open 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 as ungrounded. Antena Group challenged the decision through a higher appeal. RCS&RDS also appealed limited aspects in connection to its reasoning, only in view of preserving its rights. The Romanian Supreme Court did not yet set the first hearing in this higher appeal. Should the court decide in favour of Antena Group's claim, it might force the Competition Council to reopen the investigation against RCS&RDS.

26. CONTINGENCIES AND COMMITMENTS (continued)

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 €1.2 million for damage to our business reputation.

On 7 March 2016, the Bucharest Court of Appeal ruled in our favour 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 24 November 2016, the Romanian Supreme Court admitted the higher appeal and sent the case for retrial to the Bucharest Court of Appeal. The Bucharest Court of Appeal was to judge the case on 10 November 2017. However, as the two judges from the panel were in disagreement, the case was put back for trial to be judged by a panel of three judges. On 16 February 2018, the new panel partially admitted RCS&RDS's appeal and decided the following: (i) ordered the relevant companies from the Intact Media Group to pay to RCS&RDS an amount of 1,000,000 RON as moral damages, (ii) ordered the Intact Media Group to broadcast on the channels Antena 1 and Antena 3 the operative part of the ruling for one month after the court's ruling becomes final, (iii) ordered the Intact Media Group to publish the court's ruling in its entirety in three newspapers of national coverage, respectively: Jurnalul Național, Evenimentul Zilei, Adevărul, once a week for one month after the court's ruling becomes final and (iv) ordered the Intact Media Group, jointly, to pay to RCS&RDS the amount of 39,140 RON as trial expenses. The decision issued by the Bucharest Court of Appeal can be challenged within 15 days after communication. The written reasoning of the court has not yet been communicated to the parties.

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 16 March 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. Both parties have filed a higher appeal against this decision. On 18 October 2017, the Romanian High Court of Cassation and Justice admitted both parties' appeals, overturned the decision issued by the Bucharest Court of Appeal and sent the case back to the Bucharest Court of Appeal for retrial. The first hearing in front of the Bucharest Court of Appeal was scheduled on 28 March 2018.

In the second proceedings, the court of the first instance fully dismissed both our claim and Antena Group's counterclaim, but both parties appealed the first court's decisions. On 3 May 2017, the Court of Appeal issued its ruling and rejected Antena Group's appeal and admitted RCS&RDS claim in its entirety consisting in the aggregate of €500,000. Antena Group appealed the decision in its entirety, while RCS&RDS appealed limited aspects in connection to its reasoning, only in view of preserving its rights for the event Antena Group's challenge is successful. On 1 February 2018, the Romanian High Court of Cassation and Justice granted Antena Group's appeal, overturned the decision issued by the Bucharest Court of Appeal and sent the case back to the Bucharest Court of Appeal for retrial. The first hearing in front of the Bucharest Court of Appeal has not yet been scheduled.

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) filled against RCS&RDS a payment injunction amounting to at least €1.6 million, including principal amount and penalties for late payment.

26. CONTINGENCIES AND COMMITMENTS (continued)

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 €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.

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 €1.2 million, including principal and accessories. In connection with this second case file, the parties administer the evidence in front of the court. The next hearing is set for 26 March 2018.

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 Distribuţie Transilvania Nord in relation to a concession agreement between the Company and the Oradea municipality

In 2015, Electrica Distribuţie 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 Distribuţie 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 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.

Motion filed by certain US individuals against the Company, RCS&RDS, RCS Management S.A., DIGI Távközlési és Szolgáltató Kft, and its subsidiary, i-TV Digitális Távközlési Zrt.

On 2 May 2017, certain individuals (William Hawkins, Eric Keller, Kristof Gabor, Justin Panchley, and Thomas Zato) (collectively, the "Plaintiffs") filed in the United States District Court for the Eastern District of Virginia – Alexandria Division (the "**US Court**") a motion to enforce a default judgment (the "**Motion**") that was issued in favour of the Plaintiffs by the US Court in the Civil Action No. 1:05-cv-1256 (LMB/TRJ) in February 2007 (the "**Default Judgment**") against Laszlo Borsy, Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. (the predecessor to i-TV Digitális Távközlési Zrt.) (the "Defendants") jointly and severally. Additionally, the Motion sought to extend the enforcement of the Default Judgment against the following entities that were not parties to the original proceedings and not named in the Default Judgment: i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., and the Company.

The Default Judgment, of which enforcement is sought before the US Court, awarded the Plaintiffs approximately $1.8 million in damages resulting from alleged unpaid debts that appear to have been caused by Laszlo Borsy and several related entities. It also ordered that the ownership interest of Defendants Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. be distributed to the Plaintiffs in total percentage of 56.14%. Finally, it prohibited Defendants Laszlo Borsy, Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. from disposing of or dissipating any assets of the initial defendant entities or engaging in any corporate transactions without the consent of the Plaintiffs.

26. CONTINGENCIES AND COMMITMENTS (continued)

The Motion alleges that i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft. and the upstream separate companies RCS&RDS, the Company, and RCS Management S.A. violated the Default Judgment, to which these companies were not party, when, ten years ago, DIGI Távközlési és Szolgáltató Kft. entered the share capital of DMCC Kommunikacios Rt. (i-TV Digitális Távközlési Zrt.'s predecessor).

For more than ten years after the Default Judgment was issued in 2007, the Plaintiffs filed no actual claim against i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. or the Company. During the same period, the Plaintiffs never sought to enforce the Default Judgment against i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company in Hungary or another foreign jurisdiction. Nor did they seek to enforce the Default Judgment against any of the Defendants in their domestic countries.

We deem the Motion, which requests payment from the Defendants, i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. and the Company, jointly and severally, of $1.8 million, plus interest, as well as other compensation, damages, fees and expenses, as vexatious for numerous legal and factual reasons. Those reasons include, but are not limited to, the lack of any actual proof of fraud on behalf of either of i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company, the Plaintiffs' passivity for more than ten years, the lack of jurisdiction of the US Court over i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, S.A., RCS Management S.A., or the Company, as well as the fact that the Motion, if granted, would go against mandatory legal provisions of any of the jurisdictions where i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company operate.

On 8 February 2018, the US Court granted the Defendants' motion to vacate and dismissed the entire lawsuit for lack of subject matter jurisdiction. The US Court also vacated all prior orders entered in the case (the "**US Court's Decision**"). The Plaintiffs filed an appeal against the US Court's Decision with the United States Court of Appeals for the Fourth Circuit (– "**Appellate Court**"). The Defendants also filed a conditional cross-appeal on multiple grounds that need only be considered if the Appellate Court reverses the US Court's Decision. The Appellate Court has not yet issued a scheduling order.

Should the Appellate Court grant the Plaintiffs' appeal in whole or in part and reject the Defendants' cross-appeal in whole or in part, the matter would return to the US Court for trial on the merits of the case.

We believe any judgment issued by the US Court against i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. or the Company would not be enforceable, as it would need to be first recognized in the relevant jurisdictions where these companies operate, subject to the foreign judgement's compliance with those jurisdictions' mandatory legal provisions.

Investigation by the Romanian National Anti-Corruption Agency

Since 2013, the Romanian National Anti-Corruption Agency (the "**DNA**") has been investigating whether a 2009 joint venture agreement between RCS&RDS and Bodu SRL with respect to a large events hall in Bucharest was compliant with criminal legislation.

On 7 June 2017, Mr. Bendei Ioan, member of the Board of directors of RCS&RDS, was indicted by the DNA in connection with the offences of bribery and accessory to money laundering. Mr. Bendei Ioan was also placed under judicial control. On 25 July 2017, RCS&RDS was indicted by the DNA in connection with the offences of bribery and money laundering, Integrasoft S.R.L. (one of RCS&RDS's subsidiaries in Romania) was indicted for the offence of accessory to money laundering, Mr. Mihai Dinei (member of the Board of directors of RCS&RDS), was indicted by the DNA in connection with the offences of accessory to bribery and accessory to money laundering. On 31 July 2017, Mr. Serghei Bulgac (Chief Executive Officer of the Company and General Manager and President of the Board of Directors of RCS&RDS), was indicted by the DNA in connection with the offence of money laundering.

26. CONTINGENCIES AND COMMITMENTS (continued)

The offences of bribery, of receiving bribes and the accessories to such offenses under investigation are alleged to have been committed through the 2009 joint-venture between RCS&RDS and Bodu SRL with respect to the events hall in Bucharest in relation to agreements between RCS&RDS and LPF with regard to the broadcasting rights for Liga 1 football matches, while the offences of money laundering and accessory to money laundering are alleged to have been perpetrated through RCS&RDS's acquisition of the Bodu S.R.L. events hall in 2016.

On 22 August 2017, the DNA sent to court under the judiciary control Mr. Ioan Bendei in connection with the offences of bribery and accessory to money laundering, RCS&RDS in connection with the offences of bribery and money laundering, INTEGRASOFT S.R.L. in connection with the offence of accessory to money laundering, Mr. Mihai Dinei in connection with the offences of accessory to bribery and accessory to money laundering, and Mr. Serghei Bulgac in connection with the offence of money laundering. The DNA has also requested the Bucharest Tribunal to maintain the preventive and precautionary measures instituted by the DNA, including the attachment of the two real estate assets pertaining to RCS&RDS to secure an amount of up to Lei 13,714,414 (approximately € 3 million) that was instituted by the DNA on 25 July 2017, as well as of the judicial control with respect to Mr. Ioan Bendei instituted on 7 June 2017.

Mr. Ioan Bendei contested, amongst others, the judicial control imposed by the DNA. On 31 August 2017, based on the final decision published by the Bucharest Court of Appel, the court decided by final ruling to revoke the judicial control measure imposed by the DNA with respect to Mr. Ioan Bendei, with the consequence that the obligations and the communication restrictions imposed by the DNA on 7 June 2017 are no longer applicable.

INTEGRASOFT S.R.L., RCS&RDS, and their officers have also submitted other preliminary requests and objections against the allegations brought by the DNA in court. On 16 November 2017, the Bucharest Tribunal rejected all these requests and objections. On 2 March 2018, the Bucharest Court of Appeal rejected the appeal filed by INTEGRASOFT S.R.L., RCS&RDS's and their officers. The file was returned to the Bucharest Tribunal (as the initially invested court) for judgment on the substance. The first hearing in front on the Bucharest Tribunal will take place on 4 April 2018.

We strongly believe that RCS&RDS, INTEGRASOFT S.R.L. and their current and former officers have acted appropriately and in compliance with the law, and we strongly restate that we will continue to defend against all the above allegations.

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.

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. 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. The 2 years commitment period expired in November 2017. During the term of the commitments, RCS&RDS has provided to the RCC, upon request, business information, and has commissioned and periodically provided to the authority independent market studies on the evolution of the mobile telephony sector. Even though the monitoring period has ended, the mobile telephony operators will continue to be bound by the legal obligation non to discriminate between on-net and off-net calls.

26. CONTINGENCIES AND COMMITMENTS (continued)

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, given that 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, but not-binding recommendation for 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.’s challenge against the RCC’s decision was rejected as ungrounded by the Bucharest Court of Appeal, but Antena TV Group S.A. filed a higher appeal against the first court’s award 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 + 6.2% p.a., 3M EURIBOR + 6.2% p.a. or 3M ROBOR + 6.2% 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 and Hungary;
- 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, Spain, Italy.

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

26. CONTINGENCIES AND COMMITMENTS (continued)

Minimum lease payments under operating lease agreements (both non-cancellable and cancellable but which are not expected to be cancelled) are as follows:

	2017	**2016**
Less than one year	22,422	27,339
Between one and five year	51,526	50,332
More than five years	20,871	14,941
	94,819	**92,612**

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 500 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 1,879 (2016: EUR 1,396).

Capital expenditure

The capital expenditure the Group has assumed until 31 December 2017 is mostly made of commitments for the purchase of mobile and fixed network equipment amounting to approximately EUR 54,052 (31 December 2016: EUR 85,642).

Satellite capacity expenses

The Group has committed under the long term agreement with Intelsat, the satellite solution provider, to use until November 2022 the contracted services and to pay monthly equal fees cumulating to EUR 26,689 (31 December 2016: EUR 7,373).

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 12,325 (31 December 2016: EUR 15,452).

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 17,928 (31 December 2016: EUR 20,324).

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 5,565 (31 December 2016: EUR 5,843).

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 11,751 (31 December 2016: EUR 13,318).

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 2,189 (31 December 2016: EUR 2,505).
3800 MHz spectrum fee

The Group has committed to pay an annual fee to the Hungarian Communication Authority for the 3*800 MHz* radio spectrum license awarded until June 2034 inclusively, amounting to a cumulated value of EUR 5,874 (31 December 2016: nil).

Sports rights and TV films and documentaries

As of 31 December 2017, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 23,425 (31 December 2016: EUR 49,167).

Letters of guarantee and letters of credit

As of 31 December 2017, there were bank letters of guarantee and letters of credit issued in amount of EUR 20,237 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2016: EUR 11,375).

27. SUBSEQUENT EVENTS

On 1 February 2018, RCS & RDS S.A. (the Company's subsidiary in Romania – „RCS&RDS"), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.'s subsidiary in Hungary – „Digi Kft."), as the borrowers, the Company, as a guarantor, Citibank N.A., London Branch and ING Bank N.V. as the arrangers, ING Bank N.V. as the facility agent, and several other financial institutions as the lenders have concluded a syindicated loan providing for three facilities in HUF, RON and EURO currencies (the „2018 Syndicated Facility").

The 2018 Syndicated Facility is a medium-term loan agreement that partially refinances the 2017 Bridge Loan. The 2018 Syndicated Facility replaces the 2017 Bridge Loan for a corresponding value of approximately EUR 163,000 equivalent.

The 2018 Syndicated Facility is meant to be used partially for the financing of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt. The remainder is intended to be used for general corporate purposes and/or capital expenditures.

The 2018 Syndicated Facility has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

On 9 March 2018, the availability under the existing 2018 Syndicated Facility was increased with an additional amount of approximately EUR 16,000 equivalent. Therefore, the total current availability under the 2018 Syndicated Facility is of approximately EUR 179,000 equivalent.

In March 2018, RCS & RDS acquired 2 floors from the headquarters building in amount of EUR 2,500, the rest of the building being still part of the existing sale and leaseback agreement.

For developments in legal proceedings in which the Group was involved (both as a plaintiff and a defendant), subsequent to 31 December 2017, please refer to Note 26.

(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.

	2017	**2016**
Revenues	**916,551**	**842,755**
Operating profit	115,399	79,264
Depreciation, amortization and impairment	171,812	176,370
EBITDA	**287,211**	**255,634**
Loss from sale of discontinued operations (Note 21)	-	674
Other income	(2,509)	-
Other expenses	2,820	6,969
Adjusted EBITDA	**287,522**	**263,277**
Adjusted EBITDA (% of revenue)	*31.40%*	*31.24%*

For breakdown of depreciation, amortization and impairment refer to Notes 5 and 6(a) and 6(b).

During 2017 we recorded EUR 2,603 IPO related costs (presented as Other expenses) out of which EUR 2,353 were recovered from the selling shareholders in the IPO (presented as Other income). Mark-to-market loss from fair value assessment of energy trading contracts of EUR 217 is also presented as Other expenses in the year ended 31 December, 2017.

Other income includes the IPO related costs recovered from the selling shareholders as well as income from the disposal of Digi SAT d.o.o participation in amount of EUR 156.

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
____________	____________	____________	____________	____________	____________	____________

Stand-alone Financial Statements for the year ended 31 December 2017

DIGI COMMUNICATIONS N.V.

STAND-ALONE FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
for the year ended 31December 2017

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GENERAL INFORMATION

Directors:

Serghei Bulgac

Bogdan Ciobotaru

Valentin Popoviciu

Piotr Rymaszewski

Sambor Ryszka

Marius Catalin Varzaru

Zoltan Teszari

Registered Office:

DIGI Communications N.V.

Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5,
Bucuresti, Romania

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

	Notes	31 December 2017	31 December 2016	1 January 2016
ASSETS				
Non-current assets				
Financial assets	4	45,992	43,886	42,319
Long-term loan receivable	5	358,474	358,474	450,000
Available for sale financial assets (AFS)	6	42,146	-	43,373
Total non-current assets		**446,612**	**402,360**	**535,692**
Current assets				
Trade and other receivables	7	10,747	10,450	3,028
Short term loan receivable	8	4,804	18,000	18,000
Derivative financial assets	10	33,264	13,908	9,255
Cash and cash equivalents	11	31	3,634	8,942
Total current assets		**48,846**	**45,992**	**39,225**
Total assets		**495,458**	**448,352**	**574,917**
EQUITY AND LIABILITIES				
Equity	12			
Issued and paid-up share capital		6,918	51	51
Share premium		3,406	8,247	8,247
Treasury shares		(13,922)	(16,703)	(16,703)
Reserves		(3,667)	-	31,356
Retained earnings		102,967	58,271	71,909
Total equity		**95,702**	**49,866**	**94,860**
Non-current liabilities				
Bonds – long term liabilities	13	358,474	358,474	450,000
Total non-current liabilities		**358,474**	**358,474**	**450,000**
Current liabilities				
Trade and other payables		4,323	22,944	15,177
Derivative financial liabilities	10	33,264	13,908	9,255
Bonds – short term liabilities	13	3,695	3,160	5,625
Total current liabilities		**41,282**	**40,012**	**30,057**
Total liabilities		**399,756**	**398,486**	**480,057**
Total equity and liabilities		**495,458**	**448,352**	**574,917**

These stand-alone financial statements were approved by the Board of Directors on 21 March 2018 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
_____________	_____________	_____________	_____________	_____________	_____________	_____________

	Notes	2017	2016
Interest income	15	20,284	34,951
Dividend income	15	10,340	8,544
Other income	15	2,353	-
Operating expenses	16	(3,111)	(713)
Other expenses	16	(2,603)	-
Operating Profit		**27,263**	**42,782**
Finance income	17	21,913	58,322
Finance expenses	17	(39,969)	(56,232)
Net finance costs		**(18,056)**	**2,090**
Profit before taxation			
Income tax	18	(704)	(964)
Net profit for the period		**8,503**	**43,908**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Reclassification of AFS gain		-	(33,722)
Fair value movements AFS		(3,667)	2,367
Other comprehensive income for the period, net of income tax		**(3,667)**	**(31,355)**
Total comprehensive income for the period		**4,836**	**12,553**

These stand-alone financial statements were approved by the Board of Directors on 21 March 2018 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
______________	______________	______________	______________	______________	______________	______________

