

**CABLE COMMUNICATIONS SYSTEMS**

*Parent Company of*

**RCS & RDS**

**Annual Report**

**For the year ended December 31, 2015**

**The date of the Annual Report is April 15, 2016**

## Table of Contents

1.	IMPORTANT INFORMATION .....	3
2.	RISK FACTORS .....	12
3.	BUSINESS .....	48
4.	SELECTED FINANCIAL AND OTHER DATA.....	82
5.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for the year ended December 31, 2015 .....	88

## 1. IMPORTANT INFORMATION

### FORWARD-LOOKING STATEMENTS

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

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

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

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

These factors include, but are not limited to:

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

in the number of current and potential customers, revenues and profitability;

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

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

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

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

## **PRESENTATION OF FINANCIAL AND OTHER DATA**

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

## **OPERATING AND MARKET DATA**

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

More specifically:

- for our cable TV and DTH services, we count each basic package that we invoice to a customer as an RGU, without counting separately the premium add-on packages that a customer may subscribe for;
- for our fixed internet and data services, we consider each subscription package to be a single RGU;
- for our fixed-line telephony and mobile telephony businesses, we consider each phone line that we invoice to be a separate RGU, so that a customer will represent more than one RGU if it has subscribed for more than one phone line (whether fixed-line or mobile); and

- as at 31 December 2015, we considered our mobile data RGUs to be comprised of customers who use mobile data services, which are paid for on a stand-alone basis and not as a part of an ordinary mobile telephony subscription. These include among others USB dongles, stand-alone smartphone mobile data subscriptions and international data roaming.

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

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

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

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

We also obtained Romanian, Hungarian and Czech foreign exchange data from the National Bank of Romania’s website ([www.bnro.ro](http://www.bnro.ro)), the Hungarian Central Bank’s website ([www.mnb.hu](http://www.mnb.hu)), the Czech National Bank’s website ([www.cnb.cz](http://www.cnb.cz)), and the European Central Bank’s website ([www.ecb.int](http://www.ecb.int)). None of these websites or their content has been incorporated by reference in this report, and we do not assume liability for any changes in the content of these websites after the date of this report.

## **NON-GAAP FINANCIAL MEASURES**

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

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

We define EBITDA margin as the ratio of revenues and other income to EBITDA (for both December 31, 2014 and December 31, 2015, Adjusted EBITDA).

The EBITDA and Adjusted EBITDA presented in this report differs from the EBITDA as defined under the Notes or EBITDA as defined under the 2015 Senior Facilities Agreement as disclosed in the *“Key Ratios”* section.

The covenants computation for the Notes and for the 2015 Senior Facilities Agreement uses EBITDA which may be different from the EBITDA/Adjusted EBITDA presented in this report.

## ROUNDING

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

## OPERATING AND FINANCIAL DATA PRESENTATION

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

## GLOSSARY OF TECHNICAL TERMS

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

called party's telephone equipment.

CPE .....	Customer premises equipment is any terminal or associated equipment located at a subscriber's premises and connected with a carrier's telecommunication channel(s) at the demarcation point. The demarcation point is a point established in a building or complex to separate customer equipment from the telecommunication company equipment. CPE includes satellite dishes, satellite receivers, decoders, cable modems, fixed-line phone terminals, smartcards, 3G mobile telephony handsets and mobile data devices.
Digital .....	A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. Compared to analog networks, digital networks allow for greater capacity, more precise reproduction, lower interference, protection against eavesdropping and automatic error correction. Signals are encoded into digits for transmission.
DNS .....	Domain Name System is a hierarchical distributed naming system for computers, services or any resource connected to the internet or a private network, which associates various information with domain names assigned to each participant.
DTH .....	Direct to home satellite television. The reception of satellite programs with a personal dish in an individual home.
DTT .....	Digital Terrestrial Television is an implementation of digital technology to provide a greater number of channels and/or better quality of picture and sound through a conventional antenna (or aerial) instead of a satellite dish or cable connection.
DWDM .....	Dense wavelength division multiplexing is an optical technology used to increase bandwidth over existing fiber optic backbones, by putting data from different sources together on an optical fiber, with each signal carried at the same time on its own separate light wavelength.
E1 .....	Digital transmission format used in telecommunications which allows network operators to provide time-division multiplexing circuit between customers. The E1 format has a capacity of 32 digital channels, each being allocated 8 bits in turn, the resulting signal being transmitted at a 2.048 Mbps rate (upstream and downstream).
E3 .....	Multiplexing frame structure based on the E1 format with a 34.368 Mbps rate (upstream and downstream).
Fiber optic cable .....	Cable that uses optical glass fibers to transmit signals over long distances with minimal signal loss or distortion. Fiber optic cable has good broadband frequency characteristics and noise immunity and is capable of managing very high capacity, high speed transmissions. It is immune to electrical interference and environmental factors that affect copper wiring and satellite transmission.
FTTB .....	Fiber To The Building. Fiber optic cable, carrying network data, connected from a communications service provider to a customer's physical building.
FTTH .....	Fiber To The Home is a broadband telecommunications system based on fiber optic cables and associated optical electronics for delivery of multiple advanced services such as the triple-play of telephony, broadband internet and television.
Gbps .....	Gigabytes per second; 1 Gbps = 1 thousand Mbps. Gbps stands for thousands of bits or kilobits per second. It is a measure of bandwidth (the total information flow over a given time) in a telecommunications medium.



GHz .....	The gigahertz is a unit of alternating current (AC) or electromagnetic (EM) wave frequency equal to one thousand million hertz (1,000,000,000 Hz). The GHz is used as an indicator of the frequency of ultra-high-frequency (UHF) and microwave EM signals and also, in some computers, to express microprocessor clock speed.
GPON .....	Gigabit-capable Passive Optical Networks is a point-to-multipoint, fiber to the premises network architecture in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises and covers systems with nominal line rates of 2.488 Gbps in the downstream direction and 1.244 Gbps in the upstream direction.
GSM .....	Global system for mobile communication. A widely adopted technical standard for digital mobile telephony.
HD / HDTV .....	High Definition Television is a high-quality video standard developed to replace older video formats often referred to as SD / SDTV (standard definition television). While HDTV's video quality is one of the most noticeable improvements over SDTV, HDTV includes a number of other important improvements as well: digital signal to eliminate analog interference caused by electrical currents and magnetic fields, and more realistic image due to using a ratio of 16:9.
Interconnection .....	The linking of telecommunications networks used by the same or different persons in order to allow the users of the services or networks of one person to communicate with the users of the services or networks of the same person or of another person, or to access services provided by another person.
IP .....	Internet Protocol. Data oriented protocol used in the internet for communication among multiple networks in which data is sent in packets and routed according to traffic density.
IP Backbone .....	IP Backbone is a part of network infrastructure that interconnects various pieces of network, providing a path for the exchange of information between different MANs (Metropolitan Area Networks) or sub-networks. A backbone can tie together diverse networks over wide areas. Normally, the backbone's capacity is greater than the networks connected to it.
IP Peering .....	IP Peering is a voluntary interconnection of administratively separate Internet networks for the purpose of exchanging traffic between the customers of each network. The pure definition of peering is settlement-free or "sender keeps all", meaning that neither party pays the other for the exchanged traffic; instead, each derives revenue from its own customers.
IP Transit .....	IP Transit is the service of allowing network traffic to cross a transit network, usually used to connect a smaller Internet Service Provider (ISP) to the larger Internet.
IPTV .....	Internet Protocol Television. A system where digital television service is delivered by using internet Protocol over a network infrastructure, which may include delivery by a broadband connection.
IPv4 .....	Internet Protocol version 4 is the fourth version in the development of Internet Protocol (IP) and the first version of the protocol to be widely deployed. It is one of the core protocols of standards-based internetworking methods of the Internet, and routes most of the traffic in the Internet.
IPv6 .....	Internet Protocol version 6 is the latest revision of the Internet Protocol (IP), the communications protocol that provides an identification and location system for computers on networks and routes traffic across the Internet. IPv6 was developed by IETF (Internet Engineering Task Force) to deal with long-anticipated

problem of IPv4 address exhaustion.

ISP .....	Internet Service Provider. A company providing access to internet and other computer-based information networks through its servers.
IXP .....	Internet eXchange Point is a physical infrastructure through which Internet Service Providers (ISP) exchange Internet traffic between their networks. IXPs reduce the portion of an ISP's traffic which must be delivered via their upstream transit providers, thereby reducing the average per-bit delivery cost of their service. Furthermore, the increased number of paths learned through the IXP improves routing efficiency and fault-tolerance.
Local loop .....	Network element used to connect a subscriber to the nearest switch or concentrator. The local loop is commonly referred to as the "last mile" because it is the part of the network that is connected directly to the subscriber.
LTE .....	Long-Term Evolution, marketed as 4G LTE, is a standard for wireless communication of high-speed data for mobile phones and data terminals. It is based on the GSM/EDGE and UMTS/HSPA network technologies, increasing the capacity and speed using a different radio interface together with core network improvements.
MB .....	Megabyte. A measure of data volume representing one million bytes. Each byte is equal to eight bits.
Mbps .....	Megabytes per second. A data transfer speed measured by the number of millions of bits per second. A bit is the smallest unit of data in a computer network.
MVNO .....	Mobile virtual network operator is a company that provides mobile phone service but does not have its own licensed frequency allocation of radio spectrum, nor does it necessarily own the entire infrastructure required to provide mobile telephone service.
Node .....	A network element that provides a point at which key telecommunications equipment or computers can access the network. In circuit networks, nodes are switching systems. In packet-switched networks, they are often computers.
OTT .....	Over-The-Top Content describes broadband delivery of video and audio without a multiple system operator being involved in the control and distribution of the content itself. The provider may be aware of the contents of the IP packets but is not responsible for, nor able to control, the viewing abilities, copyrights, and/or other redistribution of the content.
Penetration rate .....	The total number of subscribers for a service provider divided by the population that it serves, expressed as a percentage.
POTS Line .....	Plain Old Telephone Service is the voice-grade telephone service that remains the basic form of residential and small business service connection to the telephone network in many parts of the world. POTS is generally restricted to about 52 Kbps.
PPPoE .....	Point to Point Protocol over Ethernet is a network protocol for encapsulating PPP frames inside Ethernet frames.
PRI E1s .....	Primary Rate Interface is a standardized telecommunications service level within the ISDN (Integrated Services Digital Network) specification for carrying multiple DS0 (Digital Signal 0) voice and data transmissions between a network and a user. PRI is the standard for providing telecommunication services to offices. It is based on the E-carrier (E1) line in Europe. The E1 line consists of 32 channels.
Router .....	An inter-network device that relays data packets to networks

connected to the router based upon the destination address contained in those data packets being routed.

SDH .....	Synchronous Digital Hierarchy; international high-speed baseband digital transport standard specifying incrementally increasing data stream rates for movement across digital optical links.
SMS .....	Short Message Service. Also commonly referred to as text messaging. SMS features enable a user to send a short message to another user using a simplified key-pad. SMS capabilities among the latest user devices are capable of sending music and video messages, in addition to alphanumeric messages. SMS is a service available on most digital mobile phones that permits the sending of short text messages between mobile phones, other handheld devices and even landline telephones.
Smartcard .....	A smartcard is any pocket-sized card with embedded integrated circuits which can process data. This implies that it can receive input which is processed—by way of integrated circuit cards applications—and delivered as an output.
STM1 (Synchronous Transport Module) .....	The basic rate of transmission of the SDH fiber optic network transmission standard. It has a bit rate of 155.52 Mbit/s.
Switch .....	A device used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.
TDM .....	Time Division Multiplexing. Time Division Multiplexing is a type of digital multiplexing in which two or more apparently simultaneous channels are derived from a given frequency spectrum ( <i>i.e.</i> , bit stream) by interleaving pulses representing bits from different channels.
UMTS .....	The Universal Mobile Telecommunications System is a third generation mobile cellular system for networks based on the GSM standard. UMTS uses wideband code division multiple access (W-CDMA) radio access technology to offer greater spectral efficiency and bandwidth to mobile network operators. UMTS specifies a complete network system, which includes the radio access network, the core network and the authentication of users via SIM (subscriber identity module cards).
VoIP .....	Voice over Internet Protocol. Protocol in which voice traffic is carried in IP packets (rather than a circuit switched network) that allows people to use the internet to make telephone calls.

## 2. RISK FACTORS

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

### **RISKS RELATING TO OUR BUSINESS**

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

In recent years, the values of local currencies in the principal countries where we operate have fluctuated significantly relative to the euro, our presentation currency, and the U.S. dollar. In the year ended December 31, 2015, the Romanian leu declined 0.2% relative to the euro and 19.7% relative to the U.S. dollar, and the Hungarian forint declined 0.4% relative to the euro and 20.3% relative to the U.S. dollar.

In the year ended December 31, 2014, the Romanian leu declined 0.6% relative to the euro and the U.S. dollar, and the Hungarian forint declined 3.9% relative to the euro and the U.S. dollar.

Appreciations in the euro and U.S. dollar against the Romanian leu and Hungarian forint in 2015 have resulted in foreign exchange losses for us as we pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenues generated in the Romanian leu and Hungarian forint. This effect was partially mitigated by the fact that in the year ended December 31, 2015, 29.1% of our revenues were generated in euro. The translation effect of the euro's appreciation against Hungarian forint has caused lower increases in certain financial results and operating indicators presented in euros in our consolidated financial statements as compared to the results originally recorded in Hungarian forints. For example, our revenues in Hungary for the year ended December 31, 2015 increased by 6.2% compared to the prior year, when using constant currency terms (using 2014 average exchange rates), but had a lower increase on a reported basis.

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

Additionally, our ability to repay or refinance our euro financial indebtedness, including the Notes, could be adversely impacted. Further increases in the strength of the euro against other currencies could markedly reduce our financial results as reported in euro and, potentially, result in a breach of certain financial covenants under the 2015 Senior Facilities Agreement and the ING Facilities Agreement and other existing credit facilities, thereby requiring us to seek waivers from these creditors or causing the acceleration of these credit facilities. While we generally do not hedge against foreign exchange rate fluctuations, we hedged the interest payments amounts due on the Proceeds Loan until the first call date in 2016. We may also consider hedging the remaining half of the interest payments or a portion of the principal amount of the Notes consistent with our historical approach if we believe a beneficial opportunity arises. However, any such hedging arrangements we enter into may not adequately offset the risks of foreign exchange rate fluctuations and may even result in losses. In addition, further appreciation of the euro could require us to offset the impact of such exchange rate fluctuations by price increases in local currencies, which could cause a reduction in the number of RGUs and negatively affect our business, prospects, results of operations and financial condition.

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

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

Our business is affected by general internal economic, political and social conditions in Romania, Hungary, Spain and Italy. There are many factors that influence global and regional economies which are outside of our control.

This new Romanian tax legislation (both the fiscal and the fiscal procedure code) aim at reducing the level of some fiscal burdens (such as the progressive cut of the VAT level from 24% to 20% starting January 2016 and to 19% starting January 2017; the decrease of the dividend tax from 16% to 5% starting January 2017, the abolition of some fuel excise, etc.). However, since its recent entry into force, this new fiscal package has proven to contain some other measures detrimental to the social and economic environment (and which have not been properly advertised by the former government during the consultation and voting period). For example, the new fiscal code has permitted the local authorities to substantially increase the real estate taxation for both individuals and companies and has raised the currently applicable level of social security taxes for individual professionals in Romania, while extending the scope of such taxation. Moreover, although such new legislation was designed to ensure predictability and to increase enforceability of fiscal measures, part of such provisions already call for the enactment of additional clarifying amendments (that practically meanwhile block the enforcement of such provisions for several months). As a general appreciation, this new legislation - despite some tax benefits – would, on the other turn, most likely lead to an overall higher tax liability and even more cumbersome fiscal procedures.

The new Romanian Government has already announced that upcoming changes will be brought to the legislation on the local taxation and the wages in the public sector, having as likely income the increase of the taxation and potential restructuring and social discontent.

The tax on special constructions in place since January 1, 2014 amounts to an annual rate of 1% applicable to the gross inventory value as at 31 December of the previous year of certain constructions pertaining to telecommunication networks including, without limitation, pillars, circuits, cables, connections, platforms and towers. Starting with January 1, 2015, the tax was reduced to 1% and according to the latest changes to the fiscal laws, such tax is to be discontinued starting January 2017 (should there be no further legal prolongation enacted by the legislative authorities). Although deductible for the purposes of calculating corporate income tax, this new tax has led to an increase in our costs and has negatively affected our cash flow. For 2015, total expenditure related to this tax was approximately 0.6% of our revenues in Romania. Although – according to the new fiscal code – this tax is going to be discontinued starting 2017, it will continue to burden our cost structure for 2016 including.

According to the EU's Commission country report for 2015, Romania (the major country where we operate) has been qualified as extremely unsuccessful in passing-on the economic growth to its citizens, who continue to register high on poverty and low wages. Major reforming measures are announced by the current Government.

Governments may also introduce exceptional one-off taxes to compensate for decreasing budget revenues. For example, in October 2010, the Hungarian Parliament passed a law imposing a special crisis tax on certain sectors, including telecommunications, implemented retroactively to January 1, 2010. Consequently, we had to pay an additional tax of approximately 6% on our revenues in Hungary for the years ended December 31, 2010, 2011 and 2012. This tax was contested by the European Commission before the European Court of Justice that afterwards seems to have decided in favour of a similar tax introduced in France, thus triggering the withdrawal by the European Commission of its action. At the end of 2012, this tax was replaced by two lower taxes, one on infrastructure and the other on financial transactions. In addition to these taxes, a new tax, in effect since July 2012, was introduced in Hungary. The new tax is paid monthly and is levied on a per minute basis on voice calls and per each SMS/MMS sent. These taxes amounted to approximately 1% of our revenues in Hungary in 2015 and we expect the same level also for the future.

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

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

In addition, volatile credit markets have also affected us in the past, and may affect us in the future, through increases in interest rates under our floating rate debt, including among other financial obligations, the 2015 Senior Facility Agreement, the ING Facilities Agreement and the Citi Facilities Agreement. Lack of easily available credit may also restrict our ability to grow at a pace commensurate with the business opportunities we can identify. All these factors and other effects of a continued economic downturn that we may fail to predict could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our success is closely tied to general economic developments in Romania and Hungary and cannot be offset by developments in other markets. Our multiple offering strategy is based on an increase in penetration and on our ability to cross-sell our products and services to existing and new customers. Negative developments in, or the general weakness of, the Romanian and Hungarian economies, in particular increasing levels of unemployment, may have a direct negative impact on the spending patterns of retail consumers, both in terms of subscribed services and usage levels. Because a substantial portion of our revenue is derived from residential subscribers who may be impacted by these conditions, it may be (i) more difficult to attract new subscribers, (ii) more likely that certain of our subscribers will downgrade or disconnect all or part of the services they subscribe to and (iii) more difficult to

maintain ARPUs at existing levels. In addition, we can provide no assurances that a further deterioration of the economy will not lead to a higher number of non-paying customers or generally result in service disconnections. Therefore, a weak economy and negative economic development may jeopardize our growth targets and may have a material adverse effect on our business, prospects, results of operations and financial condition.

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

Our cable TV, internet and data, fixed-line telephony and mobile telecommunications services are currently carried through our transmission networks composed primarily of fiber optic cables. In addition, as of December 31, 2015, we also had approximately 2,100 base stations in place for our mobile telecommunications services. Our business is dependent on the continued and uninterrupted performance of our network. Our ability to deliver services may be subject to disruptions of our systems from communications failures that may be caused, among other things, by computer viruses, power failures, natural disasters, software flaws, transmission cable cuts, sabotage, acts of terrorism and vandalism and unauthorized access. In addition, we lease certain components of our network from third-parties that have the right to terminate those leases subject to notice periods and/or upon the occurrence of certain events (e.g., a change of control). Any such disruption or other damage that affects our network could result in substantial losses for which we are not adequately covered by our existing insurance policies. Disaster recovery, security and service continuity protection measures that we have undertaken or may in the future undertake, and our monitoring of network performance, may be insufficient to prevent losses. Our network may be susceptible to increased network disturbances and technological problems, and such difficulties may increase over time. Such disruptions may affect our provision of new or existing services and may affect our reputation and lead to costly repairs and loss of customers. For so long as the disruption continues, our revenues could be significantly impacted, and could in turn materially and adversely affect our operating cash flows, business, prospects, results of operations and financial condition.

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

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

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

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

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

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

Should the satellites we use significantly degrade, or become unavailable for regulatory reasons or any other reason, we may not be able to secure replacement capacity on an alternative satellite on a timely basis or at the same or similar cost or quality. Our ability to recoup losses related to service failures from Intelsat or Telenor may also be limited. Even if alternative capacity were available on other satellites, the replacement satellites may need to be repositioned in order to be co-located with the satellites. If such replacement satellites could not be thus co-located, we would be required to re-point all our existing subscribers' receiving dishes to enable them to receive our signal. Accurate re-pointing requires specialist tools and expertise, and we believe that there could be substantial costs of re-pointing all of our existing subscribers' receiving dishes in the event the satellite networks we currently use fail. Moreover, the time needed to re-point our dishes to alternative satellites would vary depending on the market. Accordingly, the inability to use Intelsat's or Telenor's satellites or otherwise to obtain access to sufficient levels of

satellite bandwidth on a timely basis and at commercially acceptable prices, or any system failure, accident or security breach that causes interruptions in our operations on the satellite networks we use could impair our ability to provide services to our subscribers, resulting in liability to our customers, and materially and adversely affect our business, prospects, results of operations and financial condition.

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

We depend on the availability and continued service of a relatively small number of senior managers. Our senior managers are heavily involved in the daily operation of our business and are, at the same time, required to make strategic decisions, ensure their implementation and manage and supervise our development. The loss of any key employee could significantly impede our financial plans, product development, network expansion, marketing and other plans, which could in turn affect our ability to comply with the financial maintenance covenants under the 2015 Senior Facilities Agreement, and the ING Facilities Agreement. In addition, competition for qualified executives in the telecommunications industry in the markets in which we operate is intense. Our future operating results depend, in significant part, upon the continued contributions of our existing management and our ability to expand our senior management team by adding highly skilled new members, who may be difficult to identify and recruit. If any of our senior executives or other key personnel ceases their employment with us, our business, results of operation, financial position and prospects could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

Given the fast pace of technological innovation in our industry, we face the risk of our technology becoming obsolete. We may need to make substantial additional investments to upgrade our networks or to obtain licenses for and develop and install new technologies to remain competitive. There is no assurance that the services enabled by new technologies will be accepted by customers to the extent required to generate an acceptable rate of return. In addition, we face the risk of unforeseen complications in the deployment of these new services and technologies and there is no assurance that our original estimates of the necessary capital expenditure to offer such services will be accurate. New services and technologies may not be developed and/or deployed according to expected schedules or may not achieve commercial acceptance or be cost effective. Should our services fail to achieve commercial acceptance, this could result in additional capital expenditures or a reduction in profitability. Any such change could materially and adversely affect our business, prospects, results of operations and financial condition.

Rapid technological change makes it difficult to predict the extent of our future competition. For example, new transmission technologies and means of distributing content, such as IPTV, DTT, OTT and video on demand services, or increased consumer demand for and affordability of products based on new mobile communication technologies, such as 4G LTE, could trigger the emergence of new competitors or strengthen the position of existing



competitors. There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. Any failure to do so could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our financial condition and results of operation. Conversely, we may overestimate the demand in the marketplace for certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenues, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology or service. Our future success depends on our ability to anticipate and adapt in a timely manner to technological changes. Responding successfully to technological advances and emerging industry standards may require substantial capital expenditure and access to related or enabling technologies to introduce and integrate new products and services successfully, which could negatively affect our competitive position, business, prospects, results of operations or financial condition.

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

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

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

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

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

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

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

The television, broadband, telephony and mobile markets in which we operate are capital intensive. We have undertaken significant capital expenditure to attract and retain customers to our networks, including expenditures for equipment and installation costs and the implementation of new technologies such as GPON. In an effort to reduce or offset our future energy costs, we have also invested in renewable energy by acquiring several companies developing solar energy projects in the past eighteen months. Most of these projects started producing energy in 2013. However, no assurance can be given that any 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.

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

In our core markets of Romania and Hungary, our subscriber base for services other than DTH is located primarily in more affluent urban population centers. However, as we expand into less affluent demographic segments of our geographic markets, our ARPU figures may decline depending upon changes in our mix of subscribers and the prices at which our packages are offered. For example, our “Popular” cable TV package in Romania, targeted at rural subscribers, offers less content and generates less revenue than our “Basic/Analog” or “Extra/Digital” packages. See “*Business—Our Service Offerings.*” Further, our reported ARPU may be affected by fluctuations in

exchange rates. See “*Risk factors relating to our business—Currency exchange rate fluctuations could have a material adverse effect on our results of operations and financial condition.*” As our number of telephony RGUs increases, our telephony ARPU figures may further decrease as a result of an increase in the number of own-network calls which are free of charge under most of our packages. A material decrease in ARPU from current levels could negatively affect our results of operations and financial performance.

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

We face significant competition in the markets in which we operate. Competition is expected to intensify and may increase churn and continue to drive prices for services lower. For example, in Romania, our most important market, we face intense competition across all our business lines from Telekom Romania, the new brand name under which operates Romtelecom, the incumbent fixed-line telephony operator, and Telekom Mobile, the former Cosmote, a mobile telephony company, both of which are majority owned by OTE and ultimately by Deutsche Telekom. We also face competition from UPC across all our business lines (except mobile telephony and mobile internet and data) in Romania and Hungary. UPC is owned by Liberty Global, the largest cable operator in Europe, and therefore has significantly more resources than we do.

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

There have been recent infrastructure sharing arrangements concluded by the other telecommunications operators (mainly, the mobile network sharing arrangement between Orange and Vodafone from 2013 and the Orange and Telekom two network-sharing agreements over Telekom’s fixed network and over Orange’s LTE network from 2015). Also, in exchange for the full de-regulation of the access to fixed infrastructure in Romania, ANCOM has decided to take measures to encourage further propagation of such access arrangements mostly to fixed networks. Such developments open route for enhanced synergies and for the provision of multiple play fixed-mobile package services favouring the market development of our major competitors on all electronic communications markets in Romania. Such arrangements might, for example, enrich Orange’s TV retransmission service that currently includes only DTH services or allow any of our main competitors to provide high speed fixed-line broadband services.

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

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

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

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

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

Our market position will also depend on effective marketing initiatives and our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors and changes in consumer preferences and economic, political and social conditions in the markets in which we operate. Any failure to compete effectively or inability to respond to or effectively anticipate consumer sentiment, including

in terms of pricing of services, acquisition of new subscribers and retention of existing subscribers, could have a material adverse effect on our business, prospects, results of operations and financial condition.

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

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

Customer churn could increase as a result of:

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

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

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

We maintain an insurance policy in respect of our critical communications equipment at our data centers in Bucharest and at certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. Our insurance may not be adequate to cover all of our potential losses or liabilities. Moreover, apart from mandatory third party liability insurance and casualty and collision insurance for our car fleet, we do not maintain insurance policies for our Hungarian operations. We also can provide no assurance that insurance will continue to be available to us on commercially reasonable terms. At present, we have no coverage for business interruption or loss of key management personnel or professional liability of our management and a substantial part of our assets is not insured. 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 may have a material adverse effect on our business, prospects, results of operations and financial condition.

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

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

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

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

Sophisticated billing and credit control systems are critical to our ability to increase revenue streams, avoid revenue

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

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

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

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

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

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

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

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

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

A number of senators have recently submitted to the parliamentary vote the enactment of a law banning the placing of mobile telephony antennas near the schools, hospitals, orphanages and care centres in Romania. The draft bill that has been endorsed by the Senat is pending the vote of the Chamber of Deputies. Should this initiative be voted by the Parliament it would risk affecting a substantial part of our telecommunication infrastructure in the city areas in Romania.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In February 2011, the Romanian Competition Council launched an investigation into the interconnection tariffs charged by all four mobile telecommunication companies in Romania (Orange, Vodafone, Telekom Romania and RCS&RDS). In November 2015, the Competition Council closed the investigation based on each operator's commitment not to discriminate between the tariff applied to on-net (internal) and the tariff applied to off-net call. See "*Business—Litigation and Legal Proceedings—Telecommunications market interconnection investigation.*"

Separately, we have been accused, among other things, of abuse of dominant position by Antena TV Group S.A. which alleges that we acted in an anticompetitive manner by refusing to transmit one of its channels. The Romanian Competition Council opened an investigation on this matter in August 2011. The Competition Council decided in March 2015 to close the investigation and to reject Antena TV Group S.A.'s complaint. This decision is not final and has been appealed by Antena TV Group S.A. This trial is pending. See "*Business—Litigation and Legal Proceedings—Discovery Networks complaint.*"

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

In our daily business, we conclude various types of acquisition, supply or cooperation arrangements at the core of our activity. The telecommunications and the media sector, amongst other industries, are constantly under the scrutiny of the national competition regulators in the countries where we operate and of the European Commission. Pursuant to sector inquiries or in the context of antitrust investigations, any competition authority might particularly interpret clauses in the agreements we conclude as potentially non-compliant with the applicable competition legislation, which might ultimately lead to the application of fines up to the amount mentioned above or the imposition of other restrictive measures.