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

	Notes	2017	2016
Cash flows from operating activities			
Profit before taxation		**9,206**	**44,872**
Adjustments for:			
Interest expense, net	17	17,676	31,285
Equity settled share-based payments	20	1,540	-
Gain from derecognition of FV of AFS	6	-	(33,722)
Cash flows from operations before working capital changes		**28,422**	**42,435**
Increase/(Decrease) in trade receivables and other assets		(397)	(7,420)
(Increase)/Decrease in trade payables and other current liabilities		(1,599)	844
Cash flows from operations		**26,426**	**35,859**
Interest paid		(17,141)	(33,750)
Income tax paid		(1,588)	(885)
Cash flows from operating activities		**7,697**	**1,224**
Cash flow used in investing activities			
Acquisition of subsidiaries, net of cash and NCI		(1,132)	-
Acquisition of NCI while retaining control		-	(826)
Acquisition of AFS		-	(1,652)
Cash flows used in investing activities		**(1,132)**	**(2,478)**
Cash flows from financing activities			
Dividends paid to shareholders		(21,005)	(4,054)
Cash outflows from acquisition of treasury shares		(2,459)	-
Proceeds from Bonds	13	-	350,000
Proceeds from group companies borrowings	13	34,328	100,000
Repayment of Bonds	13	-	(450,000)
Borrowing payments to group companies		(21,032)	-
Cash flows used in financing activities		**(10,168)**	**(4,054)**
Net increase/(decrease) in cash and cash equivalents		**(3,603)**	**(5,308)**
Cash and cash equivalents at the beginning of the period		3,634	8,942
Cash and cash equivalents at the end of the period		**31**	**3,634**

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

	Share capital	Share premium	Treasury shares	Fair value reserve*	Retained earnings	Total equity
Balance at 1 January 2017	**51**	**8,247**	**(16,703)**	**-**	**58,271**	**49,866**
Comprehensive income for the period						
Net profit for the period	**-**	**-**	**-**	**-**	8,503	**8,503**
Fair value change for AFS (Note 6)	**-**	**-**	**-**	(3,667)	**39,170**	**35,503**
Total other comprehensive income	**-**	**-**	**-**	**(3,667)**	**47,673**	**44,006**
Total comprehensive income for the period	**51**	**8,247**	**(16,703)**	**(3,667)**	**105,944**	**93,872**
Transactions with owners, recognized directly in equity						
Contributions by and distributions to owners						
Dividends distributed (Note 12)	**-**	**-**	-	-	(6,000)	**(6,000)**
Change in share capital - increase (Note 12)	9,949	(8,247)	-	-	(1,702)	**-**
Net change in treasury shares (Note 12)	-	-	2,781	-	-	**2,781**
Difference between fair value of AFS shares received and cost of shares in subsidiaries given (Note 6)	-	3,406	-	-	-	**3,406**
Change in share capital - decrease (Note 12)	(3,082)	-	-	-	3,082	**-**
Equity-settled share-based payment transactions(Note 20)	**-**	**-**	-	-	1,643	**1,643**
Total transactions with owners	**6,867**	**(4,841)**	**2,781**	**-**	**(2,977)**	**1,830**
Balance at 31 December 2017	**6,918**	**3,406**	**(13,922)**	**(3,667)**	**102,967**	**95,702**

**Fair value reserves represent Legal reserves*

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

	Share capital	Share premium	Treasury shares	Fair value reserve*	Retained earnings	Total equity
Balance at 1 January 2016	**51**	**8,247**	**(16,703)**	**31,355**	**71,909**	**94,860**
Comprehensive income for the period						
Net profit for the period	-	-	-	-	43,908	**43,908**
Reclassification of AFS gain to profit and loss (Note 6)	**-**	-	-	(33,722)		**(33,722)**
Fair value change for AFS (Note 6)	**-**	-	-	2,366		**2,366**
Total other comprehensive income	**-**	-	**-**	**(31,356)**	**43,908**	**12,552**
Total comprehensive income for the period	**51**	**8,247**	**(16,703)**	**-**	**115,817**	**107,412**
Transactions with owners, recognized directly in equity						
Contributions by and distributions to owners						
Dividends distributed (Note 12)	**-**	**-**	-	-	(57,546)	**(57,546)**
Total transactions with owners	**-**	**-**	-	-	(57,546)	**(57,546)**
Balance at 31 December 2016	**51**	**8,247**	**(16,703)**	**-**	**58,271**	**49,866**

**Fair value reserves represent Legal reserves*

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1. CORPORATE INFORMATION

Digi Communications N.V. ("DIGI" or "the Company") is a company incorporated in Netherlands with place of business and registered office in Romania. DIGI registered office is located in Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5, Bucuresti, Romania. On 11 April 2017 the Company changed its name to Digi Communications N.V., its former name being Cable Communications Systems N.V. ("CCS")

The Company was established on March 29, 2000 and mainly acts as a holding- and finance company.

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 financial statements of the Company are included in the consolidated financial statements of Digi Group and RCS Management S.A., Bucharest, Romania.

The stand-alone financial statements were authorized for issue by the Board of Directors of DIGI on 21 March 2018.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

(a) Statement of compliance

These stand-alone financial statements for the year ended 31December 2017have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (Option 4 under Article 362 NCC from Title 9, Book 2, of the Dutch Civil Code).

For all periods up to and including the year ended 31 December 2016, the Company prepared its stand-alone financial statements in accordance with local generally accepted accounting standards (Dutch Local GAAP) and the Group prepared its consolidated financial statements in accordance with IFRS as adopted by the EU.

These financial statements for the year ended 31 December 2017 are the first the Company has prepared in accordance with IFRS. Please refer to Note 3 for information on how the Company adopted IFRS.

(b) Basis of measurement

The stand-alone financial statements have been prepared on the historical cost basis, except for available for sale financial assets and derivative financial instruments measured at fair value.

(c) Going concern assumption

Management believes that the Company will continue as a going concern for the foreseeable future.

(d) Judgements and estimates

Preparing the stand-alone financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In the process of applying the Company'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.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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 financial statements is included in the following notes:

- Note 4**:** recognition and valuation of shares swap contracts

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 6**:** measurement of available for sale financial assets
- Note 10**:** bonds embedded derivatives.

(e) Functional and presentation currency

The functional currency as well as the presentation currency for the Company's financial statements is the primary currency of the main economic transactions which influences its activity as a holding and finance company (EUR).

The stand-alone financial statements are presented in Euro ("EUR") and all values are rounded to the nearest thousand EUR except when otherwise indicated. The Company uses the EUR as a presentation currency of the stand-alone financial statements under IFRS based on the following considerations:

- management analysis and reporting is prepared in EUR;
- EUR is used as a reference currency in telecommunication industry in the European Union;
- Main debt finance instruments are denominated in EUR.

The consolidated financial statements of Digi Group and RCS Management S.A. are presented in Euros, which is the functional and presentation currency of the Company.

The following rates were applicable at various time periods according to the National Banks of Romania:

Currency	2017			2016		
	Jan – 1	Average for the year	Dec – 31	Jan – 1	Average for the year	Dec – 31
RON per 1EUR	4.5411	4.5681	4.6597	4.5245	4.4908	4.5411
USD per 1EUR	1.0510	1.1293	1.1993	1.0887	1.1070	1.0510

2.2 FIRST TIME ADOPTION OF IFRS

These financial statements, for the year ended 31December 2017, are the first the Company has prepared in accordance with IFRS as adopted by EU (option 4 as per Article 362 NCC from Title 9, Book 2, of the Dutch Civil Code). For periods up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with Dutch local generally accepted accounting practice (Local GAAP).

Accordingly, the Company has prepared financial statements which comply with IFRS as adopted by EU for year ended at 31December 2017, together with the comparative period data as at and for the year ended 31December 2016, as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016 (31 December 2015), the Company's date of transition to IFRS as adopted by EU.

2.2 FIRST TIME ADOPTION OF IFRS (continued)

This note explains the principal adjustments made by the Company in restating its Local GAAP statement of financial position as at 1 January 2016 (31 December 2015) and its previously published Local GAAP financial statements as at and for the year ended 31 December 2016:

- **Embedded derivative asset/liability**
  In the IFRS financial statements the Company recognized the embedded derivative asset related to the Senior Notes ("Bonds") issuances from 2013 and 2016. The Senior Notes 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. As per the Local GAAP accounts the embedded derivative asset was not recognized.
  The proceeds from the 2013 and 2016 Bonds were provided to RCS & RDS SA through a Proceeds Loan from 4 Nov 2013 amended and restated in October 2016, which includes similar covenants. Therefore, a corresponding embedded derivative liability was recognized in the IFRS financial statements. As per the Local GAAP accounts the embedded derivative liability was not recognized.

- **Available for sale financial assets ("AFS")**
  In the IFRS financial statements AFS were valuated and recognized at fair value. In the Local GAAP accounts AFS were recognized at cost.

For details regarding the Equity and Total comprehensive income reconciliation, please see Note 3.

2.3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are summarized below:

Foreign currency transactions, assets and liabilities
Foreign currency transactions in the reporting period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Foreign currency transactions in the reporting period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognized in the income statement.

Financial instruments

(i) Non-derivative financial assets

The Company initially recognises financial assets on the date that the Company 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.

The Company classifies non-derivative financial assets into the following categories: investments in subsidiaries, loans and receivables, cash and cash equivalents and available-for-sale financial assets.

Financial assets (Investments in subsidiaries)
The investments of the Company in the shares of its subsidiaries are measured at cost in its standalone financial statements, as allowed by IAS 27.

At each year-end the Company reviews the value of its investments for impairment, by considering mainly the comparison of cost to net asset value of the respective subsidiary/sub-group, as well as the profitability of the respective subsidiary/sub-group.

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 loan receivables and trade and other receivables.

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. Due to the fact that all loans and receivables relate to subsidiaries within the Group or with related parties, the assessment considers the age of the balance but more importantly the current and projected profitability of the respective subsidiary/sub-group (taking into consideration also any major trends or risks which are likely to affect it) and similar information available about the related parties.

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 Company. If a future write-off is later recovered, the recovery is recognized in profit or loss.

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. Bank overdrafts, if any, are shown within borrowings in current liabilities on the balance sheet. Cash and cash equivalents are stated at face value.

Cash and cash equivalents in the 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.

For available-for-sale financial assets, the Company 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 Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI. Impairment losses for an impaired available-for-sale equity instrument are not reversed through profit or loss, but only through OCI.

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows 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 Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company 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

The Company initially recognises financial liabilities on the date that the Company becomes a party to the contractual provisions of the instrument.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

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 issued bonds and trade and other payables.

The Company 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 (Class A shares) between shareholders are considered completed at the date the transfer of ownership has been agreed upon by the parties in a written contract. Transactions with the B shares are trading on the stock exchange and are consider completed at the transaction date.

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.

Share and repurchase agreements related to treasury shares do not result in the derecognition of the respective treasury shares and do not affect their valuation.

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.

(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.

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for separately if all the below conditions are met:
(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

The accounting treatment for a separated embedded derivative is the same as for a standalone derivative, being recorded in the statement of financial position at fair value with all changes in value being recognised in profit or loss.

The Company has multiple embedded derivatives according to the bond contract (mainly due to early prepayment options) and the exact mirror terms are included in the loan granted to RCS&RDS SA, therefore both embedded derivatives have the same value.

The fair value of the options embedded in the issued bonds is 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.

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 Company 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 Company has no legal or constructive obligation to pay future contributions if the state managed funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Its only obligation is to pay the contributions as they fall due and if it ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years.

Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

The Company does not operate any other pension schemes or post-employment benefit plans.

Share based payment transactions

Certain members of the management team and certain employees of the Company receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments (‘equity- settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date on which they are granted, as evidenced by their market price.

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of equity-settled transactions for management or employees of the Company is recognized as "Salaries and related taxes" expense, together with a corresponding increase in retained earnings, 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 period'). The cost of equity-settled transactions for management or employees of the controlled subsidiaries are recognized as an increase in the cost of the investment in the respective subsidiary/sub-group, together with a corresponding increase in retained earnings, 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 period').

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 Company's best estimate of the number of equity instruments that will ultimately vest. The expense 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.

Service and performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed by the Company as best estimate of the number of equity instruments that will ultimately vest. Performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service / performance conditions.

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 vested 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, the minimum expense recognized is the grant date fair value of the unmodified award, provided that the original terms of the award are met. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment transaction, 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 through profit or loss. 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). In 2017 a new share option plan was applied for certain management members and certain employees.

Revenue

Revenue arising from the use by others of the Company's assets are recognised when:
(a)it is probable that the economic benefits associated with the transaction will flow to the entity; and
(b)the amount of the revenue can be measured reliably.

Interest is recognised using the effective interest method.

The effective interest method is the method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Dividends are recognised when the Company's right to receive payment is established.

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 Company 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 Company 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 Company 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 Company 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.

Segment reporting

As the Company only performs holding-type activities it only has one operating segment

Subsequent events

Post period-end events that provide additional information about the Company's position at the reporting date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post period-end events that are not adjusting events are disclosed in the notes, when material.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company does not plan to adopt these standards early.

- **IFRS 9 Financial Instruments: Classification and Measurement**
  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.

  Classification and measurement
  IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).
  The financial assets available-for-sale of the Company will be designated as financial assets at fair value through OCI under IFRS 9. In this case, the fair value gain or losses would not be recycled through profit and loss upon derecognition, and there will be no impairment accounting.
  There are no other anticipated changes to classification and measurement arising from the implementation of IFRS 9.

  Impairment
  The new impairment model requires the recognition of impairment allowances based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. Financial assets measured at amortized cost will be subject to the impairment requirements of IFRS 9. In general, the application of the expected credit loss model will result in earlier recognition of credit losses and increase the amount of loss allowance recognized for the relevant items.
  The impact on the financial statements of the Company due to the new requirements of IFRS 9 will result from applying the probability of default and the loss given default to balances with Group companies and related parties.
  With respect to cash and cash equivalent amounts, due to the fact that the Company's exposure is towards banks with very low probability of default there would be no allowance to be recorded as the amounts will be immaterial.

  The Company will apply retrospectively IFRS 9 but will not restate the comparative period, as permitted by IFRS 9.

- **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. Given the nature of the Company's revenues there will be no significant impact on the Company's financial position or performance.

- **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. Given the nature of the Company's revenues there will be no significant impact on the Company's financial position or performance.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED (continued)

- **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. Management has assessed that this standard will have no significant impact on the Company's financial position or performance.

- **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. The amendments have not yet been endorsed by the EU. Management has assessed that this amendment will not have an impact on the financial position or performance of the Company.

- **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. Management has assessed that this amendment will not have an impact on the financial position or performance of the Company.

- **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 Company does not hold investment property.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. Management has assessed that this amendment will not have an impact on the financial position or performance of the Company.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. These amendments have no impact on the Company's financial statements.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED (continued)

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. For the moment the Company had no transactions in scope of these amendments.

- **IFRIC INTERPRETATION 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. This interpretation has no impact on the Company's financial statements as the Company was already applying this treatment.

- 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 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. Management has assessed that these improvements will not have an impact on the financial position or performance of the Company.

➢ ***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.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that this interpretation will not have an impact on the financial position or performance of the Company.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Management has assessed that these improvements will not have an impact on the financial position or performance of the Company.

➢ ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

➢ ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

➢ ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

3. FIRST-TIME ADOPTION OF IFRS RECONCILIATIONS

Company's reconciliation of Equity as at 1January 2016

	Notes	Local GAAP	Adjustments	IFRS EU 1January 2016
ASSETS				
Non-current assets				
Financial assets		42,319	-	42,319
Long-term loan receivable		450,000	-	450,000
Available for sale financial assets (AFS)	A	12,017	31,356	43,373
Total non-current assets		**504,336**	**31,356**	**535,692**
Current assets				
Trade and other receivables		3,028	-	3,028
Short term loan receivable		18,000	-	18,000
Derivative financial assets	B	-	9,255	9,255
Cash and cash equivalents		8,942	-	8,942
Total current assets		**29,970**	**9,255**	**39,225**
Total assets		**534,306**	**40,611**	**574,917**
EQUITY AND LIABILITIES				
Equity				
Issued and paid-up share capital		51	-	51
Share premium		8,247	-	8,247
Treasury shares	C	(17,874)	1,171	(16,703)
Reserves	A	-	31,356	31,356
Retained earnings	C	73,080	(1,171)	71,909
Total equity		**63,504**	**31,356**	**94,860**
Non-current liabilities				
Bonds – long term liabilities		450,000	-	450,000
Total non-current liabilities		**450,000**	**-**	**450,000**
Current liabilities				
Trade and other payables		15,177	-	15,177
Derivative financial liabilities	B	-	9,255	9,255
Bonds – short term liabilities		5,625	-	5,625
Total current liabilities		**20,802**	**9,255**	**30,057**
Total liabilities		**470,802**	**9,255**	**480,057**
Total equity and liabilities		**534,307**	**40,611**	**574,917**

Notes

Note A: As per IFRS, AFS were valued at fair value at the end of period in amount of EUR 43,373. As per Local GAAP, AFS was recognized at cost. The difference between the fair value and cost was recognized in Reserves. For details about fair value measurement and AFS, please see Note 6.

Note B: Embedded derivatives of EUR 9,255 related to the bond (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). As per IFRS, the Company recognized a separate financial asset. As per Local GAAP, no separate financial asset was recognized.

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

3. RECONCILIATIONS RELATED TO FIRST-TIME ADOPTION OF IFRS (continued)

The Company remitted the proceeds from the 2013 Bonds to RCS & RDS, as borrower, through a Proceeds loan agreement dated November 4, 2013 ("Proceeds Loan"). The Proceeds Loan agreement has similar covenants to the 2013 Bonds Indenture. Therefore, we recognized a corresponding embedded derivative liability of EUR 9,255 related to the Proceeds Loan. As per Local GAAP, no separate financial liability was recognized.
For detailed about fair value measurement and embedded derivative, please see Note 20 and 22.

Note C: A reclassification between Treasury shares and Reserves was made as per IFRS.