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

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

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as ongoing compliance with, among other things, telecommunications, audiovisual, environmental, health and safety, building and urban planning, personal data protection and consumer protection laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and monitoring licensees' compliance with the terms thereof. We may sometimes disagree with the way legal provisions are interpreted or

applied by regulators and we may, from time to time, challenge or contest regulatory decisions in the course of our business, which may affect our relations with regulators. The competent authorities in the countries where we carry out our activity have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may result in the conclusion that we or our subsidiaries have violated laws, decrees or regulations. We may be unable to refute any such conclusions or remedy the violations.

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

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

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

In Romania, we currently provide our cable, fixed-line telephony and fixed internet and data services through networks that are mostly above-ground and for which we lease the right to use poles from electricity and public transportation companies. In Hungary, we provide our cable fixed-line telephony and fixed internet and data services through networks that are mostly below-ground. In Romania and Hungary, market participants, including RCS&RDS, may not always be able to obtain or use the necessary permits for developing, building and completing networks in a timely manner or at all, and this may result in such networks (including base stations) not being fully authorized. Since 2011 (and earlier with respect to certain towns and cities), we have faced regulatory pressure in Romania to stop building above-ground networks and to bury our existing networks. We are burying our networks in cities where local authorities have been able to grant us the required authorizations sufficiently quickly or where the necessary infrastructure was available. However, we may not be in compliance in all instances with obligations to bury our networks or we may have differing interpretations on the existence of such obligations from public authorities. If we were forced to place our networks underground pursuant to plans of authorities that contemplate impractical solutions, our costs for providing services may increase and our customer satisfaction may be adversely affected. In addition, if

we are found to be non-compliant with such obligations, or otherwise be found to be in violation of other restrictive covenants, easements or rights of way, we may face fines or we may face service interruptions while we relocate our networks.

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

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

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

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

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

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

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

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

***We are subject to payments related to collective copyright organizations which may vary.***

We are required under the law of some of the countries in which we operate, including Romania and Hungary, to make payments to various collective copyright protection organizations as compensation for the use of copyrighted



content in the programming delivered by us through our cable TV and DTH businesses. These amounts are not fixed and are determined by negotiation in accordance with a methodology based on certain legal provisions and relevant European practices. Our expenses incurred in relation to such obligations for the years 2014 and 2015 in Romania, Hungary and the Czech Republic (disposed of in April 2015) were of approximately €8.3 million and €8.36 million, respectively. There cannot be any assurance that amounts payable to various collective copyright protection organizations will not increase in the future or that additional claims could not arise in relation to our past activity or that we will not be subjected to penalties or fines for delaying payments. Since we may not be able to pass on such increases in costs to our customers, such increases, penalties or fines may adversely affect our results of operations and financial condition.

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

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

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

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

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

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

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

Our ability to provide commercially viable mobile and fixed-line telecommunications services depends, in part, upon our interconnection arrangements with other telecommunications operators. In particular, we are dependent, in certain regions, on interconnection with our competitors' mobile and fixed-line networks and associated infrastructure for

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

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

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

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

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

For example, our complaint to the National Anti-Corruption Directorate of Romania about a potential criminal offense perpetrated against one of our directors also brought to the attention of the Directorate an agreement we entered into in 2009 and its compliance with Romanian anti-corruption laws. The agreement was entered into with Bodu SRL (“**Bodu**”), which is controlled by the former President of the Romanian National Football League. Bodu owns and operates a large events hall in Bucharest. We invested approximately €3.1 million necessary for the completion of the property and the start of operations in exchange for the right to receive a share of Bodu’s profits from events organized at that venue and the right to promote our services at the venue through various publicity means. We do not believe that our transaction with Bodu violated applicable anti- corruption laws and we are not aware of any proceedings alleging that it has. The former President of the Romanian National Football League has been accused of illegal use of funds, money laundering and tax fraud in relation to the payment of a commission to an alleged intermediary that the Romanian National Football League made in relation to amounts received from us as price for the acquisition of TV rights. We do not have and never had any relation with the alleged intermediaries and we are not accused of any wrongdoing in relation to the matter. If we are alleged or found to have violated applicable anti-corruption laws, any such allegations or violation may have an adverse effect on our reputation and business.

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

We may be adversely affected by other contractual claims, complaints and litigation, including from counterparties with whom we have contractual relationships, customers, competitors or regulatory authorities, as well as any adverse

publicity that we may attract. Any such litigation, complaints, contractual claims, or adverse publicity could have a material adverse effect on our business, reputation, financial condition or operating results. See “*Business—Litigation and Legal Proceedings.*”

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

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

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

## **RISKS RELATING TO INVESTMENTS IN EMERGING MARKETS**

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

Corruption is one of the main risks confronting companies with business operations in some of the markets where we operate. Reports of international bodies and the local and international media continue to warn about the high level of corruption in the region and in countries where we conduct our business. In the 2015 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and ranked countries from 1 (least corrupt) to 168 (most corrupt), Romania and Hungary, the two largest markets where we operate, were ranked 58th and 50st respectively.

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

***The current and upcoming social, political and military context at EU and global level may have consequences which may negatively affect our business***

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

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

A second political conflict in the region threatens to be triggered by the ongoing political instability and by the recent social movements in the Republic of Moldova.

Given that all of the countries where we operate are EU Member States, the recent massive migration of Middle East refugees to EU countries (affecting Hungary and Italy) and the United Kingdom’s intended exit from the European Union are likely expected to give consequences.

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

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

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. The impact of global economic developments is often felt more strongly in emerging

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

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

The long-term foreign and domestic currency debt of Romania is currently rated BBB-/A-3 by S&P, Baa3 by Moody’s and BBB-/BBB by Fitch. Any adverse revisions to Romania’s credit ratings for domestic or international debt by such or similar international rating agencies may adversely impact the credit rating of our Notes, our ability to raise additional financing and the interest rates and other commercial terms under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which would have a material adverse effect on our business, prospects, results of operations and financial condition.

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

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

Moreover, some of these countries have experienced periods with significant political instability. In particular, until December 2012, the political environment in Romania, our primary market, has been unstable and dominated by political conflict and lack of consensus between the President on the one hand, and the government supported by the parliamentary majority on the other. For the past years, there have been several changes of government, while the political conflicts inflated. After an almost four years mandate, the social-democratic government, that has been during the entire mandate supported by the parliamentary majority, has been replaced in November 2015 by a technocratic government, unwelcomed by the Parliament, but supported by the liberal president. On the background of a highly criticized election legislative package and of massive investigations for corruption of representative figures of all political parties, both local and parliamentary elections are planned to take place in 2016. Such frequent political turns could slow down the economic and regulatory reforms in Romania.

In Hungary, our other core market, the ruling party, which has been in power from 2010 and has been re-elected in 2014 for a new four year term, introduced various policies and measures that raised certain concerns about the rule of law, including taxes with retroactive application and a new constitution that has been scrutinized by international organizations (including the EU Commission). In addition, legislation passed in 2013 has led to a significant increase in the cost of judicial enforcement against non-paying subscribers. The Hungarian’s adversity towards the EU reaction to the migration crisis (highly 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 effect on us and the value of investments related to Romania and Hungary, including the Notes.

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

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

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

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

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

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

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

the judgment does not violate the public policy of the applicable jurisdiction, and requirements relating to the service of process.

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

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

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

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

Romania entered the European Union in January 2007. Romania has undergone and continues to undergo changes in legislation due to its accession to, and its continued integration with, the EU. As part of the EU accession process, the European Union has established a series of measures for new member states to adhere to in order to fulfill basic EU membership requirements. Similarly, the European Commission progress report on the Co-operation and Verification Mechanism with Romania approved and published by the Commission on January 27, 2016, reaffirmed on one hand the progress made from previous year in some areas (the progressing fight against the high-level corruption, increased professionalism in the judicial system, etc.), and on the other hand stated the fact that Romania still needs to address issues such as the need of increased political commitment to sustained reforms by all public institutions and political actors, (e.g public statements questioning key judicial and anti-corruption institutions), outstanding legislative issues, as well as inconsistencies with regard to judicial application. The Commission will pay attention to these aspects in monitoring Romania this year and continues to provide support in order to reach the Co-operation and Verification Mechanism objectives. The Commission assess Romania's progress towards achieving its objectives on an annual basis. Unless satisfactory actions are taken, Romania could face EU sanctions, which could have a material adverse effect on our business, reputation, financial condition or operating results, as well as on the trading price of the Notes. Such sanctions may take the form of a temporary suspension of the application of relevant provisions governing the relations of Romania with any other EU member state or member states, for example, or the suspension of member states' obligation to recognize and execute, under the conditions laid down in EU law, Romanian judgments and judicial decisions.

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

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

As of December 31, 2015, in accordance with the terms of our Notes, our Consolidated Total Indebtedness is €710.3 million, our EBITDA is €238.7 million and our Consolidated Leverage Ratio (gross) is 3.0x. In accordance with the terms of the 2015 Senior Facilities Agreement, our Consolidated Total Net Indebtedness is €667.6 million, our EBITDA is €238.7 million and our Leverage Ratio (net) is 2.8x.

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

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

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

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

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and the 2015 Senior Facilities Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, the Indenture and the 2015 Senior Facilities Agreement are not preventing us from incurring obligations that do not constitute indebtedness under those agreements.

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

Among other things, the Indenture limits our ability to:

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

In addition, the 2015 Senior Facilities Agreement and the ING Facilities Agreement contain covenants limiting our ability to incur and assume debt and/or requiring us to maintain a certain debt to consolidated EBITDA ratio and a certain consolidated EBITDA to total interest ratio. Further, the 2015 Senior Facilities Agreement and the ING Facilities Agreement limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Obligations.*"

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

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

***Any impairment of our ability to draw funds under the 2015 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement could adversely and negatively impact our business operations.***

Currently, our operations are primarily financed using cash generated in our operations and funds drawn from our existing credit facilities. We rely on our senior revolving credit facility under our 2015 Senior Facilities Agreement, the Citi Facilities Agreement and the ING Facilities Agreement to fund our business operations and for various other purposes. Further, if we were unable to draw funds under our senior revolving credit facility, we may need to find alternative sources of funds which may be at higher interest rates. In addition, the overdraft facilities under the ING Facilities Agreement and the Citi Facilities Agreement are provided on an uncommitted basis and can be withdrawn at any time. There also can be no assurance that we will have sufficient cash resources on hand at any given time to meet our expenses or debt servicing requirements. Our ability to draw on the 2015 Senior Facilities depends on, among other things, our ability to maintain certain ratios, and our ability to meet these financial ratios and other required conditions to drawing could be affected by a number of factors, including by events beyond our control. In addition, our inability to maintain these financial ratios may also result in an event of default under the

2015 Senior Facilities Agreement or the ING Facilities Agreement, which would prohibit us from drawing funds under those facilities and potentially trigger a cross-default under the Notes. See “—Risks related to our financial profile—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.” This inability to draw funds under the 2015 Senior Facilities Agreement, the ING Facilities Agreement or the Citi Facilities Agreement or to maintain our operations due to a lack of cash flow would materially and adversely affect our business.

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

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

We cannot assure you that our business will generate sufficient cash flows from operations or that future debt or equity financings will be available to us to pay our debt, including payments due under the Notes and the Guarantee, when due or to fund our other capital requirements or any operating losses. If our future cash flows from operations and other capital resources (including borrowings under the 2015 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

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

We cannot assure you that we will be able to accomplish these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, the 2015 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement, limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business and adversely affect our financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

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

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

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

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

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



## **RISKS RELATING TO THE NOTES AND THE GUARANTEE**

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

Only RCS&RDS provides a Guarantee for the benefit of holders of the Notes on the Issue Date. Our other subsidiaries may guarantee the Notes in the future, but until then, any claim by us or any of our creditors, including holders of the Notes, against any such non-guarantor subsidiaries will be structurally subordinated to all of the claims of creditors of such subsidiaries. The Indenture does not limit the transfer of assets to, or the making of investments in, any of our Restricted Subsidiaries (as defined herein), including our subsidiaries that do not provide guarantees for the Notes, which subsidiaries could account for a higher portion of our assets, liabilities, net revenues and net income in the future. As of December 31, 2015, our subsidiaries that do not guarantee the Notes did not have any material financial indebtedness outstanding. Our subsidiaries not guaranteeing the Notes generated 28% of our consolidated total revenue and 24.8% of our consolidated EBITDA for the year ended December 31, 2015. In the event of insolvency, liquidation or other reorganization of any of these non-guarantor subsidiaries, creditors of such non-guarantor subsidiaries will generally be entitled to payment in full from their respective assets before the Company or the Guarantor is entitled to receive any distribution from such assets as equity holders. Except to the extent that the Company or the Guarantor may itself be a creditor with recognized claims against a non-guarantor subsidiary, claims of creditors of such non-guarantor subsidiary will have priority with respect to the assets and earnings of that subsidiary over the claims of the Company or the Guarantor as equity holders, although there is no assurance that the claims of the Company or the Guarantor as a creditor against a non-guarantor subsidiary may not be reduced, limited or extinguished as a result of applicable insolvency rules (such as the doctrine of equitable subordination or the rules regarding the potential avoidance of transactions concluded with related persons within a certain hardening period). See “*Risk Factors—Risks relating to the Notes and the Guarantee—The Company may not be able to recover any amounts under the Proceeds Loan because its right to receive payments under the Proceeds Loan is subordinated to all third party liabilities of the Guarantor.*” Our non-guarantor subsidiaries are also subject to liabilities to other creditors as a result of obligations incurred in the ordinary course of business, which liabilities are also effectively senior to the Notes and the Guarantee.

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

The Notes are secured by the same Collateral securing the obligations under our 2015 Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and certain hedging obligations. In addition, under the terms of the Indenture, we are permitted to incur significant additional indebtedness and other obligations that may be secured by the same Collateral.

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

These arrangements could result in the enforcement of the Collateral in a manner that results in lower recoveries by holders of the Notes. Furthermore, other creditors not subject to the Intercreditor Agreement could commence enforcement action against the Company or its subsidiaries during such period, the Company or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain Collateral could otherwise be impaired or reduced in value.

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

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

Our obligations with respect to the Notes and the Guarantee are secured by a first-ranking security interest in the

Collateral, as more fully described under “Offering Memorandum—*Description of the Notes—Security—The Collateral.*” The Collateral is shared with the lenders under the 2015 Senior Facilities Agreement, the creditors with respect to any *pari passu* indebtedness (including the ING Facilities Agreement and the Citi Facilities Agreement), and certain hedge counterparties. The Indenture and the 2015 Senior Facilities Agreement permits the Company and its subsidiaries to use the Collateral to secure certain additional indebtedness on a *pari passu* or subordinated basis in the future. Not all of our assets secure the Notes, and in the event of an enforcement of the Collateral, the proceeds from the sale of such assets may not be sufficient to satisfy our obligations under the Notes, the Guarantee and the other indebtedness secured on a *pari passu* basis by the Collateral. To the extent that the claims of holders of the Notes and creditors of our other debt secured by the Collateral exceed the value of the Collateral, those claims will constitute unsecured obligations.

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the Collateral securing such Guarantee, in the event of competing enforcement claims or a sale of assets in bankruptcy under Romanian law, any such amounts will rank junior to certain specified categories of existing and future indebtedness of the Guarantor, including, without limitation, trade payables (*creanțe*) and bank loans (including the 2015 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement, and related interest and expenses). Accordingly, the holders of the Notes’ potential recovery in certain events of enforcement or in bankruptcy liquidation under Romanian law may be limited. See “—*The Notes and the Guarantee are secured only to the extent of the value of the assets that have been granted as Collateral. In addition, under Romanian bankruptcy law, certain preferential claims, including claims of creditors of bank loans and trade payables (creanțe), would rank ahead of claims of the holders of the Notes under the Guarantee to the extent such claims exceed the value of the Collateral securing such Guarantee.*”

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

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

Holders of the Notes have an unsecured claim for any portion of the claims under the Notes and the Guarantee that are not covered by the value of the Collateral. In the event of competing claims or a sale of assets in bankruptcy, the unsecured portion of the claim is subject to the mandatory distribution order set out by Romanian law. The unsecured portion of the claims of the holders of the Notes ranks junior to, among others, bank loans (including related expenses and interest) and trade payables (*creanțe*) (*i.e.*, claims arising out of the delivery of products, provision of services or other works and leases). However, certain creditors of our bank loans (including creditors under the 2015 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement) became parties to the Intercreditor Agreement that regulated the application of proceeds received from enforcement of the Collateral and certain distressed disposals among the remaining creditor groups. In addition, the Intercreditor Agreement contains an equalization provision that operates to equalize any losses among the secured creditors based on their exposure. Accordingly, holders of the Notes thus need to rely on the contractual arrangements with those bank creditors party to the Intercreditor Agreement to benefit from their contractual status, and share in the proceeds from sales of assets that are not included in the Collateral in the event of competing enforcement or a sale of assets in bankruptcy of the Guarantor. Nevertheless, suppliers of goods and services to the Guarantor are not party to the Intercreditor Agreement. As a result, the ability of holders of the Notes to obtain recovery against the Guarantor on any portion of their claim that exceeds the value of the Collateral may be limited.

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

No appraisal of the value of the Collateral securing the Notes and the Guarantee has been made in connection with the Offering. The fair market value of the Collateral securing the Notes and the Guarantee is subject to fluctuations based on many factors including, among others, whether or not our business is sold as a going concern, the ability to sell the assets (including the shares that constitute part of the Collateral) in an orderly sale, the availability of buyers and whether telecommunications, media and other licenses required to operate our business and approvals required to purchase our business would be available to a buyer of the assets. The book value of the assets securing the Notes should not be relied on as a measure of realizable value for such assets. In addition, the security interest of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the Security Agent may need to obtain the consent or approval of a third party or governmental authority to create, perfect or enforce a security interest in a contract or permit or transfer or sell certain assets. See “—*Enforcing pledges over certain Collateral may be prohibited or subject to special authorization*” and “—*Risks relating to the Notes and the Guarantee— The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defenses.*” Thus, we cannot assure you that these assets will be saleable and, even if saleable, that there will not be substantial delays in the liquidation thereof or loss of value associated with the difficulty or inability to sell them as a going concern. Each of these factors could reduce

the likelihood of an enforcement action as well as reduce the amount of any proceeds from an enforcement action.

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

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

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

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

The security documents governing the granting of the Collateral, subject to the terms of the 2015 Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and the Indenture, allows us to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes, the Guarantee, Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement. So long as no default or event of default under the 2015 Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement or the Indenture would result therefrom, we may, among other things, without any release or consent by the Trustee or Security Agent, conduct ordinary course activities with respect to the Collateral such as selling, factoring or otherwise disposing of the Collateral and making ordinary course cash payments, including repayments of indebtedness.

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

The Collateral includes certain tangible and intangible assets. Applicable law requires that a security interest in certain tangible and intangible assets can only retain its priority if it is properly perfected. Perfection is attained through certain actions (including filings or registration) undertaken by the secured party or the relevant security grantor, as the case may be. Such actions may also require the consent or cooperation of third parties. For example, in Romania, registration of security interests must be performed in various specific registers, depending on the nature of the specific movable asset over which security is granted. Generally, security interests over movable assets must be registered with the Electronic Archive for Registrations of Security Interests over Movable Assets (the “**Electronic Archive**”). Certain movable assets are subject to other or additional publicity formalities. Security interests over shares in a private company must be registered with RCS&RDS’s shareholders’ register and security interests over listed shares must be registered with the Central Depository. In addition, security over intellectual property rights must additionally be registered with the register kept by the relevant IP authority (e.g. the State Office for Inventions and Trademarks, the World Intellectual Property Organization or the Office of Harmonization for the Internal Market). Romanian law also provides for the concept of “control over bank accounts” which ensures a preference for the controlling creditor. Control over a bank account may be obtained in several ways and, in the case of those bank accounts which secure the Notes and the Guarantee, this includes obtaining the written consent of the account bank. We may not make one or more of the registrations required by applicable laws or obtain all the necessary consents in a timely manner. As a result, the security interests in the Collateral may not be perfected, and their priority may not be created or retained, with respect to the obligations under the Notes.

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

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

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

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

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

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

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

- in connection with any sale, disposition, exchange or other transfer of all or substantially all of the assets of the Guarantor to a person that is not the Company or a Restricted Subsidiary in a transaction that is permitted by the Indenture;
- in connection with any sale, disposition, exchange or other transfer of Capital Stock of RCS&RDS as or such other a Guarantor to a person that is not the Company or a Restricted Subsidiary in a transaction that is permitted by the Indenture and RCS&RDS or such Guarantor ceases to be a Restrictive Subsidiary as a result of the sale or other disposition;
- upon the release of the guarantee or security or the discharge of the indebtedness that gave rise to the obligation to guarantee the Notes, so long as no other indebtedness of the Company or a Restricted Subsidiary is at that time guaranteed by such other Guarantor in a manner that would require the granting of a guarantee under the Indenture;
- if the Company designates such Guarantor (other than RCS&RDS) to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture; and

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

The Indenture also permits us to designate one or more restricted subsidiaries as unrestricted subsidiaries. If we designate a restricted subsidiary as an unrestricted subsidiary for purposes of the Indenture, all the liens on the Collateral owned by such subsidiary and on such subsidiary's capital stock will be released under the Indenture and such subsidiary will cease to be a Guarantor. Designation of an unrestricted subsidiary will reduce the aggregate

value of the Collateral securing the Notes to the extent that liens on the assets of the unrestricted subsidiary that constitute Collateral are released. The Collateral and the Guarantee may also be released with the consent of holders of at least 90% of the aggregate principal amount of the Notes then outstanding.

***Certain categories of property are excluded from the security.***

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

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

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

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

In Romania and The Netherlands the security interests in the Collateral is granted in favor of the Security Agent, as beneficiary of parallel debt obligations (the “**Parallel Debt**”). The Parallel Debt is in the same amount and payable at the same time as the obligations of the Company under the Indenture and the Notes (the “**Principal Obligations**”). Any payment in respect of the Principal Obligations discharges the corresponding Parallel Debt and any payment in respect of the Parallel Debt discharges the corresponding Principal Obligation, in each case, by the amount of such payment. Although the Security Agent has, pursuant to the Parallel Debt, a claim against the Company for the full principal amount of the Notes, holders of the Notes bear the risk of a possible insolvency or bankruptcy of the Security Agent or a breach of its obligations as Security Agent towards the secured creditors. The Parallel Debt obligations referred to above are contained in the Intercreditor Agreement, which is governed by English law. There is no assurance that such a structure will be effective before courts in the jurisdiction in which the Collateral is located as there is no judicial or other guidance as to its efficacy, and therefore the ability of the Security Agent to enforce the Collateral may be restricted.

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

The new Romanian Civil Code (which entered into force in October 2011) has introduced the possibility that a movable mortgage may be created either in favor of the creditor of the secured obligation or a third party designated

by it. Such third party is entitled to exercise all the rights of the relevant creditor and is bound by all of its obligations. The movable mortgage created in favor of several creditors may be registered in the name of an agent appointed by those creditors. Such agent is entitled to exercise all the rights of the creditors who appointed him. This new structure is recent, has seen limited use in practice and has not been tested in court. Moreover, the provisions regulating this new structure and the nature of the agency relationship are not clearly explained and characterized under Romanian law.

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

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

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

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

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

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

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

The market value of the Collateral may be affected to varying degrees by economic and market conditions in Europe and emerging market countries. International financial markets have experienced volatility in the past due to a combination of international political and economic events. There can be no assurance that any future negative political or economic developments in such other countries will not adversely affect the market value of the Collateral.

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

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

In Romania, permits and licenses generally may not be transferred without the consent of the issuing authority. In the event of enforcement on the Collateral, the transfer of such permits and licenses may be prohibited (such as our general authorization issued by ANCOM for the provision of electronic communications networks and services or our

retransmission endorsements issued by the NAC) or if permitted, be subject to certain conditions and restrictions. For example, our audio visual authorization can only be transferred together with the audio visual licenses issued by the NAC. Our other telecom licenses can generally be transferred to third parties but subject to certain conditions, including (i) that the transferee is also a regulated entity, (ii) the prior consent of the relevant regulator or (iii) the incurrence of significant costs and expenses. The relevant regulator is also entitled to add specific requirements to license issuers. We cannot assure you that the relevant regulators will consent to the transfer of such permits or licenses or that such consent, if obtained, will be unconditional or granted on terms which are appropriate in an enforcement context. If the regulatory approvals required for such transfers are not obtained or are delayed, the enforcement may be delayed or prevented, our operations may be subject to a temporary shutdown, the value of the Collateral may significantly decrease and we may be subject to regulatory fines or other sanctions.

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

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

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

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

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

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

The Guarantor guarantees the payment of the Notes on a senior secured basis. The Guarantee and the related security interests provide the holders of the Notes with a direct claim against the assets of the Guarantor. However, such Guarantee and security interests is limited to the maximum amount that can be guaranteed by, or secured by assets of, the Guarantor without rendering the Guarantee or security interest voidable or otherwise ineffective under applicable laws, and enforcement of the Guarantee and security interest against the Guarantor would be subject to certain defenses available to guarantors and security providers generally or, in some cases, to limitations designed to ensure full compliance with statutory requirements applicable to the Guarantor. These laws and defenses include those that relate to corporate benefit, corporate purpose and fraudulent conveyance or similar laws, regulations or defenses affecting the rights of creditors generally (such as those relating to bankruptcy, insolvency, liquidation ad-hoc mandate, preventive concordat, moratorium or reorganization). As a result, the Guarantor's liability under the Guarantee and the Collateral could be materially reduced or eliminated, depending upon the amounts of its other obligations and upon applicable laws. In particular, under Romanian law, a guarantee issued or security provided by a company that is not in the company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and

enforceable. In addition, Romanian law also contains provisions on fraudulent conveyance outside of a bankruptcy scenario. Thus, a creditor holding a receivable for a sum certain (*creanță certă*) evidencing that it suffered damage may bring an action (*acțiune revocatorie*) against any fraudulent acts concluded by its debtor towards such creditor, thereby creating or enhancing the debtor's insolvency (*insolvabilitate*) status towards such creditor.

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

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

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

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

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

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

Romanian law is currently unclear on the withholding tax treatment of payments made by Romanian residents to non-residents under guarantees. Based on the professional advice we have received, we believe that the nature of any payment made by the Guarantor to the holders of the Notes under the Guarantee would be determined by the Romanian tax authorities by reference to the nature of the payment owed by the Company under or in respect of the Notes in relation to which such payment under the Guarantee was made. As such, any payments of interest under the Guarantee would be subject to Romanian withholding tax, currently at a rate of 16%. However, under the terms of the Guarantee, the Guarantor would be obliged to pay any such additional amounts as would result in receipt by the holders of the Notes of such amounts as would have been received by them had no such Romanian withholding tax been imposed.

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

The Notes contain provisions relating to certain events constituting a "change of control" in relation to the Company. Upon the occurrence of a change of control, the Company is required to make an offer to purchase all outstanding Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to the date of purchase, and the Guarantor will prepay the Proceeds Loan to the extent necessary to finance the purchase by the Company. In addition, each lender under the 2015 Senior Facilities Agreement may, at each lender's option, require repayment of all amounts due to it and a cancellation of its commitment under the 2015 Senior Facilities Agreement upon the occurrence of a change of control thereunder. If a change of control



were to occur, we cannot assure you that we will have sufficient funds to pay the purchase price of the outstanding Notes, and repay amounts outstanding under the 2015 Senior Facilities Agreement.

In addition, our other indebtedness may contain restrictions or repayment requirements with respect to certain events or transactions that could constitute a change of control under the terms of the Indenture and the 2015 Senior Facilities Agreement. The inability to purchase the Notes or loans under the 2015 Senior Facilities Agreement upon the occurrence of a change of control would constitute an event of default under the terms and conditions governing the Notes or the 2015 Senior Facilities Agreement, which would trigger a cross-default under the Notes and vice-versa. See “*Description of the Notes—Change of Control.*”

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

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

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

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

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

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

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

Our obligations with respect to the Notes and the Guarantee are secured by a first-ranking security interest in the Collateral, as more fully described under “*Offering Memorandum—Description of the Notes—Security—The Collateral.*” The Collateral is shared with the lenders under the 2015 Senior Facilities Agreement, the creditors with respect to any *pari passu* indebtedness (including the ING Facilities Agreement and the Citi Facilities Agreement), and certain hedge counterparties. The Indenture and the 2015 Senior Facilities Agreement permits the Company and its subsidiaries to use the Collateral to secure certain additional indebtedness on a *pari passu* or subordinated basis in the future. Not all of our assets secure the Notes, and in the event of an enforcement of the Collateral, the proceeds from the sale of such assets may not be sufficient to satisfy our obligations under the Notes, the Guarantee and the other indebtedness secured on a *pari passu* basis by the Collateral. Claims of holders of the Notes and creditors of our other debt secured by the Collateral are subordinated to secured receivables incurred as part of the insolvency proceedings. To the extent that the claims of holders of the Notes and creditors of our other debt secured by the Collateral exceed the value of the Collateral or the value of the Collateral less the value of secured receivables incurred as part of the insolvency proceedings, as the case may be, those claims will constitute unsecured obligations.

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the

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

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

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

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

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

No appraisal of the value of the Collateral securing the Notes and the Guarantee has been made in connection with the Offering. The fair market value of the Collateral securing the Notes and the Guarantee is subject to fluctuations based on many factors including, among others, whether or not our business is sold as a going concern, the ability to sell the assets (including the shares that constitute part of the Collateral) in an orderly sale, the availability of buyers and whether telecommunications, media and other licenses required to operate our business and approvals required to purchase our business would be available to a buyer of the assets. The book value of the assets securing the Notes should not be relied on as a measure of realizable value for such assets. In addition, the security interest of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the Security Agent may need to obtain the consent or approval of a third party or governmental authority to create, perfect or enforce a security interest in a contract or permit or transfer or sell certain assets. See "Annual Report 2013—*Enforcing pledges over certain Collateral may be prohibited or subject to special authorization*" and "*—Risks relating to the Notes and the Guarantee— The Guarantee and security interests may be limited by applicable laws or subject to certain limitations or defenses.*" Thus, we cannot assure you that these assets will be saleable and, even if saleable, that there will not be substantial delays in the liquidation thereof or loss of value associated with the difficulty or inability to sell them as a going concern. Each of these factors could reduce the likelihood of an enforcement action as well as reduce the amount of any proceeds from an enforcement action.

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

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

The Guarantor guarantees the payment of the Notes on a senior secured basis. The Guarantee and the related security interests provide the holders of the Notes with a direct claim against the assets of the Guarantor. However, such Guarantee and security interests is limited to the maximum amount that can be guaranteed by, or secured by assets of, the Guarantor without rendering the Guarantee or security interest voidable or otherwise ineffective under

applicable laws, and enforcement of the Guarantee and security interest against the Guarantor would be subject to certain defenses available to guarantors and security providers generally or, in some cases, to limitations designed to ensure full compliance with statutory requirements applicable to the Guarantor. These laws and defenses include those that relate to corporate benefit, corporate purpose and fraudulent conveyance or similar laws, regulations or defenses affecting the rights of creditors generally (such as those relating to bankruptcy, insolvency, liquidation ad-hoc mandate, preventive concordat, moratorium or reorganization). As a result, the Guarantor's liability under the Guarantee and the Collateral could be materially reduced or eliminated, depending upon the amounts of its other obligations and upon applicable laws. In particular, under Romanian law, a guarantee issued or security provided by a company that is not in the company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. In addition, Romanian law also contains provisions on fraudulent conveyance outside of a bankruptcy scenario. Thus, a creditor holding a receivable for a sum certain (*creanță certă*) evidencing that it suffered damage may bring an action (*acțiune revocatorie*) against any fraudulent acts concluded by its debtor towards such creditor, thereby creating or enhancing the debtor's insolvency (*insolvabilitate*) status towards such creditor.

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

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

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

With respect to any amounts due and unpaid by the Guarantor under the Guarantee that exceed the value of the Collateral securing such Guarantee or the value of the Collateral securing such Guarantee less the value of secured receivables incurred as part of the insolvency proceedings, as the case may be, in the event of competing enforcement claims or a sale of assets in bankruptcy under Romanian law any such amounts ranks junior to certain specified categories of existing and future unsecured indebtedness of the Guarantor, including, without limitation, new unsecured financing accessed during the insolvency proceedings, wages claims, claims resulting from the continuation of the debtor's activity after the commencement of the insolvency proceedings and budgetary claims.

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

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

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

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

In the event of insolvency of a Romanian company, persons (such as holders of the Notes) in whose favor such company has pledged or mortgaged its property or part thereof will be secured creditors of such company and will,

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

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

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

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

Another effect of insolvency is the prohibition on the debtor to independently perform the management of its business starting from the commencement date of the insolvency proceedings, which will be taken over by a judicial administrator/liquidator appointed by the court. However, if general insolvency proceedings are commenced, a debtor may continue to perform the management of its business, under the supervision of the judicial administrator in the event that the debtor itself has introduced the insolvency request and asked to be allowed to enter into judicial

reorganization and to continue to manage its business, subject to the approval of the creditors' assembly and the insolvency judge. Certain measures regarding the estate of the debtor, as well as those intended to lead to its reorganisation, including operations which fall under the ordinary course of business, require also the prior authorisation by the judicial administrator on the basis of a report of the special administrator.

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

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

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

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

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

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

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

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

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

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

permitted while these covenants were in force.

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

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

***Transfer of the Notes are subject to certain restrictions.***

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

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

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

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

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

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

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

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

prospective investors as a result of any foreign exchange gains or losses for any investment in the Notes.

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

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

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

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

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

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

Holders of the Notes who are individuals should note that, should any payment in respect of the Notes be subject to withholding or deduction imposed and required to be made pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive, no Additional Amounts (as defined in “Offering Memorandum—Description of the Notes—Taxation—Additional Amounts”) would be payable by the Company or any other person with respect to any Note as a result of the imposition of such withholding or deduction. The Company is required to maintain a Paying Agent having a specified office in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

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

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

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

### 3. BUSINESS

#### OVERVIEW

##### Introduction

We are a leading provider of pay TV and telecommunications services in Romania and Hungary. In addition, we provide mobile services as an MVNO to the large Romanian communities living in Spain and Italy. Our service offerings include cable TV, fixed internet and data, fixed-line telephony, mobile telephony, mobile internet and data and DTH satellite television services. We offer our own TV channels and pay TV services, which carry premium sports content and movies, as well as channels produced by third parties to our customers in Romania, Hungary, and the Czech Republic (disposed of in April 2015) through our cable TV and DTH satellite television platforms. At December 31, 2015, we had a total of approximately 11.79 million RGUs, of which approximately 3.17 million were cable TV RGUs, approximately 2.36 million were fixed internet and data RGUs, approximately 1.74 million were fixed-line telephony RGUs, approximately 2.46 million were mobile telephony RGUs, approximately 1.07 million were mobile internet and data RGUs and approximately 0.99 million were DTH RGUs.

Since 2002, we have grown mainly organically from 0.66 million RGUs at December 31, 2002 to approximately 11.79 million RGUs at December 31, 2015. During this period we have grown from being a cable TV provider to a provider of multiple-play services, including cable TV, fixed internet and data, fixed-line telephony, mobile telephony, mobile internet and data services and DTH television services. We have generated and continue to generate consistently strong revenue streams. We generated €661.6 million of revenue in the year ended December 31, 2014 and €750.1 million of revenue in the year ended December 31, 2015. Our EBITDA margin has decreased, amounting to 34.9% for the year ended December 31, 2014 and 31.6% for the year ended December 31, 2015.

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

- Our **cable TV** is our original line of business and our most stable source of revenues. Our market position is 1<sup>st</sup> in Romania and 3<sup>rd</sup> in Hungary, based on Company estimations. At December 31, 2015, we had approximately 2.73 million Romanian RGUs and approximately 437,000 Hungarian RGUs for cable TV services. Cable TV services accounted for 27.1% of our revenue in the year ended December 31, 2015.

- Our **fixed internet and data** services are primarily offered through our FTTB/FTTH networks using GPON or comparable technology in Romania and Hungary. At December 31, 2015, we had approximately 1.98 million fixed internet and data RGUs in Romania and approximately 382,000 RGUs in Hungary. Fixed internet and data services accounted for 25.2% of our revenue in the year ended December 31, 2015.

- We **offer fixed-line telephony** services through our networks in Romania and Hungary. At December 31, 2015, we had approximately 1.41 million Romanian fixed-line telephony RGUs and approximately 327,000 Hungarian fixed-line telephony RGUs. Fixed-line telephony services accounted for 4.3% of our revenue in the year ended December 31, 2015.

**We provide mobile telephony services** using our 3G network in Romania, and as an MVNO targeted at the Romanian communities in Spain and Italy. We began offering mobile telephony services in Romania in October 2007, and as of December 31, 2015, our network coverage extended to approximately 94% of the population. In 2012, we won the tender for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum in Romania valid for a period of 15 years commencing in April 2014. This license allows us to increase our existing coverage at a lower cost and to further increase and vary our service offerings by establishing a 3G network over the 900 MHz spectrum. In July 2015 we signed a contract with 2K Telecom to purchase 30 Mhz in 4G spectrum (in the 2600 Mhz bandwidth). In October 2015 we participated in auction and acquired from ANCOM 10 unpaired blocks of 5 MHz in the 3700 MHz bandwidth. These licenses will allow us to develop 4G mobile telephony network in Romania. In October 2015 we launched 4G services to our mobile subscribers in Romania.

As of April 2014 we have access to Vodafone's network in Romania allowing our users to benefit from national roaming services. In the first quarter of 2016 this agreement was extended for one more year. As at December 31, 2015, we had approximately 1.91 million mobile telephony RGUs in Romania, approximately 491,000 RGUs in Spain and approximately 59,000 RGUs in Italy. Mobile telephony services accounted for 17.0% of our revenue in the year ended December 31, 2015.

- We provide **mobile internet and data services** using our 3G network in Romania, as an MVNO in Spain and Italy (starting with the end of December 2013), and we resell such services to our customers in Hungary. We



offer mobile data services targeted primarily at our existing customer base as an add-on to our other services. As at December 31, 2015, we had approximately 0.81 million mobile internet and data RGUs in Romania, approximately 244,000 RGUs in Spain and approximately 16,000 RGUs in Hungary (where we operate as a reseller, selling services which utilize the Telenor network under our “Digi” brand). Mobile data services accounted for 5% of our revenue in the year ended December 31, 2015.

- Our **DTH satellite television** services are offered in Romania, Hungary. The Czech Republic operation was disposed in April 2015. According to Company, as at December 31, 2015, we were the second largest DTH provider in Romania and the second place in Hungary. Our DTH services are transmitted via Intelsat and Telenor satellites. As at December 31, 2015, we had approximately 0.99 million DTH RGUs. DTH services accounted for 9.9% of our revenue in the year ended December 31, 2015.

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

The following table shows our RGUs per service line and per country as at December 31, 2015:

	<b>Romania</b>	<b>Hungary</b>	<b>Spain<sup>(3)</sup></b>	<b>Italy<sup>(3)</sup></b>	<b>Total RGUs per service</b>
Cable TV	2,733	437			<b>3,170</b>
Fixed Internet and Data	1,976 <sup>(1)</sup>	382			<b>2,358</b>
Fixed-line Telephony	1,414 <sup>(1)</sup>	327			<b>1,741</b>
Mobile Telephony	1,906	-	491	59	<b>2,456</b>
Mobile Internet and Data	810	16 <sup>(2)</sup>	244	7	<b>1,077</b>
DTH	674	318			<b>992</b>
<b>Total RGUs per country</b>	<b>9,513</b>	<b>1,480</b>	<b>735</b>	<b>66</b>	<b>11,794</b>

(1) Includes both residential and business lines.

(2) As a reseller.

(3) As an MVNO.

The following table shows the evolution of our RGUs by service line since 2011:

	<b>2011</b>	<b>2012<sup>(1)</sup></b>	<b>2013</b>	<b>2014<sup>(2) (3)</sup></b>	<b>2015</b>
	<b>in thousands</b>				
Cable TV	2,471	2,763	2,855	3,010	3,170
Fixed internet and data	1,640	1,870	2,012	2,181	2,358
Fixed-line telephony	1,780	1,814	1,807	1,771	1,741
Mobile telephony <sup>(3)</sup>	1,506	1,466	1,458	1,859	2,456
Mobile internet and data <sup>(3)</sup>	474	642	794	948	1,077
DTH	1,977	1,780	1,319	1,189	992
<b>Total</b>	<b>9,848</b>	<b>10,335</b>	<b>10,245</b>	<b>10,958</b>	<b>11,794</b>

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

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

(3) As of December 31, 2015 we have revised the definition of Mobile Internet RGU. Comparative as of December 31, 2014 was restated accordingly. See “Presentation of Financial and Other Data—Operating and Market Data.” As of December 31, 2015, the definition for RGU for mobile telephony in Italy was revised to contain only cards having traffic in the last of the reported period. 2014 comparative was restated accordingly. Data presented for years 2011-2013 did not require any material restatement.

## Key Strengths

We consider our key strengths to include the following:

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

- **Advanced infrastructure allowing for an efficient cost structure and low marginal customer acquisition costs.** Our existing networks in our principal markets are technologically advanced and allow us to add additional subscribers and offer high-quality and competitively priced services, thus providing the potential for increasing our

revenues and cash flow with relatively low additions to our cost base. Over 90% of our Romanian and Hungarian FTTB/FTTH networks have been upgraded to GPON or comparable technology, with transmission rates of up to 1 Gbps for internet and data services. The current technological state of our Romanian and Hungarian networks allows us to offer a wide range of high-quality services to our customers while maintaining low infrastructure operating expenses. In both Romania and Hungary we provide the fastest internet service available to residential users, 1 Gbps. In Romania this service was launched in October 2013 and in Hungary in August 2014. In Romania, as of December 31, 2015, our 3G mobile telephony and mobile internet and data services were comprised of approximately 2,100 base stations and covered approximately 94% of the Romanian population and approximately 6,500 kilometers of coverage along main roads.

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

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

- **Diversified revenue streams.** We have generated and continue to generate strong revenue streams, diversified across our geographic markets and service offerings. We generated €750.1 million of revenue in the year ended December 31, 2015. As divided by geographic market, for the year ended December 31, 2015, Romania accounted for 72.0% of our revenues, Hungary accounted for 16.8% of our revenues, Spain accounted for 9.7% of our revenues and Italy and the Czech Republic together accounted for 1.5% of our revenues. As divided by business line, for the year ended December 31, 2015, cable TV accounted for 27.1% of our revenues, fixed internet and data accounted for 25.2% of our revenues, fixed-line telephony accounted for 4.3% of our revenues, mobile telephony services accounted for 17.0% of our revenues, mobile internet and data services accounted for 5.1% of our revenues, DTH accounted for 9.9% of our revenues and other revenues accounted for 11.3%.

- **Track record of strong operating performance.** Our business generally produces positive cash flows from operations that have historically been relatively stable. Despite the recent condition of the economy, we have managed to achieve stable local currency revenues during 2014 and 2015, and have continued to grow our business by adding approximately 836,000 RGUs in 2015. These results have been realized during a period of significant investment in technological upgrades, new services (including developing our own exclusive content) and footprint expansion.

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

## Strategy

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

- **Continue to grow our RGU base and top line organically, through product cross-selling, increasing the penetration of our services, and through making acquisitions on an opportunistic basis.** Our primary goal is to achieve continued organic growth by increasing the penetration of our cable TV, fixed and mobile internet and data, fixed-line and mobile telephony services through multiple service offers, especially in Romania and Hungary. We have seen strong growth in RGUs over the last ten years, from 0.66 million as of December 31, 2002 to 11.79 million as of December 31, 2015. This was mainly due to the expansion of our mobile telephony business,

expansion of the footprint of our fiber optic networks and cross-selling of additional services to our existing customers. In addition, we have historically grown partly by acquiring cable companies and internet service providers. We intend to pursue acquisitions on an opportunistic basis, particularly in Romania and Hungary.

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

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

- ***Focus on Romania and Hungary—core markets with room for further development.*** We intend to focus on Romania and Hungary, our core markets. We have disposed of our operations in Croatia, Serbia and Slovakia in 2013, and the Czech Republic in April 2015. Our technologically advanced fiber optic networks allow us to efficiently deliver multiple services in the areas they cover and we believe there is scope for increase in uptake of our services in these areas with relatively low additional investment. Our large and growing customer base creates significant economies of scale. For example, it allows us to make use of common infrastructure design and centralized “headend” facilities, as well as exploit centralized purchasing opportunities with respect to programming, equipment, TV broadcast rights and other assets and services. In addition, we see potential for growth of our mobile telephony and internet and data services as we believe the Romanian mobile market still offers opportunities for us to expand. We intend to continue to increase our mobile network coverage by using our acquired licenses in the 900 MHz, in the 2600 MHz and in the 3700 MHz spectrum.

## **HISTORY**

### **Cable TV Services**

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

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

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

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

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

### **Diversification and development**

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

Following the upgrade of much of our cable network to FTTB in 2006, we re-branded our retail internet offering as the FiberLink service. We have completed the upgrade of over 90% of our FTTB/FTTH networks in Romania and Hungary to GPON or comparable technology, allowing us to grow organically through increased multiple-play penetration among our customers and cross-selling additional services to our existing customers.

### **International Expansion**

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

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

### **Mobile Telephony and Data**

Following a public tender process, we won, in January 2007, a license to offer 3G mobile telephony services in Romania. We commenced the provision of these services in October 2007 and, as of December 31, 2015, covered approximately 94% of the Romanian population. Mobile telephony and mobile internet and data services are offered in Romania along with the terrestrial network-based services. We also offer MVNO services in Spain and Italy.

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

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

In July 2015 we purchased 2600 MHz license from 2K Telecom for a total consideration of EUR 6.6 million, which was approved by the Romanian General Inspectorate for Communication and Information Technology ("IGCTI").

At the end of October 2015 we have participated in auction and acquired from ANCOM 10 unpaired blocks of 5 MHz in the 3700 MHz bandwidth for a total consideration of EUR 1.88 million.

### **Own TV Channels & Radio Stations**

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

Starting from May 2015 we operate also radio stations in Romania (Pro FM, Info Pro, Music FM, Dance FM). In November 2015 we launched Digi FM, a new radio station.

## 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 services provided in each country where we operate:

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

(1) As a reseller.

(2) As an MVNO.

(3) Disposed of in April 2015

Our core markets are Romania and Hungary.

We offer our entire service line in Romania and realized approximately 72.0% of our revenues from our Romanian operations in the year ended December 31, 2015. As of December 31, 2015, our fiber optic network reached approximately 4.57 million homes in Romania, and our 3G network covered approximately 94% of the Romanian population. At that date we had approximately 2.73 million RGUs in Romania for cable TV services, approximately 1.98 million RGUs for fixed internet and data services, approximately 1.41 million RGUs for fixed-line telephony services, approximately 1.91 million for mobile telephony services, approximately 810,000 RGUs for mobile data services and approximately 674,000 DTH RGUs.

In Hungary, our second largest market where we realized approximately 16.8% of our revenues in the year ended December 31, 2015. As at December 31, 2015, our fiber optic network reached approximately 964,000 homes in Hungary. At that date we had approximately 437,000 RGUs in Hungary for cable TV services, approximately 382,000 RGUs for fixed internet and data services, approximately 327,000 RGUs for fixed-line telephony services, approximately 16,000 RGUs for mobile data services and approximately 318,000 DTH RGUs.

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

In Spain, we operate as an MVNO using the Telefónica Moviles Espana S.A (“TME”) network, and focus on the country’s large Romanian population. Approximately 9.7% of our revenues in the year ended December 31, 2015 were generated by our operations in Spain. As at December 31, 2015, we had approximately 491,000 mobile telephony RGUs and approximately 244,000 mobile internet and data RGUs in Spain.

In the Czech Republic, we offered DTH services. Approximately 0.5% of our revenues in the year ended December 31, 2015 were generated by our operations in the Czech Republic. As at December 31, 2014, we had approximately 134,000 DTH RGUs in the Czech Republic. This subsidiary was sold in April 2015.

In Italy, we operate as an MVNO using the H3G. The migration of the customer services from H3G network towards TIM network was initiated in December 2015. We focus on the country’s large Romanian population. Approximately 1% of our revenues in the year ended December 31, 2015 were generated by our operations in Italy. As at December 31, 2015, we had approximately 59,000 mobile telephony RGUs in Italy.

## OUR SERVICE OFFERINGS

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

The table below shows the number of RGUs per service and per country as at December 31, 2015:

	<b>Romania</b>	<b>Hungary</b>	<b>Spain <sup>(3)</sup></b>	<b>Italy<sup>(3)</sup></b>	<b>Total RGUs per service</b>
Cable TV	2,733	437			<b>3,170</b>
Fixed Internet and Data	1,976 <sup>(1)</sup>	382			<b>2,358</b>
Fixed-line Telephony	1,414 <sup>(1)</sup>	327			<b>1,741</b>
Mobile Telephony	1,906	-	491	59	<b>2,456</b>
Mobile Internet and Data	810	16 <sup>(2)</sup>	244	7	<b>1,077</b>
DTH	674	318			<b>992</b>
<b>Total RGUs per country</b>	<b>9,513</b>	<b>1,480</b>	<b>735</b>	<b>66</b>	<b>11,794</b>

(1) Includes both residential and business lines.

(2) As a reseller.

(3) As an MVNO.

### Multiple Offerings

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

As the geographical coverage of our mobile network has increased, so has the number of customers who subscribe to multiple services. In Romania, the average number of services per network customer was 2.76 and the percentage of customers using more than one service was 77% as at December 31, 2015. In Hungary, the average number of services per network customer was 2.3 and the percentage of customers using more than one service was 79% as at December 31, 2015.

The table below shows the percentage of customers that subscribe to multiple services in Romania and Hungary as a percentage of our base subscribers (does not include DTH services) as at December 31, 2015:

	<b>Romania</b>	<b>Hungary</b>
Single-play	23%	21%
2 or more	77%	79%
3 or more	51%	52%
4 or more	34%	1%
5-play	15%	—

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

In Romania, we offer mobile internet and data services using USB dongles primarily as a package with our “Fiberlink” fixed internet subscriptions, but also as separate package as Digi Net Mobil. Also, unlimited mobile data traffic is included in our “Optim” and “Avantaje” mobile telephony subscriptions.

Our clients may receive a discount for one of our “Optim” mobile telephony subscriptions in Romania in case he has other fixed network services or several subscriptions.

In Hungary if a client acquires all three fixed services (cable TV, internet and fixed telephony) there is a 10% discount to the standard packages’ price in case of a 12 months’ contract and there is a 20% discount to the standard packages’ price in case of a 24 months’ contract.

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

### Cable TV Services

Our cable TV services consist of distributing local and international programming content to mostly urban residential subscribers through our cable TV networks. We offer cable TV services mainly in Romania, where we

are the largest operator by number of subscribers at December 31, 2015, and Hungary, where we are the third largest operator by number of subscribers in each case, according to the Company.

As at December 31, 2015, we had approximately 2.73 million cable TV RGUs in Romania and approximately 437,000 in Hungary and a combined number of homes passed in the two countries of approximately 5.5 million. The total number of cable TV RGUs increased by 5.3% from approximately 3.01 million at December 31, 2014 to approximately 3.17 million at December 31, 2015. Since 2009 we have also expanded our services into areas that were already covered by the cable TV networks of our competitors or were not covered by cable TV or internet and data networks. This has generated most of our growth in this period as our competitive prices, our multiple-service offerings, the quality of our services provided through technologically advanced networks and our ability to offer premium programming content have proved to be attractive to customers.

The infrastructure built for cable TV services forms the basis on which we provide fixed-line telephony and internet and data services to our customers. Our cable TV services generally generate stable revenue, have low maintenance and other operational costs due to our recent investment in the fiber network and provide a stable and growing base of customers. In 2015, cable TV services generated revenue of €203.4 million, representing 27.1% of total revenues. In 2014, the revenue generated by cable TV services was €190<sup>1</sup> million, representing 28.7% of our total revenues.

### ***Cable TV product packages***

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

In Romania, we offer two main packages – an analog package and a digital package. These packages each have two further versions: standard, which is addressed to all customers and includes approximately 60 channels for the analog version and more than 90 channels for the digital version. At December 31, 2015, approximately 58% of our cable TV customers were subscribed to the analog package and approximately 42% 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, 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. 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, for a monthly fee. Thirdly, we offer the basic package “DIGITV”, which is made up of over 50 local and international channels, for a monthly fee. 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 “DIGI” package, we offer premium movie channels such as Digi Film, HBO and Cinemax at competitive prices. This product structure is available in all of our cable TV markets in Hungary, with certain local variations regarding the number and composition of channels included in each package.

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

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

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

We bill our cable TV services in local currencies. The table below sets out the prices in local currencies of

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<sup>1</sup> As at 31 December 2015 a reallocation of service revenues between business lines was made in order to present properly the nature of each type of revenues. For the purpose of this presentation, the presentation of revenues comparatives as at 31 December 2014 was restated accordingly.

our cable TV packages in the relevant markets as at December 31, 2015 (inclusive of VAT):

<b>Romania</b>	<b>RON (VAT included)</b>	<b>Hungary</b>	<b>HUF (VAT included)</b>
Analog <sup>(1)</sup> . . . . .	25	Mandatory Package . . . . .	980 <sup>(2)</sup>
Analog-Popular . . . . .	20	Digi Mini . . . . .	1,400
Digital <sup>(1)</sup> . . . . .	29	DIGI . . . . .	3,000
Digital-Popular . . . . .	25	Digi Film . . . . .	300
Digi Film <sup>(1)</sup> . . . . .	3	HBO . . . . .	1,990
HBO <sup>(1)</sup> . . . . .	13 <sup>(4)</sup>	Cinemax . . . . .	— <sup>(3)</sup>
Cinemax <sup>(1)</sup> . . . . .	7	Max Pack . . . . .	2,590
Max Pack <sup>(1)</sup> . . . . .	14 <sup>(4)</sup>		

- (1) Starting from January 2016 VAT in Romania was decreased to 20% (VAT in prior year was 24%) and gross prices for Romania were adjusted downwards accordingly.
- (2) Approximate amount. Prices may vary in certain cities due to different program offerings.
- (3) Provided only as part of the Max Pack.
- (4) Starting with May 1, 2015 the price for HBO and Max Pack includes also access to HBO GO for no additional charge.

### **Fixed Internet and Data**

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

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

In the year ended December 31, 2014, we generated €178<sup>2</sup> million from fixed internet and data services (representing around 26.9% of our revenues), of which €147.5<sup>2</sup> million was generated in Romania. In the year ended December 31, 2015, we generated €189.3 million from fixed internet and data services (representing around 25.2% of our revenues), of which €155.9 million was generated in Romania. At December 31, 2015, we had approximately 1.98 million fixed internet and data RGUs in Romania (including business subscribers) and approximately 382,000 in Hungary. We see the fixed internet and data business as a premium service and a potential source of growth for our business.

Business subscribers represent an important part of our fixed internet and data business in Romania, as they generate a meaningful part of our revenue streams, although they are much fewer in number than residential subscribers. At December 31, 2015, we had approximately 103,000 business internet and data RGUs.

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

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

- “Fiberlink 100”, “Fiberlink 300”, “Fiberlink 500” and “Fiberlink 1000” are our residential fixed internet and data offerings in Romania. “Fiberlink 100” allows unlimited traffic at up to 100 Mbps within and outside our network, while “Fiberlink 300” allows unlimited traffic at a speed of up to 300 Mbps within and outside our network. In 2015 we migrated “Fiberlink 200” (which allowed unlimited traffic at up to 200 Mbps within and outside our network) subscribers to “Fiberlink 300” (which allowed unlimited traffic at up to 300 Mbps within and outside our network) also without additional fees paid by the client. “Fiberlink 500” and “Fiberlink 1000” (available starting 2013) allow for unlimited traffic at speeds within and outside our network of 500 Mbps and 1 Gbps, respectively, the fastest internet service currently offered to residential users in Romania. We also offer a “Fiberlink Popular” package to certain of our rural customers. It allows unlimited traffic at up to 30 Mbps within and outside

<sup>2</sup> As at 31 December 2015 a reallocation of service revenues between business lines was made in order to present properly the nature of each type of revenues. For the purpose of this presentation, the presentation of revenues comparatives as at 31 December 2014 was restated accordingly.



of our network.

- “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 up to 100 Mbps within and outside our network, “DIGINet 100 Pro” allows unlimited traffic at a symmetric speed of up to 100 Mbps within and outside our network, while “DIGINet 200” allows unlimited traffic at up to 200 Mbps within and outside of our network. In addition, in July 2014 we launched “DIGINet 500” and “DIGINet 1000” (the fastest internet service currently offered to residential users in Hungary) which allow unlimited traffic at a speed of up to 500 Mbps respectively 1 Gbps within and outside our network.

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

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

### **Fixed internet pricing**

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

We bill our fixed internet and data services in local currencies. The table below sets out the prices in local currencies of our fixed internet and data services in the relevant markets as at December 31, 2015 (inclusive of VAT):

	<b>Romania<sup>(3)</sup></b>			<b>Hungary</b>	
	<b>Download Speed</b>	<b>Price (VAT included) RON</b>		<b>Download Speed</b>	<b>Price (VAT included) HUF</b>
FiberLink Popular	30 Mbps	15	DIGINet 100	100 Mbps	2,700
FiberLink 100	100 Mbps	29	DIGINet 100 Pro	100 Mbps	3,500
FiberLink 300	300 Mbps	39 <sup>(1)</sup>	DIGINet 200	200 Mbps	4,000
FiberLink 500	500 Mbps	45	DIGINet 500	500 Mbps	4,500
Fiber Link 1000	1 Gbps	55 <sup>(2)</sup>	DIGINet 1000	1 Gbps	5,000

(1) included in the price is also a free mobile data dongle.

(2) 45 RON (VAT included) if the client subscribes to a Cable TV Digital package and fixed or mobile telephony

(3) Starting from January 2016 VAT in Romania was decreased to 20% (VAT in prior year was 24%) and gross prices for Romania were adjusted downwards accordingly.