Company's reconciliation of Equity as at 31 December 2016

	Notes	Local GAAP	Adjustments	IFRS EU 31 December 2016
ASSETS				
Non-current assets				
Financial assets		43,886	-	43,886
Long-term loan receivable	A	350,000	8,474	358,474
Available for sale financial assets (AFS)		-		-
Total non-current assets		**393,886**	**8,474**	**402,360**
Current assets				
Trade and other receivables		10,450	-	10,450
Short term loan receivable		18,000		18,000
Derivative financial assets	B	-	13,908	13,908
Cash and cash equivalents		3,634	-	3,634
Total current assets		**32,084**	**13,908**	**45,992**
Total assets		**425,970**	**22,382**	**448,352**
EQUITY AND LIABILITIES				
Equity				
Issued and paid-up share capital		51	-	51
Share premium		8,247	-	8,247
Treasury shares	C	(17,874)	1,171	(16,703)
Reserves		-	-	-
Retained earnings	C	59,442	(1,171)	58,271
Total equity		**49,866**	**-**	**49,866**
Non-current liabilities				
Bonds – long term liabilities	A	350,000	8,474	358,474
Total non-current liabilities		**350,000**	**8,474**	**358,474**
Current liabilities				
Trade and other payables		22,944	-	22,944
Derivative financial liabilities	B	-	13,908	13,908
Bonds – short term liability		3,160	-	3,160
Total current liabilities		**26,104**	**13,908**	**40,012**
Total liabilities		**376,104**	**22,382**	**398,486**
Total equity and liabilities		**425,970**	**22,382**	**448,352**

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

3. RECONCILIATIONS RELATED TO FIRST-TIME ADOPTION OF IFRS (continued)

Notes

Note A: The fair value of the embedded derivatives related to the 2016 Bonds was also assessed at inception date, in October 2016, in amount of EUR 8,474. It was recognized as Long term loan receivable (from Proceeds Loan) with a corresponding increase in the Bond liability.
Note B: Embedded derivatives of EUR 13,908 related to the bond (the 2016 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). As per IFRS, the Company recognized a separate financial asset. As per Local GAAP, no separate financial asset was recognized. For details about fair value measurement and embedded derivative, please see Note 20 and 22.
The Company remitted the proceeds from the 2016 Bonds to RCS & RDS, as borrower, through a Proceeds loan agreement dated November 4, 2013 amended and restated in October 2016. The Proceeds Loan agreement has similar covenants to the 2016 Bonds Indenture. Therefore, we recognized a corresponding embedded derivative liability of EUR 13,908 related to the Proceeds Loan. As per Local GAAP, no separate financial liability was recognized.
For detailed about fair value measurement and embedded derivative, please see Note 20 and 22.

Note C: A reclassification between Treasury shares and Reserves was made as per IFRS.

Company's reconciliation of Total Comprehensive Income for the period ended 31 December 2016

	Notes	Local GAAP	Adjustments	IFRS EU 31December 2016
Interest income		34,951	-	34,951
Dividend income		8,544	-	8,544
Operating expenses		-	-	-
Other expenses		(713)	-	(713)
Operating Profit		**42,782**	-	**42,782**
Finance income	A;B	-	58,322	58,322
Finance expenses	B	(31,632)	(24,600)	(56,232)
Net finance costs		**(31,632)**	**33,722**	**2,090**
Profit before taxation		**11,151**	**33,722**	**44,873**
Income tax		(964)	-	(964)
Net profit for the period		**10,186**	**-**	**43,908**
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Reclassification of AFS gain	A	-	(33,722)	(33,722)
Change in fair value AFS			2,367	2,367
Other comprehensive income for the period, net of income tax		**-**	**(31,355)**	**(31,355)**
Total comprehensive income for the period		**10,186**	**(31,355)**	**12,553**

Notes

Note A: The 2016 dividend distributions consisted of EUR 10,154 cash and EUR 47,392 distribution in kind representing all the available-for-sale shares in RCSM. 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) and accordingly reclassified from OCI.

3. RECONCILIATIONS RELATED TO FIRST-TIME ADOPTION OF IFRS (continued)

Note B: When the 2016 Bonds were issued, the 2013 Bond embedded derivative was derecognized and the new 2016 Bond embedded derivative was recognized. The net effect gain on 2013 Bond embedded derivative in 2016 was 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. Since the Proceeds Loan contain similar covenants to the Bonds indenture, a corresponding entry was recognized as expenses/revenues.

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

4. FINANCIAL ASSETS

Changes in investments in subsidiaries are presented below:

	Investments in subsidiaries
Opening balance 1 January 2016	**42,319**
Additions	1,567
Closing balance 31 December 2016	**43,886**
Additions	4,210
Disposals	(2,205)
Share based plan	101
Closing balance 31 December 2017	**45,992**

Investments in group companies

The Company's investments in group companies comprise the following:

Name	Registered office	Ownership 31December 2017	Ownership 31 December 2016	Ownership 1 January 2016	Acquisition cost 31 December 2017
RCS&RDS S.A.	Bucharest, Romania	93.58%	96.13%	87.65%	45,874,841
Lexin Hvar B.V.	Amsterdam, the Netherlands	95.00%	95.00%	95.00%	15,550
Total					**45,890,391**

5. LONG TERM LOAN RECEIVABLE

	Amounts due from Group Company
Opening balance 1 January 2016	**450,000**
Repayments	(100,000)
Fair value at inception for embedded derivative	8,474
Closing balance 31 December 2016	**358,474**
Changes	-
Closing balance 31 December 2017	**358,474**

According to the Proceeds Loan Agreement concluded between RCS&RDS S.A. and the Company on November 4, 2013, in the amount of EUR 450,000,000, the loan was due on October 17, 2020. The loan had an interest of 8.062% per annum. In October 2016, RCS&RDS S.A. has concluded an amended and restated proceeds loan agreement with the Company for an amount of EUR 350,000,000 and bears interest at 5.562%. The loan is due on September 2023.

The fair value of the embedded derivatives related to the 2016 Bonds was also assessed at inception date, in October 2016, in amount of EUR 8,474. It was recognized as Long term loan receivable (from Proceeds Loan) with a corresponding increase in the Bond liability.

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

6. AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

	31 December 2017	31 December 2016	1 January 2016
Balance at 1 January	**-**	**43,373**	**11,167**
Additions	45,813	1,652	850
Fair value adjustment - OCI	(3,667)	2,367	31,356
Non-cash distribution of dividends (Note 12)	-	(47,392)	-
Balance at 31 December	**42,146**	**-**	**43,373**

The above available for sale financial assets comprise shares in RCS Management S.A. As at 31 December 2017 the percentage of ownership of Digi in RCSM is 9.0% (31 December 2016 was nil; 1 January 2016 was 9.17%).

In 2016, dividend distributions consisted of EUR 10,154 cash and EUR 47,392 distribution in kind representing all the available-for-sale shares in RCSM. 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) and accordingly reclassified from OCI.

In March 2017 share swaps agreements were concluded between the Company and several minority shareholders, through which the minority shareholders of RCSM exchanged 18,360 shares of RCSM for 17,367,832 shares in RCS&RDS and 255 shares of the Company, which became effective in April 2017. The swaps were accounted for as follows:

a) For the swap against RCS&RDS shares the difference between the weighted average cost of the RCS & RDS shares swapped and the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed below) was credited to retained earnings, as this was effectively a transaction with owners (being a transaction with owners of the Company's parent, RCSM).
b) For the swap against treasury shares the difference between the weighted average cost of the treasury shares and the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed below) was credited to share premium.

The market value of the shares was determined up to the end of 2016 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.

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment of the available for sale shares held in RCSM at year end was performed based on the quoted price/share of the shares of the Company as of the valuation date, adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

The decrease in the fair value of the AFS shares during 2017, as reported in OCI, is not considered to be an impairment.

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

7. RECEIVABLES

	31December 2017	31 December 2016	1 January 2016
Receivables from Related Parties	-	1	1
Amounts due from Group companies	10,478	10,442	3,028
Prepaid expenses	269	7	-
Total	**10,747**	**10,450**	**3,028**

All receivables fall due in less than one year. The fair value of the receivables approximates the book value.

Amounts due from group companies represent mainly dividends receivable.

8. SHORT TERM LOANS

The short term loans are provided to Group companies and include the following:

Name	CCY	31 December 2017	31 December 2016	1 January 2016
Loan RCS&RDS S.A	EUR	4,804	18,000	18,000
Total		**4,804**	**18,000**	**18,000**

According to the Loan Agreement for the amount of EUR 18,000 between the Company and RCS&RDS S.A., concluded on December 24, 2014, the repayment date of the loan was initially on 23 December 2015. The maturity of the loan was subsequently extended. The loan was repaid in 2017. The loan had an interest of 8.00% p.a.

On 19 May 2017 the Company granted a loan to RCS & RDS S.A. in amount of 6,500 RON with maturity date on 18 May 2018. The loan had interest of 6% p.a. The loan was repaid in 2017.

On 15 December 2017, The Company granted a loan to RCS & RDS S.A in amount of 10,000 EUR due in one year. The loan bears interest of 5.5% p.a. On 15 December 2017, RCS & RDS drew EUR 4,866 from this loan. The rest of the amount up to the maximum available commitment was not yet utilized. Until the end of the year, RCS & RDS repaid EUR 62.

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

9. RELATED PARTY DISCLOSURES

Receivables from Group companies	Object	31 December 2017	31 December 2016	1 January 2016
RCS & RDS	Proceeds Loan	358,474	358,474	450,000
RCS & RDS	Senior Secured Notes issuance costs	-	4,349	1,376
RCS & RDS	Dividend receivable	10,061	2,658	-
RCS & RDS	Interest receivable Loans	22	3,356	1,574
RCS & RDS	Short term loan	4,804	18,000	18,000
RCS & RDS	WHT Bonds	317	-	-
Lexin Hvar B.V.	Interest receivable	78	78	78
Total		**373,756**	**386,916**	**471,028**

Payables to Group companies	Object	31 December 2017	31 December 2016	1 January 2016
RCS & RDS	Prepaid interest	(757)	(1,261)	(3,023)
RCS & RDS	Other	(927)	(884)	(641)
Total		**(1,685)**	**(2,145)**	**(3,665)**

Payables to Related parties	Object	31 December 2017	31 December 2016	1 January 2016
RCS Management S.A.	Dividends	-	(5,711)	(5,628)
Zoltan Teszari	Dividends and shares	-	(647)	(565)
Other	Dividends and shares	(3)	(9,949)	(3,656)
Total		**(3)**	**(16,308)**	**(9,849)**

On January 30, 2017, the Company entered into two short-term loans with two of its minority shareholders (i) Carpathian Cable Investments S.a.R.L., for a principal amount of EUR 6,628 and (ii) Celest Limited, for a principal amount of EUR 1,504. Both loans represent converted dividends payable. The loans boar a 5% per annum interest rate. The short-term loan was repaid as at June 30, 2017.

Transactions with Group companies Revenues	Object	2017	2016
RCS & RDS	Dividend	10,340	8,544
RCS & RDS	Interest	20,284	34,951
RCS & RDS	Costs recovered	2,356	-
Total		**32,979**	**43,495**

Transactions with Group companies Expenses			
RCS & RDS	Reinvoiced costs	485	-
Total		**485**	**-**

In 2016, the cost related to 2016 Notes issuance (in amount of EUR 26,600) were passed through to RCS & RDS and presented on a net basis in the Company's stand-alone financial statements.

Transactions with Related parties	Object	2017
Selling shareholders IPO	IPO	2,353
Celest Ltd.	Interest	32
Carpathian Cable Investment S.A.R.L	Interest	142
Total		**2,527**

The transactions with related parties were insignificant during 2016.

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

10. DERIVATIVE ASSETS AND LIABILITIES

As at 31 December 2017 the Company had derivative financial assets recorded:

	31 December 2017		31 December 2016		1 January 2016	
	Fair value	**Notional**	**Fair value**	**Notional**	**Fair value**	**Notional**
Embedded derivatives asset/liability	33,264	n/a	13,908	n/a	9,255	n/a

Embedded derivative assets of EUR 33,264 are related to the bond (31 December 2016: EUR 13,908; 1 January 2016: EUR 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 we recognized a separate embedded derivative asset.

The same disclosure applies to the embedded derivative liability, resulting from the terms of the Proceed Loan to RCS & RDS SA, which mirror the terms of the bond as detailed above.

11. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
Current account ING (EUR)	2	3,634	8,942
Current account ING (RON)	27	-	-
Current account ING (USD)	1	-	-
Total	**31**	**3,634**	**8,942**

12. SHAREHOLDER'S EQUITY

12.1 Share capital

The Company's authorized share capital amounted as of 1 January 2016 and 31 December 2016 to EUR 250,000 and consisted of 250,000 ordinary shares with a nominal value of EUR 1 each.

As at 1 January 2016 and 31 December 2016, 50,594 shares were issued and fully paid-up.

	31 December 2016	1 January 2016
Ordinary Shares – Issued and Paid (No.)	50,594	50,594
Ordinary Shares – Unissued (No.)	199,406	199,406
Nominal Value	1 EUR per share	1 EUR per share
Share Capital Value (EUR thousand)	51	51

	31 December 2016		1 January 2016	
Shareholder name	**No. of shares**	**%**	**No. of shares**	**%**
RCSM	29,277	57.87%	29,277	57.87%
Teszari Zoltan	2,326	4.60%	2,326	4.60%
Carpathian Cable Investment Ltd	9,953	19.67%	9,953	19.67%
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%
Total	**50,594**	**100.00%**	**50,594**	**100.00%**

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

- 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.

These resolutions took effect 11 April 2017.

In April 2017 the Board of DIGI was authorized 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).

Therefore, as at 31 December 2017, the authorized capital of the company amounts to EUR 11,000,000. The authorized capital is divided into shares as follows:
(a) one hundred million (100,000,000) class A shares, with a nominal value of ten eurocents (EUR 0.10) each; and
(b) one hundred million (100,000,000) class B shares, with a nominal value of one
eurocent (EUR 0.01) each.

The issued and paid-up capital as at 31 December 2017 in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

12. SHAREHOLDER'S EQUITY (CONTINUED)

Class B Shares are listed on the Romanian Stock Exchange ("BVB") starting from 16 May 2017.

	31 December 2017
Class A:	
Ordinary Shares – Issued and Paid (No.)	65,756,028
Ordinary Shares – Unissued (No.)	34,243,972
Nominal Value	0.10 EUR per share
Class B:	
Ordinary Shares – Issued and Paid (No.)	34,243,972
Ordinary Shares – Unissued (No.)	65,756,028
Nominal Value	0.01 EUR per share
Share Capital Value (EUR thousand)	6,918,043

The rights attaching to the class B shares are uniform in all respects except for the voting rights to the class A shares.

At 31 December 2017, the shareholders of DIGI are as follows:

	31 December 2017	
Shareholder name	**No. of shares**	**%**
Class A:		
RCS Management S.A.	57,866,545	57.87%
Teszari Zoltan	2,280,122	2.28%
DIGI-treasury shares	5,609,361	5.61%
Total class A	**65,756,028**	
Class B:		
Shares listed on BVB	33,246,818	33.25%
DIGI - treasury shares	997,154	1.00%
Total class B	**34,243,972**	
TOTAL	**100,000,000**	

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.

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.

Being a swap transaction between RCS & RDS and the Company's shares the valuation basis chosen was the cost of the treasury shares swapped to represent the cost of the RCS&RDS shares acquired, as being the most representative and objective measure of fair value.

12.2 Dividends

In December 2015 a gross dividend of 3,500 EUR was distributed from the CCS statutory retained earnings of 2014 (2013). The related amount of dividend per share for 2015 was EUR 0.069.

In 2016 a gross dividend of EUR 57,546 was distributed from the DIGI statutory retained earnings of 2016 (2015).

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

12. SHAREHOLDER'S EQUITY (CONTINUED)

On 27 December 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.

In April 2017 the Company declared dividends of 6 million EUR for year ended 31 December 2016, which were paid at the beginning of May 2017; the related amount of dividend per share was EUR/share 0.063.

12.3 Nature and purpose of reserves

Treasury shares
Contains cost of treasury shares.

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. The fair value reserve is considered Legal reserve.

Retained earnings
Contains cumulative Retained earnings of past periods.

12.4 Stand-alone Equity Reconciliation

31-Dec-17	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
Stand-alone	**6,918**	**3,406**	**(13,922)**	**102,967**	**(3,667)**	**-**	**-**	**-**	**95,702**
Net result of the period	-	-	-	49,765	-	-	-	-	**49,765**
Retained earnings of the other subsidiaries in the Group	-	-	-	(2,830)	-	-	-	-	**(2,830)**
Revaluation reserve transfer	-	-	-	6,765	-	-	(6,765)	-	-
Reserves only in the consolidated FS	-	-	-	-	-	(29,957)	41,885	(248)	**11,680**
Impact of accounting policies difference cost vs equity method for subsidiaries	-	-	-	(17,798)	-	-	-	-	**(17,798)**
Consolidated	**6,918**	**3,406**	**(13,922)**	**138,869**	**(3,667)**	**(29,957)**	**35,120**	**(248)**	**136,519**

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

12. SHAREHOLDER'S EQUITY (CONTINUED)

31-Dec-16	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
Stand-alone	**51**	**8,247**	**(16,703)**	**58,271**	**(0)**	**-**	**-**	**-**	**49,866**
Net result of the period	-	-	-	(31,122)	-	-	-	-	**(31,122)**
Retained earnings of the other subsidiaries in the Group	-	-	-	(1,516)	-	-	-	-	**(1,516)**
Reserves only in the consolidated FS	-	-	-	-	-	(30,181)	52,284	(3,719)	**18,384**
Revaluation reserve transfer	-	-	-	9,288	-	-	(9,288)	-	-
Impact of accounting policies difference cost vs equity method for subsidiaries	-	-	-	5,553	-	-	-	-	**5,553**
Consolidated	**51**	**8,247**	**(16,703)**	**40,474**	**-**	**(30,181)**	**42,996**	**(3,719)**	**41,165**

1-Dec-16	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
Stand-alone	**51**	**8,247**	**(16,703)**	**71,909**	**31,355**	**-**	**-**	**-**	**94,860**
Net result of the period	-	-	-	1,308	-	-	-	-	**1,308**
Retained earnings of the other subsidiaries in the Group	-	-	-	(3,698)	-	-	-	-	**(3,698)**
Reserves only in the consolidated FS	-	-	-	-	-	(31,726)	46,775	(4,346)	**10,703**
Revaluation reserve transfer	-	-	-	10,461	-	-	(10,461)	-	-
Equity based payment (share option plan)	-	-	-	1,968	-	-	-	-	**1,968**
Impact of accounting policies difference cost vs equity method for subsidiaries	-	-	-	(4,487)	-	-	-	-	**(4,487)**
Consolidated	**51**	**8,247**	**(16,703)**	**77,462**	**31,355**	**(31,726)**	**36,314**	**(4,346)**	**100,654**

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

12. SHAREHOLDER'S EQUITY (CONTINUED)

12.5 Net Result Reconciliation

	2017	**2016**
Stand-alone net result	**8,503**	**43,908**
Embedded Derivative gain	19,924	4,653
Deferred tax subsidiaries	(10,288)	(5,822)
Income tax subsidiaries	(8,064)	(6,392)
Financial cost & borrowing costs related to debt refinancing 2016	-	(31,694)
Subsidiaries net results	51,956	7,130
Consolidated net result	**62,031**	**11,783**

13. BONDS-LONG TERM AND SHORT TERM DEBT

Long term portion		**Nominal interest rate**	**31 December 2017**	**31 December 2016**	**1 January 2016**
2013 Bonds	(i)	7.5% p.a.	-	-	450,000
2016 Bonds	(ii)	5% p.a.	358,474[1]	358,474[1]	-
Total long term portion			**358,474**	**358,474**	**450,000**

[1] *This amount includes fair value at inception of the 2016 Bonds in amount of EUR 8,474.*

2013 Senior Secured Notes
The Company issued on November 4, 2013 Senior Secured Notes with aggregate principal amount of EUR 450.0 million 7.50% due on November 1, 2020 (the "2013 Notes"). The 2013 Notes, were secured, by (i) substantially all of the movable assets of RCS&RDS S.A., including bank accounts, receivables, intellectual property rights, networks, equipment, inventories, insurance and proceeds related to any of the foregoing, (ii) certain shares of the Company's material subsidiaries and its own treasury shares, in each case, held by the Company and (iii) certain assets of the Company, including the shares it holds in RCS&RDS S.A., certain bank accounts and receivables under the Proceeds Loan (collectively, the "Collateral"). The Collateral was shared with several RCS & RDS's facilities. For details, please see below.