We generally offer high speed and an affordable means of fixed internet access for residential users in Romania and Hungary. The table below sets out our subscription prices and speed of access in these countries, as at December 31, 2015 (prices are in EUR, at the exchange rate published by the relevant central bank on its website, at December 31, 2015, VAT inclusive).

<b>Broadband Internet</b>	<b>Romania RCS&amp;RDS</b>	<b>Hungary DIGI HU</b>
Minimum Package	Fiberlink Popular	DIGINet 100
Price (VAT included)	3.32	8.62
Download speed	Up to 30 Mbps (not guaranteed)	Up to 100 Mbps (not guaranteed)
Small Package	Fiber link 100	DIGINet 100 Pro
Price (VAT included)	6.42	11.18
Download speed	Up to 100 Mbps (not guaranteed)	Up to 100 Mbps (not guaranteed)
Medium Package	Fiber Link 300	DIGINet 200
Price (VAT included)	8.6	12.77
Download speed	Up to 300 Mbps (not guaranteed)	Up to 200 Mbps (not guaranteed)
Large Package	Fiber link 500	DIGINet 500
Price (VAT included)	9.96	14.37
Download speed	Up to 500 Mbps (not guaranteed)	Up to 500 Mbps (not guaranteed)
Extra Large Package	Fiber link 1000	DIGINet 1000
Price (VAT included)	12.17	15.97
Download speed	Up to 1 Gbps (not guaranteed)	Up to 1 Gbps (not guaranteed)

### Fixed-Line Telephony

We started offering business fixed-line telephony services in Romania in 2003 and expanded to residential fixed-line telephony services in June 2004. We began to see the number of our fixed-line telephony subscribers gain momentum in 2005 simultaneous with the start of the upgrade of our cable networks to the FTTB/FTTH standard (which has recently been upgraded to GPON technology). As at December 31, 2015, according to our estimates, we were the second largest fixed-line telephony operator after Telekom Romania, which is the largest fixed-line telephony operator in Romania (based on the figures published by the OTE group as at December 31, 2015). We also started to offer fixed-line telephony services in Hungary in 2007 and we have around 327,000 RGUs as at December 31, 2015.

In the year ended December 31, 2014, we generated €38.1 million from fixed telephony services (representing around 5.8% of our revenues), of which €29.8 million was generated in Romania. In the year ended December 31, 2015, we generated €32.3 million from fixed telephony services (representing around 4.3% of our revenues), of which €25.3 million was generated in Romania. At December 31, 2015, we had approximately 1.41 million fixed line telephony RGUs in Romania (including business subscribers) and approximately 327,000 in Hungary.

### Fixed-line telephony product packages

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

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

In addition to these standard packages, we offer a wide range of services and tariff plans for our business users in Romania, including optional, value-added services to all our fixed-line telephony customers, over POTS lines but also over PRI E1s, which includes extended numbering, preferred numbers, short numbering, CLIP/ CLIR, call barring, call forward and call on hold services. We had approximately 127,000 fixed-line telephony business RGUs in Romania as of December 31, 2015.

In Hungary, we offered throughout 2015 two main types of packages:

- **Digifon.** Digifon is a package that is available to customers that also subscribe to cable TV and fixed

internet and data. It is available for a monthly fee of 200 HUF (VAT included) and includes unlimited free minutes for calls within our own network. We charge 6.25 HUF per minute (VAT included) for calls with subscribers of other fixed-line telephony networks and 29.5 HUF per minute (VAT included) for domestic calls with subscribers of other mobile telephony networks.

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

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

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

- **Digitel 500.** Digitel 500 is a package that is available to customers that also subscribe to cable TV and fixed internet and data. It is available for a monthly fee of 500 HUF (VAT included) and we charge 2 HUF per minute (VAT included) for calls within our network and to our fixed network in Romania, 3 HUF per minute (VAT included) for calls with subscribers of other fixed-line telephony networks and 6 HUF per minute (VAT included) for domestic calls with subscribers of other mobile telephony networks.

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

### **Fixed-line telephony pricing**

In Romania, in addition to flat monthly subscription fees, we charge our fixed-line telephony service subscribers a per-minute fee for certain calls outside of our fixed-line and mobile telephony networks. Digi Tel Family subscribers are not charged a fee for in network calls and for the first 100 minutes in other fixed networks, are charged a fee of €0.0062 per minute for calls to network fixed-line networks and a fee of €0.024 per minute for calls to other national mobile networks. Digi Tel National subscribers are not charged fees for in network calls or for calls to other network fixed-line networks and for the first 100 minutes to other national mobile networks, and they are charged a fee of €0.012 per minute for calls to other national mobile networks. The fees for international calls vary on a country-by-country basis, starting with €0.012 per minute for the main fixed networks in EU, SUA, Canada and China.

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

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

Note: Tariffs per minute in eurocents, VAT included. Starting from January 2016 VAT in Romania was decreased to 20% (VAT in prior year was 24%) and gross prices for Romania were adjusted downwards accordingly.

For our business fixed-line telephony services we offer several packages, with prices from €2 to €30 (VAT excluded). All business subscriptions include unlimited calls in our fixed and mobile networks and in Telekom

Romania's fixed network, and up to 1,400 free minutes in other national mobile networks.

## **Mobile Telephony Services**

As of December 31, 2015, we were one of four licensed providers of mobile services in Romania.

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

We launched our 3G mobile telephony services in October 2007 under the brand name Digi Mobil and gradually expanded the area covered by our services in order to reach more potential subscribers and meet our 2100 MHz license obligations. We fulfilled both of our 2100 MHz license obligations for 2008 and 2009, which were subject to review by ANCOM. As of December 31, 2015, we had in place approximately 2,100 base stations, covering approximately 94% of the Romanian population and approximately 6,500 kilometers of coverage alongside the main roads.

In September 2012, following a public tender organized by ANCOM, we were awarded one frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum valid for a period of 15 years commencing in April 2014. Under the new license, we have to expand our 900 MHz coverage to include a number of small cities by April 5, 2016, increase voice coverage using 900 MHz technology to 98% (from a current coverage of approximately 94%) of the Romanian population by April 5, 2019, ensure data coverage through the 900 MHz spectrum of 60% of the Romanian population by April 5, 2021 and allow access to MVNOs. The 900 MHz license allows us to increase our existing coverage at low cost and to further increase and vary our service offerings by establishing a 3G network over the 900 MHz spectrum.

On March 27, 2014 we concluded a frequency SWAP agreement with Vodafone through which in exchange of allowing them to use our 5MHz frequency in the 900 MHz spectrum we receive access in one of their 5 MHz frequency in the 900 MHz spectrum. The SWAP agreement expired in April 2016.

In March 2014 we also concluded a national roaming agreement for a period of 2 years. This agreement was extended for 1 additional year in the first quarter of 2016.

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

We intend to continue to increase the coverage of our mobile telephony service and achieve growth in subscriber numbers and revenue. We currently ensure coverage to over 98% of the population through the national roaming agreement with Vodafone and also over 94% population coverage (which includes the vast majority of urban areas in Romania and, consequently, the areas where our network customers are located) through our own mobile network, allowing us to leverage our customer base through multiple service offerings. We also offer attractively priced standalone mobile telephony subscriptions and intend to use this service to develop new customer relationships.

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

In July 2015 we signed a contract with 2K Telecom to purchase 30 Mhz in 4G spectrum (in the 2600 Mhz bandwidth). In October 2015 we participated in auction and acquired from ANCOM 10 unpaired blocks of 5 MHz in the 3700 MHz bandwidth. These licenses will allow us to develop 4G mobile telephony network in Romania. In October 2015 we launched 4G services to our mobile subscribers.

### ***Mobile telephony products and services***

We offer mobile telephony services structured to meet the needs of our subscribers. The service plans offer flat rates allowing generous/unlimited number of minutes across the main networks. Starting with 2015 we offered two main types of packages, with several variations:

- ***Digi Mobil Optim*** Digi Mobil Optim is a package that targets customers who wish to have free minutes

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

- **Digi Mobil Complet** Digi Mobil Complet was a package that targeted customers who wished to purchase a handset at a discounted price together with a mobile subscription. The monthly fee was €2 to €5 (VAT included) depending on the voice and data traffic included. The package included a handset for a discounted price. The subscription included unlimited free minutes for calls with our other fixed-line and 3G mobile telephony subscribers and minimum 200 minutes to other national and selected international networks. In December 2015 Digi Mobile Complet was discontinued.

- **Digi Mobil Avantaj.** Digi Mobil Avantaj was introduced in December 2015, replacing Digi Mobil Complet package. It offers a 24 month subscription together with a free handset. The monthly fee is €2 to €5 (VAT included) depending on the voice and data traffic included. The subscription included free minimum 200 minutes to national and selected international networks.

- **Digi Mobil Prepaid.** We launched Digi Mobil Prepaid in December 2015 for fees between €2 to €5 (VAT excluded). The offering includes unlimited free minutes within our network, minimum 150 minutes to other national networks and up to 4 GB of mobil internet.

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

At December 31, 2015 in Romania, we had approximately 1.91 million mobile telephony RGUs an increase of 37.3% compared with December 31, 2014 when we had 1.4 million mobile telephony RGUs.

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

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

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

We offer four main types of packages:

#### ➤ ***Prepaid Voice & SMS tariff plans.***

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

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

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

#### ➤ ***Postpaid Voice and SMS tariff plan.***

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

- **DIGI Max 20** is a postpaid tariff plan that provides for a total monthly fee of €20 a monthly volume of 2,000 minutes' worth of calls to Spain, Romania and Italy (all fixed and mobile destinations, including DIGI), and

several other international destinations, 100 SMS messages to Spain, Romania and Italy Digi Mobil destinations and 500 MB worth of data consumption.

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

➤ **Mobile internet for smartphones tariff plans. DIGI Naveg@** is our standard prepaid tariff plan that targets the mobile telephony customer base in Spain. Customers contract a volume of data traffic available for one month for a fixed fee per month. The following data bundles are available: monthly fee of €5 (VAT included) for 500 MB of traffic at maximum bandwidth, monthly fee of €8 (VAT included) for 1GB of traffic at maximum bandwidth or monthly fee of €14 (VAT included) for 2GB MB of traffic at maximum bandwidth. Once this volume is consumed a 32kb bandwidth fair usage policy is applied. Customers may purchase the right to use additional volumes of data for a fixed fee (200 MB of traffic at maximum bandwidth for €2 (VAT included), 500 MB of traffic at maximum bandwidth for 5 euro (VAT included), 1GB of traffic at maximum bandwidth for 8 euro (VAT included) or 2GB of traffic at maximum bandwidth for 14 euro (VAT included)).

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

At December 31, 2015, we had approximately 491,000 mobile telephony RGUs and approximately 244,000 mobile internet and data RGUs in Spain generating revenues of €72.7 million for the year 2015 and approximately 59,000 mobile telephony RGUs in Italy generating revenues of €7.5 million for the year 2015.

### **Mobile Internet and Data services**

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

In Romania, we offer mobile internet and data services primarily as a package with our "Fiberlink 300", "Fiberlink 500" and "Fiberlink 1000" packages of fixed internet and data services and together with our Optim, Complet (discontinued from December 2015) and Avantaj (launched in December 2015) mobile telephony subscription. We also offer mobile internet and data services on a standalone basis or as an additional service in Romania, Spain, Italy and Hungary.

In the year ended December 31, 2015, we generated €38.0 million from mobile internet and data services (representing around 5% of our revenues). At December 31, 2015, we had approximately 810,000 mobile internet and data RGUs in Romania, approximately 244,000 in Spain and approximately 16,000 in Hungary. We see the mobile internet and data business as a potential source of further growth for our business.

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

### **DTH**

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

We launched DTH services in Romania at the end of December 2004, and, in 2006, we extended our DTH services to Hungary, Slovakia, the Czech Republic, Serbia and Croatia. In 2013, we disposed our operations in Croatia, Serbia and Slovakia. Our customer base was of approximately 992,000 million RGUs in Romania, Hungary (of which approximately 674,000 are in Romania) as at December 31, 2015. We are a leading DTH operator in the main markets where we operate. In Romania, we are the second largest DTH operator.

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

In the year ended December 31, 2014, we generated €88<sup>3</sup> million from DTH services (representing around 13.3% of our revenues) and in the year ended December 31, 2015, we generated €74.5 million from DTH services (representing around 9.9% of our revenues). At December 31, 2015, we had approximately 674,000 DTH RGUs in Romania and approximately 318,000 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.

- **Basic Packages.** Our “Basic” packages include at least 60 channels in Romania. In Hungary, our “Digi” package offers at least 70 channels. In addition, in Hungary, due to local “must carry” regulations, we also offer a limited package with a maximum of 25 channels. In Romania, we also offer a “Popular” package, which includes a minimum of 25 channels and cannot be combined with the premium movie channels offered. We believe that our Basic packages are attractive in the market in terms of range of content offered for the price. In Romania and Hungary, we provide access to our own sports channels for no additional fee as we believe this contributes to the broadening of our subscriber base. At the same time, the design of the content of the Basic packages provides an incentive for our subscribers to take up the Extra packages. The offered channels cover the main genres such as news, general entertainment, sports, movies, documentary, and children’s content. Our offer includes a wide range of local and international channels (in most cases with subtitles or dubbed, depending on the market practice).

- **Extra Packages.** Our “Extra 1” and “Extra 2” packages are currently offered in Romania and our “Digi +” package is currently offered in Hungary. They include at least 63 and 76 channels, in each market respectively. We try to structure these packages to incentivize customers who are willing to pay more for certain premium or specialized content while making sure that our Basic packages contain general channels of interest. The Extra packages are designed to increase our ARPU among targeted segments. Generally, international channels such as the History Channel, TV 1000, the Travel Channel, Viasat Nature or Viasat History and certain local niche channels are part of these packages.

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

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

### ***DTH pricing***

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

We bill our DTH services in local currencies. The table below sets forth the monthly prices we charged for our DTH services as at December 31, 2015 (inclusive of VAT):

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<sup>3</sup> As at 31 December 2015 a reallocation of service revenues between business lines was made in order to present properly the nature of each type of revenues. For the purpose of this presentation, the presentation of revenues comparatives as at 31 December 2014 was restated accordingly.

<b>Romania (RON, VAT included)<sup>(3)</sup></b>		<b>Hungary (HUF, VAT included)</b>	
Popular	15	Digi Mini	1,400
Extra 1	29	Digi	3,000
Extra 2 Basic	29	Digi Film	300
Extra 2 Popular	20	HBO	1,990
Extra Complete	33	Cinemax	_( <sup>2</sup> )
Digi Film	3	HBO Maxpack	2,590
HBO	13 <sup>(1)</sup>		
Cinemax	7		
HBO Maxpack	14 <sup>(1)</sup>		
Adult	1		

(1) Starting with May 1, 2015 the price for Max Pack and for HBO include also access to HBO GO for no additional charge

(2) Provided only as part of the Max Pack.

(3) Starting from January 2016 VAT in Romania was decreased to 20% (VAT in prior year was 24%) and gross prices for Romania were adjusted downwards accordingly.

### **Own TV channels**

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

Our premium sports channels own exclusive rights for Romania and Hungary over certain major sports competitions, the English Premier League (Hungary), Serie A and Ligue 1, the ATP 1000 Master series & World Tour Finals, the WTA Premier, Wimbledon, Moto GP, Euroleague Basketball. Furthermore, we are one of providers with co-exclusive rights for the Romanian Football League and Cup (Romania), Romanian Football Second League (Romania), EHF Champions League (Romania), Spanish La Liga (Romania) and for the the UEFA Europa League (Hungary) We use this premium content to increase the attractiveness of our services. We believe that the quality of our content contributed to our quickly achieving leading audience ratings, especially in Romania.

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

<b>Sport</b>	<b>Competition</b>	<b>Romania</b>	<b>Hungary</b>	<b>Period</b>
Football	Romanian Football Championship	✓		2015 – 2019
Football	UEFA Europa League		✓	2015 - 2018
Football	English Football Premier League		✓	2013 – 2016
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 Euro 2016 and World Cup 2018	✓		2014 – 2017
Handball	EHF Champions League, Cup and Trophy	✓		2014 – 2017
Moto-racing	Moto GP	✓	✓	2014 – 2016
Tennis	ATP 1000 Master series & World Tour Finals	✓	✓	2014 – 2016
Tennis	WTA Premier	✓	✓	2014 – 2016
Tennis	Wimbledon	✓	✓	2014 – 2016

The aggregate value of the licensing fees under these agreements is approximately €118.5 million, out of which approximately €40 million had been settled as at the date of this report and approximately €78 million remained outstanding. In addition to licensing fees, under some of these agreements we have the obligation to bear certain technical costs (e.g., related to up- and down-linking).

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



## ***DIGI Film***

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

## **OPERATIONS**

### **Programming**

Separately from the channels that we own, we acquire the rights to distribute channels from local and international programming content providers. In the case of all international and most local providers, we down-link and retransmit these channels as originally packaged (or with subtitles or dubbed), while with certain local providers we receive the channel via terrestrial fiber optic transmission. As at December 31, 2015, we had distribution agreements in place with more than 35 content providers. In addition, in Romania, in accordance with legal requirements, we also have retransmission authorizations with more than 150 content suppliers. In total we have the right to retransmit locally or across Central and Eastern Europe approximately 280 pass-through channels. Our pass-through channel providers assume full responsibility for programming content and ensuring compliance with applicable rules on the protection of minors. We also acquire the right to retransmit the pass-through channels in specific territories. We carry both leading local channels and international channels (in most cases with subtitles, or dubbed, depending on market practice). The programming content generally consists of films, sports, general entertainment, documentaries, children's programs, news and music.

Content is generally purchased on a per-subscriber basis or on a flat fee basis. Prices paid for these channels are sometimes subject to minimum guaranteed fees that are based on a specified minimum subscriber level, with a number of agreements providing for volume discounts in the fee per subscriber as the total number of subscribers increases.

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

### **Fiber and Mobile Telephony Networks**

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

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

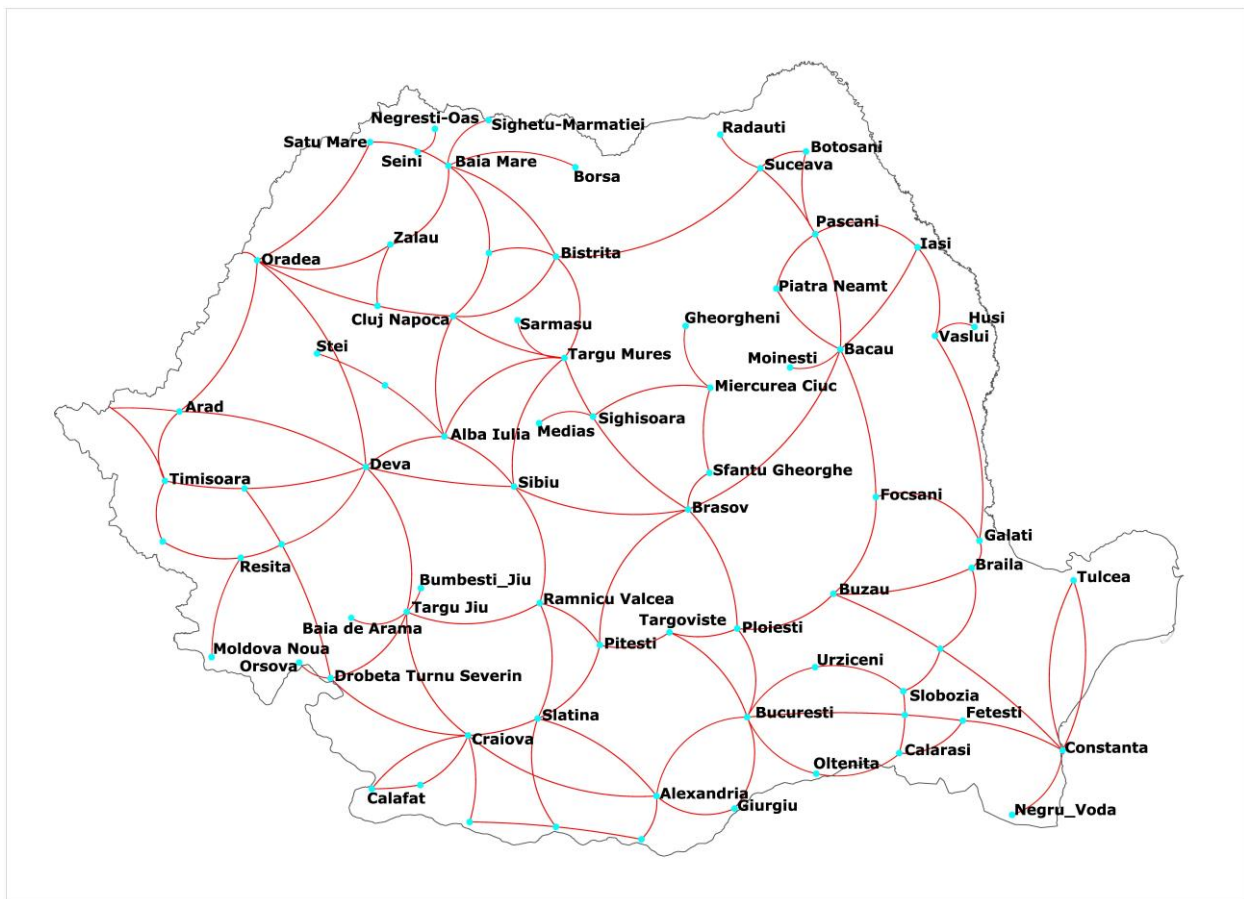
Our DWDM network reaches Budapest. Total IP Internet Connectivity is around 1.5 Tbps split as IP Transit capacity, IP Peering network capacity and CDN network capacity. Our total IP Transit network connectivity is around 400Gbps. IP Transit connections have been deployed with two different Tier 1 providers (Teliasonera & NTT) in three different locations (Bucharest, Budapest & Frankfurt). Total IP Peering network capacity is over 500Gbps. Our own IP Peering routers have been deployed in the most important Internet Exchange Points ("IXPs") in the world: Frankfurt (DE-CIX), Amsterdam (AMS-IX), London (LINX). Regional IP Peering routers also exist in Budapest, Sofia & Bucharest.

600Gbps of CDN capacity has been deployed in our Data Centers all over the country by the largest content providers like Google, Facebook and Akamai enabling our subscribers to enjoy top download speeds, HD quality streaming, instant access to social media and reliable connection to the cloud.

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

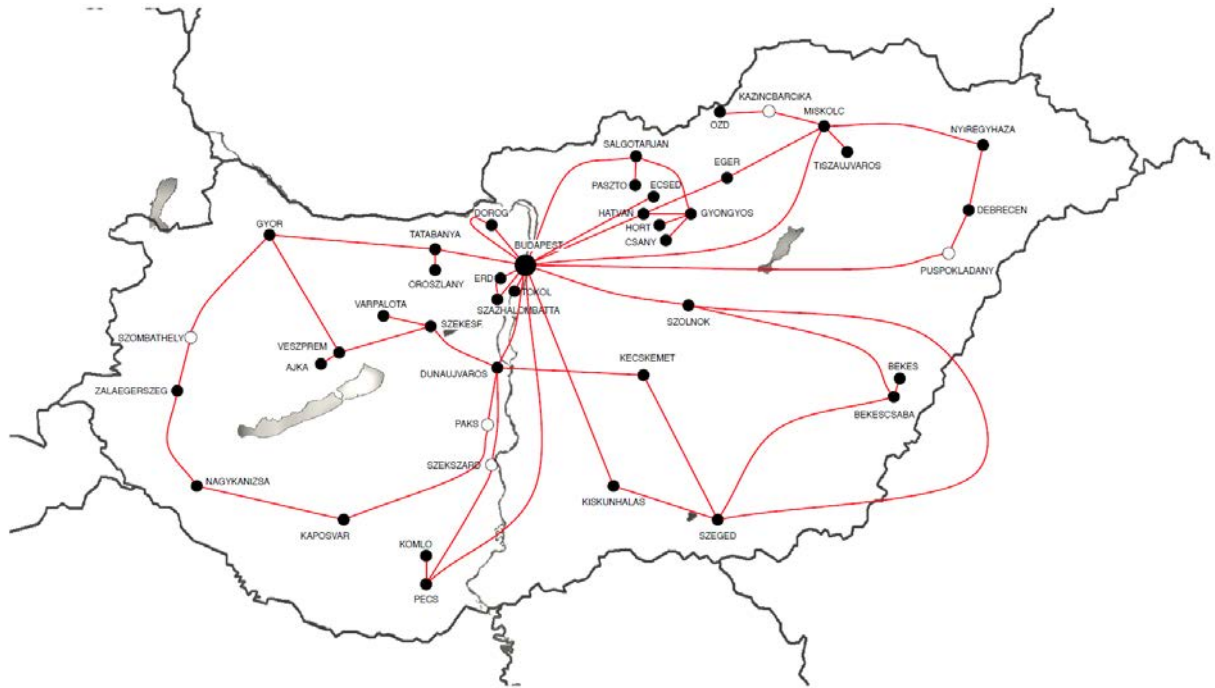
In Romania, we have an intercity backbone network of approximately 20,238 kilometers. Approximately 74% of this network is aerial, with the remaining approximately 26% buried underground. Most of our intercity aerial network is built along the power lines of the national electricity distribution and public transportation companies on the basis of long-term leases. For our metropolitan networks we lease poles or underground rights of way from private or state-owned transportation companies (such as Metrorex Bucuresti S.A., the Bucharest underground operator and certain over ground municipal transportation operators in various locations of the country). Since 2011 (and earlier in certain towns and cities) we have faced regulatory pressure to stop building aerial networks in certain cities and to bury our existing aerial networks there. We are burying our networks in cities where local authorities have been able to grant us the required authorizations sufficiently quickly or where the necessary infrastructure was available. See *“Risk Factors—Risks relating to regulatory matters and litigation- Many components of our network are based on contracts which may be terminated by the lessor or are not concluded in the form required by applicable law, and we may be required to move some of our networks, which may disrupt service and cause us to incur additional expenses.”* The underground network has also been developed on the basis of lease agreements concluded either directly with municipalities or with other operators acting on the basis of concessions from the relevant municipalities and/or acquisitions of ownership rights over the overlaying land. Our residential and business user network covers, in addition to the capital city, Bucharest, all of the 41 county capital cities and numerous smaller cities and towns. Our fiber network in Romania (including the intercity backbone) has a length of approximately 77,056 km and passes a total of approximately 4.57 million homes. We service business customers in all counties and major cities of Romania.

The map below shows our backbone in Romania as at December 31, 2015:



In Hungary, we cover 64 cities with our FTTB/FTTH network, with similar technical capabilities to Romania. Our Hungarian fiber network has a total length of approximately 8,432 km and passes approximately 964,000 homes. We use approximately 4,000 km backbone fiber optic networks, with approximately 28% owned by us, 51% subject to long-term leases (IRU) and the remaining part of 21% subject to regular lease contracts.

The map below shows our backbone in Hungary as at December 31, 2015:



**For the year ended**

	2014	2015
<b>Romania</b>		
Number of homes passed	4,569,473	4,570,837
Percentage of homes passed <sup>(1)</sup>	61%	61%
<b>Hungary</b>		
Number of homes passed	897,814	964,064
Percentage of homes passed <sup>(1)</sup>	24%	23%

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

In Romania and Hungary we continue to pursue technological improvements of our network as well as expansion of our coverage. We believe that our network provides the opportunity to market attractive fixed internet and data and fixed-line telephony services, offering significant growth opportunities in terms of subscribers and revenue with limited additional investment. Nevertheless, we plan to continue to expand our FTTB/FTTH network to areas not covered by our cable TV operations and to upgrade smaller networks in Romania to FTTB/FTTH standard using GPON technology to allow higher penetration of fixed internet and data and fixed-line telephony services. The peak daily internet traffic consumption of our Romanian customers amounted to approximately 800 Gbps as of December 2015 (including an estimate of 65 Gbps for business subscribers), around 23% increase compared with the previous year. We believe this figure may increase further in 2016 due to an increase in the number of subscribers and improved offerings that we may be able to provide to our subscribers.