The Proceeds Loan is the loan provided by the Company to its subsidiary, RCS&RDS S.A. on November 4, 2013 in amount of EUR 450.0 million.

2016 Senior Secured Notes
On October 26, 2016 the Company issued the 2016 Notes with a value of €350.0 million falling due in 2023. The 2016 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's 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 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 other facilities of RCS & RDS. For details regarding the Collateral, please see below.

Interest is payable semi-annually in arrears in April and October of each year.

The 2013 and 2016 Notes include several redemptions options which were assessed to be closely related to the host contract.

13. BONDS-LONG TERM AND SHORT TERM DEBT (CONTINUED)

The costs that are directly related to the 2013 and 2016 Notes are recharged through the intercompany account to RCS&RDS S.A.

For details about RCS & RDS's Facilities, please refer to the Note 14 from the consolidated financial statements of Digi Group for the year ended 31 December 2017.

For details regarding Loans from Group companies, please see Note 9.

Collateral

(i) 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 of RCS & RDS, under the ING Facilities Agreement of RCS & RDS and the Citi Facilities Agreement of RCS & RDS on a paripassu 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 2017 accounted for 93.58% 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) 100% of the quota in DIGI T.S. Kft Hungary;

(e) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and

(f) 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.

On 8 August 2017, the 2016 Senior Secured Notes, were admitted to trading on the Main Securities Market of the Irish Stock Exchange. In connection with this listing, DIGI Távközlésiés Szolgáltató Korlátolt Felelősségű Társaság (the Hungarian subsidiary of RCS & RDS S.A., the Company's subsidiary) acceded as an additional guarantor under to the Indenture and the Intercreditor Agreement dated 26 October 2016 relating to the Notes, as well as under the Senior Facility Agreement dated 7 October 2016.

14. Remuneration of Board of Directors

In April 2017, the new Board of Directors was appointed for the Company.

On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions for the stock option plan for Class B Shares grant applicable to the executive Board members of the Company in 2017. A total number of 280,000 class B shares were granted as part of the stock option plan for 2017. For details, please see Note 20.

The remuneration of the Directors for year ended 31December 2017, in their quality as Digi's Board members comprises of:

	2017	2016
Short term benefits – salaries	625	-
Contributions	64	-
Total	**689**	-

Individual compensations for the Board members are presented below:

			2017			
Name		**Position**	**Gross salaries (thousand EUR)**	**Salaries contributions (thousand EUR)[1]**	**Gross salaries (thousand EUR) other functions within the Group**	**Share options (thousand EUR)[2]**
SERGHEI	BULGAC	Chief Executive Officer (Executive Director)	98	21	95	1,913
VALENTIN	POPOVICIU	Executive Director	98	21	71	522
ZOLTAN	TESZARI	President (Non-Executive Director)	98	21	-	-
BOGDAN	CIOBOTARU	Independent Non-Executive Director	82	-	71	-
PIOTR	RYMASZEWSKI	Independent Non-Executive Director	82	-	-	-
SAMBOR	RYSZKA	Non-Executive Director	82	-	150	-
MARIUS CATALIN	VARZARU	Non-Executive Director	82	-	354	-
Total			**625**	**64**	**741**	**2,435**

[1]As per the fiscal legislation, taxes were applied accordingly to the fiscal residency of the Board members.
[2] Value at grant date.

During 2017, some of the Board members have also other functions/roles with other Group companies for which they were remunerated, mainly:
Mr Ryszka is the Managing Director of Digi Hungary
Mr Varzaru is the Managing Director of Digi Spain
Mr Bulgac and Mr Popoviciu are Board members of RCS & RDS S.A.

For details regarding the share option plan, please see Note 20.

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

15. INCOME

	2017	2016
Interest income	20,284	34,951
Dividend income	10,340	8,544
Total income	**30,624**	**43,495**

Interest income includes interest received from loans granted to RCS & RDS. For details please see Note 5 and Note 8.

In April 2017 RCS & RDS declared dividends in amount of 50 million lei (EUR 11 million equivalent) from undistributed profits of the previous years. Digi's share of dividend received was recognized as dividend income.

During 2017 Digi recorded EUR 2,603 million IPO related costs (presented as Other expenses) out of which EUR 2,353 million were recovered from the selling shareholders in the IPO (presented as Other income).

16. OPERATING EXPENSES

	2017	2016
Salaries and related taxes	582	68
Contribution to pension related fund	57	-
Share-based payment expense	1,643	-
Other expenses	829	645
Total operating expenses	**3,111**	**713**

For details about the share option plan implemented in 2017, please see Note 20.

During 2017 Digi recorded EUR 2,603 million IPO related costs (presented as Other expenses) out of which EUR 2,353 million were recovered from the selling shareholders in the IPO (presented as Other income).

17. NET FINANCE COSTS

	2017	2016
Financial revenues		
Other financial revenues	21,714	58,322
	21,714	**58,322**
Financial expenses		
Interest expense	(17,676)	(31,296)
Other financial expenses	(21,800)	(24,885)
	(39,476)	**(56,181)**
Foreign exchange differences (net)	(294)	(51)
Net Financial Cost	**(18,056)**	**2,090**

The fair value movement in amount of EUR 19,356 in the embedded derivative asset valuation as at 31 December 2017 was recognized as Other financial revenues. The corresponding embedded derivative liability recognized on the balance sheet (as per the Proceeds Loan covenants) generated an equal fair value loss, recognized as Other financial expenses in the period.

For details about financial income and expenses from 2016, please see Note 3.

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

18. INCOME TAX

Up to 21 April 2017 the Company was a Dutch Tax resident. In the context of the IPO from 2017, we became a tax resident in Romania. As from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania. The Company is a Romanian tax resident having its place of effective management in Bucharest, Romania, where all the strategic and commercial decisions are made, as well as the day-to-day management is carried out.

The statutory tax rate applied in Netherlands during 2016 and up to 21 April 2017 was 25%.
The statutory tax rate applied in Romanian entities during 2017 (after 21 April 2017) was 16%.

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate (Netherlands for 2016 and Romania for 2017) applicable to the net result before tax to the income tax expense at the Company's effective income tax rate for the financial years 2017 and 2016 is as follows:

	2017	**2016**
Net profit before income tax	**9,207**	**44,872**
At statutory income tax rate of the Company (16% for 2017/25% for 2016)	1,487	11,218
Non-deductible expenses / (Non-taxable income)	(1,477)	(10,254)
Exit tax in the Netherlands for change of Company's fiscal domicile	449	-
Effect of fiscal profit of the Company in the Netherlands before moving fiscal domicile (including higher tax rate 20/25%)	225	-
Taxes in respect of prior years	20	-
Effective tax expense	**704**	**964**

19. FINANCIALRISKMANAGEMENT

The Company has exposure to the following risks from the use of financial instruments:

- credit risk
- liquidity risk
- market risk (including currency risk, and price risk).

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit risk

Credit risk exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2017	31 December 2016	1 January 2016
Trade and other receivables	7	10,747	10,450	3,028
Short term loan receivable	8	4,804	18,000	18,000
Derivative financial assets	10	33,264	13,908	9,255
Cash and cash equivalents	11	31	3,634	8,942
Long term loan receivables	5	358,474	358,474	450,000
Total		**407,320**	**404,466**	**489,225**

The carrying amount of the financial assets, net of the recorded impairment allowances, represents the maximum amount exposed to credit risk.

The EUR Bonds issued by the Company have received ratings from Moody's and S&P (B1/BB-). Since the Company is a holding company, the same ratings could be extrapolated for the long term and short term loans receivables from RCS & RDS SA.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2017	31 December 2016	1 January 2016
ING Bank	31	3,634	8,942
Total	**31**	**3,634**	**8,942**

Impairment losses

The ageing of trade and other receivables, and other assets, at the reporting date was:

	Gross	Impairment	Net	Gross	Impairment	Net	Gross	Impairment	Net
		31-Dec-17			31-Dec-16			1-Jan-16	
1. Neither past due nor impaired	10,478	-	10,478	10,442	-	10,442	3,028	-	3,028
2. Past due but not impaired	-	-	-	-	-	-	-	-	-
3. Impaired	-	-	-		-	-		-	-
Total	**10,478**	**-**	**10,478**	**10,442**	**-**	**10,442**	**3,028**	**-**	**-**

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, inter-company loans. Management monitors on a monthly basis the forecast of cash outflows and inflows in order to determine its funding needs.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2017:

	31 December 2017						
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Non derivative financial liabilities							
Bonds	358,474	416,840	8,507	8,896	17,743	381,694	-
Trade and other payables	4,323	4,323	4,323	-	-	-	-
Total	**362,797**	**421,163**	**12,830**	**8,896**	**17,743**	**381,694**	**-**

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
Non derivative financial liabilities							
Bonds	358,474	434,632	8,507	9,236	17,743	399,146	-
Trade and other payables	22,944	22,944	22,944	-	-	-	-
Total	**381,418**	**457,576**	**31,451**	**9,236**	**17,743**	**399,146**	**-**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 1 January 2016:

	1 January 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
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	450,000	615,657	11,250	23,063	34,219	547,125	-
Trade and other payables and other liabilities	15,177	15,177	15,177	-	-	-	-
Total	**465,177**	**630,834**	**26,427**	**23,063**	**34,219**	**547,125**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2017, the Company had net current assets of EUR 7,564 (31 December 2016: EUR 5,980; 1 January 2016: EUR 9,168). Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

The Company's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and to keep the Company's leverage optimized. Management believes that there is no significant risk that the Company 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, equity prices will affect the Company'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 Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RON and USD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in currencies other than the functional currencies of the Company.

The Board of Directors actively manages the exposure to RON currency only for borrowings.

The Company's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2017		31 December 2016		1 January 2016	
	USD	**RON**	**USD**	**RON**	**USD**	**RON**
Trade and other receivables	-	10,041	-	266	-	1
Cash and cash equivalents	2	6	-	-	-	-
Trade and other payables	-	(168)	(5)	(10)	(5)	(10)
Gross statement of financial position exposure	**2**	**9,879**	**(5)**	**256**	**(5)**	**(9)**

The following significant exchange rates applied for the year ended 31 December 2017:

	2017	**2016**
Romania		
USD	3.8915	4.3033
EUR	4.6597	4.5411

Sensitivity analysis for currency risk

A 10 percent strengthening of the currencies listed below against the functional currencies of the Company 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

	Effect on profit before tax	**Effect on profit before tax**	**Effect on profit before tax**
	31 December2017	**31 December 2016**	**1 January 2016**
RON	(212)	(6)	-
USD	-	-	-
Total	(212)	(6)	-

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Company 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).

Exposure to interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of the Company's borrowings as well as on the loans granted by the Company are fixed. The interest rates of borrowings are disclosed in Note 8 and 13. The interest rates of loans granted by the Company are disclosed in Notes 5 and 8.

iv) Fair values

The Company measures at fair value available for sale investments and embedded derivatives.

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:

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2017				
Available for sale financial assets	-	-	42,146	42,146
Embedded derivatives	-	-	33,264	33,264
Total	**-**	**-**	**75,410**	**75,410**

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2016				
Available for sale financial assets	-	-	-	-
Embedded derivatives	-	-	13,908	13,908
Total	**-**	**-**	**13,908**	**13,908**

	Level 1	**Level 2**	**Level 3**	**Total**
1 January 2016				
Available for sale financial assets	-	-	43,373	43,373
Embedded derivatives	-	-	9,255	9,255
Total	**-**	**-**	**52,628**	**52,628**

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Available for sale financial assets

As at 1 January 2016, available for sale assets comprised shares in RCSM, 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. 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 (1 January 2016: 1.7%).
- Risk-adjusted discount rate (1 January 2016: 8.48%).

The valuation model used was based on the Equity value of the Group, determined using DCF method.

The estimated fair value would have increased (decreased) if:

- the terminal annual revenue growth rate were higher (lower);
- the risk-adjusted discount rate were lower (higher).

As at 31 December 2016 there were no longer available for sale financial assets. For details please see Note 6.

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. As at 31 December 2017, the method of valuing RCSM's ownership in DIGI (and implicitly RCSM's equity and the Interest DIGI holds in RCSM) was based directly on the quoted price/share of DIGI, since they are actively traded.

The fair value assessment at year end was made based on the quoted price/share as of the valuation date, which is a relevant method of estimating the market value of a minority ownership in its equity.

Sensitivity analysis for available for sale financial assets

A change in the share price, and respectively of the growth rate and/ or WACC at the reporting date would have an impact as follows:

	Share price	
	10% increase	10% decrease
31-Dec-17		
Available for sale financial assets	4,180	(4,180)

	WACC		**Growth rate**	
	10% increase	10% decrease	0.50% increase	0.50% decrease
31-Dec-16				
Available for sale financial assets	-	-	-	-

	WACC		**Growth rate**	
	100 basis points increase	100 basis points decrease	50 basis points increase	50 basis points decrease
1-Jan-16				
Available for sale financial assets	(10,747)	14,484	(3,160)	8,054

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2017 is as follows:

	Available for sale (Notes 6)	**Embedded derivatives**
1 January 2017	**-**	**13,908**
Gains recognised in profit or loss for the year	-	19,356
Gains recognised in other comprehensive income	(3,667)	-
Purchases	45,813	-
31 December 2017	**42,146**	**33,264**

	Available for sale (Notes 6)	**Embedded derivatives**
1 January 2016	**43,373**	**9,255**
Gains recognised in profit or loss for the year	-	5,433*
Purchases	1,652	8,474*
Settlements**	(45,025)	(9,255)
31 December 2016	**-**	**13,908**

** 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).*

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

	31 December 2017		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 13)			
Bonds	350,000	376,199	Level 1

	31 December 2016		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 13)			
Bonds	350,000	372,164	Level 1

	1 January 2016		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 13)			
Bonds	450,000	477,852	Level 1

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.

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, short term loans 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 Company's objectives when managing capital are to safeguard the Company'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 gross debt to EBITDA" ratio which is computed in accordance with the Senior Notes covenants, at Group level. Currently the ratio is 2.7 (2016: 2.9), level which, as mentioned, is constantly monitored.

20. SHARE-BASED PAYMENT

In 2016 there was no share based payment plan applied (no grants were made and all previous awards vested).

On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions of the stock option plan for Class B Shares, applicable to the executive Board members of the Company. A total number of 280,000 class B shares were granted as part of the stock option plan, with vesting date in one year's time. Stock options granted to Executive Directors will be subject to performance criteria which, for the year 2017, include the (i) successful closing of the Offer and Admission, (ii) duration of employment with the Company and (iii) growth in EBITDA and in RGUs. At vesting date, the plan will be settled in shares, at no cost for the executive Board members.

In December 2017, the Board of Directors approved a stock option plan whereby a number of directors, officers and employees of certain subsidiaries of the Group in Romania were granted options to acquire for free class B shares of the Company, with up to 1.6% out from the total number of shares issued by the Company being allocated for this

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

20. SHARE-BASED PAYMENT (CONTINUED)

program. The beneficiaries will be able to exercise the stock option (the vesting) only after the lapse of one year from the grant date. Fair value at granting date was EUR 2,435.

In 2017, 1.5 million shares were granted as options to eligible employees under the share based payment plan. A total number of 2,746 employees are included in the share based payment plan. Fair value at granting date was EUR 12,387. At vesting date, the plan will be settled in shares.

In 2017, 1.5 million shares were granted as options to eligible employees under the share based payment plan. As at 31 December 2017 the related share option expense of EUR 1,541 (2016: nil) in the Statement of profit or loss and other comprehensive income in the line item Operating expenses, within salaries and related taxes (Note 16).

21. AUDIT FEES

	31-Dec-17		31-Dec-16	
	EY NL	**EY Other**	**EY NL**	**EY Other**
Statutory audit	80	-	30	-
Other audit services	-	187	-	135
Other assurance services	-	275	-	225
Non-audit services	-	-	-	11
Total	**80**	**462**	**30**	**371**

22. NUMBER OF EMPLOYEES AND EMPLOYEES COSTS

The average number of persons employed by the Company during the period ended 31December 2017 was 3 (31 December 2016: 1; 1 January 2016:1).

In April 2017 the Company changed fiscal residency and place of business to Romania. Therefore, the position in Netherlands become redundant starting with 1 June 2017.

As at 31 December 2017 the Company had 5 employees in Romania.

For employees cost, please see Note 16.

23. GENERAL COMMITMENTS AND CONTINGENCIES

(a) Contractual commitments

The Company is a Guarantor for several credit facilities of RCS & RDS S.A concluded with different banks.

For details about Collateral please see Note 13.

(b) Legal proceedings

During the financial period, the Company was involved in one court proceedings (as a defendant). 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 Company and which have not been accrued or disclosed in these financial statements. Specifically, for the litigation described below the Company did not recognize provisions as management assessed that the outcome of this litigation is not more likely than not to result in significant cash outflows for the Company.

23. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

Motion filed by certain US individuals against the Company, RCS&RDS, RCS Management S.A., DIGI Távközlésiés SzolgáltatóKft, and its subsidiary, i-TV Digitális Távközlési Zrt.

On 2 May 2017, certain individuals (William Hawkins, Eric Keller, Kristof Gabor, Justin Panchley, and Thomas Zato) (collectively, the "Plaintiffs") filed in the United States District Court for the Eastern District of Virginia – Alexandria Division (the "**US Court**") a motion to enforce a default judgment (the "**Motion**") that was issued in favour of the Plaintiffs by the US Court in the Civil Action No. 1:05-cv-1256 (LMB/TRJ) in February 2007 (the "**Default Judgment**") against Laszlo Borsy, Mediaware Corp., Media Technik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. (the predecessor to i-TV Digitális Távközlési Zrt.) (the "Defendants") jointly and severally. Additionally, the Motion sought to extend the enforcement of the Default Judgment against the following entities that were not parties to the original proceedings and not named in the Default Judgment: i-TV Digitális Távközlési Zrt.,DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A., and the Company.

The Default Judgment, of which enforcement is sought before the US Court, awarded the Plaintiffs approximately $1.8 million in damages resulting from alleged unpaid debts that appear to have been caused by Laszlo Borsy and several related entities. It also ordered that the ownership interest of Defendants Mediaware Corp., Media Technik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. be distributed to the Plaintiffs in total percentage of 56.14%. Finally, it prohibited Defendants Laszlo Borsy, Mediaware Corp., Media Technik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. from disposing of or dissipating any assets of the initial defendant entities or engaging in any corporate transactions without the consent of the Plaintiffs.

The Motion alleges that i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft. and the upstream separate companies RCS&RDS, the Company, and RCS Management S.A. violated the Default Judgment, to which these companies were not party, when, ten years ago, DIGI Távközlésiés Szolgáltató Kft. entered the share capital of DMCC Kommunikacios Rt. (i-TV Digitális Távközlési Zrt.'s predecessor).

For more than ten years after the Default Judgment was issued in 2007, the Plaintiffs filed no actual claim against i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A. or the Company. During the same period, the Plaintiffs never sought to enforce the Default Judgment against i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company in Hungary or another foreign jurisdiction. Nor did they seek to enforce the Default Judgment against any of the Defendants in their domestic countries.

We deem the Motion, which requests payment from the Defendants, i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A. and the Company, jointly and severally, of $1.8 million, plus interest, as well as other compensation, damages, fees and expenses, as vexatious for numerous legal and factual reasons. Those reasons include, but are not limited to, the lack of any actual proof of fraud on behalf of either of i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company, the Plaintiffs' passivity for more than ten years, the lack of jurisdiction of the US Court over i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, S.A., RCS Management S.A., or the Company, as well as the fact that the Motion, if granted, would go against mandatory legal provisions of any of the jurisdictions where i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company operate.

On 8 February 2018, the US Court granted the Defendants' motion to vacate and dismissed the entire lawsuit for lack of subject matter jurisdiction. The US Court also vacated all prior orders entered in the case (the "**US Court's Decision**"). The Plaintiffs filed an appeal against the US Court's Decision with the United States Court of Appeals for the Fourth Circuit (– "**Appellate Court**"). The Defendants also filed a conditional cross-appeal on multiple grounds that need only be considered if the Appellate Court reverses the US Court's Decision. The Appellate Court has not yet issued a scheduling order.

Should the Appellate Court grant the Plaintiffs' appeal in whole or in part and reject the Defendants' cross-appeal in whole or in part, the matter would return to the US Court for trial on the merits of the case.

We believe any judgment issued by the US Court against i-TV Digitális Távközlési Zrt., DIGI Távközlésiés Szolgáltató Kft., RCS&RDS, RCS Management S.A. or the Company would not be enforceable, as it would need to be first recognized in the relevant jurisdictions where these companies operate, subject to the foreign judgement's compliance with those jurisdictions' mandatory legal provisions.

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

24. SUBSEQUENT EVENTS

On 1 February 2018, RCS & RDS S.A. (the Company's subsidiary in Romania – „RCS&RDS"), DIGI Távközlésiés Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.'s subsidiary in Hungary – „Digi Kft."), as the borrowers, the Company, as a guarantor, Citibank N.A., London Branch and ING Bank N.V. as the arrangers, ING Bank N.V. as the facility agent, and several other financial institutions as the lenders have concluded a syndicated loan providing for three facilities in HUF, RON and EURO currencies (the „2018 Syndicated Facility").

The 2018 Syndicated Facility is a medium-term loan agreement that partially refinances the 2017 Bridge Loan. The 2018 Syndicated Facility replaces the 2017 Bridge Loan for a corresponding value of approximately EUR 163,000 equivalent.

The 2018 Syndicated Facility is meant to be used partially for the financing of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt. The remainder is intended to be used for general corporate purposes and/or capital expenditures.

The 2018 Syndicated Facility has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

On 9 March 2018, the availability under the existing 2018 Syndicated Facility was increased with an additional amount of approximately EUR 16,000 equivalent. Therefore, the total current availability under the 2018 Syndicated Facility is of approximately EUR 179,000 equivalent.

For developments in legal proceedings in which the Company was involved, subsequent to 31 December 2017, please refer to Note 23.

These stand-alone financial statements were approved by the Board of Directors on 21 March 2018 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executiv Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
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Other information

PROFITS, DISTRIBUTION AND LOSSES

As per the Company's Articles of Association (Article 28), from the profits, shown in the annual accounts, as adopted, the board of directors shall determine which part shall be reserved. Any profits remaining thereafter shall be at the disposal of the general meeting. The board of directors shall make a proposal for that purpose.

Distributions on the shares shall be made to each share equally, irrespective of the class and nominal value of such share. Distributions may be made only insofar as the company's equity exceeds the amount of the paid in and called up part of the issued capital, increased by the reserves which must be kept by virtue of the law.

If a loss was suffered during any one year, the board of directors may resolve to offset such loss by writing it off against a reserve which the company is not required to keep by virtue of the law.

The distribution of profits shall be made after the adoption of the annual accounts, from which it appears that the same is permitted. The board of directors may, with due observance of the policy of the company on reserves and dividends, resolve to make an interim distribution in certain circumstances.

At the proposal of the board of directors or the class A meeting, the general meeting may resolve to make a distribution on shares, which can be either (wholly or partly) in cash or in shares. At the proposal of the board of directors or the class A meeting, the general meeting may resolve that distributions are made in another currency than Euro.

The board of directors may, subject to due observance of the policy of the company on reserves and dividends and with the prior approval of the class A meeting, resolve that distributions to holders of shares shall be made out of one or more reserves.

Dividends and other distributions of profit shall be made payable in the manner and at such date(s) - within four (4) weeks after declaration thereof - and notice thereof shall be given, as the board of directors shall determine. The board of directors may determine that entitled to dividends and other distributions of profits shall be, the shareholders, usufructuaries and pledgees, as the case may be, at a record date within four (4) weeks after notification thereof. A claim of a shareholder for payment of a distribution shall be barred after five years have elapsed.

For details regarding the Company's dividend polcy, please see chapter Dividend Policy from this Annual report.

AUDIT REPORT

The Consolidated Financial Statements of Digi Group prepared in accordance with IFRS as adopted by the European Union for the year ended 31 December 2017 were audited by Ernst & Young Accountants LLP. For details about the audit report, please see the Consolidated Financial Statements included in this Annual report.

The Stand-alone Financial Statements of Digi prepared in accordance with IFRS as adopted by the European Union for the year ended 31 December 2017 were audited by Ernst & Young Accountants LLP. For details about the audit report, please see the Stand-alone Financial Statements included in this Annual report.

EY
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Independent auditor's report

To: the shareholders and board of directors of Digi Communications N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of Digi Communications N.V., based in Bucharest.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Digi Communications N.V. as at 31 December 2017 , and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and stand-alone statement of financial position as at 31 December 2017
- The following statements for 2017: the consolidated and stand-alone statements of profit or loss and other comprehensive income, cash flows and changes in equity
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Digi Communications N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Audit firms supervision act (Wet toezicht accountantsorganisaties, Wta), the Code of Ethics for Professional Auditors (Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten, ViO, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Dutch Code of Ethics (Verordening gedrags- en beroepsregels accountants, VGBA).

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

Materiality

Materiality	€8,000,000
Benchmark applied	Approximately 3.0% of earnings before interest, taxes, depreciation and amortization (EBITDA)
Explanation	The users of the financial statements of a for-profit entity typically focus on operating performance, particularly profit before tax. Over the past years Digi Communication N.V.'s profit before tax heavily fluctuated, resulting from the impact of the discontinuance of operations and other non-recurring transactions. Furthermore, we note that in Digi Communications N.V.'s external communications, earnings before interest, taxes, depreciation and amortization (EBITDA) is commonly used to report on financial performance. Considering these aspects, we have concluded that EBITDA is the most

	appropriate and stable benchmark for Digi Communications N.V. to base our materiality upon. The materiality is thereby set at €8,000,000, using a percentage of 3.0%, which is within a generally accepted range.

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

We agreed with the board of directors that misstatements in excess of €400,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Digi Communications N.V. is at the head of a group of entities. Our group audit mainly focused on group entities that are either significant based on their size or risk relative to the consolidated financial statements. All entities that have contributions to consolidated EBITDA exceeding 5% of total are included within our audit scope. This resulted into full scope audit procedures on the financial information of two entities and specific audit procedures on the financial information of one entity. The procedures performed for group entities with an audit scope represent 95% of revenue and 96% of total assets. We used the work of other EY member firms when auditing entities outside the Netherlands.

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

Our key audit matters

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

In previous year "Revaluation of property, plant and equipment" and "Useful lives of property, plant and equipment" have been identified as key audit matter. Since no material revaluation and no adjustment of useful lives occurred in 2017, these are no longer key audit matters.

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

Key audit matter	How our audit addressed the matter	Key observations
Risk of inappropriate revenue recognition given multiple sources of revenue and complexity of billing systems (refer to note 17 to the consolidated financial statements)		
The group recognized revenue from multiple sources, including rendering of cable TV (CATV) and direct-to-home TV (DTH) subscription services, provision of internet and data communication subscription services (fixed and mobile) and provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services. 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). The group's revenue recognition relies on complex IT systems, comprising of a number of interdependent interfaces and databases.	We focused our audit on those IT systems and related internal controls that are significant to the group's revenue recognition process. 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. In addition to IT audit procedures, we have analyzed 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 and we have verified that the group's accounting policies are implemented consistently as adopted.	We found that the revenue billed through these systems has been properly recognized in the financial statements 2017.
Risk of impairment of property, plant and equipment and non-current intangible assets (refer to note 5 and 6a to the consolidated financial statements)		
At 31 December 2017, property, plant and equipment and non-current intangible assets amount to €901 million and €215 million respectively, together amounting to approximately 83% of total assets presented in the statement of financial position. Property, plant and equipment require an assessment of triggering events for impairment at each reporting date, whereas goodwill is tested for impairment at least annually.	Our audit procedures included an assessment of the historical accuracy of management's estimates through retrospective review, evaluating and testing the assumptions, methodologies, the discount rates and other data used by the company, for example by comparing them to external data. This assessment included support of EY valuation experts. We evaluated the 2018 financial forecast and the solidity of	We noted the assumptions relating to the impairment models fell within the acceptable ranges. We agree with management's conclusions that no impairments are required and we concluded the disclosures in the consolidated financial statements being proportionate and in accordance with EU-IFRS.

Key audit matter	How our audit addressed the matter	Key observations
The goodwill impairment tests carried out by management are complex and require significant management judgment. The recoverable amounts of (groups of) cash-generating units (CGUs) have been determined based on fair value less costs to sell. Fair value less costs to sell was determined by discounting the expected future cash flows from continuing use of the CGU's. Management performed the annual impairment tests for goodwill and specific impairment tests for other assets when indicators had been identified. These impairment tests did not reveal impairments.	management's financial forecast process. Furthermore, we evaluated management's outlook in the explicit period as well as the long term growth rate, in particular around forecasted revenues, EBITDAs and capital expenditures. Our assessment also included sensitivity analyses. We assessed the adequacy of the disclosures included in the consolidated financial statements.	
Risk of non-compliance with covenants associated with bonds and senior facilities agreement (refer to note 14 to the consolidated financial statements and note 13 to the stand-alone financial statements)		
The availability of adequate funding and whether the group meets its financial covenants are significant for our audit, due to the relatively high leverage of the group. As of 31 December 2017, interest-bearing loans and borrowings, including bonds, amount to €730 million and total equity amounts to €143 million. 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, including bonds).	As part of our audit, we read the terms of the SFA and bonds with a particular focus on covenants clauses. Based on the audited financial information, we evaluated the group's assessment of compliance with the covenant requirements covering both quantitative and qualitative covenants as at 31 December 2017. Given the relevance of the EBITDA (earnings before interest tax, depreciation and amortization) 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. We further assessed the adequacy of the disclosures included in the notes to the consolidated financial statements.	We agree with the covenant calculations as per 31 December 2017 and we evaluated the disclosures in note 14 regarding the covenants as appropriate and in accordance with EU-IFRS.

Key audit matter	How our audit addressed the matter	Key observations
Risk of non-recoverable overdue trade and other receivables (refer to notes 10 and 23 i) to the consolidated financial statements)		
At 31 December 2017, the group records trade receivable and other receivables balances of €82 million after allowance of doubtful debtors. The identification and determination of trade receivables allowance requires management to make judgements and assumptions and represents a process with a significant level of uncertainties. 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 and historical payment patterns. The group's disclosures about trade receivables allowance are included in Note 2.2 f) (accounting policies - impairment), Note 10 (Trade and other receivables) and Note 23 (Financial risk management - i) Credit risk section) to the consolidated financial statements.	As part of our audit, we tested controls over the collection process and we tested collections from customers subsequent to year-end, on a sample basis. Additionally, we evaluated 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. This evaluation included an assessment of the historical cash collection patterns and degree of accuracy of previous allowance estimates. We reviewed the correspondence with the group's external lawyers in respect of any disputes with customers and the attempts by management to recover the amounts outstanding, where applicable. We also assessed the adequacy of the group disclosures to the consolidated financial statements.	We did not identify evidence of material misstatement in the valuation of overdue trade and other receivables and we conclude the disclosures being appropriate and in accordance with EU-IFRS.

Report on other information included in the annual report

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

- The group management report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

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

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

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

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

Report on other legal and regulatory requirements

Engagement

We were engaged by the board of directors as auditor of Digi Communications N.V. as of the audit for the year 2014 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of management and the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The non-executive members of the board of directors are responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

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

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

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

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

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

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 21 March 2018

Ernst & Young Accountants LLP

signed by F.J. Blenderman

Annex

ANNEX 1

Important Information

Cautionary Note Regarding Forward-Looking

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, 2017, 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. 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) 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 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.

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.

ANNEX 2

Corporate Governance Compliance Statement as per the BSE CGC

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
A.1.	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.	YES	YES	While the Board of Directors is not formally regulated by separate terms of reference, the composition, activity, functions and responsibilities of the Board of Directors of the Company are provided in detail within the Articles (in force since the 21 April 2017). (*See for reference Chapter VII (from clause 15 to 23) from the Articles*)
A.2.	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	YES	YES	Detailed provisions regarding the management of the conflict of interest matters regarding the Board of Directors are included in the following Company corporate regulations: clause 18 from the Articles, the Code of Conduct of the Company (applicable as of 14 May 2017), the Conflict of Interest Policy (applicable as of 14 May 2017), and the Terms of Reference of the Audit Committee (applicable as of 14 May 2017).
A.3.	The Board of Directors or the Supervisory Board should have at least five members.	YES	YES	The Board of Directors of the Company has 7 members. (*For details regarding the composition and the description of the individuals that are members of the Board of Directors, see for reference Section Board of Directors and management from this report*).
A.4.	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non- executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice.	YES	YES	5 members of the Board of Directors (out of 7) are non-executive. 2 members of the Board of Directors (out of 7) are independent non-executive directors – Bogdan Ciobotaru and Piotr Rymaszewski. The policy on the Profile for Non-Executive Directors provides for certain rules and criteria in connection with the non-executive directors *(See for reference in this respect the Company's website at* http://www.digi-communications.ro/en/corporate-governance*).*

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
A.5.	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	YES	YES	(*See for reference in this respect section 13.4 "Directors' and Senior Management's current and past directorships and partnerships" from the IPO Prospectus from 26 April 2017 - page 245*).
A.6.	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	YES	YES	(*See for reference in this respect page 143 from the IPO Prospectus from 26 April 2017 and section Corporate Governance from this report*).
A.7.	The company should appoint a Board secretary responsible for supporting the work of the Board.	YES	YES	(*See for reference in this respect Part 3 from the IPO Prospectus from 26 April 2017 – page 57*).
A.8.	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	YES	YES	According to the Terms of Reference of the Audit Committee, the Audit Committee performs such evaluation. The valuation of the year 2017 was presented by the Audit Committee to the Non-executive and the Executive members of the Board during the meeting from 6 March 2018.
A.9.	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	YES	YES	*(See for reference Section Corporate Governance from this report)*
A.10.	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	YES	YES	*(See for reference Section Corporate Governance from this report)*
A.11.	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the Nomination Committee should be independent.	YES (PARTIALLY)	YES (PARTIALLY)	The directors are appointed following a nomination made by the Class A Meeting, instead of a nomination proposal by the nomination committee established by the Board of Directors and consisting of non-executive directors. The good corporate governance sought by the BSE CGC is achieved by applying this nomination procedure, as the Class A Meeting takes into account that the Board of Directors should be composed such that the requisite expertise, background, competences and—as regards certain of the non-executive directors—independence are present for them to carry out their duties properly.

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
B.1.	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	YES (PARTIALLY)	YES (PARTIALLY)	The Audit Committee of the Company is formed by 3 non-executive members. The Audit Committee is formed by qualified individuals, with auditing, financial and management experience. (*See for reference in this respect section Corporate Governance from this report*). 2 out of the 3 members of the Audit Committee are independent non-executive Board members.
B.2.	The Audit Committee should be chaired by an independent non-executive member.	NO	NO	The Audit Committee is not an independent director, as required by the BSE CGC. The shareholders of the Company have approved Marius Varzaru as the chairman of the Audit Committee due to his audit and accounting experience prior to joining the Company, and due to his extensive knowledge of the Company's and its affiliates' operations. Nonetheless, the good corporate governance sought by the BSE CGC is achieved by having the majority of the Audit Committee members being independent and high standard terms of reference being applied to the work of the Audit Committee.
B.3.	Among its responsibilities, the Audit Committee should undertake an annual assessment of the system of internal control.	YES	YES	*(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at* http://www.digi-communications.ro/en/corporate-governance*)*
B.4.	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	YES	YES	*(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at* http://www.digi-communications.ro/en/corporate-governance *and the description of the Audit Committee's activity in 2017 in section Corporate Governance from this report)*
B.5.	The Audit Committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	YES	YES	This assessment was performed by the Audit Committee and the other non-executive members of the Board of Directors on a case by case basis.
B.6.	The Audit Committee should evaluate the efficiency of the internal control system and risk management system.	YES	YES	This assessment was performed by the Audit Committee during the meetings that have taken place in 2017. *(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at* http://www.digi-communications.ro/en/corporate-governance *and the description of the Audit Committee's activity in 2017 in section Corporate Governance from this report)*

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
B.7.	The Audit Committee should monitor the application of statutory and generally accepted standards of internal auditing. The Audit Committee should receive and evaluate the reports of the internal audit team.	YES	YES	This assessment was performed by the Audit Committee during the meetings that have taken place in 2017. *(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at* http://www.digi-communications.ro/en/corporate-governance *and the description of the Audit Committee's activity in 2017 in section Corporate Governance from this report)*
B.8.	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards	YES	YES	The Audit Committee submitted to the Board a summary on the Audit Committee's activity in 2017, comprising main findings. Other ad-hoc reporting was performed during the year. Also, whenever necessary during the year, the Audit Committee reported to the Board of Directors particular matters that called for the Board of Directors' attention, care or decision.
B.9.	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	YES	YES	There are numerous provisions in the Articles and in the other corporate governance documents of the Company precluding from any preferential treatment between the Company and one shareholder with regard to entering into transactions and agreements. The Board of Directors of the Company has also adopted a Policy on Bilateral Contacts with the Shareholders. *(See for reference in this respect the Company's website at* http://www.digi-communications.ro/en/corporate-governance*).*
B.10.	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	YES (PARTIALLY)	YES (PARTIALLY)	Formally, there is no separate policy regarding the transactions that the Company can enter into. However, the Articles contain for detailed provisions regarding the approval requirements for the entering by the Company into agreements and transactions (*for example, see for reference clause 19 from the Articles*).
B.11.	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	NO	YES	As of 1 April 2018, the internal audit function will be ensured by a selected individual who was appointed Internal Audit Director of the Company.
B.12.	To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	N/A (internal audit function not available)	YES (internal audit function available as of 1 April 2018)	The relationship between the internal audit function and the Audit Committee is described and regulated in detail in the Terms of Reference of the Audit Committee *(See for reference in this respect the Company's website at* http://www.digi-communications.ro/en/corporate-governance*).*

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
C.1.	The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. […] Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.	YES	YES	The Company has approved a Remuneration Policy and the Terms of Reference of the Remuneration Committee *(See for reference in this respect the Company's website at* http://www.digi-communications.ro/en/corporate-governance*).* (*For details regarding the duration of each Board members' mandate and remuneration, see for reference Section Corporate Governance from this report).*
D.1.	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	NO	NO	Currently, the IR function of the Company is covered by several executive and non-executive members of the Board of Directors, by the Chief Financial Officers of the Company and by the Company Secretary. The Company is considering setting up a specialized in-house IR function, and is currently prospecting the market for most suitable candidates.
D.1.1.	Principal corporate regulations: the articles of association, general shareholders' meeting procedures.	YES	YES	The Articles contain detailed provisions on the corporate rules of the Company (including regarding the procedures of the general shareholders' meeting).