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

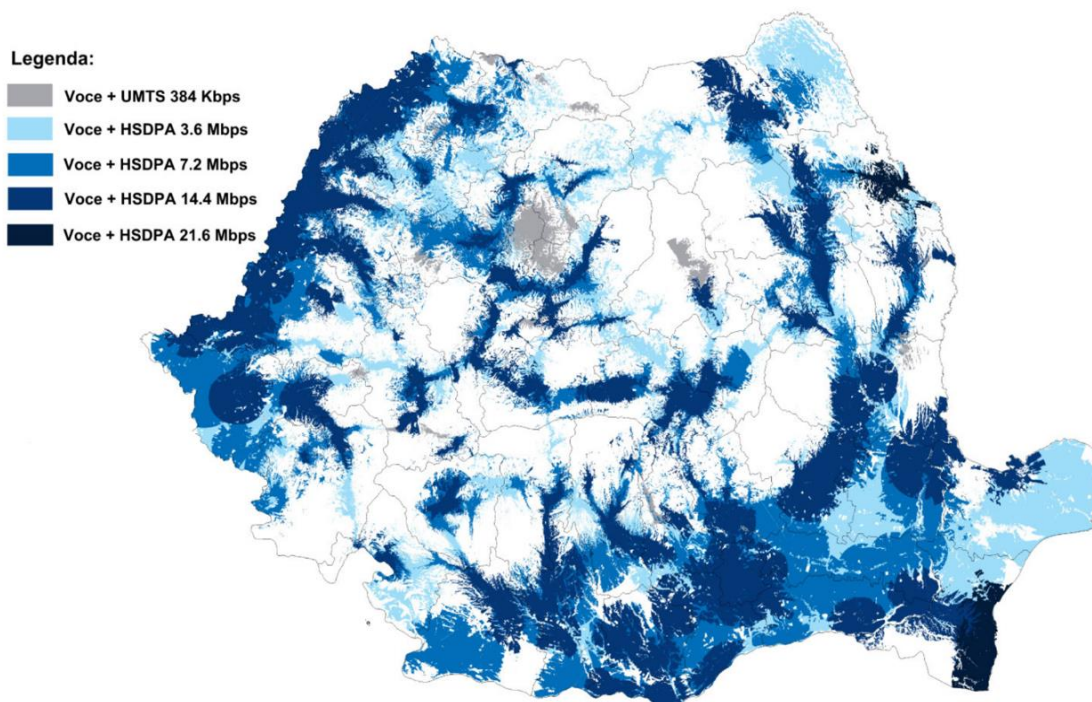
Our mobile telephony network in Romania is based on the equipment and solutions provided by leading vendors (Huawei and Nokia). We lease technical premises and antenna supports from a large number of land/premises owners as well as the national radio communications operator, Societatea Nationala de Radiocomunicatii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

As of December 31, 2015, we had in place approximately 2,100 base stations covering approximately 94% of the Romanian population and approximately 6,500 kilometers of coverage along main roads. The mobile network is integrated at the transmission level with our fiber optic backbone to take advantage of the high available capacity of

that backbone. We have our own teams of employees that undertake the high-level radio design, set-up, operation, maintenance, network optimization and drive-test of the network. The network software is updated to the latest versions provided by the technology suppliers and allows efficient deployment of new capacity, services and other features.

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

The map below shows the territorial coverage of our 3G mobile network as at December 31, 2015:



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

The table below sets out certain details regarding our network infrastructure as of December 31, 2015:

	<b>Romania</b>	<b>Hungary</b>	<b>Total</b>
Homes passed (two way), in thousands	4,571	964	<b>5,534</b>
<b>Network Nodes</b>			
Head-ends and network nodes	280	66	<b>346</b>
<b>Cable</b>			
Fiber (km) (approximate)	77,056	8,432	<b>85,488</b>

### 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 each of our country headquarters and service all our DTH subscribers on a country-by-country basis.

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

As of December 31, 2015 we use 12 high-powered transponders, 10 on the IS-10-02 satellite and 2 on the Thor 6 satellite, to transmit our signal. The lease agreement with Intelsat is entered into on competitive terms and is scheduled to expire towards the end of 2017. The number of television channels that can be broadcast to subscribers is dictated by the amount of transponder space available. Currently, we are using nearly all of our available transponder capacity.

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

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

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

### ***Disaster recovery facilities***

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

### ***Set-top boxes and encryption***

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

We use an encryption solution and smart-cards for our DTH operations supplied by Nagravision. Nagravision is a leading supplier of security solutions for the television industry. Should we be unable to continue to purchase our encryption solution and/or smart cards from Nagravision, we believe we could acquire similar products from

other suppliers without a significant increase in cost or decrease in quality. We believe the quality of the encryption technology we use is consistent with market standards.

## **DISTRIBUTION AND SALES**

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

In Romania, we have 318 collection and sales points and a sales force of approximately 2,160 individuals. In Hungary, we have 38 sales points and a sales force of 34 individuals. We have approximately 2,904 external sales points in Spain and approximately 1,387 external sales points in Italy.

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

### **Residential Sales**

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

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

### **Business Customers Sales**

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

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

## **CUSTOMER SERVICE AND RETENTION**

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

Our customer service department in Romania consists of 1,605 employees spread across all of our physical service centers and six call centers (servicing our Romanian, Spanish and Italian clients). Our customer service department in Hungary consists of 351 employees spread across all of our physical service centers and two call centers in Budapest and Debrecen. Our subscribers in Romania and Hungary have access to customer service support 24 hours a day, seven days a week through our call centers which monitor, track and respond to customer queries.

Out of the total customer service department, we have a total of 1,001 call center employees, of whom 856 are in Romania, 145 are in Hungary.

We also have after sale and service teams dedicated to our various services. Our service and after sale teams in Romania and Hungary operate a fleet of over 2,500 vehicles respectively, in order to achieve promptness of service. Our mobile telephony and mobile internet and data services are serviced directly at our retail locations. We generally aim for a targeted service, and we provide different contact numbers for each type of customer. Our business customers are granted special attention as they each have designated account managers.

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

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

## **MARKETING**

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

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

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

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

## **BILLING**

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

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

In addition to maintaining financial information for each customer, our billing software keeps detailed, non-

financial customer and contract related information. This information is used by our customer service representatives to address various issues and needs of our customers.

We believe our billing and collection systems are appropriate for our business needs, and we constantly seek to improve them. For example, we send notifications (via SMS, dedicated website, internet pop-up messages and TV messages for our DTH subscribers) to our customers alerting them of overdue invoices. As a result, in the year ended December 31, 2015, our bad debt rate (which we calculate as recognized impairment losses relating to trade and other receivables as a percentage of total revenues) was approximately 1%, which we consider to be a low percentage.

## **EQUIPMENT SUPPLIERS**

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

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

For internet and data services, our main suppliers are Cisco, 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 segment, our main suppliers are Alcatel for switching equipment, and Tainet for transmitting voice streams from the customer to our central switch.

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

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

## **SERVICE SUPPLIERS**

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

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

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

Our supplier of DTH satellite services is Intelsat.

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

## **INTELLECTUAL PROPERTY**

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

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



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

## INSURANCE

We maintain an insurance policy in respect of our critical communications equipment in data centers in Bucharest and certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. The insurance policy is provided by Asigurare Romaneasca—ASIROM Vienna Insurance Group S.A. and has an aggregate coverage of up to Romanian lei 109.5 million (€24.2 million as of December 31, 2015). We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. Apart from mandatory third party liability and casual and collision insurance for car fleet, we do not maintain insurance policies for our Hungarian operations.

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

## PROPERTIES

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

The following table sets forth our key properties:

Country	Location	ID	Primary Function	Owned/ leased	Size (sqm)
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	owned	2,488
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	lease-back	4,493
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	leased	2,067
Romania	Bucharest		Administrative, Warehouse	leased	3,257
Romania	Bucharest	Panduri	Call Center, TV Studios	owned	2,244
Romania	Bucharest	Panduri	Call Center, Administrative	leased	7,532
Romania	Timisoara		Administrative, Head End, NOC, TV Studios	owned	470
Romania	Craiova		Administrative, Head-End, NOC, Call Center, TV Studios	owned	3,551
Romania	Arad		Administrative, Head End, NOC, Call Center	owned	804
Romania	Iasi		Administrative, Head End, TV Studios	owned	850
Romania	Iasi		Administrative, Head End, NOC, Call Center	owned	438
Romania	Constanta		Administrative, Head End, NOC, TV Studios	owned	1,156
Romania	Oradea		Administrative, NOC, Call Center, TV Studios	owned	3,806
Romania	Oradea		Administrative, Head End	owned	200
Romania	Brasov		Administrative, Head End, NOC, Call Center, TV Studios	owned	2,078
Romania	Brasov		Administrative	owned	588
Romania	Targu Mures		Administrative, Head End, Noc	owned	325
Romania	Galati		Administrative, Head End, NOC, TV Studios	owned	1,601
Romania	Resita		Administrative, Head End, Warehouse	owned	1,041
Romania	Slatina		Administrative, Head End	owned	743
Romania	Dr. Turnu Severin		Administrative, Head End	owned	850
Romania	Pitesti		Administrative, Head-End, NOC, Call Center	owned	1,308
Romania	Cluj-Napoca		TV Studios	leased	831
Romania	Cluj-Napoca		Administrative, Call Center	leased	791
Romania	Cluj-Napoca		Administrative	owned	2,164
Romania	Baia-Mare		Administrative	owned	1,415
Romania	Ramnicu Valcea		Administrative	owned	930
Romania	Timisoara		Administrative	leased	4,489
Romania	Arad		Administrative	leased	1,106
Hungary	Budapest		Administrative, Head End, NOC	leased	3,600
Hungary	Budapest		Administrative, Call Center	leased	1,064
Spain	Madrid		Administrative	leased	884
Spain	Madrid		Warehouse	leased	383
Italy	Milano		Administrative, Sales, Warehouse	leased	498

## EMPLOYEES

As at December 31, 2015, we had 12,453 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

<b>Country</b>	<b>Employees as at</b>	
	<b>December 31, 2014</b>	<b>December 31, 2015</b>
Romania	10,772	11,017
Hungary	1,226	1,296
Czech Republic*	91	-
Spain	83	99
Italy	32	40
The Netherlands	1	1
<b>Total</b>	<b>12,205</b>	<b>12,453</b>

\* Disposed of in April 2015

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

<b>Departments</b>	<b>Employees as at</b>	
	<b>December 31, 2014</b>	<b>December 31, 2015</b>
Customer Service	2,033	1,985
Administrative, Purchasing, Logistics	1,472	1,520
Technical	5,116	5,293
Sales and marketing	2,262	2,301
TV	1,322	1,354
<b>Total</b>	<b>12,205</b>	<b>12,453</b>

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

## ENVIRONMENTAL MATTERS

We do not believe that our activities generally have a significant environmental impact. However, we are subject to a large number of environmental laws and regulations. These laws and regulations govern, among other things, the management and disposal of hazardous materials, air emissions and water discharge, the cleanup of contaminated sites and health and safety matters. We are also required to obtain environmental permits, licenses and/or authorizations or provide prior notification to the appropriate authorities when building parts of our network, importing electronic equipment or opening new shops. Some of our sites also store small amounts of diesel fuel for back-up power generator use and/or have a history of previous commercial operations. As a result of these activities or operations at our sites, we could incur significant costs, including fines, penalties and other sanctions, cleanup costs and third-party claims for property damages or personal injuries, as a result of violations of or liabilities under environmental laws and regulations. We believe that the principal environmental considerations arising from our operations also include the potential for electromagnetic pollution. We use various network infrastructure strategies in order to achieve radiation emission ranges that are lower than the maximum levels permitted by applicable Romanian regulations. Where requested under the relevant planning certificates, we have also obtained or are in the process of obtaining certificates from the public health authorities of each county where we install mobile telephony base stations that we are complying with accepted electromagnetic radiation standards in our mobile telephony activity.

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

## Solar Energy

In 2012, we started to acquire several developmental stage solar energy projects as a means to reduce or partially offset our energy costs. As of December 31, 2015, the projects have an aggregate installed capacity of

15.44 MW (same as of December 31, 2014), all of them being operational.

## **LITIGATION AND LEGAL PROCEEDINGS**

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

### **Romanian Competition Council Investigations**

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

#### ***Telecommunications market interconnection investigation***

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

In February 2011, the Romanian Competition Council opened an investigation on the telecommunications market related to interconnection tariffs charged by all telecommunications operators. We believe this investigation was launched with the aim of reducing the relatively high interconnection tariffs charged on the Romanian market and thereby reducing the rates ultimately charged to consumers.

After submitting in July 2013 a first set of commitments that – although being principally accepted by the Romanian Competition Council and by the market – have not been endorsed by the European Commission, at the Romanian Competition Council's request, we offered in October 2014 a second commitment consisting in the principle undertaking not to discriminate between the level of the tariffs charged for the on-net and the off-net calls. This new commitment – that has been undertaken by the other mobile telephony operators as well, and further updated by each has been accepted by the Competition Council by decision no 33/2015. We will need to implement this commitment for 2 years. The duration may be either reduced to 1 year or extended to 2 years in accordance with the Competition Council's assessment of the market after the entry into force of the commitments. During the term of the commitments, RCS&RDS is required to provide to the Romanian Competition Council, upon request, business information, and to commission periodic independent market studies on the evolution of the mobile telephony sector.

The Competition Council's decision accepting RCS&RDS' 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. Failure by RCS&RDS to comply with the terms of the commitment as accepted by the Competition Council may lead to penalties of up to 10% of the aggregate turnover of RCS&RDS.

#### ***GSP investigation***

In May 2011, Antena TV Group S.A., a leading media group in Romania and a former commercial partner of RCS&RDS, made a complaint to the Romanian Competition Council based on our refusal to retransmit one of the

group's channels, GSP TV. The Romanian Competition Council opened an investigation against us in relation to this matter in August 2011. We have fully cooperated with the authority during this investigation and although considering the demands of Antena TV Group S.A. to be abusive and groundless, we have retransmitted GSP TV following injunctive relief Antena TV Group S.A. has obtained against us on grounds that starting July 2011 GSP TV has become a must-carry channel.

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

By reference to RCS&RDS' market power, the decision also issued a formal recommendation for RCS&RDS to set, publish and to apply its own general terms in relation to broadcasters' request for their access to RCS&RDS carriage infrastructure. The Competition Council further clarified the scope of the recommendation as being much narrower (rather referring to the events when RCS&RDS decides to charge fees for technical or operational costs for granting to TV channels physical transport, access or connection to its cable network), thus not affecting RCS&RDS' relationships with must-carry and pay-tv channels that are left out of the scope of the recommendation.

The Romanian Competition Council's decision is not final and is subject to judicial review. Antena TV Group S.A. challenged the decision and that trial is ongoing (the details of this case are explained in a dedicated section below: "*Litigation regarding the outcome of the GSP investigation*").

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

According to a press release issued in 2013, the Romanian Competition Council launched a sector inquiry to better understand (i) the selling of multiple-play packages and (ii) the market for access services to Bucharest's electronic communications infrastructure. Although sector inquiries are aimed at gathering information, such proceedings may end with the opening of an investigation. We have not been contacted by the Romanian Competition Council with respect to the selling of multiple-play services. We have received requests for information regarding services of access to the electronic communications infrastructure concerning the entire country and particularly Bucharest. We have received multiple requests for information from the territorial divisions of the Romanian Competition Council and from the central headquarters of the Romanian Competition Council regarding access to the electronic communications infrastructure in relation to several of our working points in the country, including Bucharest. We have answered to these requests.

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

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

### **Intact Media Group Litigation**

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

### ***The must carry related litigation***

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

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

split into two proceedings as Antena Group assigned its monetary claims related to this lawsuit to First Quality Debt Recovery.

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

In the case regarding the injunctive relief request, both the court of first instance and the court of appeals ruled in our favor and dismissed Antena Group's claims. However, in February 2014, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality Debt Recovery and quashed the decisions issued by both the first instance and the appeal courts, ordering a retrial of the case by the first court. The decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case, as the retrial was ordered solely based on procedural reasons. The Bucharest Tribunal annulled the monetary claims (€65 million) filed in the case file 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.

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 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. The appeal was rejected in October 2014. Antena Group filed a higher appeal against the appeal decision and the High Court of Cassation and Justice ordered a retrial of the appeal by the Bucharest Court of Appeal. At the hearing taking place on 29 March 2016, the court heard the case and is to issue a decision not earlier than 19 April 2016. These proceedings will only concern immaterial judicial expenses requested by Antena Group.

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

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

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

In November 2012, we filed a counter-suit against the insolvency and must carry litigation initiated by Antena Group against us and the use of these litigations, as well of the commercial dissension in relation to the distribution of its channels through our DTH network, against our image and credibility via the media assets of the Intact Media Group. The insolvency claim filed against us has been irrevocably dismissed by the courts of law. We have mainly requested the following remedies: (i) acknowledgement by the court of the unlawfulness of the media campaigns launched against us by the Intact Media Group; (ii) monetary damages of approximately €1.2 million for reputational damages and other indirect harm; and (iii) publication by the Intact Media Group of the decision of the court through its TV channels and newspapers.

Although the first court dismissed our claim, the Bucharest Court of Appeals admitted in part our appeal and (i) acknowledged the unlawfulness of the media campaigns, (ii) obliged Intact Media Group to publish the decision in certain conditions and (iii) obliged Intact Media Group to pay RCS&RDS approximately €1.2 million as moral damages. This decision was challenged by Intact Media Group with higher appeals. On 27 May 2015 the High Court of Cassation and Justice quashed the Court of Appeals' decision and sent our appeal for retrial to the same court. In the retrial, on 7 March 2016, the Bucharest Court of Appeals admitted in part our appeal and (i) acknowledged the unlawfulness of the media campaigns, (ii) obliged Intact Media Group to publish the decision in certain conditions and (iii) obliged Intact Media Group to pay RCS&RDS approximately € 780.000 as moral damages. Please note that this decision is not final as it is subject of review if either party decides to challenge it.

In March 2013, the NAC issued two decisions publicly reproving the media actions of two Intact Media Group channels: Antena 1 and Antena 3. Both decisions were challenged by representatives of the Intact Media Group. We have intervened in favour of the NAC in both lawsuits. The first court rejected the challenges and admitted our requests for intervention. The plaintiffs filed higher appeals against this decision but the High Court of Cassation and Justice rejected them on 22 May 2015 as groundless. The decisions of the NAC represent evidence in the lawsuit initiated by us in relation to Intact Media Group's unlawful media campaigns against us.

### ***Reciprocal contractual claims with the Intact Media Group***

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

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

In the first lawsuit, on 2 November 2015, the Bucharest Tribunal fully rejected our claim for a refund of the retransmission fees paid until 2010 and partially admitted the counterclaim of Antena Group regarding the retransmission in 2010 and 2011. As a result, we were ordered to pay to Antena Group approx. €1,9 million representing (i) retransmission fees and (ii) judiciary expenses. Both RCS&RDS and Antena Group filed an appeal against the decision of the first court. The next hearing in front of the Bucharest Court of Appeals is scheduled for June 3, 2016.

In the lawsuit regarding telecommunication and advertising services, the court of first instance fully rejected both our claim and the counterclaim of Antena Group. Both RCS&RDS and Antena Group appealed the decision of the first court, the case currently pending before the Bucharest Court of Appeals. The next hearing is scheduled for 23 May 2016.

### ***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 till June 2014, without Antena Group's consent and in the absence of an agreement on the fees for the use of its copyright.

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

On 30 October 2014, the Bucharest Tribunal rejected the claim on procedural grounds and stated that Antena Group does not have legal standing in this lawsuit. On 16 March 2016 the Bucharest Court of Appeals admitted Antena Group's appeal, annulled the first court's decision and sent the file back to the Bucharest Tribunal for a trial on the merits of the case. A higher appeal before the Supreme Court is available to RCS & RDS, but the full decision of the Court of Appeals has not been yet communicated to us.

### ***Litigation on grounds of an alleged abuse of dominant position***

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

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

In March 2015, RCS&RDS requested the court to stay the proceedings until the final settlement of four other trials that may serve as a justification for the alleged refusal to negotiate with Antena Group and Antena 3. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until the final settlement of the lawsuit including the €65 million monetary damages. The decision on suspension of the trial was challenged by Antena Group on 14 December 2015. RCS&RDS opposed the appeal of Antena Group, but at the same time submitted its own appeal regarding the first court's solution with respect to the request for the suspension of the proceedings until the final settlement of three other trials. The first hearing in front of the Bucharest Tribunal was not scheduled yet.

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

### ***Litigation 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 (*please see dedicated section above "GSP investigation"*).

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. The next hearing in front of Bucharest Court of Appeals is scheduled for April 26, 2016.

This lawsuit does not have direct financial consequences. However, in case the courts of law will rule in favour of Antena Group in this case, we will face the risks mentioned in the section "*Romanian Competition Council Investigations*".

### **Litigation against decisions of the NAC**

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

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

### **Litigation related to the decisions of the National Authority for Management and Regulation in Communications (“ANCOM”)**

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

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

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

CFO Integrator S.R.L. submitted its statement of defence on April 4, 2015. The court appointed an accounting expert to certify both the claimant’s and the defendant’s computation of the penalties making the object of the case file. At this stage, the appointed expert was required to redo her calculations according to the observations submitted by the Cluj Napoca Municipality against the initial report (that generally sustained CFO Integrator S.R.L.’ defences). The case file has been judged at the hearing taking place on 15 April 2016. The court will issue a decision on 29 April 2016.

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

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

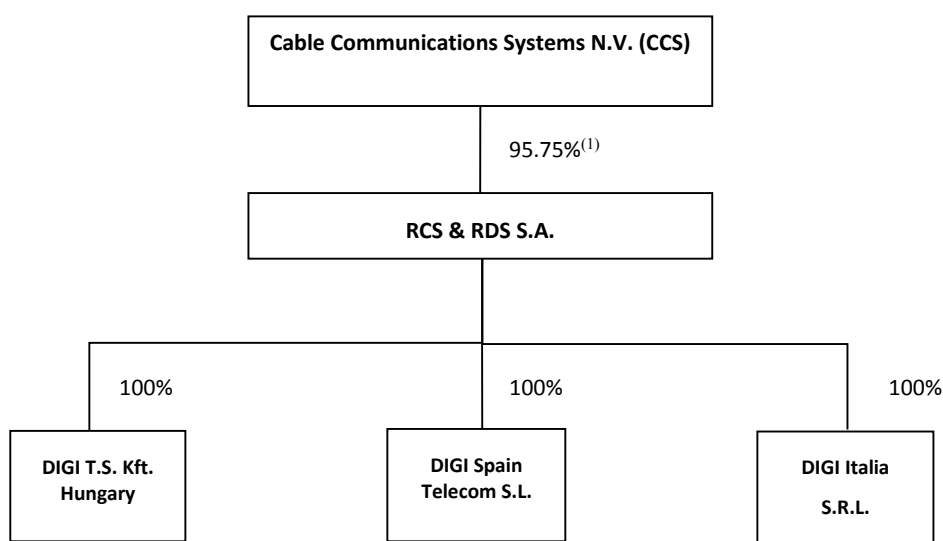
Our complaint to the National Anti-Corruption Directorate of Romania about a potential criminal offense perpetrated against one of our directors also brought to the attention of the Directorate an agreement we entered into in 2009 with Bodu and its compliance with Romanian anti-corruption laws. Bodu is a company controlled by the



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

## CORPORATE STRUCTURE

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



(1) RCS&RDS holds approximately 8.56% of its shares as treasury stock. The 95.75% (effective voting rights due to the effect of holdings of treasury shares) amount held by the Company includes 0.11% of shares in RCS&RDS acquired by the Company from the purchaser of our Serbian subsidiary, which are subject to a call option that can be exercised by such purchaser over the next five years.

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

#### 4. SELECTED FINANCIAL AND OTHER DATA

The tables below show summary consolidated financial information for the Group as at and for the years ended December 31, 2014 and 2015. The financial information as at and for the years ended December 31, 2014 and 2015 has been derived from our audited consolidated financial statements as at and for the years ended December 31, 2014 and 2015, included elsewhere in this annual report. You should read this summary financial information in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

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

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

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
<b>Consolidated income statement data</b>	<b>(euro in millions)</b>	
<b>Revenues</b>		
Romania	471.1	541.8
Hungary	119.1	125.9
Spain	54.8	73.8
Other	18.9	11.4
Eliminations of intersegment revenues	(2.2)	(2.7)
<b>Total revenues</b>	<b>661.6</b>	<b>750.1</b>
Gain on sale of discontinued operations <sup>(1)</sup>	9.6	20.9
<b>Total revenues and other income</b>	<b>671.2</b>	<b>771.0</b>
<b>Operating expenses</b>		
Romania	(294.1)	(363.2)
Hungary	(72.3)	(76.5)
Spain	(50.4)	(62.8)
Other	(16.2)	(13.0)
Eliminations of intersegment expenses	2.2	2.7
Depreciation, amortization and impairment of tangible and intangible assets	(192.1)	(187.9)
<b>Total operating expenses</b>	<b>(622.9)</b>	<b>(700.7)</b>
<b>Operating profit</b>	<b>48.4</b>	<b>70.3</b>
Finance income	0.8	9.9
Finance expense	(61.1)	(70.8)
<b>Net finance costs</b>	<b>(60.3)</b>	<b>(60.9)</b>
<b>(Loss) / Profit before taxation</b>	<b>(12.0)</b>	<b>9.5</b>
Income tax (expense)/benefit	5.1	(5.4)
<b>(Loss) / Profit for the period</b>	<b>(6.8)</b>	<b>4.0</b>

	Year ended December 31,	
	2014	2015
	(euro in millions)	
<b>Cash flows from operations before working capital changes</b>	<b>232.0</b>	<b>237.2</b>
Cash flows from changes in working capital	(5.7)	4.2
<b>Cash flows from operations</b>	<b>226.3</b>	<b>241.5</b>
Interest paid	(46.7)	(44.2)
Income tax paid	(4.6)	(5.1)
<b>Cash flow from operating activities</b>	<b>174.9</b>	<b>192.2</b>
<b>Cash flow used in investing activities</b>	<b>(204.4)</b>	<b>(171.6)</b>
<b>Cash flows from financing activities</b>	<b>33.6</b>	<b>(25.7)</b>
Net increase (decrease) in cash and cash equivalents	4.1	(5.2)
Cash and cash equivalents at the beginning of the period	50.2	54.3
Effect of exchange rate fluctuation on cash and cash equivalent held	(0.0)	0.5
<b>Cash and cash equivalents at the closing of the period</b>	<b>54.3</b>	<b>49.7</b>
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>230.8</b>	<b>237.4</b>
<b>EBITDA margin(%)<sup>(3)</sup></b>	<b>34.9%</b>	<b>31.6%</b>

	Year ended December 31,	
	2014	2015
	(euro in millions)	
<b>Consolidated balance sheet data</b>		
<b>Assets</b>		
<b>Non-Current assets</b>		
Property, plant and equipment	643.1	674.7
Intangible assets	199.7	205.1
Available for sale financial assets	41.3	43.4
Investments in associates	2.5	1.0
Long term receivables	6.7	5.9
Deferred tax assets	2.9	4.0
<b>Total non-current assets</b>	<b>896.3</b>	<b>934.0</b>
<b>Current assets</b>		
Inventories	22.8	13.2
Program assets	16.8	29.5
Trade and other receivables	109.9	82.5
Income tax receivables	1.5	0.2
Other assets	9.9	8.2
Derivative financial asset	-	9.9
Cash and cash equivalents	54.3	49.7
<b>Total current assets</b>	<b>215.2</b>	<b>193.3</b>
<b>Total assets</b>	<b>1,111.5</b>	<b>1,127.3</b>
<b>Equity and liabilities</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	0.1	0.1
Share premium	8.2	8.2
Treasury shares	(16.7)	(16.7)
Reserves	45.3	31.6
Retained earnings	68.3	77.5
<b>Total equity attributable to equity holders of the parent</b>	<b>105.1</b>	<b>100.7</b>
Non-controlling interest	2.2	2.2
<b>Total equity</b>	<b>107.3</b>	<b>102.8</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	652.7	624.9
Deferred tax liabilities	28.2	27.0
Other long term liabilities	10.6	7.6
<b>Total non-current liabilities</b>	<b>691.5</b>	<b>659.5</b>

Consolidated balance sheet data	Year ended December 31,	
	2014	2015
	(euro in millions)	
<b>Current liabilities</b>		
Trade and other payables	217.2	271.1
Interest-bearing loans and borrowings	45.7	63.1
Income tax payable	0.3	1.7
Derivative financial instruments	1.0	8.3
Deferred revenue	48.4	20.8
<b>Total current liabilities</b>	<b>312.6</b>	<b>365.1</b>
<b>Total liabilities</b>	<b>1,004.2</b>	<b>1,024.5</b>
<b>Total equity and liabilities</b>	<b>1,111.5</b>	<b>1,127.3</b>

Revenue (excluding intersegment revenues)	Year ended December 31,		% change
	2014	2015	year on year 2014 v 2015
	(euro in millions)		
<b>Romania</b>			
Cable TV <sup>(4)</sup>	155.5	166.8	7.3%
Fixed internet and data <sup>(4)</sup>	147.5	155.9	5.7%
Fixed-line telephony	29.8	25.3	-15.1%
Mobile telephony <sup>(4)</sup>	24.7	66.1	167.6%
Mobile internet and data <sup>(4)</sup>	15.7	18.5	17.8%
DTH <sup>(4)</sup>	43.3	40.2	-7.2%
Other revenues <sup>(4) (5)</sup>	53.3	67.2	26.1%
<b>Hungary</b>			
Cable TV	34.5	36.6	6.1%
Fixed internet and data	30.4	33.4	9.9%
Fixed-line telephony	8.3	6.9	-16.9%
Mobile internet and data	1.6	1.4	-12.5%
DTH <sup>(4)</sup>	30.8	30.5	-1.0%
Other revenues <sup>(4) (6)</sup>	13.5	17.1	26.7%
<b>Spain</b>			
Mobile telephony <sup>(4)</sup>	43.4	54.5	25.6%
Mobile internet and data	9.9	17.7	78.8%
Other revenues <sup>(4) (5)</sup>	0.6	0.4	-33.3%
<b>Italy</b>			
Mobile telephony	4.9	7.0	42.9%
Mobile internet and data	0.1	0.4	300.0%
Other revenues <sup>(8)</sup>	0.2	0.2	0.0%
<b>Other<sup>(9)</sup></b>			
DTH	13.7	3.8	-72.3%
Other revenues	0.1	0.0	-100.0%
<b>Total Revenues</b>	<b>661.6</b>	<b>750.1</b>	<b>13.4%</b>
Gain on sale of discontinued operations	9.6	20.9	117.7%
<b>Total revenues and total other income</b>	<b>671.2</b>	<b>771.0</b>	<b>14.9%</b>

N.M – not meaningful

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	(euro in millions)	
<b>Revenues (excluding intersegment revenues)</b>		
Romania	469.7	540.1
Hungary	119.1	125.9
Spain	54.0	72.7
Italy	5.1	7.5
Other <sup>(9)</sup>	13.8	3.8
<b>Total</b>	<b>661.6</b>	<b>750.1</b>

## OTHER OPERATING DATA

	<b>As at and for the year ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2015</b>
<b>RGUs per line of business<sup>(10)</sup> (in thousands)</b>		
Cable TV	3,010	3,170
Fixed Internet and data	2,181	2,358
Fixed-line telephony	1,771	1,741
Mobile telephony <sup>(11)</sup>	1,859	2,456
Mobile internet and data <sup>(12)</sup>	948	1,077
DTH	1,189	992
<b>Total</b>	<b>10,958</b>	<b>11,794</b>
<b>ARPU per line of business<sup>(13)</sup> (€)</b>		
Cable TV	5.39	5.50
Fixed Internet and data residential	5.60	5.56
Fixed Internet and data business	42.99	39.13
Fixed-line telephony residential	1.57	1.37
Fixed-line telephony business	4.55	3.62
Mobile telephony	3.88	4.99
Mobile internet and data	2.47	3.10
DTH	5.86	5.86

- (1) Includes our operations in Czech Republic, disposed of in April 2015 and additional proceeds from Slovakia disposal (disposed of in 2013)
- (2) We calculate EBITDA by adding back to consolidated operating profit/(loss) our charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is defined as EBITDA adjusted for the effect of non-recurring and one-off items. EBITDA and Adjusted EBITDA under our definition may not be comparable to similar measures presented by other companies and labeled "EBITDA." We believe that EBITDA and Adjusted EBITDA are useful analytical tools for presenting a normalized measure of cash flows that disregards temporary fluctuations in working capital, including due to fluctuations in inventory levels and due to timing of payments received or payments made. Since operating profit and actual cash flows for a given period can differ significantly from this normalized measure, we urge you to consider these figures for any period together with our data for cash flows from operations and other cash flow data and our operating profit. You should not consider EBITDA or Adjusted EBITDA a substitute for operating profit or cash flows from operating activities.