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
D.1.2.	Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	YES	YES	(*See for reference in this respect section 13.4 "Directors' and Senior Management's current and past directorships and partnerships" (page 245) and the section "Biographical Details of the Directors" from the IPO Prospectus from 26 April 2017 (page 135)*).
D.1.3.	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non- compliance with the present Code;	YES	YES	All such (current and periodic) reports are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares*.
D.1.4.	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	YES	YES	As of the date of the IPO and up to the date of this report, there was no Company's shareholders' meeting. The only shareholders' meeting convened by the Board of Directors is the shareholders' meeting called to approve, amongst others, this annual report.
D.1.5.	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	N/A	N/A	The Company properly informed its investors and its shareholders on any information in connection with its activity of relevance to the market. The Company does not deem that any of the reports that it issued to the market fits in any of the scenarios provided at this point D.1.5. For more details regarding all such (current and periodic) reports, see for reference the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares*
D.1.6.	The name and contact data of a person who should be able to provide knowledgeable information on request;	YES	YES	Smaranda Ștreangă (Co-Chief Executive Officer) and Carmen Oțelea (Secretary of the Board) - *ipo.relations@digi-communications.ro*
D.1.7.	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	YES	YES	All such (current and periodic) reports are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations*.*http://www.digi-communications.ro/en/investor-relations/shares*

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
D.2.	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.	YES	YES	The Reserves and Dividend Policy of the Company is accessible on the Company's website – *http://www.digi-communications.ro/en/see-file/Digi-Communications-NV-Dividend-policy-ENG.pdf*. Also, regarding the dividend policy, see for reference the Company's disclosures in section "Dividend Policy" from the IPO Prospectus from 26 April 2017 (page 185).
D.3.	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.	NO	NO	Neither the Company nor the Group subsidiaries have adopted formal policies with respect to forecasts. Also, forecasts are not made with a periodical regularity. However, the Company and/or its Group subsidiaries perform either *ad-hoc* and/or occasional forecasting based on relevant assumptions. Such forecasts (such as the business plans) are prepared either upon request from external partners (e.g., lending banks, regulatory authorities, etc.) or for internal analytical purposes (e.g., for assessing CAPEX previsions, etc.).
D.4.	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next general meeting of shareholders.	YES	YES	Clause 32 from the Articles of the Company provides for the freedom of any shareholder to attend a general shareholders' meeting. For more details and the conditions applicable to any shareholder's participation and voting, see for reference all provisions from clause 32 onwards from the Articles.
D.5.	The external auditors should attend the shareholders' meetings when their reports are presented there.	N/A	N/A	As of the date of the IPO and up to the date of this report, there was no Company's shareholders' meeting convened to approve for the external auditors' report. The Company does not restrict the participation of the external auditors at the general shareholders' resolutions resolving upon the external auditors' report.
D.6.	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	YES	YES	With respect to the annual results for 2017, see for reference Sections *Consolidated Financial Statement for the year ended 31 December 2017* and *Stand-alone Financial Statement for the year ended 31 December 2017* from this report.
D.7.	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	NO	NO	According to its corporate documentation, the Company publishes the annual results and the yearly management report on the BSE, AFM, on its website and on a national and international online newspaper, as well as the result of the general shareholders' meeting resolutions within the shortest deadlines.

Ref.	Code provisions	Compliance as at 31 December 2017	Compliance as at 21 March 2018	Note
D.8.	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	YES	YES	All such periodic reports in both Romanian and English languages are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares*.
D.9.	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	YES	YES	All such presentations are accessible are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations/investor-presentations*.
D.10.	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	N/A	N/A	The Company occasionally supports forms of sports, cultural, religious, educational or artistic expressions, but particularly in no connection to any business or development strategy or corporate policy.

ANNEX 3

Corporate Governance Compliance Statement as per the Dutch Corporate Governance Code (DCGC)

Ref.	Code provisions	Compliance	Explanation
1.1.1	**Long-term value creation strategy:** The executive directors should develop a view on long-term value creation by the company and its affiliated enterprise and should formulate a strategy in line with this. Depending on market dynamics, it may be necessary to make short-term adjustments to the strategy. When developing the strategy, attention should in any event be paid to the following: i. the strategy's implementation and feasibility; ii. the business model applied by the company and the market in which the company and its affiliated enterprise operate; iii. opportunities and risks for the company; iv. the company's operational and financial goals and their impact on its future position in relevant markets; v. the interests of the stakeholders; and vi. any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.	YES	—
1.1.2	**Involvement of the non-executive directors:** The executive directors should engage the non-executive directors early on in formulating the strategy for realizing long-term value creation. The executive directors render account to the non-executive directors of the strategy and the explanatory notes to that strategy.	YES	—
1.1.3	**Role of the non-executive directors:** The non-executive directors should supervise the manner in which the executive directors implement the long-term value creation strategy. The non-executive directors should regularly discuss the strategy, the implementation of the strategy and the principal risks associated with it. In the report drawn up by the non-executive directors, an account is given of its involvement in the establishment of the strategy, and the way in which it monitors its implementation.	YES	—

Ref.	Code provisions	Compliance	Explanation
1.1.4.	**Accountability of the executive directors:** In the management report, the executive directors should give a more detailed explanation of its view on long-term value creation and the strategy for its realization, as well as describing which contributions were made to long-term value creation in the past financial year. The executive directors should report on both the short-term and long-term developments.	YES	___
1.2.1	**Risk assessment:** The executive directors should identify and analyze the risks associated with the strategy and activities of the company and its affiliated enterprise. It is responsible for establishing the risk appetite, and also the measures that are put in place in order to counter the risks being taken.	YES	___
1.2.2	**Implementation:** Based on the risk assessment, the executive directors should design, implement and maintain adequate internal risk management and control systems. To the extent relevant, these systems should be integrated into the work processes within the company and its affiliated enterprise it and should be familiar to those whose work they are relevant to.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
1.2.3	**Monitoring of effectiveness:** The executive directors should monitor the operation of the internal risk management and control systems and should carry out a systematic assessment of their design and effectiveness at least once a year. This monitoring should cover all material control measures relating to strategic, operational, compliance and reporting risks. Attention should be given to observed weaknesses, instances of misconduct and irregularities, indications from whistleblowers, lessons learned and findings from the internal audit function and the external auditor. Where necessary, improvements should be made to internal risk management and control systems.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
1.3.1	**Appointment and dismissal:** The executive directors both appoints and dismisses the senior internal auditor. Both the appointment and the dismissal of the senior internal auditor should be submitted to the non-executive directors for approval, along with the recommendation issued by the audit committee.	NO	Until the date of this report, the Company did not hold an effective internal audit function. This function will be ensured as of 1 April 2018 by a newly appointed professional that is expected to form an internal audit team and commit to an internal audit team plan.
1.3.2	**Assessment of the internal audit function:** The executive directors should assess the way in which the internal audit function fulfils its responsibility annually, taking into account the audit committee's opinion.	NO	See explanation to principle 1.3.1 above.
1.3.3	**Internal audit plan:** The internal audit function should draw up an audit plan, involving the executive directors, the audit committee and the external auditor in this process. The audit plan should be submitted to the executive directors, and then to the non-executive directors, for approval. In this internal audit plan, attention should be paid to the interaction with the external auditor.	NO	See explanation to principle 1.3.1 above.

Ref.	Code provisions	Compliance	Explanation
1.3.4	**Performance of work:** The internal audit function should have sufficient resources to execute the internal audit plan and have access to information that is important for the performance of its work. The internal audit function should have direct access to the audit committee and the external auditor. Records should be kept of how the audit committee is informed by the internal audit function.	NO	See explanation to principle 1.3.1 above.
1.3.5	**Reports of findings:** The internal audit function should report its audit results to the executive directors and the essence of its audit results to the audit committee and should inform the external auditor. The research findings of the internal audit function should, at least, include the following: i. any flaws in the effectiveness of the internal risk management and control systems; ii. any findings and observations with a material impact on the risk profile of the company and its affiliated enterprise; and iii. any failings in the follow-up of recommendations made by the internal audit function.	NO	See explanation to principle 1.3.1 above.
1.3.6	**Absence of an internal audit department:** If there is no separate department for the internal audit function, the non-executive directors will assess annually whether adequate alternative measures have been taken, partly on the basis of a recommendation issued by the audit committee and will consider whether it is necessary to establish an internal audit department. The non-executive directors should include the conclusions, along with any resulting recommendations and alternative measures, in the report of the non-executive directors.	YES	___
1.4.1	**Accountability to the non-executive directors:** The executive directors should discuss the effectiveness of the design and operation of the internal risk management and control systems referred to in best practice provisions 1.2.1 to 1.2.3 inclusive with the audit committee and render account of this to the non-executive directors.	YES	___

Ref.	Code provisions	Compliance	Explanation
1.4.2	**Accountability in the management report:** In the management report, the executive directors should render account of: i. the execution of the risk assessment, with a description of the principal risks facing the company in relation to its risk appetite. These risks may include strategic, operational, compliance and reporting risks; ii. the design and operation of the internal risk management and control systems during the past financial year; iii. any major failings in the internal risk management and control systems which have been observed in the financial year, any significant changes made to these systems and any major improvements planned, along with a confirmation that these issues have been discussed with the audit committee and the non-executive directors; and iv. the sensitivity of the results of the company to material changes in external factors.	YES	___
1.4.3	**Statement by the executive directors:** The executive directors should state in the management report, with clear substantiation, that: i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems; ii. the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies; iii. based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and iv. the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.	YES	___

Ref.	Code provisions	Compliance	Explanation
1.5.1	**Duties and responsibilities of the audit committee:** The audit committee undertakes preparatory work for the non-executive directors' decision-making regarding the supervision of the integrity and quality of the company's financial reporting and the effectiveness of the company's internal risk management and control systems. Among other things, it focuses on monitoring the executive directors with regard to: i. relations with, and compliance with recommendations and following up of comments by, the internal and external auditors; ii. the funding of the company; iii. the application of information and communication technology by the company, including risks relating to cybersecurity; and iv. the company's tax policy.	YES	___
1.5.2	**Attendance of the executive directors, internal auditor and external auditor at audit committee consultations:** The chief financial officer, the internal auditor and the external auditor should attend the audit committee meetings, unless the audit committee determines otherwise. The audit committee should decide whether and, if so, when the chairman of the executive directors should attend its meetings.	YES	___
1.5.3	**Audit committee report:** The audit committee should report to the non-executive directors on its deliberations and findings. This report must, at least, include the following information: i. the methods used to assess the effectiveness of the design and operation of the internal risk management and control systems referred to in best practice provisions 1.2.1 to 1.2.3, inclusive; ii. the methods used to assess the effectiveness of the internal and external audit processes; iii. material considerations regarding financial reporting; iv. the way material risks and uncertainties referred to in best practice provision 1.4.3 have been analysed and discussed, along with a description of the most important findings of the audit committee.	YES	___
1.5.4	**Non-executive directors:** The non-executive directors should discuss the items reported on by the audit committee as per of best practice provision 1.5.3.	YES	___

Ref.	Code provisions	Compliance	Explanation
1.6.1	**Functioning and appointment:** The audit committee should report annually to the non-executive directors on the functioning of, and the developments in, the relationship with the external auditor. The audit committee should advise the non-executive directors regarding the external auditor's nomination for appointment/reappointment or dismissal and should prepare the selection of the external auditor. The audit committee should give due consideration to the executive directors' observations during the aforementioned work. Also, on this basis, the non-executive directors should determine its nomination for the appointment of the external auditor to the general meeting.	YES	___
1.6.2	**Informing the external auditor about their functioning:** The non-executive directors should give the external auditor a general idea of the content of the reports relating to their functioning.	YES	___
1.6.3	**Engagement:** The audit committee should submit a proposal to the non-executive directors for the external auditor's engagement to audit the financial statements. The executive directors should play a facilitating role in this process. In formulating the terms of engagement, attention should be paid to the scope of the audit, the materiality to be used and remuneration for the audit. The non-executive directors should resolve on the engagement.	YES	___
1.6.4	**Accountability:** The main conclusions of the non-executive directors regarding the external auditor's nomination and the outcomes of the external auditor selection process should be communicated to the general meeting.	YES	___
1.6.5	**Departure of the external auditor:** The company should publish a press release in the event of the early termination of the relationship with the external audit firm. The press release should explain the reasons for this early termination.	N/A	___
1.7.1	**Provision of information to the external auditor:** The executive directors should ensure that the external auditor will receive all information that is necessary for the performance of his work in a timely fashion. The executive directors should give the external auditor the opportunity to respond to the information that has been provided.	YES	___

Ref.	Code provisions	Compliance	Explanation
1.7.2	**Audit plan and external auditor's findings:** The external auditor should discuss the draft audit plan with the executive directors before presenting it to the audit committee. The audit committee should annually discuss with the external auditor: i. the scope and materiality of the audit plan and the principal risks of the annual reporting identified by the external auditor in the audit plan; and ii. based also on the documents from which the audit plan was developed, the findings and outcomes of the audit work on the financial statements and the management letter.	YES	___
1.7.3	**Publication of financial reports:** The audit committee should determine whether and, if so, how the external auditor should be involved in the content and publication of financial reports other than the financial statements.	YES	___
1.7.4	**Consultations with the external auditor outside the executive directors' presence:** The audit committee should meet with the external auditor as often as it considers necessary, but at least once per year, outside the presence of the executive directors.	YES	___
1.7.5	**Examination of discussion points arising between the external auditor and the executive directors:** The non-executive directors should be permitted to examine the most important points of discussion arising between the external auditor and the executive directors based on the draft management letter or the draft audit report.	YES	___
1.7.6	**External auditor's attendance of non-executive directors' meetings:** The external auditor should in any event attend the meeting of the non-executive directors at which the report of the external auditor on the audit of the financial statements is discussed.	YES	___
2.1.1	**Profile:** The non-executive directors should prepare a profile, taking account of the nature and the activities of the enterprise affiliated with the company. The profile should address: i. the desired expertise and background of the non-executive directors; ii. the desired diverse composition of the non-executive directors, referred to in best practice provision 2.1.5; iii. the size of the non-executive directors; and iv. the independence of the non-executive directors. The profile should be posted on the company's website	YES	___

Ref.	Code provisions	Compliance	Explanation
2.1.2	**Personal information:** The following information about each non-executive directors should be included in the report of the non-executive directors: i. gender; ii. age; iii. nationality; iv. principal position; v. other positions, in so far as they are relevant to the performance of the duties of the non-executive directors; vi. date of initial appointment; and vii. current term of office.	YES	___
2.1.3	**Executive committee:** If the executive directors work with an executive committee, the executive directors should take account of the checks and balances that are part of the two-tier system. This means, among other things, that the executive directors' expertise and responsibilities are safeguarded and the non-executive directors are informed adequately. The non-executive directors should supervise this whilst paying specific attention to the dynamics and the relationship between the executive directors and the executive committee. In the management report, account should be rendered of: i. the choice to work with an executive committee; ii. the role, duty and composition of the executive committee; and iii. how the contacts between the non-executive directors and the executive committee have been given shape.	NO	The Executive Directors of the Company do not work in committees. The Company has two executive members of the Board.
2.1.4	**Expertise:** Each non-executive director and each executive director should have the specific expertise required for the fulfilment of his duties. Each non-executive director should be capable of assessing the broad outline of the overall management.	YES	___
2.1.5	**Diversity policy:** The non-executive directors should draw up a diversity policy for the composition of the executive directors, the non-executive directors and, if applicable, the executive committee. The policy should address the concrete targets relating to diversity and the diversity aspects relevant to the company, such as nationality, age, gender, and education and work background.	NO	The Company does not have a diversity policy in relation to the non-executive directors. This deviation from the DCGC exists since April 2017 and will last for an indefinite period. The desired expertise and background of the candidates are decisive when non-executive directors are appointed or reappointed. The members of the board, as well as all employees of the Company and the group companies are recruited and promoted primarily based on professional achievements, experience and performance within the group, irrespective of gender, age, origin or any other personal or social feature. Although the Company does not have in place a formal diversity policy, in practice, the Company has not and does not intend to discriminate between potential candidates for any available board position.

Ref.	Code provisions	Compliance	Explanation
2.1.6	**Accountability about diversity:** The corporate governance statement should explain the diversity policy and the way that it is implemented in practice, addressing: i. the policy objectives; ii. how the policy has been implemented; and iii. the results of the policy in the past financial year. If the composition of the executive directors and the non-executive directors diverge from the targets stipulated in the company's diversity policy and/or the statutory target for the male/female ratio, if and to the extent that this is provided under or pursuant to the law, the current state of affairs should be outlined in the corporate governance statement, along with an explanation as to which measures are being taken to attain the intended target, and by when this is likely to be achieved.	NO	The Company does not have a diversity policy. See explanation to principle 2.1.5. above.
2.1.7	**Independence of the non-executive directors:** The composition of the non-executive directors is such that the members are able to operate independently and critically vis-à-vis one another, the executive directors, and any particular interests involved. In order to safeguard its independence, the non-executive directors are composed in accordance with the following criteria: i. any one of the criteria referred to in best practice provision 2.1.8, sections i. to v. inclusive should be applicable to at most one non-executive director; ii. the total number of non-executive directors to whom the criteria referred to in best practice provision 2.1.8 are applicable should account for less than half of the total number of non-executive directors; and iii. for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is at most one non-executive director who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.	NO	The Company has five non-executive directors, of which three do not meet the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the board. When appointing the non-executive members of the board, the general shareholders meeting from 21 April 2017 aimed to set-up a board made up from selected individuals with most extensive experience and insight into the group. Therefore, Mr. Teszari Zoltan was appointed as the non-executive director and as the President of the board, while Mr. Sambor Ryszka (current co-General Manager of Digi Kft.) and Mr. Marius Varzaru (current general manager of Digi Spain) were appointed as non-executive members of the board. Given the particularity of the business and operations of our group companies and the need for business continuity and internal and industry awareness, the general shareholders meeting from 21 April 2017 gave priority to these functionality needs. However, the amended articles of association of the Company and the corporate governance documents of the Company establish clear and detailed rules regarding independent behavior and the management of any conflict of interest that any member of the board, and particularly all non-executive members of the board are strictly required to comply with.

Ref.	Code provisions	Compliance	Explanation
2.1.8	**Independence of non-executive directors:** A non-executive director is not independent if they or their spouse, registered partner or life companion, foster child or relative by blood or marriage up to the second degree: i. has been an employee or member of the management board of the company (including associated companies as referred to in Section 5:48 of the Financial Supervision Act (*Wet op het financieel toezicht/Wft*)) in the five years prior to the appointment; ii. receives personal financial compensation from the company, or a company associated with it, other than the compensation received for the work performed as a non-executive director and in so far as this is not in keeping with the normal course of business; iii. has had an important business relationship with the company or a company associated with it in the year prior to the appointment. This includes in any event the case where the non-executive director, or the firm of which he is a shareholder, partner, associate or adviser, has acted as adviser to the company (consultant, external auditor, civil notary or lawyer) and the case where the non-executive director is a management board member or an employee of a bank with which the company has a lasting and significant relationship; iv. is a member of the management board of a company in which a member of the management board of the company which he supervises is a non-executive director; v. has temporarily performed management duties during the previous twelve months in the absence or incapacity of management board members; vi. has a shareholding in the company of at least ten percent, taking into account the shareholding of natural persons or legal entities cooperating with him or her on the basis of an express or tacit, verbal or written agreement; vii. is a member of the management board or supervisory board – or is a representative in some other way – of a legal entity which holds at least ten percent of the shares in the company, unless the entity is a group company.	NO	See explanation to principle 2.1.7. above.

Ref.	Code provisions	Compliance	Explanation
2.1.9	**Independence of the chairman of the board:** The chairman of the board should not be a former member of the board of the company and should be independent within the meaning of best practice provision 2.1.8.	NO	The president (chairman) of the board does not meet the independence criteria contained in the DCGC. Mr. Zoltan Teszari's appointment as the president was voted by the general shareholders meeting of the Company from 21 April 2017 and will last during the entire period for which Mr. Teszari Zoltan will be a member of the board. The president is the principal shareholder of the Company. The president is not a member of the audit committee.
2.1.10	**Accountability regarding non-executive directors' independence:** The report of the non-executive directors should state that, in the opinion of the non-executive directors, the independence requirements referred to in best practice provisions 2.1.7 to 2.1.9 inclusive have been fulfilled and, if applicable, should also state which non-executive director(s), if any, it does not consider to be independent.	NO	The report of the non-executive directors only states which non-executive directors are not independent under the Bucharest Stock Exchange Corporate Governance Code.
2.2.1	**Appointment and reappointment periods – executive directors:** A executive director is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time, which reappointment should be prepared in a timely fashion. The diversity objectives from best practice provision 2.1.5 should be considered in the preparation of the appointment or reappointment.	YES	
2.2.2	**Appointment and reappointment periods – non-executive directors:** A non-executive director is appointed for a period of four years and may then be reappointed once for another four-year period. The non-executive director may then subsequently be reappointed again for a period of two years, which appointment may be extended by at most two years. In the event of a reappointment after an eight-year period, reasons should be given in the report of the non-executive directors. In any appointment or reappointment, the profile referred to in best practice provision 2.1.1 should be observed.	NO	The president (chairman) of the board may be reappointed for an indefinite number of terms. For details regarding the expected applicability period of and rationale for the deviation, please see the explanations from above.
2.2.3	**Early retirement:** A non-executive director or an executive director should retire early in the event of inadequate functioning, structural incompatibility of interests, and in other instances in which this is deemed necessary by the non-executive directors. In the event of the early retirement of an executive director or non-executive director, the company should issue a press release mentioning the reasons for the departure.	YES	—

Ref.	Code provisions	Compliance	Explanation
2.2.4	**Succession:** The non-executive directors should ensure that the company has a sound plan in place for the succession of executive directors and non-executive directors that is aimed at retaining the balance in the requisite expertise, experience and diversity. Due regard should be given to the profile referred to in best practice provision 2.1.1 in drawing up the plan for non-executive directors. The non-executive directors should also draw up a retirement schedule in order to avoid, as much as possible, non-executive directors retiring simultaneously. The retirement schedule should be published on the company's website.	NO	The Company has a retirement schedule. However, the retirement schedule will not be applicable to the President (chairman) of the Board. Mr. Zoltan Teszari, the main shareholder of the Company, holds the position of President of the Board. According to the Rotation Schedule for the non-executive directors of the Company established by the Board pursuant to article 15 paragraph 6 of the Articles on 15 May 2017, Mr. Zoltan Teszari is expressly excluded from the agreed rotation schedule.
2.2.5	**Duties of the selection and appointment committee:** The selection and appointment committee should prepare the non-executive directors' decision-making and report to the non-executive directors on its deliberations and findings. The selection and appointment committee should in any event focus on: i. drawing up selection criteria and appointment procedures for executive directors and non-executive directors; ii. periodically assessing the size and composition of the executive directors and the non-executive directors, and making a proposal for a composition profile of the non-executive directors; iii. periodically assessing the functioning of individual executive directors and non-executive directors, and reporting on this to the non-executive directors; iv. drawing up a plan for the succession of executive directors and non-executive directors; v. making proposals for appointments and reappointments; and vi. supervising the policy of the executive directors regarding the selection criteria and appointment procedures for senior management.	NO	The Company does not have a nomination committee. The Company has decided not to set up a nomination committee as referred to in the DCGC, since the general meeting of holders of class A shares as a whole will perform the duties of such nomination. The Company has instead set up an audit committee and a remuneration committee.

Ref.	Code provisions	Compliance	Explanation
2.2.6	**Evaluation by the non-executive directors:** At least once per year, outside the presence of the executive directors, the non-executive directors should evaluate its own functioning, the functioning of the various committees of the non-executive directors and that of the individual non-executive directors and should discuss the conclusions that are attached to the evaluation. In doing so, attention should be paid to: i. substantive aspects, the mutual interaction and the interaction with the executive directors; ii. events that occurred in practice from which lessons may be learned; and iii. the desired profile, composition, competencies and expertise of the non-executive directors.	YES	___
2.2.7	**Evaluation of the executive directors:** At least once per year, outside the presence of the executive directors, the non-executive directors should evaluate both the functioning of the executive directors as a whole and that of the individual executive directors and should discuss the conclusions that must be attached to the evaluation, such also in light of the succession of executive directors. At least once annually, the executive directors, too, should evaluate its own functioning as a whole and that of the individual executive directors.	YES	___
2.2.8	**Evaluation accountability:** The non-executive directors' report should state: i. how the evaluation of the non-executive directors, the various committees and the individual non-executive directors has been carried out; ii. how the evaluation of the executive directors and the individual executive directors has been carried out; and iii. what has been or will be done with the conclusions from the evaluations.	NO	During 2017, the Non-executive Directors regularly receive reports (including *ad-hoc* notices) from the Executive Directors and from the Audit Committee with respect to particular matters of interest for the Company. The valuation of the Executive Directors' activity and of the Audit Committee during 2017 is comprised in the report's section on Corporate Governance.
2.3.1	**Non-executive director's terms of reference:** The division of duties within the non-executive directors and the procedure of the non-executive directors should be laid down in terms of reference. The non-executive director's terms of reference should include a paragraph dealing with its relations with the executive directors, the general meeting, the employee participation body (if any) and the executive committee (if any). The terms of reference should be posted on the company's website.	NO	There are no rules in place for the Non-executive directors. However, Chapter VII from the Articles include detailed provisions and rules regarding the board, including on the composition, remuneration, the allocation of tasks and duties among the executive directors and the non-executive directors, on the decision-making process and the management of any conflict of interest.

Ref.	Code provisions	Compliance	Explanation
2.3.2	**Establishment of committees:** If the board consists of more than four non-executive directors, it should appoint from among its non-executive directors an audit committee, a remuneration committee and a selection and appointment committee. Without prejudice to the collegiate responsibility of the non-executive directors, the duty of these committees is to prepare the decision-making of the non-executive directors. If the non-executive directors decide not to establish an audit committee, a remuneration committee or a selection and appointment committee, the best practice provisions applicable to such committee(s) should apply to the non-executive directors together.	NO	The Company does not have a nomination committee. See explanation to principle 2.2.5 above.
2.3.3	**Committees' terms of reference:** The non-executive directors should draw up terms of reference for the audit committee, the remuneration committee and the selection and appointment committee. The terms of reference should indicate the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. The terms of reference should be posted on the company's website.	YES	___
2.3.4	**Composition of the committees:** The audit committee or the remuneration committee should not be chaired by the chairman of the board or by a former executive of the board of the company. More than half of the members of the committees should be independent within the meaning of best practice provision 2.1.8.	NO	More than half of the members of the Remuneration Committee do not comply with the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Remuneration Committee. See explanation to principle 2.1.7. above.
2.3.5	**Committee reports:** The non-executive directors should receive from each of the committees a report of their deliberations and findings. In the report of the non-executive directors it should comment on how the duties of the committees were carried out in the financial year. In this report, the composition of the committees, the number of committee meetings and the main items discussed at the meetings should be mentioned.	YES	___

Ref.	Code provisions	Compliance	Explanation
2.3.6	**Chairman of the board:** The chairman of the board should in any case ensure that: i. the non-executive directors have proper contact with the executive directors, the employee participation body (if any) and the general meeting; ii. the board elects a vice-chairman; iii. there is sufficient time for deliberation and decision-making by the board; iv. the board members receive all information that is necessary for the proper performance of their duties in a timely fashion; v. the board and its committees function properly; vi. the functioning of individual executive directors and non-executive directors is assessed at least annually; vii. the board members follow their induction programme; viii. the board follow their education or training programme; ix. the board performs activities in respect of culture; x. the non-executive directors recognize signs from the enterprise affiliated with the company and ensures that any (suspicion of) material misconduct and irregularities are reported to the supervisory board without delay; xi. the general meeting proceeds in an orderly and efficient manner; xii. effective communication with shareholders is assured; and xiii. the non-executive directors are involved closely, and at an early stage, in any merger or takeover processes. The chairman of the board should consult regularly with the executive directors.	YES	—
2.3.7	**Vice-chairman of the board:** The vice-chairman of the board should deputize for the chairman when the occasion arises.	YES	—

Ref.	Code provisions	Compliance	Explanation
2.3.8	**Delegated non-executive director:** A delegated non-executive director is a non-executive director who has a special task. The delegation may not extend beyond the responsibilities of the board itself and may not include the management of the company. Its purpose is more intensive supervision and advice and more regular consultation with the executive directors. The delegation should be of a temporary nature only. The delegation may not detract from the duties and powers of the non-executive directors. The delegated non-executive director continues to be a member of the board and should report regularly on the execution of his special duty to the plenary board.	N/A	___
2.3.9	**Temporary executive function of a non-executive director:** A non-executive director who temporarily takes on the management of the company, where the executive directors are absent or unable to fulfil their duties, should resign as a non-executive director of the board.	N/A	___
2.3.10	**Company secretary:** The non-executive directors should be supported by the company secretary. The secretary: i. should ensure that the proper procedures are followed and that the statutory obligations and obligations under the articles of association are complied with; ii. should facilitate the provision of information of the board; and iii. should support the chairman of the board in the organisation of the affairs of the board, including the provision of information, meeting agendas, evaluations and training programmes. The company secretary should, either on the motion of the non-executive directors or otherwise, be appointed and dismissed by the executive directors, after the approval of the non-executive directors has been obtained. If the secretary also undertakes work for the executive directors and notes that the interests of the executive directors and the non-executive directors diverge, as a result of which it is unclear which interests the secretary should represent, the secretary should report this to the chairman of the board.	YES	___
2.3.11	**Report of the non-executive directors:** The annual statements of the company include a report by the non-executive directors. In this report, the non-executive directors should render account of the supervision conducted in the past financial year, reporting in any event on the items referred to in best practice provisions 1.1.3, 2.1.2, 2.1.10, 2.2.8, 2.3.5 and 2.4.4 and, if applicable, the items referred to in best practice provisions 1.3.6 and 2.2.2.	YES	Information with respect to these matters are comprised in the report's section on Corporate Governance.

Ref.	Code provisions	Compliance	Explanation
2.4.1	**Stimulating openness and accountability:** The executive directors and the non-executive directors are each responsible for stimulating openness and accountability within the organ of which they form part, and between the different organs within the company.	YES	—
2.4.2	**Other positions:** Executive directors and non-executive directors should report any other positions they may have to the non-executive directors in advance and, at least annually, the other positions should be discussed at the non-executive directors meeting. The acceptance of membership of a supervisory board by an executive director requires the approval of the non-executive directors.	YES	—
2.4.3	**Point of contact for the functioning of non-executive directors and executive directors:** The chairman of the board should act on behalf of the board as the main contact for the executive directors, non-executive directors and shareholders regarding the functioning of executive directors and non-executive directors. The vice-chairman should act as contact for individual non-executive directors and executive directors regarding the functioning of the chairman.	YES	—
2.4.4	**Attendance at non-executive directors' meetings:** Non-executive directors should attend non-executive directors' meetings and the meetings of the committees of which they are a part. If non-executive directors are frequently absent from these meetings, they should be held to account on this. The report of the non-executive directors should state the absenteeism rate from non-executive directors and committee meetings of each non-executive directors.	YES	—
2.4.5	**Induction programme for non-executive directors:** All non-executive directors should follow an induction programme geared to their role. The induction programme should in any event cover general financial, social and legal affairs, financial reporting by the company, any specific aspects that are unique to the relevant company and its business activities, the company culture and the relationship with the employee participation body (if any), and the responsibilities of a non-executive director.	YES	—
2.4.6	**Development:** The executive directors and non-executive directors should each conduct an annual review for their own organ to identify any aspects with regard to which the non-executive directors and executive directors require training or education.	YES	—
2.4.7	**Information safeguards:** The executive directors should ensure that internal procedures are established and maintained which safeguard that all relevant information is known to the executive directors and the non-executive directors in a timely fashion. The non-executive directors should supervise the establishment and implementation of these procedures.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.

Ref.	Code provisions	Compliance	Explanation
2.4.8	**Non-executive directors' responsibility for obtaining information:** The non-executive directors and each individual non-executive director have their own responsibility for obtaining the information from the executive directors, the internal audit function, the external auditor and the employee participation body (if any) that the non-executive directors needs in order to be able to carry out its duties as a supervisory organ properly.	YES	___
2.4.9	**Obtaining information from officers and external parties:** If the non-executive directors consider it necessary, it may obtain information from officers and external advisers of the company. The company should provide the necessary means to this end. The non-executive directors may require that certain officers and external advisers attend its meetings.	YES	___
2.5.1	**Executive directors' responsibility for culture:** The executive directors should adopt values for the company and its affiliated enterprise that contribute to a culture focused on long-term value creation and discuss these with the non-executive directors. The executive directors are responsible for the incorporation and maintenance of the values within the company and its affiliated enterprise. Attention must be paid to the following, among other things: i. the strategy and the business model; ii. the environment in which the enterprise operates; and iii. the existing culture within the enterprise, and whether it is desirable to implement any changes in this. The executive directors encourage behavior that is in keeping with the values and propagates these values through leading by example.	YES	___
2.5.2	**Code of Conduct:** The executive directors should draw up a code of conduct and monitor its effectiveness and compliance with this code, both on the part of itself and of the employees of the company. The executive directors should inform the non-executive directors of its findings and observations relating to the effectiveness of, and compliance with, the code. The code of conduct will be published on the company's website.	YES	___
2.5.3	**Employee participation:** If the company has established an employee participation body, the conduct and culture in the company and its affiliated enterprise should also be discussed in the consultations between the executive directors, the non-executive directors and such employee participation body.	N/A	___

Ref.	Code provisions	Compliance	Explanation
2.5.5	**Accountability regarding culture:** In the management report, the executive directors should explain: i. the values and the way in which they are incorporated in the company and its affiliate enterprise; and ii. the effectiveness of, and compliance with, the code of conduct.	YES	___
2.6.1	**Procedure for reporting actual or suspicion of misconduct or irregularities:** The executive directors should establish a procedure for reporting actual or suspected irregularities within the company and its affiliated enterprise. The procedure will be published on the company's homepage. The executive directors should ensure that employees have the opportunity to file a report without jeopardizing their legal position.	YES	___
2.6.2	**Informing the chairman of the board:** The executive directors should inform the chairman of the board without delay of any signs of actual or suspected material misconduct or irregularities within the company and its affiliated enterprise. If the actual or suspected misconduct or irregularity pertains to the functioning of an executive director, employees can report this directly to the chairman of the board.	YES	___
2.6.3	**Notification by the external auditor:** The external auditor should inform the chairman of the audit committee without delay if, during the performance of his duties, he discovers or suspect an instance of misconduct or irregularity. If the actual or suspected misconduct or irregularity pertains to the functioning of an executive director, the external auditor should report this directly to the chairman of the board.	N/A	___
2.6.4	**Oversight by the non-executive directors:** The non-executive directors monitor the operation of the procedure for reporting actual or suspected misconduct or irregularities, appropriate and independent investigations into signs of misconduct or irregularities, and, if an instance of misconduct or irregularity has been discovered, an adequate follow-up of any recommendations for remedial actions. In order to safeguard the independence of the investigation in cases where the executive directors their selves are involved, the non-executive directors should have the option of initiating its own investigation into any irregularities that have been discovered and to coordinate this investigation.	YES	___

Ref.	Code provisions	Compliance	Explanation
2.7.1	**Preventing conflicts of interest:** Executive directors and non-executive directors are alert to conflicts of interest and should in any case refrain from the following: i. competing with the company; ii. demanding or accepting substantial gifts from the company for themselves or their spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree; iii. providing unjustified advantages to third parties at the company's expense; iv. taking advantage of business opportunities to which the company is entitled for themselves or for their spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree.	YES	___
2.7.2	**Terms of reference:** The terms of reference of the non-executive directors should contain rules on dealing with conflicts of interest, including conflicting interests between executive directors and non-executive directors on the one hand and the company on the other. The terms of reference should also stipulate which transactions require the approval of the non-executive directors. The company should draw up regulations governing ownership of, and transactions in, securities by executive or non-executive directors, other than securities issued, by the company.	NO	See explanation to principle 2.3.1 above.