Our calculation of EBITDA can be reconciled to our income statement as follows:

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2015</b>
	(euro in millions)	
Operating profit	48.3	70.3
Depreciation, amortization and impairment	192.1	187.9
One off transactions*	(9.6)	(20.9)
<b>Adjusted EBITDA (as defined)</b>	<b>230.8</b>	<b>237.4</b>

\* Gain on sale of discontinued operations

- (3) We define EBITDA margin as the ratio between Adjusted EBITDA and the sum of total revenues and other income.
- (4) For accuracy purposes, in 2015 a reallocation of service revenues between business lines was made. 2014 comparative was restated on comparable basis.
- (5) Other revenues in Romania consist primarily of sale of handsets and other equipment, the advertising sold on our own channels, proceeds from sales of assets.

- (6) Other revenues in Hungary consist primarily of fees we receive from other TV operators which carry our “Digi Sport” channel and advertising sold on our “Digi Sport” channels and revenues from network management agreements with smaller local cable and internet providers that we sometime undertake.
- (7) Other revenues in Spain consists primarily of sale of mobile telephone handsets.
- (8) Other revenues in Italy consists primarily of sale of mobile telephone handsets.
- (9) Includes our operations in Czech Republic, disposed of in April 2015.
- (10) RGUs, or revenue generating units, represent the number of customer accounts at period end. A single customer can account for several RGUs. See “*Presentation of Financial and Other Data—Operating and Market Data.*”
- (11) As of December 31, 2015, the definition for RGU for mobile telephony in Italy was revised to contain only cards having traffic in the last of the reported period. 2014 comparative was restated accordingly.
- (12) As of December 31, 2015 we have revised the definition of Mobile Internet RGU. Comparative as of December 31, 2014 was restated accordingly. See “*Presentation of Financial and Other Data—Operating and Market Data.*”
- (13) We use the term ARPU to refer to the average monthly revenue per RGU in each business line or country and we calculate it by dividing the total revenue per business line or country for that month, by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is not a standardized measure and can be defined differently by different companies within our industry. You should therefore exercise caution in comparing our ARPUs with those of competitors. See “*Presentation of Financial and Other Data—Operating and Market Data.*” 2014 ARPU comparative was restated, taking into account the revenues per business line reallocations and revision of RGU for mobile internet and data and mobile telephony.

<b>Group</b>	<b>As at and for the year ended December 31</b>	
	<b>2014</b>	<b>2015</b>
Total RGUs (in thousands) <sup>(1)</sup>	10,958	11,794
ARPU (EUR/RGU/Month) <sup>(2)</sup>	4.69	4.90
<b><u>Continuing Operations</u></b>		
<b>Romania</b>		
<b><i>Cable TV</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 1<sup>st</sup></i> ) <sup>(3)</sup>	2,599	2,733
ARPU (EUR/RGU/Month) <sup>(2)</sup>	5.12	5.22
<b><i>Fixed internet and data</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 1<sup>st</sup></i> ) <sup>(3)</sup>		
Residential	1,745	1,873
Business	89	103
ARPU (EUR/RGU/month) <sup>(2)</sup>		
Residential	5.21	5.13
Business	42.99	39.13
<b><i>Fixed-line telephony</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 2<sup>nd</sup></i> ) <sup>(3)</sup>		
Residential	1,346	1,287
Business	124	127
ARPU (EUR/RGU/Month) <sup>(2)</sup>		
Residential	1.41	1.26
Business	4.55	3.62
<b><i>Mobile telephony</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 4<sup>th</sup></i> ) <sup>(3)</sup>	1,388	1,906
ARPU (EUR/RGU/Month) <sup>(2)</sup>	1.78	3.43
<b><i>Mobile internet and data</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <sup>(8)</sup> )	739	810
ARPU (EUR/RGU/Month) <sup>(2)</sup> ( <sup>(8)</sup> )	1.74	1.98
<b><i>DTH</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 2<sup>nd</sup></i> ) <sup>(3)</sup>	725	674
ARPU (EUR/RGU/Month) <sup>(2)</sup>	4.71	4.84
<b>Hungary</b>		
<b><i>Cable TV</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 3<sup>rd</sup></i> ) <sup>(3)</sup>	411	437
ARPU (EUR/RGU/Month) <sup>(2)</sup>	7.11	7.23
<b><i>Fixed internet and data</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 3<sup>rd</sup></i> ) <sup>(3)</sup>	347	382
ARPU (EUR/RGU/Month) <sup>(2)</sup>	7.55	7.67
<b><i>Fixed-line telephony</i></b>		
RGUs (in thousands) <sup>(1)</sup> ( <i>market position: 4<sup>th</sup></i> ) <sup>(3)</sup>	301	327
ARPU (EUR/RGU/Month) <sup>(2)</sup>	2.36	1.85

	<b>As at and for the year ended December 31</b>	
	<b>2014</b>	<b>2015</b>
<b>Mobile internet and data</b> <sup>(4)</sup>		
RGUs (in thousands) <sup>(1)</sup>	19	16
ARPU (EUR/RGU/Month) <sup>(2)</sup>	6.54	6.62
<b>DTH</b>		
RGUs (in thousands) <sup>(1)</sup> <b>(market position: 2<sup>nd</sup>)</b> <sup>(3)</sup>	330	318
ARPU (EUR/RGU/Month) <sup>(2)</sup>	7.60	7.75
<b>Spain</b> <sup>(5)</sup>		
<b>Mobile telephony</b>		
RGUs (in thousands) <sup>(1)</sup>	423	491
ARPU (EUR/RGU/Month) <sup>(2)</sup>	9.94	9.63
<b>Mobile internet and data</b>		
RGUs (in thousands) <sup>(1)</sup>	187	244
ARPU (EUR/RGU/Month) <sup>(2)</sup>	5.54	6.72
<b>Italy</b> <sup>(6)</sup>		
<b>Mobile telephony</b>		
RGUs (in thousands) <sup>(1)(9)</sup>	48	59
ARPU (EUR/RGU/Month) <sup>(2)(9)</sup>	7.69	10.65
<b>Mobile internet and data</b>		
RGUs (in thousands) <sup>(1)</sup>	3	7
ARPU (EUR/RGU/Month) <sup>(2)</sup>	5.01	6.77
<b><u>Discontinued Operations</u></b>		
<b>Czech Republic</b> <sup>(7)</sup>		
<b>DTH</b>		
RGUs (in thousands) <sup>(1)</sup>	134	N.M.
ARPU (EUR/RGU/Month) <sup>(2)</sup>	7.88	N.M.

Sources: Company data

- (1) RGUs, or revenue generating units, represent the number of customer accounts at period end. A single customer can account for several RGUs. See “Presentation of Financial and Other Data—Operating and Market Data.”
- (2) We use the term ARPU to refer to the average monthly revenue per RGU in each business line or country and we calculate it by dividing the total revenue per business line or country for that month, by the total number of RGUs for that business line or country invoiced for services in that month, without differentiating between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is not a standardized measure and can be defined differently by different companies within our industry. You should therefore exercise caution in comparing our ARPUs with those of competitors. See “Presentation of Financial and Other Data—Operating and Market Data.”
- (3) According to our estimates, calculated using our internal RGU records and RGU published data of our competitors
- (4) Services provided as a reseller, selling services which utilize the Telenor network under our “Digi” brand.
- (5) Services provided as an MVNO in Spain.
- (6) Services only provided as an MVNO in Italy.
- (7) Our operations in Czech Republic were sold in April 2015.
- (8) As of December 31, 2015 we have revised the definition of Mobile Internet RGU. Comparative as of December 31, 2014 was restated accordingly. See “Presentation of Financial and Other Data—Operating and Market Data.” 2014 comparative ARPU was restated.
- (9) As of December 31, 2015, the definition for RGU for mobile telephony in Italy was revised to contain only cards having traffic in the last of the reported period. 2014 comparative was restated accordingly. 2014 comparative ARPU was restated.

## **5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for the year ended December 31, 2015**

*The following discussion and analysis of the financial condition and results of operations of the Cable Communications Systems (the Company) and its subsidiaries should be read in conjunction with "Presentation of Financial and Other Data" and "Selected Financial and Other Information" elsewhere in this annual report. The following discussion should also be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at and for the year ended December 31, 2015 (which includes comparative information as at and for the year ended December 31, 2014), prepared in accordance with IFRS and included elsewhere in this annual report.*

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

### **OVERVIEW**

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

For the year ended December 31, 2015, we had total revenues of €750.1 million, net profit of €4.0 million and Adjusted EBITDA of €237.4 million.

### **RECENT DEVELOPMENTS**

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

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

At the beginning of April 2015 we signed a contract for the sale of our Czech subsidiary. The closing took place on April 21, 2015. We received €24.5 million net of cash disposed and we expect to incur additional transaction related costs out of which €4.3 million are accrued for.

On May 22, 2015 we refinanced our 2013 Senior Facilities Agreement through a new club bank facility (the 2015 Senior Facilities Agreement which was signed on 30<sup>th</sup> April 2015). Total amount drawn under the 2015 Senior Facilities Agreement was RON 1,034 million (the equivalent in RON of €235 million at the exchange rate of 4.4 RON/EUR). The interest rate for the term loan facility (RON 994.2 million) is 5.75% fixed through interest rate swaps and for the revolver credit facility (RON 39.8 million) is floating ROBOR + 2.5%. On October 30, 2015 we have repaid the first principal installment in amount of RON 99.4 million (the equivalent in RON of €22 mil at the exchange rate as at 31 December 2015). On 29<sup>th</sup> December 2015 we have drawn an additional RON105.4 million (the equivalent in RON of €23.3 mil at the exchange rate as at 31 December 2015) from the term loan and the revolver credit. The interest rate for the additional amount drawn is fixed at 5.50% through interest rate swaps for the term loan facility portion and floating ROBOR + 2.5% for the revolver credit portion.

Starting with the beginning of 2015, we launched an offer for energy supply to business clients. The energy sold is from our own production capacities and/or purchased on the open market. Starting with the beginning of 2016 our offer was extended to the residential segment as well.

On December 22, 2014 we signed the contract for the acquisition of three radio stations in Romania. In February 2015 the National Audiovisual Council approved the transfer of the radio licenses. The transaction was closed on May 29, 2015.

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

In July we acquired the football rights for the Romanian territory for the Spanish La Liga competition for three seasons starting with the 2015/2016 season.

At the end of July 2015 we signed a contract with 2K Telecom to purchase 30 Mhz in 4G spectrum (in the 2600 Mhz bandwidth). At the end of October 2015 we have participated in auction and acquired from ANCOM 10



unpaired blocks of 5 MHz in the 3700 MHz bandwidth. These licenses will allow the developing of a 4G mobile telephony network in Romania. In October 2015 we launched 4G services to our mobile subscribers, which we continue to develop.

## BASIS OF FINANCIAL PRESENTATION

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

### Functional Currencies and Presentation Currency

Each of our Group entities prepares its individual financial statements in the currency of the primary economic environment in which it operates; this local currency is the functional currency of the entity.

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

### Segments

Our board of directors evaluates business and market opportunities and considers our results primarily on a country by country basis. As such, we report our results of operations in accordance with four geographic segments: Romania, Hungary, Spain and Other, which includes Italy and our operations in the Czech Republic (disposed in April 2015).

The revenue for each of our reporting segments in the year ended December 31, 2015 was as follows:

- Romania: In the year ended December 31, 2015, our Romania segment generated €540.1 million (excluding intersegment revenues of €1.6 million) of revenue, or 72.0% of our total revenue
- Hungary: In the year ended December 31, 2015, our Hungary segment generated €125.9 million of revenue, or 16.8% of our total revenue.
- Spain: In the year ended December 31, 2015, our Spain segment generated €72.7 million (excluding intersegment revenues of €1 million) of revenue, or 9.7% of our total revenue.
- Italy: In the year ended December 31, 2015, our Italy segment generated €7.5 million of revenue, or 1% of our total revenue.
- Other: In the year ended December 31, 2015, our Other segment generated €3.8 million of revenue, or 0.5% of our total revenue.

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

## TRENDS AND OTHER FACTORS IMPACTING OUR RESULTS OF OPERATIONS

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

### General Economic Environment in Our Key Markets

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

Some of the markets in which we operate were adversely and materially impacted by the recent economic crisis in the past few years. The following table shows the real gross domestic product ("GDP") growth in each of Romania, Hungary and Spain for the period beginning January 1, 2009 and ending December 31, 2015:

	2009	2010	2011	2012	2013	2014	2015
	<b>Real GDP growth/(contraction) in %</b>						
Romania	-7.1	-0.8	1.1	0.6	3.4	3.0	3.6*
Hungary	-6.6	0.8	1.8	-1.5	1.5	3.7	2.7*
Spain	-3.6	0.0	-0.6	-2.1	-1.2	1.4	3.2*

*\*forecast*

Source: European Commission - <http://ec.europa.eu>

The effect of the global economic downturn on our business was primarily related to the impact of the

depreciation of our main functional currencies in relation to the euro, our presentation currency. See “*Exchange Rates*.” The economic crisis also increased the competitive pressures we face in our core jurisdictions. In addition, the economic crisis increased the difficulty of obtaining external financing. Partially as a result of this, we decreased capital expenditures on our DTH services, and instead focused on maintaining and increasing capital expenditures for the upgrade and expansion of our fiber optic network in Romania and Hungary.

In recent years, governments in all of the jurisdictions where we operate have increased VAT or similar taxes and introduced new taxes in order to compensate for the decrease in revenues to the state budgets caused by the economic crisis. Outside of Romania, Spain and Italy, we have made the commercial decision not to change our prices (which are VAT inclusive) for cable TV, DTH and internet and data services, thus effectively decreasing them to compensate for the effect of the VAT increase. In Spain, the tariffs per minute for voice services are exclusive of VAT and consequently, the increases in VAT resulted in an automatic increase of the amount paid by the customers. In 2010, the Hungarian government, in addition to increasing VAT, imposed a “special crisis tax” on certain sectors, including telecommunications, which required us to pay an additional tax of approximately 6% on our revenues in Hungary for the years ended December 31, 2010, 2011 and 2012 and introduced additional new taxes on telephone calls and text messages in July 2012. We have increased our tariffs in Hungary to pass along the cost of the new taxes on telephone calls and text messages to subscribers. The “special crisis tax” was replaced by two lower taxes, one on infrastructure and the other on financial transactions, at the end of 2012. In addition to these taxes, a new tax, in effect since July 2012, was introduced in Hungary. The new tax is paid monthly and is levied on a per minute basis on voice calls and per each SMS/MMS sent. These taxes amounted to approximately 3% of our revenues in Hungary starting in 2013 and we expect the same level also for the future.

In Romania, in November 2013, the Government introduced a number of fiscal measures to increase budget revenues, including a new tax on special constructions, including telecommunication networks. The tax was applicable starting with January 1, 2014 and amounted to an annual rate of 1.5% applicable to the gross inventory value as at 31 December of the previous year of certain constructions pertaining to telecommunication networks including, without limitation, pillars, circuits, cables, connections, platforms and towers. Starting with January 1, 2015, the tax was reduced to 1%. The tax on special constructions (including networks) will be discontinued starting with January 2017. Although deductible for the purposes of calculating corporate income tax, this new tax has led to an increase in our costs and has negatively affected our cash flow. For 2015, total expenditure related to this tax was approximately 0.6% of our revenues in Romania.

Several changes to the Romanian tax legislation (both the fiscal and the fiscal procedure code) were enacted by the Romanian Parliament in July 2015 (the fiscal procedure code) and in September 2015 (the fiscal code) and entered into force starting January 2016. The changes aim at reducing the level of some fiscal burdens (such as the progressive cut of the VAT level from 24% to 20% starting January 2016 and to 19% starting January 2017; the decrease of the dividend tax from 16% to 5% starting January 2017, the abolition of some fuel excise, etc.), while increasing several other taxes (e.g., the raise of the currently applicable level of the social security taxes for individual professional revenues in Romania; the increase of the real estate taxation, etc.).

Despite the relatively adverse global economic conditions, our results remained resilient during the period under review. On a constant currency basis, our revenues increased from €661.6 million in the year ended December 31, 2014 to €750.7 million in the year ended December 31, 2015 (by reference to 2014 average exchange rates) mainly as a result of sale of handsets and other equipment and energy in Romania. In our main two territories, Romania and Hungary, on a constant currency basis, our revenues increased from €590.1 million in the year ended December 31, 2014 to €668.2 million in the year ended December 31, 2015 (by reference to 2014 average exchange rates). The number of RGUs for services using our fiber optic networks in our core jurisdictions of Romania and Hungary grew, from 7.0 million at December 31, 2014 to 7.3 million at December 31, 2015.

### **Technical Capabilities and Limitations of Our Networks**

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

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

We started construction of our 3G mobile telephony infrastructure in Romania at the beginning of 2007 and launched our 3G mobile telephony service in October 2007. Our 3G networks generally share the backbone of our existing fiber optic national network covering the territory of Romania. We have gradually expanded the area covered by our services in order to reach more potential subscribers and meet the coverage obligations under our 2100 MHz license. As of December 31, 2015, we had approximately 2,100 base stations in place covering approximately 94% of the Romanian population and approximately 6,500 kilometers of coverage along main roads. We intend to continue to increase the coverage of our 3G mobile telephony service. Given the current penetration rates for mobile telephony in Romania (approximately 128.7% at June 30, 2015 according to ANCOM) and the established customer bases of some of our competitors, our primary goal is to achieve growth in RGUs and revenues as a complement to our other business lines by leveraging our existing customer relationships and, secondarily, to expand our mobile telephony and mobile internet data businesses on a standalone basis, using our acquired licenses.

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

Our DTH satellite television services are not constrained geographically in the same manner as our other services, as the footprint of our existing satellite coverage encompasses the entire territories of Romania 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

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

In recent years, the values of local currencies in the principal countries where we operate have fluctuated significantly relative to the euro, our presentation currency, and the U.S. dollar. We have significant exposure to both currencies as we purchase certain content for our cable TV and DTH businesses in U.S. dollars and euros. In the year ended December 31, 2015, the Romanian leu declined 0.2% relative to the euro and 19.7% relative to the U.S. dollar, and the Hungarian forint declined 0.4% relative to the euro and 20.3% relative to the U.S. dollar.

While our operations in Spain and Italy generate revenues exclusively in euros, and for the years ended December 31, 2014 and 2015 approximately 23.4% and 29.1% of our revenues were generated in euros, respectively (corresponding to our mobile telephony, mobile internet and data, and business subscribers utilizing our fixed internet and data services), we pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenues generated in local currencies. As a result, the euro and the U.S. dollar’s appreciation resulted in transactional losses from foreign exchange rates in relation to our operations in Romania, Hungary.

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

Revenues (euro in millions)	For the year ended December 31,		
	2014	2015	2015 <sup>(1)</sup>
	Actual	Actual	Constant currency
Romania	471.1	541.8	541.8
Hungary	119.1	125.9	126.4
Spain	54.8	73.8	73.8
Other	18.9	11.4	11.4
Eliminations of intersegment revenues	(2.2)	(2.71)	(2.71)
<b>Total</b>	<b>661.6</b>	<b>750.1</b>	<b>750.7</b>

(1) By reference to 2014 average exchange rates.

In the discussion of changes in our results of operations from period to period set forth below, we present

certain revenues data on a constant currency basis.

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

The following table sets out the period end and average exchange rates for the years 2013, 2014 and 2015 of the euro against each of our local functional currencies, in each case as reported by the relevant central bank on its website (unless otherwise stated):

	<b>As at and for the year ended December 31</b>		
	<b>Value of one euro in the relevant currency</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Romanian leu (RON)</b>			
Period end rate	4.48	4.48	4.52
Average rate	4.42	4.44	4.45
<b>Hungarian forint (HUF)</b>			
Period end rate	296.91	314.89	313.12
Average rate	297.01	308.66	309.89
<b>Czech koruna (CZK)</b>			
Period end Rate	27.43	27.73	N.R.
Average rate	25.99	27.53	27.58 <sup>(3)</sup>
<b>Serbian dinar (RSD)</b>			
Period end rate	111.61 <sup>(1)</sup>	N.R.	N.R.
Average rate	111.50 <sup>(1)</sup>	N.R.	N.R.
<b>Croatian kuna (HRK)</b>			
Period end rate	7.58 <sup>(1)</sup>	N.R.	N.R.
Average rate	7.58 <sup>(1)</sup>	N.R.	N.R.
<b>United States Dollar (USD)<sup>(2)</sup></b>			
Period end rate	1.38	1.21	1.09
Average rate	1.33	1.33	1.11

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

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

(3) For CZK the rates presented as average for the year 2015 are the rates valid as of and up until the dates the Czech subsidiaries was disposed of.

In 2015, we had a net foreign exchange loss of €5.5 million. In 2014, we had an overall net foreign exchange loss of €2.6 million. In each of those periods, our net foreign exchange loss was due to the depreciation of the Romanian leu against the euro and the U.S. dollar, the currencies in which our borrowings are generally denominated. See “—*Liquidity and Capital Resources—Financial Obligations.*” Borrowings in foreign currencies are recorded in the functional currency of the relevant entity at the rate of exchange prevailing on the date of the transaction and re-evaluated to reflect changes in the exchange rate each month.

## Competition

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

## Growth in Business, RGUs and ARPU

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

Our customer base has grown from approximately 9.8 million RGUs at December 31, 2011 to approximately 11.79 million RGUs at December 31, 2015. The increase in RGUs during that period was principally due to the increase in mobile customers, expansion of our fiber optic network coverage, increases in the quality of our services as a result of upgrades to our fiber optic network and our strategy of acquiring premium content for our own channels. Growth in RGUs is the primary driver of growth in revenues. Increases in the number of customer accounts are dependent on network development and investments made for subscriber acquisition. These investments consist of CPE (such as GPON terminals, set-top boxes, mobile data devices and fixed-line phones handsets, satellite dishes and satellite receivers and smartcards), network build-up and upgrade costs and installation costs. Due to periods of high investment in network equipment, the depreciation charges associated with these investments can result in decreases in our operating profit even when our revenues and EBITDA increase during the same period.

The following table shows our RGUs and monthly ARPU by segment and business as at and for the years ended December 31, 2014 and 2015. ARPU figures are not shown on a constant currency basis.

	RGUs (in thousands)			ARPU (EUR/RGU/month)		
	As at and		% change	For the year ended		% change
	December 31	December 31		December 31	December 31	
	2014	2015		2014	2015	
<b>Romania</b>						
<i>Cable TV</i>	2,599	2,733	5.2%	5.12	5.22	2.0%
<i>Fixed Internet and data</i>						
Residential	1,745	1,873	7.3%	5.21	5.13	-1.5%
Business	89	103	15.7%	42.99	39.13	-9.0%
<i>Fixed-line telephony</i>						
Residential	1,346	1,287	-4.4%	1.41	1.26	-10.6%
Business	124	127	2.4%	4.55	3.62	-20.4%
<i>Mobile telephony</i> <sup>(1)</sup>	1,388	1,906	37.3%	1.78	3.43	92.7%
<i>Mobile internet and data</i> <sup>(1)</sup>	739	810	9.6%	1.74	1.98	13.8%
<i>DTH</i>	725	674	-7.0%	4.71	4.84	2.8%
<b>Hungary</b>						
<i>Cable TV</i>	411	437	6.3%	7.11	7.23	1.7%
<i>Fixed internet and data</i>	347	382	10.1%	7.55	7.67	1.6%
<i>Fixed-line telephony</i>	301	327	8.6%	2.36	1.85	-21.6%
<i>Mobile internet and data</i> <sup>(2)</sup>	19	16	-15.8%	6.54	6.62	1.2%
<i>DTH</i>	330	318	-3.6%	7.60	7.75	2.0%
<b>Spain</b>						
<i>Mobile telephony</i> <sup>(3)</sup>	423	491	16.1%	9.94	9.63	-3.1%
<i>Mobile internet and data</i> <sup>(3)</sup>	187	244	30.5%	5.54	6.72	21.3%
<b>Italy</b>						
<i>Mobile telephony</i> <sup>(4)</sup>	48	59	22.9%	7.69	10.65	38.5%
<i>Mobile internet and data</i> <sup>(4)</sup>	3	7	133.3%	5.01	6.77	35.1%
<b>Other (Discontinued Operations Czech Republic)</b>	134	N.M	-100.0%	7.88	N.M	0%
<i>DTH</i> <sup>(5)</sup>						

(1) As of December 31, 2015 we have revised the definition of Mobile Internet and data RGU. Comparative as of December 31, 2014 was restated accordingly. See “*Presentation of Financial and Other Data—Operating and Market Data.*” As of December 31, 2015, the definition for RGU for mobile telephony in Italy was revised to contain only cards having traffic in the last of the reported period. 2014 RGU and ARPU comparatives were restated accordingly. As at 31 December 2015 a reallocation of service revenues between business lines was made in order to present properly the nature of each type of revenues. For the purpose of this presentation, the ARPU comparatives as at 31 December 2014 were restated accordingly.

(2) As a reseller, selling services which utilize the Telenor network under our “Digi” brand.

(3) As an MVNO.

(4) As an MVNO.

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

N.M – not meaningful

Our total revenues may not always grow in direct proportion with the increase in number of RGUs. In part, these variations reflect the fact that ARPU differs from business line to business line. In addition, our business strategy for the past three years focused, and currently continues to focus, on increasing the number of services we sell to each customer (therefore increasing RGUs) while maintaining our EBITDA margin rather than on maximizing ARPU per business line. We try to ensure increased profitability in each business line by careful management of costs (through negotiation of content fees, interconnection costs and similar expenses, use of newer technologies for improved results of operations and, where possible, by conducting certain operations and investment related activities in-house to achieve cost efficiencies) rather than relying on a strategy of regular price increases to increase revenue.

Our approach reflects the relatively wide range of our business and our ability to offer multiple services to our customer base. As of December 31, 2015, our residential customers in Romania (excluding DTH customers) subscribed to an average of 2.76 of our services (out of five services), an increase compared with 2014, when the average was 2.70.

The following table shows the evolution of our RGUs by service line since 2011:

	2011	2012 <sup>(1)</sup>	2013	2014 <sup>(2)(3)</sup>	2015
	in thousands				
Cable TV	2,471	2,763	2,855	3,010	3,170
Fixed internet and data	1,640	1,870	2,012	2,181	2,358
Fixed-line telephony	1,780	1,814	1,807	1,771	1,741
Mobile telephony <sup>(3)</sup>	1,506	1,466	1,458	1,859	2,456
Mobile internet and data <sup>(3)</sup>	474	642	794	948	1,077
DTH	1,977	1,780	1,319	1,189	992
<b>Total</b>	<b>9,848</b>	<b>10,335</b>	<b>10,245</b>	<b>10,958</b>	<b>11,794</b>

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

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

(3) As of December 31, 2015 we have revised the definition of Mobile Internet and data RGU. Comparative as of December 31, 2014 was restated accordingly. See “*Presentation of Financial and Other Data—Operating and Market Data.*” As of December 31, 2015, the definition for RGU for mobile telephony in Italy was revised to contain only cards having traffic in the last of the reported period. 2014 RGU and ARPU comparatives were restated accordingly.