Ref.	Code provisions	Compliance	Explanation
2.7.3	**Reporting:** A conflict of interest may exist if the company intends to enter into a transaction with a legal entity: i. in which a member of the board personally has a material financial interest; or ii. which has a member of the board who is related under family law to a member of the board of the company. An executive director should report any potential conflict of interest in a transaction that is of material significance to the company and/or to such executive director to the chairman of the board and to the other members of the board without delay. The executive director should provide all relevant information in that regard, including the information relevant to the situation concerning his spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. A non-executive director should report any conflict of interest or potential conflict of interest in a transaction that is of material significance to the company and/or to such non-executive director to the chairman of the board without delay and should provide all relevant information in that regard, including the relevant information pertaining to his spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. If the chairman of the board has a conflict of interest or potential conflict of interest, he should report this to the vice-chairman of the board without delay. The non-executive directors should decide, outside the presence of the executive director or non-executive director concerned, whether there is a conflict of interest.	YES	—
2.7.4	**Accountability regarding transactions: board members:** All transactions in which there are conflicts of interest with board members should be agreed on terms that are customary in the market. Decisions to enter into transactions in which there are conflicts of interest with board members that are of material significance to the company and/or to the relevant board members should require the approval of the non-executive directors. Such transactions should be published in the management report, together with a statement of the conflict of interest and a declaration that best practice provisions 2.7.3 and 2.7.4 have been complied with.	YES	—

Ref.	Code provisions	Compliance	Explanation
2.7.5	**Accountability regarding transactions: majority shareholders:** All transactions between the company and legal or natural persons who hold at least ten percent of the shares in the company should be agreed on terms that are customary in the market. Decisions to enter into transactions with such persons that are of material significance to the company and/or to such persons should require the approval of the non-executive directors. Such transactions should be published in the management report, together with a declaration that best practice provision 2.7.5 has been complied with.	YES	___
2.7.6	**Personal loans:** The company should not grant its board members any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the non-executive directors. No remission of loans should be granted.	YES	___
2.8.1	**Non-executive directors involvement:** When a takeover bid for the company's shares or for the depositary receipts for the company's shares is being prepared, in the event of a private bid for a business unit or a participating interest, where the value of the bid exceeds the threshold referred to in Section 2:107a(1)(c) of the Dutch Civil Code, and/or in the event of other substantial changes in the structure of the organisation, the executive directors should ensure that the non-executive directors is involved in the takeover process and/or the change in the structure closely and in a timely fashion.	YES	___
2.8.2	**Informing the non-executive directors about request for inspection by competing bidder:** If a takeover bid has been announced for the shares, or depositary receipts for shares, in the company, and the executive directors receive a request from a competing bidder to inspect the company's records, the executive directors should discuss this request with the non-executive directors without delay.	N/A	___
2.8.3	**Executive directors' position on a private bid:** If a private bid for a business unit or a participating interest has been made public, where the value of the bid exceeds the threshold referred to in Section 2:107a(1)(c) of the Dutch Civil Code, the executive directors of the company should as soon as possible make public its position on the bid and the reasons for this position.	N/A	___
3.1.1	**Remuneration policy proposal:** The remuneration committee should submit a clear and understandable proposal to the non-executive directors concerning the remuneration policy to be pursued with regard to the executive directors. The non-executive directors should present the policy to the general meeting for adoption.	YES	___

Ref.	Code provisions	Compliance	Explanation
3.1.2	**Remuneration policy:** The following aspects should in any event be taken into consideration when formulating the remuneration policy: i. the objectives for the strategy for the implementation of long-term value creation within the meaning of best practice provision 1.1.1; ii. the scenario analyses carried out in advance; iii. the pay ratios within the company and its affiliated enterprise; iv. the development of the market price of the shares; v. an appropriate ratio between the variable and fixed remuneration components. The variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character; vi. if shares are being awarded, the terms and conditions governing this. Shares should be held for at least five years after they are awarded; and vii. if share options are being awarded, the terms and conditions governing this and the terms and conditions subject to which the share options can be exercised. Share options cannot be exercised during the first three years after they are awarded.	NO	If shares options are being awarded, share options can be exercised before three years have lapsed after they have been awarded (minimum term required by the DCGC). The currently applicable Share Option Plan as agreed by the Company's general shareholders meeting from 21 April 2017 provides for a vesting period of at least one year. The Company intended to co-opt its management and deserving group employees through the Share Option Plan in light of the successful initial public offering of the Company's Class B Shares that took place in May 2017.
3.1.3	**Remuneration – executive committee:** If the board works with an executive committee, the executive directors should inform the non-executive directors about the remuneration of the members of the executive committee who are not executive directors. The executive directors should discuss this remuneration with the non-executive directors annually.	N/A	___
3.2.1	**Remuneration committee's proposal:** The remuneration committee should submit a proposal to the non-executive directors concerning the remuneration of individual executive directors. The proposal is drawn up in accordance with the remuneration policy that has been established and will, in any event, cover the remuneration structure, the amount of the fixed and variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the company and its affiliated enterprise.	YES	___

Ref.	Code provisions	Compliance	Explanation
3.2.2	**Executive directors' views on their own remuneration:** When drafting the proposal for the remuneration of ma executive directors, the remuneration committee should take note of individual executive directors' views with regard to the amount and structure of their own remuneration. The remuneration committee should ask the executive directors to pay attention to the aspects referred to in best practice provision 3.1.2.	YES	___
3.2.3	**Severance payments:** The remuneration in the event of dismissal should not exceed one year's salary (the 'fixed' remuneration component). Severance pay will not be awarded if the agreement is terminated early at the initiative of the executive director, or in the event of seriously culpable or negligent behavior on the part of the executive director.	YES	___
3.3.1	**Time spent and responsibility:** The remuneration of the non-executive directors should reflect the time spent and the responsibilities of their role.	NO	Non-executive directors receive the same fixed base salary the executive directors receive and such fixed base salary is not related to the time spent by the non-executive directors and the specific responsibilities of their role as required by the DCGC. The remuneration conditions as provided in the general shareholders meeting from 21 April 2017 and in the terms of reference of the remuneration committee and the remuneration policy will apply for an indefinite period until further amendment. Non-executive directors additionally sit in the Company's audit and remuneration committees.
3.3.2	**Remuneration of non-executive directors:** non-executive directors may not be awarded remuneration in the form of shares and/or rights to shares.	NO	Non-executive Directors may be awarded remuneration in the form of share options. Any such grant of shares as part of share option plans will need to be expressly decided by the Company's general shareholders resolutions
3.3.3	**Share ownership:** Shares held by a non-executive director in the company on whose supervisory board they serve should be long-term investments.	YES	___

Ref.	Code provisions	Compliance	Explanation
3.4.1	**Remuneration report:** The remuneration committee should prepare the remuneration report. This report should in any event describe, in a transparent manner, in addition to the matters required by law: i. how the remuneration policy has been implemented in the past financial year; ii. how the implementation of the remuneration policy contributes to long-term value creation; iii. that scenario analyses have been taken into consideration; iv. the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year; v. in the event that an executive director receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and vi. in the event that a current or former executive director receives a severance payment, the reason for this payment.	NO	During 2017 and until the date of this report, the Remuneration Committee of the Company worked based on the guidance and resolutions of the general shareholders meeting from April 2017, with no deviations or amendments.
3.4.2	**Agreement of executive director:** The main elements of the agreement of an executive director with the company should be published on the company's website in a transparent overview after the agreement has been concluded, and in any event no later than the date of the notice calling the general meeting where the appointment of the executive director will be proposed.	NO	The main elements of the agreement of an executive director with the Company has not been published on the Company's website. However, sufficient information was disclosed regarding the remuneration of directors (see for reference on this respect the Section 5.7 of the Prospectus from 26 April 2017).
4.1.1	**Non-executive directors supervision:** The non-executive directors' supervision of the executive directors should include the supervision of relations with shareholders.	YES	___
4.1.2	**Proper conduct of business at meetings:** The chairman of the general meeting is responsible for ensuring the proper conduct of business at meetings in order to promote a meaningful discussion at the meeting.	YES	___

Ref.	Code provisions	Compliance	Explanation
4.1.3	**Agenda:** The agenda of the general meeting should list which items are up for discussion and which items are to be voted on. The following items should be dealt with as separate agenda items: i. material changes to the articles of association; ii. proposals relating to the appointment of board members; iii. the policy of the company on additions to reserves and on dividends (the level and purpose of the addition to reserves, the amount of the dividend and the type of dividend); iv. any proposal to pay out dividend; v. resolutions to approve the management conducted by the executive directors (discharge of executive directors from liability); vi. resolutions to approve the supervision exercised by the non-executive directors (discharge of non-executive directors from liability); vii. each substantial change in the corporate governance structure of the company and in the compliance with this Code; and viii. the appointment of the external auditor.	YES	—
4.1.4	**Proposal for approval or authorization:** A proposal for approval or authorisation by the general meeting should be explained in writing. In its explanation the executive directors should deal with all facts and circumstances relevant to the approval or authorization to be granted. The notes to the agenda should be posted on the company's website.	YES	—
4.1.5	**Shareholder's explanation when exercising the right to put items on the agenda:** If a shareholder has arranged for an item to be put on the agenda, he should explain this at the meeting and, if necessary, answer questions about it.	YES	—

Ref.	Code provisions	Compliance	Explanation
4.1.6	**Placing of items on the agenda by shareholders:** A shareholder should only exercise the right to put items on the agenda after they have consulted with the executive directors on this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the company's strategy, for example as a result of the dismissal of one or several board members, the executive directors should be given the opportunity to stipulate a reasonable period in which to respond (the response time). The opportunity to stipulate the response time should also apply to an intention as referred to above for judicial leave to call a general meeting pursuant to Section 2:110 of the Dutch Civil Code. The relevant shareholder should respect the response time stipulated by the executive directors, within the meaning of best practice provision 4.1.7.	YES	___
4.1.7	**Stipulation of the response time:** If the executive directors stipulate a response time, this should be a reasonable period that does not exceed 180 days from the moment the executive directors are informed by one or more shareholders of their intention to put an item on the agenda to the day of the general meeting at which the item is to be dealt with. The executive directors should use the response time for further deliberation and constructive consultation, in any event with the relevant shareholder(s), and should explore the alternatives. At the end of the response time, the executive directors should report on this consultation and the exploration to the general meeting. This should be monitored by the non-executive directors. The response time may be stipulated only once for any given general meeting and should not apply to an item in respect of which the response time had been previously stipulated, or to meetings where a shareholder holds at least three-quarters of the issued capital as a consequence of a successful public bid.	YES	___
4.1.8	**Attendance of members nominated for the board:** Board members nominated for appointment should attend the general meeting at which votes will be cast on their nomination.	YES	___
4.1.9	**External auditor's attendance:** The external auditor may be questioned by the general meeting in relation to his report on the fairness of the financial statements. The external auditor should for this purpose attend and be entitled to address this meeting.	YES	___
4.1.10	**General meeting's report:** The report of the general meeting should be made available, on request, to the shareholders no later than three months after the end of the meeting, after which shareholders should have the opportunity to react to the report in the following three months. The report should then be adopted in the manner provided for in the articles of association.	YES	___

Ref.	Code provisions	Compliance	Explanation
4.2.1	**Substantiation of invocation of overriding interest:** If the executive directors and the non-executive directors decide not to provide the general meeting with all information desired with the invocation of an overriding interest on the part of the company, they must give reasons for this.	YES	___
4.2.2	**Policy on bilateral contacts with shareholders:** The company should formulate an outline policy on bilateral contacts with the shareholders and should post this policy on its website.	YES	___
4.2.3	**Meetings and presentations:** Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences should be announced in advance on the company's website and by means of press releases. Analysts' meetings and presentations to investors should not take place shortly before the publication of the regular financial information. All shareholders should be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations should be posted on the company's website.	YES	___
4.2.4	**Posting information in a separate section of the website:** The company should post and update information which is relevant to the shareholders and which it is required to publish or submit pursuant to the provisions of company law and securities law applicable to it in a separate section of the company's website.	YES	___
4.2.5	**Executive directors contacts with press and analysts:** The contacts between the executive directors on the one hand and the press and financial analysts on the other should be handled and structured carefully and with due observance of the applicable laws and regulations. The company should not do anything that might compromise the independence of analysts in relation to the company and vice versa.	YES	___
4.2.6	**Outline of anti-takeover measures:** The executive directors should outline all existing or potential anti-takeover measures in the management report and should also indicate in what circumstances and by whom these measures may likely be used.	YES	___
4.3.1	**Voting as deemed fit:** A shareholder should vote as he sees fit. A shareholder who makes use of the voting advice of a third party is expected to form his own judgment on the voting policy or the voting advice provided by this adviser.	YES	___
4.3.2	**Providing voting proxies or voting instructions:** The company should give shareholders and other persons entitled to vote the possibility of issuing voting proxies or voting instructions, respectively, to an independent third party prior to the general meeting.	YES	___

Ref.	Code provisions	Compliance	Explanation
4.3.3	**Cancelling the binding nature of a nomination or dismissal:** The general meeting of shareholders of a company not having statutory two-tier status (*structuurregime*) may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the board and/or a resolution to dismiss a member of the board by an absolute majority of the votes cast. It may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one-third. If this proportion of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, or to dismiss a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting.	NO	Such resolution can be adopted by the general meeting with the normal quorum and voting majority requirements. This deviation is provided within the Articles as approved by the Company's general shareholders resolutions from 21 April 2017. This deviation is meant to avoid vote inefficiencies or blockage upon the appointment or dismissal of any relevant director.
4.3.4	**Voting right on financing preference shares:** The voting right attaching to financing preference shares should be based on the fair value of the capital contribution.	YES	—
4.3.5	**Publication of institutional investors' voting policy:** Institutional investors (pension funds, insurers, investment institutions and asset managers) should post annually, in any event on their website, their policy on the exercise of the voting rights for shares they hold in listed companies.	N/A	—
4.3.6	**Report on the implementation of institutional investors' voting policy:** Institutional investors should report annually, on their website and/or in their management report, on how they implemented their policy on the exercise of the voting rights in the relevant financial year. In addition, they should report on their website at least once per quarter on whether and, if so, how they have voted as shareholders at general meetings. This report will be posted on the website of the institutional investor.	N/A	—
4.4.1	**Trust office board:** The board of the trust office should have the confidence of the holders of depositary receipts and operate independently of the company that has issued the depositary receipts. The trust conditions should specify in what cases and subject to what conditions holders of depositary receipts may request the trust office to call a meeting of holders of depositary receipts.	N/A	—
4.4.2	**Appointment of board members:** The board members of the trust office should be appointed by the board of the trust office, after the job opening has been announced on the website of the trust office. The meeting of holders of depositary receipts may make recommendations to the board of the trust office for the appointment of persons to the position of board member. No executive directors or former executive directors, non-executive directors or former non-executive directors, employees or permanent advisers of the company should be a member of the board of the trust office.	N/A	—

Ref.	Code provisions	Compliance	Explanation
4.4.3	**Board appointment period:** A person may be appointed to the board of the trust office for a maximum of two four-year terms, followed by a maximum of two two-year terms. In the event of a reappointment after an eight-year period, reasons should be given in the report of the board of the trust office.	N/A	—
4.4.4	**Attendance of the general meeting:** The board of the trust office should attend the general meeting and should, if desired, make a statement about how it proposes to vote at the meeting.	N/A	—
4.4.5	**Exercise of voting rights:** In exercising its voting rights, the trust office should be guided primarily by the interests of the depositary receipt holders, taking the interests of the company and the enterprise affiliated with it into account.	N/A	—
4.4.6	**Periodic reports:** The trust office should report periodically, but at least once per year, on its activities. The report should be posted on the company's website.	N/A	—
4.4.7	**Contents of the reports:** The report referred to in best practice provision 4.4.6 should, in any event, set out: i. the number of shares for which depositary receipts have been issued and an explanation of changes to this number; ii. the work carried out in the financial year; iii. the voting behaviour in the general meetings held in the financial year; iv. the percentage of votes represented by the trust office during the meetings referred to under iii.; v. the remuneration of the members of the board of the trust office; vi. the number of meetings held by the management and the main items dealt with in them; vii. the costs of the activities of the trust office; viii. any external advice obtained by the trust office; ix. the (other) positions held by the board members of the trust office; and x. the contact details of the trust office.	N/A	—
4.4.8	**Voting proxies:** The board of the trust office should issue voting proxies under all circumstances and without limitations to all depositary receipt holders who request this. Each depositary receipt holder may also issue binding voting instructions to the trust office in respect of the shares which the trust office holds on his behalf.	N/A	—

Ref.	Code provisions	Compliance	Explanation
5.1.1	**Composition of the board:** The majority of the board is made up of non-executive directors. The requirements for independence stipulated in best practice provisions 2.1.7 and 2.1.8 apply to the non-executive directors.	NO	See explanation to principle 2.1.7 above.
5.1.2	**Chairman of the board:** The chairman of the board chairs the meetings of the board. The chairman of the board should ensure that the board as a collective, as well as the board's committees, have a balanced composition and function properly.	YES	___
5.1.3	**Independence of the chairman of the board:** The chairman of the board should not be an executive director or former executive director of the company and should be independent within the meaning of best practice provision 2.1.8.	NO	See explanation to principle 2.1.7 above.
5.1.4	**Composition of committees:** The committees referred to in best practice 2.3.2 should be comprised exclusively of non-executive directors. Neither the audit committee nor the remuneration committee can be chaired by the chairman of the board or by a former executive director of the company	YES	___
5.1.5	**Accountability for supervision by non-executive directors:** The non-executive directors render account of the supervision exercised in the past financial year. They should, as a minimum, report on the items referred to in best practice provisions 1.1.3, 2.1.2, 2.1.10, 2.2.8, 2.3.5 and 2.4.4 and, if applicable, the items referred to in best practice provisions 1.3.6 and 2.2.2.	YES	Information with respect to these matters are comprised in the report's section on Corporate Governance.