Cable TV RGUs increased from 2.47 million RGUs at December 31, 2011, to 3.17 million RGUs at December 31, 2015, an increase of 28% between 2011 and 2015. Fixed internet and data RGUs increased from 1.64 million RGUs at December 31, 2011 to 2.36 million RGUs at December 31, 2015, an increase of 44% between 2011 and 2015.

## Churn

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

- we believe our network services, particularly in the cable TV, fixed internet and fixed-line telephony services and DTH business lines, tend to be viewed by our customers as basic services rather than luxuries and, therefore, are among the last expenses customers eliminate in times of decreasing disposable income;

- we believe that customers who subscribe to multiple services are less likely to leave our services. In Romania, the average number of services per residential customer in Romania was 2.76 (excluding DTH) and the percentage of customers using more than one service was 77% as at December 31, 2015. In Hungary, the average number of services per network customer was 2.3 and the percentage of customers using more than one service was

79% as at December 31, 2015; and

- our attractive pricing and relatively advanced technology compared to our competitors in Romania and Hungary and our premium content offerings often make it unattractive to replace our services with those offered by our competitors.

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

## Capital Expenditure

Historically, we have pursued an ambitious growth strategy that required us to undertake substantial capital expenditure. The focus of our investment spending over the last few years has been (i) the upgrade and expansion of our fiber optic network in Romania and Hungary (over 90% of our Romanian and Hungarian FTTH/ FTTB networks have been upgraded to GPON or comparable technology), (ii) the expansion of our mobile network coverage in Romania (including the acquisition of a license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum in Romania in April 2014), (iii) the expansion of our 4G mobile network coverage in Romania (including the acquisition 2600 Mhz bandwidth and 3700 MHz bandwidth), (iv) the creation and development of our own television channels, (v) the creation and expansion of our MVNO services in Spain (which began operating in 2008) and Italy (which began operating in 2010) and (vi) the associated subscriber acquisition costs for all our business lines. Consequently, during this rapid growth phase, our capital expenditures have been significant. In 2015, we had capital expenditure of €197.6 million, which was lower than our Adjusted EBITDA by €39.7 million. In 2014, we had capital expenditure of €214.8 million, which was lower than our Adjusted EBITDA by €16.0 million.

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

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

- the expansion of our fiber optic networks;
- payments for the acquisition of television content rights and licenses;
- the acquisition of CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE by other members of our industry), and other equipment such as set-top boxes, mobile data devices and fixed-line telephone handsets, satellite dishes, satellite receivers and smartcards;
- the build-up and expansion of our 3G & 4G mobile telecommunications network in Romania; and
- payments under telecommunication licenses.

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

## Acquisitions and Divestitures

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

At the beginning of April 2015 we signed a contract for the sale of our Czech subsidiary. The closing took place on April 21, 2015. At closing we received €24.5 million net of cash disposed and we expect to incur additional transaction related costs, out of which €4.3 million are accrued for.

These disposals were intended to streamline our operations and further focus our business on our core

markets of Romania and Hungary.

During the years ended December 31, 2014 and 2015, we acquired a number of small telecommunications operators in Romania. See “—*Liquidity and Capital Resources—Historical Cash Flows—Cash used in investing activities.*”

## **REVENUE AND COST STRUCTURE OF OUR PRINCIPAL LINES OF BUSINESS**

In addition to our geographic segments, we provide certain data by business line. In general, for each of our lines of business, we earn revenues from subscription fees received from our customers and incur costs that include licensing, programming and content fees, customer service, network operation and maintenance expenses. However, the structure of our revenues and expenses differs in each of our principal lines of business.

In Romania, subscribers pay for our services other than DTH primarily through our collection points. Since our DTH customers in Romania are generally located in rural areas, we collect DTH subscription fees primarily through third party collection agents. In Hungary, we collect subscription fees mainly through local post offices and banks. In Czech Republic, subscribers pay for services primarily through banks, and local post offices and, in Spain and Italy third parties through which we sell access to our mobile telephony and mobile internet and data services. Overall, only a small proportion of customers pay for services via bank transfer. We have a network of 318 collection and sales points in Romania and 38 in Hungary. In addition to collecting subscription fees, our collection point operators also assist customers in signing new agreements, modifying their subscription choices or terminating their subscriptions. Our cash collection points accept payments for all of the services that we offer in each market.

### **Cable TV Services**

For our cable TV business, we purchase programming that we receive by satellite or via terrestrial fiber optic links at our receiving stations in Romania. We then retransmit this programming on a local basis via fiber optic network to the homes or workplaces of our customers. Our cables are directly connected to television sets without any need for decoder boxes. The upgrade to digital service, however, requires decoder boxes. We lend these boxes to customers who subscribe to our digital services for the duration of their subscriptions.

The revenue we receive for cable TV services consists principally of flat-rate monthly subscription fees in local currencies. The price of this flat-rate service varies, depending on the programming package the customer chooses.

The costs we record for cable TV services consist principally of fees that we pay to providers of programming, license fees that we pay for content of the television channels we operate, and personnel expenses (consisting in large part of the salaries we pay to personnel that operate and maintain our network, personnel used to operate of our own channels and our sales personnel). We also record significantly smaller amounts for copyright payments to the national bodies representing collective artists' rights under the laws of the countries in which we operate; rights of way for our cables, which we record as “network rents”; maintenance and repair of our network; transportation and fuel expenses of our cable TV staff; and other miscellaneous amounts. We capitalize the cost of installing and upgrading our network (except for maintenance and repairs). We depreciate the recorded assets of our fiber optic network over 15 years and we depreciate the recorded costs of other equipment and devices over 3 to 12 years.

We capitalize the cost of acquiring programming for our own channels and amortize those assets over the period they relate to on a straight line basis. Costs for acquiring content programming distributed through our own channels are accounted for as a capital expenditure because such rights are generally either exclusive or shared with one other party and we acquire such rights to attract and retain customers. Our programming costs that are accounted for as operating expenses generally vary directly with our number of RGUs, as a significant part of our programming agreements link programming fees paid to content owners to the number of our subscribers in the relevant territory.

In recent years we have significantly expanded our fiber optic network into areas we did not previously cover, including areas already covered by the networks of our competitors. We plan to focus on increasing penetration of our services in the areas served by our existing fiber optic networks. We may achieve increases in the results of our cable operations driven by:

- increased penetration among households currently passed by our network;
- continued expansion of our fiber optic network to areas that we do not currently cover;
- migration of some existing customers to more expensive, higher level subscription packages;
- switch-over from customers of our competitors;
- acquisition of small operators on an opportunistic basis; and



- cross-selling – uptake of more services by our existing customers.

### Fixed Internet and Data Services

The revenues we receive for internet and data services consist principally of monthly connection fees. We service both residential and business customers. Residential customers generally sign contracts with fees in local currencies, while business customers generally sign contracts with fees in euros. The market for business customers is more competitive, and, as a result, average revenue per subscriber for our business customers can vary significantly over time. We offer various levels of internet and data services according to customers' needs. See *"Business—Our Services Offerings—Fixed Internet and Data."* Some of our business customers purchase data transmission services that allow several offices within their organizations to communicate with each other. We are able to provide these services effectively since we operate national fiber optic networks of approximately 77,056 km in Romania, connecting almost all cities in Romania, and approximately 8,432 km in Hungary, providing international connectivity between our networks in Romania and Hungary and neighboring countries.

Costs recorded for internet and data services consist principally of personnel expenses and related expenses of our service and maintenance staff (recorded as "salaries and related taxes"), as well as interconnection and transmission fees (collectively recorded as "internet connection and related services"). We also record substantially smaller amounts for maintenance and repair of the network and rights of way for the network, energy costs related to the operation of the network and collection costs.

### Fixed-Line Telephony Services

We provide fixed-line telephony services mainly through our fiber optic network, which interconnects with the land-line and mobile systems of other domestic and international service providers in Romania. Most of our customers connect with our network through an FTTB/FTTH connection that does not require additional transmission equipment. We also offer fixed-line telephony services in areas not serviced by our fiber optic network via a wireless connection with our 3G network.

The revenues we receive for fixed-line telephony services consist principally of per-minute telephone charges. In Romania, charges are set in euro and customers are invoiced in Romanian leu. In Hungary, charges are set and customers are invoiced in Hungarian forint. We also derive revenue from monthly service fees and interconnection fees that we receive from other service providers whose customers call our customers. We do not charge for calls to other telephone numbers within our fixed-line and mobile telephony networks in the same country.

Costs incurred in relation to fixed-line telephony services consist principally of interconnection fees paid to other service providers whose customers are called by our customers. We also record smaller expenses for personnel expenses.

### Mobile Telephony and Mobile Internet and Data

The revenues that we receive for mobile telephony services in Romania consist of a monthly subscription fee in set euros (customers are invoiced in Romanian leu), per-minute telephone charges, and to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers and charges for SMS messages. We do not charge for calls to other telephone numbers within our fixed-line and mobile telephony networks in the same country. For the Spanish and Italian MVNO services, revenues consist mainly of the price of pre-paid SIM cards.

The revenues that we receive for mobile internet and data services in Romania consist of subscription fees, which are set and connected in Romanian leu. We provide mobile internet and data services through our MVNOs in Spain and Italy and as a reseller, selling services which utilize the Telenor network under our "Digi" brand, in Hungary.

Costs recorded in connection with our mobile telecommunications services consist principally of interconnection fees paid to other network operators whose customers are called by our customers. Mobile telephony interconnection fees charged by operators during the periods under review by geography are shown in the below table:

Mobile interconnection fees	Year ended December 31,	
	2014	2015
Romania	3.07 – 0.96	0.96
Spain	1.09	1.09

Our costs also include rental of sites necessary for the operation of our radio network; energy consumed by the network; personnel expenses and related costs of our maintenance and customer service staff; radio spectrum fees payable to the Romanian communications authorities; in Spain, service carry fees that we pay to TME and, in Italy, service carry fees that we pay to H3G Italia, a subsidiary of Hutchison Whampoa Limited. We capitalize the cost of mobile phones, dongles used to connect certain devices to our mobile internet and data services and other CPE that we provide to subscribers in custody. We also capitalize the construction cost of our mobile telephony network and subsequently amortize it over the useful life of the relevant assets (a period of five to nine years for core radio network equipment and radio networks). We offer our mobile telephony and mobile internet and data services on both a post-paid and a pre-paid basis. In Romania, the bulk of our mobile telephony and mobile internet and data RGUs subscribe to our services on a post-paid basis. In Spain, the bulk of our mobile telephony and mobile internet and data RGUs access our services on a pre-paid basis.

## **DTH**

For our DTH services, we purchase programming that we receive by satellite or via terrestrial fiber optic links at our receiving stations in Bucharest and Budapest. Programming reception facilities are shared by our cable TV and DTH operations. This programming is then retransmitted to the IS-10-02 and Thor 6 satellites owned and operated by Intelsat and Telenor, respectively, on which we have rented transmission capacity. Those satellites then convert the frequency of the signals, amplify them and retransmit them to Earth in a manner that allows individual subscribers to receive signals using a satellite receiver. After the customer establishes an account with us, we provide the customer with, and activate, a satellite receiver and a decoding smartcard.

The revenue we receive for DTH services consists principally of monthly subscription fees from customers and, to a lesser extent, activation and other fees in local currencies. The level of subscription fees depends on the programming package chosen by the customer.

In general, we retain ownership of the receiver and decoder, providing this equipment to our customers free of charge or for a monthly rental fee for the duration of their subscription. Customers are obligated to return the receiver and decoder upon termination of their contracts. We also sell DTH equipment, generally at cost, to subscribers who choose to buy the equipment.

Costs recorded in connection with DTH services consist principally of the cost of the programming content offered to our subscribers, license fees paid to the holders of transmission/retransmission rights for sporting events that are broadcasted on our premium sports channels, the expense of operating customer care call centers and the rental costs relating to transmission capacity on the Intelsat and Telenor satellites. The cost of equipment that we provide to subscribers is capitalized as CPE together with the cost of installation services provided by third parties. These are subsequently depreciated over the period that we estimate to be the useful life of the assets, currently five years. We have made limited investments in DTH CPE in recent years.

Our per-transponder satellite costs are denominated in U.S. dollars and fixed until November 2017. Those costs are not subject to any inflation escalation clauses. If we were to require increased transmission capacity (for example, due to increases in the number of programs or the amount of high definition content that we broadcast) satellite costs would increase as that would entail an increase in the number of transponders on which we lease capacity. Our programming costs may increase in connection with an increase in our RGUs, as a significant part of our programming agreements link programming fees paid to content owners to the number of our subscribers in the relevant territory.

The footprint of our present satellite coverage encompasses Romania and Hungary.

## **HISTORICAL RESULTS OF OPERATIONS**

### **Results of Operations for the years ended December 31, 2015 and 2014**

#### ***Revenues***

Our revenues for the year ended December 31, 2015 were €750.1 million, compared with €661.6 million for the year ended December 31, 2014, an increase of 13.4%. On a constant currency basis (by reference to 2014 average exchange rates), our revenues would have grown by an additional €0.5 million to €750.7 million for the year ended December 31, 2015, leading to an increase of 13.5%.

The following table shows the distribution of revenues by country and business line for the year ended December 31, 2014 and 2015:

	For the year ended		% change
	December 31, 2014	2015	
(euro in millions)			
<b>Romania</b>			
Cable TV <sup>(1)</sup>	155.5	166.8	7.3%
Fixed internet and data <sup>(1)</sup>	147.5	155.9	5.7%
Fixed-line telephony	29.8	25.3	-15.1%
Mobile telephony <sup>(1)</sup>	24.7	66.1	167.6%
Mobile internet and data <sup>(1)</sup>	15.7	18.5	17.8%
DTH <sup>(1)</sup>	43.3	40.2	-7.2%
Other revenues <sup>(1)</sup>	53.3	67.2	26.1%
<b>Total</b>	<b>469.7</b>	<b>540.1</b>	<b>15.0%</b>
<b>Hungary</b>			
Cable TV	34.5	36.6	6.1%
Fixed internet and data	30.4	33.4	9.9%
Fixed-line telephony	8.3	6.9	-16.9%
Mobile internet and data	1.6	1.4	-12.5%
DTH <sup>(1)</sup>	30.8	30.5	-1.0%
Other revenues <sup>(1)</sup>	13.5	17.1	26.7%
<b>Total</b>	<b>119.1</b>	<b>125.9</b>	<b>5.7%</b>
<b>Spain</b>			
Mobile telephony <sup>(1)</sup>	43.4	54.5	25.6%
Mobile internet and data	9.9	17.7	78.8%
Other revenues <sup>(1)</sup>	0.6	0.4	-33.3%
<b>Total</b>	<b>54.0</b>	<b>72.7</b>	<b>34.6%</b>
<b>Italy</b>			
Mobile telephony <sup>(1)</sup>	4.9	7.0	42.9%
Mobile internet and data	0.1	0.4	300.0%
Other revenues <sup>(1)</sup>	0.2	0.2	N.M.
<b>Total</b>	<b>5.1</b>	<b>7.5</b>	<b>47.1%</b>
<b>Other<sup>(2)</sup></b>			
DTH	13.7	3.8	-72.3%
Other revenues	0.1	0.0	-100.0%
<b>Total</b>	<b>13.8</b>	<b>3.8</b>	<b>-72.5%</b>
<b>Total</b>	<b>661.6</b>	<b>750.1</b>	<b>13.4%</b>

N.M – not meaningful

(1) As at 31 December 2015 a reallocation of service revenues between business lines was made in order to present properly the nature of each type of revenues. For the purpose of this presentation, the comparatives as at 31 December 2014 were restated accordingly.

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

Revenues (euro in millions)	For the year ended December 31,		
	2014	2015	2015 <sup>(1)</sup>
	Actual	Actual	Constant currency
Romania	471.1	541.8	541.8
Hungary	119.1	125.9	126.4
Spain	54.8	73.8	73.8
Other	18.9	11.4	11.4
Eliminations of intersegment revenues	(2.2)	-2.71	-2.71
<b>Total</b>	<b>661.6</b>	<b>750.1</b>	<b>750.7</b>

(1) By reference to 2014 average exchange rates.

**Revenues in Romania** (including intersegment revenues) for the year ended December 31, 2015 were €541.8 million (including intersegment revenues of €1.6 million) compared with €471.1 million (including intersegment revenues of €1.4 million) for the year ended December 31, 2014, an increase of 15%. On a constant currency basis (by reference to 2014 average exchange rates), our revenues in Romania would have been higher by €0.03 million meaning €541.81 million in the year ended December 31, 2015, an aggregate increase of 15.01% compared to the year ended December 31, 2014. Revenue growth in Romania on a constant currency basis was driven primarily increase in our mobile telephony ARPU and RGUs, sale of handsets and other equipment, cable TV, fixed internet and data RGUs.

Mobile telephony RGUs increased from 1,388,000 at December 31, 2014 to 1,906,000 at December 31, 2015, an increase of 37.3%. This increase is the result of launching offers with competitive tariffs and the possibility of acquiring a mobile handset, as well as change in subscription packages' mix and traffic increase. As a result, also the ARPU from mobile telephony increased in the year ended December 31, 2015 to 3.43 €/month compared with 1.78 €/month in the year ended December 31, 2014, an increase of 92.7%. Our cable TV RGUs increased from 2,599,000 at December 31, 2014 to 2,733,000 at December 31, 2015, an increase of 5.2%, and our fixed internet and data RGUs increased from 1,834,000 at December 31, 2014 to 1,976,000 at December 31, 2015, an increase of 7.7%. Other revenues consist mainly of handsets sale and publicity sale. Other revenues increased mainly as a result of revenues from sales of handsets together with mobile telephony subscriptions and sales of other equipment to our customers for retention purposes. Growth in our cable TV, fixed internet and data, mobile telephony and other revenues were partially offset by a decrease in our number of DTH RGUs and a decrease in residential fixed telephony RGUs and ARPU. DTH RGUs decreased from 725,000 at December 31, 2014 to 674,000 at December 31, 2015, a decrease of 7%. That decrease was driven by low levels of investment in CPE, which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment (such as satellite receivers and decoders). The decrease was also generated by DTH subscribers' leaving our services for financial reasons, moving to our competitors or migrating from our DTH services to our cable TV services. Residential fixed telephony RGUs decreased from 1,346,000 at December 31, 2014 to 1,287,000 at December 31, 2015, a decrease of 4.4% and fixed telephony ARPU decreased from 1.41 €/month for the year ended December, 2014 to 1.26 €/month for the year ended December 31, 2015, a decrease of 10.6%.

**Revenues in Hungary** for the year ended December 31, 2015 were €125.9 million compared with €119.1 million for the year ended December 31, 2014, an increase of 5.7%. On a constant currency basis (by reference to 2014 average exchange rates), our revenues in Hungary would have grown by an additional €0.5 million to €126.4 million in the year ended December 31, 2015, an aggregate increase of 6.2% compared to the year ended December 31, 2014. The increase in revenues was principally due to increase in our cable TV RGUs, fixed internet and data RGUs and other revenues, as well as the subscriber's packages mix. Our cable TV RGUs increased from 411,000 at December 31, 2014 to 437,000 as at December 31, 2015, an increase of 6.3%, our fixed internet and data RGUs increased from 347,000 at December 31, 2014 to 382,000 at December 31, 2015, an increase of 10.1% and our fixed-line telephony RGUs increased from 301,000 at December 31, 2014 to 327,000 at December 31, 2015, an increase of 8.6%. Despite the increase in the fixed-line telephony RGUs, the revenues decreased as a result of lower fixed-line rates starting with April 2015. All these increases were driven primarily by our investments in expanding and upgrading our fiber optic network. Other revenues increased primarily as a result of additional revenues from network management agreements with smaller local cable and internet providers that we sometime undertake. Our mobile internet and data RGUs decreased by 15.8% from 19,000 RGUs at December 31, 2014 to 16,000 RGUs at December 31, 2015, due primarily to decrease in our DTH subscribers as this service is addressed mainly to them. In Hungary, we act as a reseller of mobile internet and data services, selling services which utilize the Telenor network under our "Digi" brand. Our DTH RGUs decreased from 330,000 at December 31, 2014 to 318,000 at December 31, 2015, a decrease of 3.6%. That decrease was driven by low levels of investment in DTH CPE which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment, such as satellite receivers and decoders and DTH subscribers leaving our services for financial reasons or migrating to our competitors.

**Revenues in Spain** (including intersegment revenues) for the year ended December 31, 2015 were €73.8 million (including intersegment revenues of € 1 million) compared with €54.8 million (including intersegment revenues of €0.7 million) for the year ended December 31, 2014, an increase of 34.7%. The increase in revenues was principally due to an increase in the number of our mobile telephony RGUs from 423,000 at December 31, 2014 to 491,000 at December 31, 2015, an increase of 16.1% and an increase in the number of our mobile internet RGUs from 187,000 at December 31, 2014, to 244,000 at December 31, 2015, an increase of 30.5%.

**Revenues in Italy** for the year ended December 31, 2015 were €7.5 million compared with €5.1 million for the year ended December 31, 2014, an increase of 47.1%. The increase in revenues was principally due to an increase in the number of our mobile telephony RGUs from 48,000 at December 31, 2014 to 59,000 at December 31, 2015, an increase of 22.9% and an increase in the number of our mobile internet RGUs from 3,000 at December 31, 2014, to 7,000 at December 31, 2015, an increase of 133.3%.

**Revenues in Other** for the year ended December 31, 2015 were €3.8 million compared with €13.7 million for the year ended December 31, 2014, a decrease of 72%. On a constant currency basis (by reference to 2014 average exchange rates), our revenues in Other would have been rather constant (higher by €0.01 million meaning). Other revenues include services provided by our Czech Republic subsidiary, which was disposed of in April 2015.

**Gain from sale of discontinued operations** for the year ended December 31, 2014 was €9.6 million and for the year ended December 31, 2015 was €20.9 million. It represents mainly the result of the disposal of Slovakia (for 2014) and the results for Czech Republic disposal, as well as an additional proceeds from the Slovakia disposal (for 2015).

### **Total operating expenses**

Our total operating expenses for the year ended December 31, 2015 were €700.7 million compared with €622.9 million for the year ended December 31, 2014, an increase of 12.5%.

The table below sets out the expenses per segment (which excludes depreciation and amortization) as a percentage of revenues (including intersegment transactions) for the years ended December 31, 2014 and 2015.

<b>Segment</b>	<b>Year ended 31 December,</b>	
	<b>2014</b>	<b>2015</b>
	<b>Expenses as % of revenues</b>	
Romania	62.43%	67.04%
Hungary	60.74%	60.79%
Spain	91.94%	85.09%
Other	85.89%	113.96%

**Operating expenses in Romania** (including intersegment expenses) for the year ended December 31, 2015 were €363.2 million compared with €294.1 million for the year ended December 31, 2014, an increase of 23.5%. This increase is in line with the increase in business and comes mainly from interconnection charges associated with our mobile offerings, increase in programming expenses, increase in salaries, increase associated with energy sales and increase from sales of handsets and other equipment at cost (€48.6 million in the year ended December 31, 2015 compared with €42.8 in the year ended December 31, 2014).

**Operating expenses in Hungary** for the year ended December 31, 2015 were €76.5 million compared with €72.3 million for the year ended December 31, 2014, an increase of 5.8%. The trend is in line with the increase in business, caused by increase in programming expenses (new programs included in the offering), as well as higher tariffs.

**Operating expenses in Spain** (including intersegment expenses) for the year ended December 31, 2015 were €62.8 million compared with €50.4 million for the year ended December 31, 2014, an increase of 24.6%. The increase in operating expenses was principally due to the result of an increase in interconnection charges as a result of an increase in our RGU number and higher traffic per user. The weight of expenses in revenues has decreased compared to previous year, because of economies of scale.

**Operating expenses in Other** for the year ended December 31, 2015 were €13 million compared with €16.2 million for the year ended December 31, 2014, a decrease of 19.8%. Operating expenses include expenses of our subsidiary in Czech Republic, which was disposed of in April 2015, as well as expenses for Italy.

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

<b>Depreciation, amortization and impairment of tangible and intangible assets</b>	<b>For the year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
<b>Continuing Operations</b>	<b>(euro in millions)</b>	
Depreciation of property, plant and equipment	124.2	114.8
Amortization of non-current intangible assets	20.1	25.6
Amortization of programme assets	46.2	47.0
Impairment of property, plant and equipment	1.5	0.3
<b>Total</b>	<b>192.1</b>	<b>187.8</b>
<b>Discontinued Operations</b>	-	0.1
<b>Total</b>	<b>192.1</b>	<b>187.9</b>

#### *Depreciation of property, plant and equipment*

Depreciation of property, plant and equipment was €114.8 million for the year ended December 31, 2015 compared with €124.2 for the year ended December 31, 2014, a decrease of 8%. This decrease was the result of higher additions especially in the Customer Premises Equipment (CPE) and other equipment category, having shorter useful lives.

#### *Amortization of non-current intangible assets*

Amortization of non-current intangible assets was €25.6 million for the year ended December 31, 2015 compared with €20.1 million for the year ended December 31, 2014, an increase of 27% mainly as a result of additions of mobile telephony spectrum.

### *Amortization of programme assets*

Amortization of program assets was €47 million for the year ended December 31, 2015 compared with €46.2 million for the year ended December 31, 2014, an increase of 2%.

### ***Operating profit***

For the reasons set forth above, our operating profit was €70.3 million for the year ended December 31, 2015 compared with €48.4 million for the year ended December 31, 2014.

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

We recognized net finance expense of €60.9 million in the year ended December 31, 2015 compared with €60.3 million in the year ended December 31, 2014, an increase of 1%. This net increase was primarily caused by the expense of the unamortized borrowing costs related to the 2013 Senior Facility repaid in 2015 (€4.9 million), as well as forex net expense. These were offset by the recognition of financial income related to an embedded derivative asset (€9.3 million).

The Senior Notes include several call redemption options as well as one put redemption option. Several redemption options were assessed to be closely related to the host contract. The combined fair value of these embedded options were assessed through the Option Adjusted Spread model and recognized a separate embedded derivative asset (31 December 2015: €9.3 million).

Financial expenses have increased from €5.8 million in the year ended December 31, 2014 to €12.7 million in the year ended December 31, 2015 due to the expensing of the unamortized borrowing costs related to the 2013 Senior Facility repaid in 2015 (€4.9 million). The interest expense had no significant variation. Foreign exchange net loss increased from €2.6 million in the year ended December 31, 2014 to €5.5 million in the year ended December 31, 2015, which resulted primarily from the depreciation of the RON in relation to the Euro.

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

For the reasons set forth above, our profit before taxation was €9.5 million for the year ended December 31, 2015 compared with a loss of €12 million for the year ended December 31, 2014.

### ***Income tax expense***

An income tax expense of €5.4 million was recognized in the year ended December 31, 2015 compared to a tax gain of €5.1 million recognized in the year ended December 31, 2014. In 2014, the tax gain came mainly from the deferred tax asset recognized for losses and for expenses which will become deductible in the future at the level of the Romanian subsidiary.

### ***Profit/ (loss) for the year***

For the reasons set forth above, our net profit for the year ended December 31, 2015 was €4.0 million compared with a loss of €6.8 million for the year ended December 31, 2014.

## **LIQUIDITY AND CAPITAL RESOURCES**

Historically, our principal sources of liquidity have been our operating cash flows as well as debt financing. Going forward, we expect to fund our cash obligations and capital expenditures primarily out of our operating cash flows, supplemented in part by the ING Facilities Agreement, the Citi Facilities Agreement, other letter of guarantee facilities and other credit agreements. We believe that our strong and relatively predictable operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

All of our businesses generally produce positive operating cash flows that are relatively constant from month to month. Variations in our aggregate cash flow during the periods under review principally represented increased or decreased cash flow used in investing activities and cash flow from financing activities.

We have made and intend to continue to make significant investments in the growth of our businesses by acquiring new and renewing existing content rights, expanding our mobile telecommunications network and our fiber optic networks and procuring CPE which we provide to our customers. 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.

## Key Ratios

In accordance with the terms of our financial obligations, we are required to compute and present certain ratios.

In accordance with the terms of the Notes, we are required to compute the Consolidated Leverage Ratio if certain events take place. The Consolidated Leverage Ratio means the ratio of (i) the aggregate amount of Consolidated Total Indebtedness outstanding on such date to (ii) the aggregate amount of EBITDA (computed in accordance with the terms of the Notes) for the most recent four full consecutive fiscal quarters for which internal consolidated financial statements of the Company are available at the time of such determination. Consolidated Total Indebtedness is €710.3 million and EBITDA computed in accordance with the terms of Notes is €238.7 million, leading to a gross Consolidated Leverage Ratio of 3.0x.

In accordance with the terms of the 2015 Senior Facilities Agreement, we have to compute and present for each quarter the Leverage Ratio and the Interest Cover Ratio. The Leverage Ratio is the ratio of Consolidated Total Net Indebtedness to EBITDA (computed in accordance with the terms of the 2015 Senior Facilities Agreement). Consolidated Total Net Indebtedness is €667.6 million and EBITDA computed in accordance with the terms of 2015 Senior Facilities Agreement is €238.7 million, leading to a Consolidated Leverage Ratio of 2.8x. Interest cover is the ratio of EBITDA computed in accordance with the terms of 2015 Senior Facilities Agreement to Net Total Interest. Net Total Interest for the year ended December 31, 2015 is €49 million, leading to an Interest Cover Ratio of 4.87x.

EBITDA computed in accordance with the terms of Notes and EBITDA computed in accordance with the terms of 2015 Senior Facilities Agreement (both €238.7 million) differ from the Adjusted EBITDA presented in our financial statements (€237.4 million). The variance is caused by different definitions used in each of the financial instruments. The main adjustment comes from the fact that both EBITDA computed in accordance with the terms of Notes and EBITDA computed in accordance with the terms of 2015 Senior Facilities Agreement are adjusted upward with the value of Stock Option Shares granted to the management (€2.1 million);

## Historical Cash Flows

The following table sets forth, for the years ended December 31, 2014 and 2015 our consolidated cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

	Year ended December 31,	
	2014	2015
	(euro in millions)	
<b>Cash flows from operations before working capital changes</b>	<b>232.0</b>	<b>237.2</b>
Cash flows from changes in working capital	(5.7)	4.2
<b>Cash flows from operations</b>	<b>226.3</b>	<b>241.5</b>
Interest paid	(46.7)	(44.2)
Income tax paid	(4.6)	(5.1)
<b>Cash flow from operating activities</b>	<b>174.9</b>	<b>192.2</b>
<b>Cash flow used in investing activities</b>	<b>(204.4)</b>	<b>(171.6)</b>
<b>Cash flows from financing activities</b>	<b>33.6</b>	<b>(25.7)</b>
Net increase (decrease) in cash and cash equivalents	4.1	(5.2)
Cash and cash equivalents at the beginning of the period	50.2	54.3
Effect of exchange rate fluctuation on cash and cash equivalent held	(0.0)	0.5
<b>Cash and cash equivalents at the closing of the period</b>	<b>54.3</b>	<b>49.7</b>

*Cash flows from operations before working capital changes* were €237.2 million in the year ended December 31, 2015 and €232.0 million in the year ended December 31, 2014 for the reasons discussed above under “—Results of Operations for the Years Ended December 31, 2015 and 2014”

The following table shows changes in our working capital:

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2015</b>
<b>Changes in:</b>	<b>(euro in millions)</b>	
Trade receivables and other assets	(33.5)	15.1
Inventories	(4.5)	(3.7)
Trade payables and other current liabilities	28.5	21.2
Deferred revenue	3.8	(28.4)
<b>Total</b>	<b>(5.7)</b>	<b>4.2</b>

We had a net working capital of €4.2 million in the year ended December 31, 2015. This movement comes mainly from a decrease in trade receivables and other assets balances of €15.1 million, primarily as a result of the change in invoicing cycle which occurred in December 2015. This explains also the variation of the deferred revenue. The increase in trade payables related mainly to the acquisitions of handsets and other equipment. The decrease in inventories is caused mainly by reclassifications of spare parts (small value fixed assets) into tangible assets category.

We had a net working capital requirement of €5.7 million in the year ended December 31, 2014. This requirement comes mainly from an increase in trade receivables and other assets balances of €33.5 million primarily as a result of sale of customer equipment in installments and/or with a subsidy to our subscribers but it is compensated by the increase in trade payables related mainly to the same equipment. The increase in inventories comes also from equipment to be sold to our clients. These were partially offset by an increase in deferred revenue of €3.8 million as a result of increase in the services where we usually invoice the clients in advance (such as cable TV, Internet and mobile telephony subscription fees).

**Cash flows from operating activities** were €192.2 million in the year ended December 31, 2015 and €174.9 million in the year ended December 31, 2014. Included in these amounts are deductions for interest paid and income tax paid, which were €49.3 million in 2015 and €51.4 million in 2014.

Interest paid was €44.3 million in the year ended December 31, 2015 compared with €46.7 million in the year ended December 31, 2014. Income tax paid was €5.1 million in the year ended December 31, 2015 compared with €4.6 million in the year ended December 31, 2014.

As at December 31, 2015, in Hungary we had a deferred tax asset of €3.6 million coming from carried forward fiscal losses of €18.9 million (the income tax rate is 19%). In Romania, we do not carry forward any more fiscal losses. In addition, in Romania we have interest expenses of €54.9 million which may become deductible in the future if the debt to equity ratio (computed for fiscal purposes) falls below 3. The related deferred tax asset recognized as at December 31, 2015 is €8.8 million.

As at December 31, 2014, in Hungary we had a deferred tax asset of €5.3 million coming from carried forward fiscal losses of €27.8 million (the income tax rate is 19%), and in Romania, we had a deferred tax asset of €1.8 million coming from carried forward fiscal losses of €11.0 million (the income tax rate is 16%), which we can use to reduce the amount of current income taxes payable in future periods. In addition, in Romania we have interest expenses of €27.2 million which may become deductible in the future if the debt to equity ratio (computed for fiscal purposes) falls below 3. The related deferred tax asset recognized as at December 31, 2014 is €4.4 million.

**Cash flows used in investing activities** were €171.6 million in the year ended December 31, 2015, and €204.4 million in the year ended December 31, 2014.

Purchases of property, plant and equipment were €197.6 million in the year ended December 31, 2015 and €214.8 million in the year ended December 31, 2014. The following table shows a reconciliation between additions and payments for our Property, plant and equipment, Intangible assets and Programme Assets for the years ended December 31, 2014 and 2015:



	<b>For the year ended December 31,</b>	
	<b>2014*</b>	<b>2015</b>
	<b>(euro in millions)</b>	
Network and equipment <sup>(1)</sup>	107.6	91.9
Customer Premises Equipment (CPE) <sup>(2)</sup>	24.5	25.5
Program assets – content for our own channels <sup>(3)</sup>	33.8	60.1
License and software <sup>(4)</sup>	39.2	23.2
Customer relationships <sup>(5)</sup>	5.8	2.8
Other additions to tangible assets <sup>(6)</sup>	7.6	24.2
Other additions to intangible assets <sup>(7)</sup>	4.6	6.2
<b>Total additions to tangible and intangible assets</b>	<b>223.1</b>	<b>233.9</b>
Differences between capital expenditures for tangible and intangible assets and additions to tangible and intangible assets <sup>(8)</sup>	(22.2)	(39.6)
Capital expenditures for the acquisition of tangible and intangible assets	200.9	194.4
Acquisitions of shares <sup>(9)</sup>	13.9	3.3
<b>Total capital expenditures</b>	<b>214.8</b>	<b>197.6</b>

\*For comparative purposes, the presentation of this note was changed for 2014

- (1) Composed primarily of costs incurred for additions of materials and equipment to expand and upgrade our fiber optic networks; costs incurred for our personnel and subcontractors related to the expansion and upgrade of our fiber optic and mobile networks; costs incurred for materials and equipment to expand and maintain our mobile networks; and costs incurred for equipment needed to operate our own channels
- (2) Composed of costs incurred for additions to CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE by other members of our industry), and other equipment such as, set-top boxes, mobile data devices, mobile and fixed-line telephone handsets, satellite dishes and satellite receivers and smartcards
- (3) Composed of costs incurred for additions of content for our own network
- (4) Composed primarily of payment for our 1800 Mhz license in Hungary (in 2014) and mobile network software licenses acquired in Romania (in 2015)
- (5) Composed primarily of costs incurred when acquiring customer contracts from other companies directly by purchasing the assets of those companies
- (6) Composed primarily of costs incurred for additions to our land, buildings, vehicles and furniture
- (7) Composed primarily of costs incurred for the use of third parties who resell our services to new clients in Hungary, Spain and Italy
- (8) This is primarily composed of changes in trade payables owed to fixed asset suppliers. Changes in trade payables owed to fixed asset suppliers is composed of payments for additions to tangible and intangible assets recognized in prior periods, advance payments for additions to tangible and intangible assets which we expect will be recognized in future periods and accruals for additions to tangible and intangible assets for which we are obligated to make payments in future period periods.
- (9) Composed of cash spent to acquire a non-controlling interest in subsidiaries and associates and to make payments for shares acquired in current or prior periods.

During the year ended December 31, 2015, we had acquisitions of tangible and intangible assets of €233.9 million. We had €91.9 million of additions to our network and equipment, primarily to expand and upgrade our fiber optic networks. We had €60.1 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions in 2015/2016 for contracts entered into in prior years. We had €23.2 million of additions to our intangible assets, primarily to recognize payments for software licenses for equipment for our mobile networks and frequency block 3700 MHz & 2600 MHz licenses. In addition, we had additions of €25.5 million to acquire CPE, primarily set-top boxes and GPON terminals (which may not generally be treated as CPE by other members of our industry). We also had additions to customers' relationships of €2.8 million, reflecting amounts incurred for the acquisition of customers from other cable and internet providers in Romania. Capital expenditures for the acquisition of tangible and intangible assets were €39.6 million lower than additions to tangible and intangible assets in the year ended December 31, 2015. This was primarily due to longer payment terms especially for part of the network and equipment and CPE additions.

Out of the payments made for acquisition of shares, €1.5 million are payments made by CCS for the acquisition of shares in RCS Management. Out of the remaining €1.8 million, € 0.8 are related to share acquisitions and €1 to acquisition of non controlling interests while retaining control.

During the year ended December 31, 2014, we had acquisitions of tangible and intangible assets of €223.1 million. We had €107.6 million of additions to our network and equipment, primarily to expand and upgrade our fiber optic networks. We had €33.8 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions in 2014 and 2015 for contracts entered into in prior years. We had €39.2 million of additions to our intangible assets, primarily to recognize a €32.2 million payment for

a frequency block of 5 MHz of bandwidth in the 1800 MHz frequency spectrum in Hungary and certain software licenses for equipment for our fiber optic and mobile networks. In addition, we had additions of €24.5 million to acquire CPE, primarily set-top boxes and GPON terminals (which may not generally be treated as CPE by other members of our industry). We also had additions to customers' relationships of €5.8 million, reflecting amounts incurred for the acquisition of customers from other cable and internet providers in Romania. Capital expenditures for the acquisition of tangible and intangible assets were €22.2 million lower than additions to tangible and intangible assets in the year ended December 31, 2014. This was primarily due to longer payment terms especially for part of the network and equipment and CPE additions.

Out of the payments made for acquisition of shares, €1.2 million are payments made by CCS for the acquisition of shares in RCS Management. Out of the remaining €12.8 million, €9.8 are related to share acquisitions and €2.9 to acquisition of non controlling interests while retaining control.

**Cash flows from financing activities** are €25.7 million outflow in the year ended December 31, 2015 and €33.6 inflow million in the year ended December 31, 2014.

This is mainly the result of repaying in May 2015 our *2013 Senior Facilities Agreement* from refinancing (*2015 Senior Facilities Agreement*) and our own funds (net principal repayment €18.9 million). Relating to the *2015 Senior Facilities Agreement*, during the year ended 31 December 2015 we have repaid principal in amount of €22 million (€ equivalent of RON 99.4 mil, using the exchange rate as at 31 December 2015). In December 2015 we have drawn an additional portion of €23.3 million (€ equivalent of RON 105.4 mil, using the exchange rate as at 31 December 2015), as part of the 2015 Senior Facilities Agreement. We also paid financing costs of €4.1 million, dividends of €1.6 million, settlement of derivative transactions of €3.7 million and installments under our finance leases of €1.6 million.

In the year ended 31 December 2014, we drew the remaining portion of €45 million under the term loan under our 2013 Senior Facilities Agreement (June 2014). We also paid financing costs of €6.8 million, dividends of €1.7 million, settlement of derivative transactions of €2.2 million and installments under our finance leases of €0.9 million.

### **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 fiber optic network, to purchase further broadcasting rights for our premium TV channels and to expand our mobile telecommunications services. 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 fiber optic network; and
- expanding and developing our mobile networks
- 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.

As at December 31, 2015, 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 €157.5 million.

### **Contractual Obligations**

Our principal contractual obligations consist of our obligations in respect of financial indebtedness that is owed under our credit facilities, our contractual obligations for the lease of satellite capacity from Intelsat, the annual radio spectrum fees for our mobile licenses in Romania and Hungary, the remaining payments for certain broadcasting rights, operational leasing arrangements, financial leasing arrangements for part of our headquarters in Bucharest and a parcel of land outside of Bucharest and financial leasing arrangements used to purchase cars for our fleet.

The following table sets forth our payment obligations as at December 31, 2015 based on the agreements in place as at that date. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in this table:

	TOTAL	2016	2017 - 2018	2019 - 2020	2021 and after
	(euro in millions)				
Interest bearing loans and borrowings, including short term facilities	884.6	103.1	192.1	589.4	0.0
Finance lease obligations <sup>(1)</sup>	9.7	2.3	4.9	1.3	1.1
Overdraft facilities	4.8	4.8	0.0	0.0	0.0
Capital expenditure and operating expenditure contractual commitments <sup>(2)</sup>	244	96.8	87.9	24.8	34.6
Acquisition of subsidiaries	2.8	2.8	0.0	0.0	0.0
Trade and other payables <sup>(3)</sup>	278.2	270.5	7.7	0.0	0.0
Derivative instruments	8.3	8.3	0.0	0.0	0.0
<b>Total</b>	<b>1,432.4</b>	<b>488.6</b>	<b>292.6</b>	<b>615.5</b>	<b>35.7</b>

(1) Includes estimated interest. Interest was estimated by using 3-month EURIBOR or a fixed rate as of December 31, 2015 for all future periods.

(2) Includes mainly payments for premium content, satellite usage, spectrum fee payments, open orders for purchases of equipment and obligations under agreements to lease real property or movable property that are enforceable and legally binding and that specify all significant terms (e.g., object of the lease, pricing terms and duration).

(3) Includes trade payables, other long-term liabilities and income tax.

## Financial Obligations

### *Bond (the Notes)*

On October 25, 2013, CCS entered into a Purchase Agreement through which on November 4, 2013 issued Notes with a value of €450 million. The Notes, are secured, by (i) substantially all of the movable assets of RCS&RDS, including bank accounts, receivables, intellectual property rights, networks, equipment, inventories, insurance and proceeds related to any of the foregoing, (ii) certain shares of the Company's material subsidiaries and its own treasury shares, in each case, held by the Company and (iii) certain assets of the Company, including the shares it holds in RCS&RDS, certain bank accounts and receivables under the Proceeds Loan (collectively, the "Collateral"). The Collateral is shared with the 2015 Senior Facilities Agreement, ING Facilities Agreement and the Citi Facilities Agreement on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement. The Proceeds Loan is the loan provided by CCS to its subsidiary, RCS&RDS on 4 November 2013.

In 2014 we concluded coupon swaps for the entire Proceeds Loan's value (€450 million), all with a termination date of 23 September 2016.

### *2013 Senior Facilities Agreement*

On October 21, 2013 we entered into a committed facility agreement, as borrower, with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the repayment of our existing facilities and for general corporate purposes (the "**2013 Senior Facilities Agreement**"). The 2013 Senior Facilities Agreement was unconditionally guaranteed by CCS on a senior secured basis, and shared in the Collateral pursuant to the terms of the Intercreditor Agreement.

The 2013 Senior Facilities Agreement consisted of a term loan facility with a capacity of €250 million and a revolving credit facility with a capacity of €50 million. The interest rate under the 2013 Senior Facilities Agreement was floating at a margin of 4.35% per annum plus EURIBOR. Interest was payable every three or six months with respect to the term loan (as at this moment we have a three month interest period), and one, three or six months with respect to the revolving credit facility.

The 2013 Senior Facilities Agreement contained certain financial covenants, including maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 4.25.

The 2013 Senior Facilities Agreement contained certain other covenants, including a cross-default provision pursuant to which an event of default occurs if any financial obligation of the Group was not paid when due or becomes payable or was capable of becoming payable before its due date or any facility under which financial obligations arose ceases to be available or becomes capable of early termination.

On November 4, 2013 we drew €205 million of the term loan facility on the Issue Date to repay certain of our existing credit facilities and on June 19, 2014 we drew the remaining €45 million under the term loan.

On May 22, 2015 we repaid the facility using the proceeds of the 2015 Senior Facilities Agreement and our own funds.

### **2015 Senior Facilities Agreement**

On April 30, 2015 we entered into a committed facility agreement, as borrower, with BRD-Groupe Societe Generale, Citibank, London branch, ING Bank, and Unicredit Tiriac Bank as mandated lead arrangers, for the repayment of our 2013 Senior Facilities Agreement (the “**2015 Senior Facilities Agreement**”). The 2015 Senior Facilities Agreement is unconditionally guaranteed by CCS on a senior secured basis, and shares in the Collateral pursuant to the terms of the Intercreditor Agreement.

The 2015 Senior Facilities Agreement consisted initially of a term loan facility with a capacity of RON 994.2 million and a revolving credit facility with a capacity of RON 39.8 million. The facility could be increased by EUR 25 million (in RON and the exchange rate from the date of the notice) until the end of 2015.

On May 22, 2015 we drew the amount available from both the term loan facility and the revolving credit facility. The term loan facility is repayable in 10 equal semiannual installments starting with October 30, 2015 and the revolving credit facility is repayable in full on April 30, 2018. On October 30, 2015 we have repaid the first principal installment in amount of €22 mil (€ equivalent of RON 99.4 mil using the exchange rate as at 31 December 2015). On 29<sup>th</sup> December 2015 we have drawn an additional amount of €23.3 mil (€ equivalent of RON105.4 mil at the exchange rate as at 31 December 2015) from the term loan and the revolver credit. The interest rate under the 2015 Senior Facilities Agreement is floating at a margin of 2.5% per annum plus ROBOR. Interest is payable every three months.

On May 22, 2015 we 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 is 5.50% (interest fixed through interest rate SWAP) for the term loan facility portion and floating ROBOR + 2.5% for the revolver credit portion.

The following table sets out the repayment schedule in respect of the term loan balance as at 31 December 2015:

<b>Repayment date</b>	<b>Amount RON (in millions)</b>	<b>Amount EUR equivalent* (in millions)</b>
April 29, 2016	110	24.3
October 31, 2016	110	24.3
April 28, 2017	110	24.3
October 31, 2017	110	24.3
April 30, 2018	110	24.3
October 31, 2018	110	24.3
April 30, 2019	110	24.3
October 31, 2019	110	24.3
April 30, 2020	110	24.3
<b>Total</b>	<b>990</b>	<b>218.8</b>

\* Exchange rate as at December 31, 2015 was used for translation into EUR equivalent amounts

The 2015 Senior Facilities Agreement contains certain financial covenants, including maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.75 until December 31, 2016 and afterwards a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 3.75 until December 31, 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25.

### **ING Facilities Agreement**

On November 1, 2013, we entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group’s existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the 2013 Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of (i) an uncommitted overdraft facility of up to €5.0 million and (ii) an uncommitted facility for letters of guarantee of up to €5.0 million.

As of December 31, 2015, we had €4.8 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 lei 13.6 million.

### ***Citi Facilities Agreement***

On October 25, 2013, we entered into, as borrower, the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes. On October 25, 2013, the Company entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group.

On November 4, 2013 we repaid the Citi Facilities Agreement using the proceeds from the Bond and the 2013 Senior Facilities Agreement. Following the repayment, the maximum amount made available under the Citi Facilities Agreement was decreased. Currently, the Citi Facilities Agreement consists of (i) an uncommitted overdraft/bank guarantee facility in the amount of US\$ 6.75 million and (ii) an uncommitted bank guarantee facility with an initial amount of US\$8.1 million and €500,000.

As of December 31, 2015, overdraft/bank guarantee facility utilized was (i) the cash overdraft facility was not used and, and (ii) we had letters of guarantee issued in the amount of US\$ 3.0 million, €1.3 million and lei 12.2 million.

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

As of December 31, 2015 we had letters of guarantee issued by BRD with a value of €0.9 million.

### ***Santander Facility***

On November 4, 2014, we entered into a new short-term facility agreement with Banco Santander for €1.5 million, which consolidates and replaces all the previous facilities. The maturity date for this new facility is October 30, 2016 and the amount provided decreased to €1 million starting with March 4, 2015. As of December 31, 2015, the balance drawn under the Santander Facility was €0.95 million.

### ***Caixa Facility***

On February 6, 2014, we entered into a facility agreement with Caixabank, S.A. (the “Caixa Facility”), containing an overdraft and a reverse factoring option. On January 30, 2015, we renewed the agreement. The term of the Caixa Facility is indefinite and the maximum amount which can be used is €500,000. As of December 31, 2015, the balance drawn under the Caixa Facility overdraft was €82 thousand.

### ***Unicredit cash collateral agreement***

On October 5, 2010, we entered into a cash collateral agreement with UniCredit Tiriatic Bank S.A., for €59,484 for issuance of a letter of counter guarantee, which is valid until January 31, 2017 (the “**Unicredit Cash Collateral Agreement**”). The agreement entered into force on October 8, 2012, and is secured with a moveable mortgage over a cash collateral account opened with UniCredit Tiriatic Bank S.A.

### ***Financial Leasing Agreements***

As at December 31, 2015, we had four leasing agreements in place with a total outstanding value of approximately €8.76 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. ING Lease Romania IFN SA has sold all its assets to Raiffeisen Leasing IFN SA at the end of January 2014. In December 2015 this lease was refinanced with an amount of EUR 4.3 million. As at December 31, 2015, the outstanding amount under the sale-leaseback agreement was EUR 4.2 million.

We have also entered into a leasing agreement for a parcel of land in Poiana Brasov city, Brasov County, with a financed amount of €3.2 million (excluding VAT). As at December 31, 2015, the outstanding amount under this leasing agreement was €2.4 million.

In December 2015 we entered into 2 lease agreements with Unicredit Leasing IFN for two buildings in Timisoara and Arad for a total financed amount of EUR 2.2 million. As at December 31, 2015, the outstanding amount under these leases was €2.2 million.

**Pension Obligations**

Under the regulatory regimes applicable in our countries of operation, employers are required to make payments to a national social security fund for the benefit of employees. Other than these social security payments, we do not maintain any pension plans for employees and incur no pension obligations.

**Contingent Obligations**

Apart from the commitments described above, we have no material contingent obligations.

**OFF-BALANCE SHEET ARRANGEMENTS**

Other than commitments included under the caption “capital expenditure and operating expenditure contractual commitments” in “—*Contractual Obligations*” we do not have any material off-balance sheet arrangements.

**ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND DISCRETION**

We prepare our financial statements in accordance with IFRS. Certain financial reporting standards under IFRS require us to make judgments or to use our discretion in determining the values to be recorded, as described in the notes to our audited financial statements included elsewhere in this annual report. There were no changes in our accounting policy during the year ended December 31, 2015.

**CABLE COMMUNICATIONS SYSTEMS NV**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**For the year ended 31 December 2015**

**CABLE COMMUNICATIONS SYSTEMS**  
**Consolidated Financial Statements**  
**Prepared in accordance with International Financial Reporting Standards**  
**for the year ended 31 December 2015**

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<b>CONTENTS</b>	<b>Page</b>
GENERAL INFORMATION	-
INDEPENDENT AUDITORS' REPORT	-
CONSOLIDATED FINANCIAL STATEMENTS	-
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENT OF CASH FLOWS	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	7 – 8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	9 – 80



## GENERAL INFORMATION

**Directors:**

Zoltan Teszari, President of the Board of Directors  
Marius Catalin Varzaru  
Monique Charlotte Rosenkotter-Donker  
Parveen Chantal Soebrati

**Registered Office:**

Cable Communications Systems N.V.

Naritaweg 165, 1043 BW, Amsterdam, Netherlands

**Auditors:**

Ernst & Young Assurance Services S.R.L.

## INDEPENDENT AUDITORS' REPORT

To the shareholders of Cable Communications Systems NV

We have audited the accompanying consolidated financial statements of Cable Communications Systems NV and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Other matters

As disclosed in Note 2.1 (b) to the consolidated financial statements, these statements have been prepared as part of the filing obligations of the Company stated in the Offering Memorandum dated 4 November 2013. These consolidated financial statements are not intended for statutory filing purposes in any jurisdiction.

15 April 2016

On behalf of  
Ernst & Young Assurance Services SRL

Anamaria Cora  
Partner

**CABLE COMMUNICATIONS SYSTEMS**  
**Consolidated Statement of financial position**  
**as at 31 December 2015**

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

	<u>Notes</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	674,743	643,079
Intangible assets	6a	205,128	199,741
Available for sale financial assets (AFS)	7	43,373	41,296
Investment in associates		1,000	2,492
Long term receivables		5,852	6,748
Deferred tax assets	19	3,951	2,933
<b>Total non-current assets</b>		<b><u>934,047</u></b>	<b><u>896,289</u></b>
<b>Current assets</b>			
Inventories	8	13,205	22,828
Programme assets	6b	29,536	16,838
Trade and other receivables	9	82,545	109,862
Income tax receivable		202	1,466
Other assets	10	8,209	9,927
Derivative financial assets	24	9,937	-
Cash and cash equivalents	11	49,662	54,288
<b>Total current assets</b>		<b><u>193,296</u></b>	<b><u>215,209</u></b>
<b>Total assets</b>		<b><u>1,127,343</u></b>	<b><u>1,111,498</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	51	51
Share premium		8,247	8,247
Treasury shares		(16,703)	(16,703)
Reserves		31,597	45,287
Retained earnings		77,462	68,261
<b>Equity attributable to equity holders of the parent</b>		<b><u>100,654</u></b>	<b><u>105,143</u></b>
Non-controlling interest		2,160	2,197
<b>Total equity</b>		<b><u>102,814</u></b>	<b><u>107,340</u></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings, including bonds	13	624,897	652,732
Deferred tax liabilities	19	26,981	28,204
Other long term liabilities		7,598	10,595
<b>Total non-current liabilities</b>		<b><u>659,476</u></b>	<b><u>691,531</u></b>
<b>Current liabilities</b>			
Trade and other payables	14	271,118	217,171
Interest-bearing loans and borrowings	13	63,118	45,746
Income tax payable		1,746	293
Derivative financial liabilities	24	8,253	993
Deferred revenue		20,818	48,424
<b>Total current liabilities</b>		<b><u>365,053</u></b>	<b><u>312,627</u></b>
<b>Total liabilities</b>		<b><u>1,024,529</u></b>	<b><u>1,004,158</u></b>
<b>Total equity and liabilities</b>		<b><u>1,127,343</u></b>	<b><u>1,111,498</u></b>

The financial statements were approved by the Board of Directors on 15 April 2016 and were signed on its behalf by:

Zoltan Teszari, President of the Board of Directors  
Marius Catalin Varzaru, Member of the Board of Directors

Monique Charlotte Rosenkotter-Donker, Member of the Board of Directors

Parveen Chantal Soebrati, Member of the Board of Directors

Serghei Bulgac, CFO

**CABLE COMMUNICATIONS SYSTEMS**  
**Consolidated Statement of profit or loss and other comprehensive income**  
**for the year ended as at 31 December 2015**

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

		<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
	Notes	<i>Continuing Operations</i>	<i>Discontinued Operations</i>	<i>Total</i>	<i>Continuing Operations</i>	<i>Discontinued Operations</i>	<i>Total</i>
Revenues	16	746,290	3,840	750,130	647,831	13,776	661,607
Gain from sale of discontinued operations	20	-	20,882	20,882	-	9,604	9,604
Operating expenses	17	(697,565)	(3,115)	(700,680)	(612,404)	(10,451)	(622,855)
<b>Operating profit</b>		<b>48,725</b>	<b>21,607</b>	<b>70,332</b>	<b>35,427</b>	<b>12,929</b>	<b>48,356</b>
Finance income	18	9,869	-	9,869	752	56	808
Finance expenses	18	(70,726)	(23)	(70,749)	(61,142)	-	(61,142)
<b>Net finance costs</b>		<b>(60,857)</b>	<b>(23)</b>	<b>(60,880)</b>	<b>(60,390)</b>	<b>56</b>	<b>(60,334)</b>
<b>Profit / (loss) before taxation</b>		<b>(12,132)</b>	<b>21,584</b>	<b>9,452</b>	<b>(24,963)</b>	<b>12,985</b>	<b>(11,978)</b>
Income tax	19	(5,369)	(56)	(5,425)	4,709	421	5,130
<b>Net profit / (loss)</b>		<b>(17,501)</b>	<b>21,528</b>	<b>4,027</b>	<b>(20,254)</b>	<b>13,406</b>	<b>(6,848)</b>
<b>Other comprehensive income</b>							
<b>Items that are or may be reclassified to profit or loss</b>							
Foreign operations – foreign currency translation differences		(109)	-	(109)	(8,796)	-	(8,796)
Available for sale financial asset, change in fair value	7, 19	1,227	-	1,227	8,561	-	8,561
Cash Flow hedge reserves		(4,535)	-	(4,535)	-	-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>(3,417)</b>	<b>-</b>	<b>(3,417)</b>	<b>(235)</b>	<b>-</b>	<b>(235)</b>
<b>Total comprehensive income for the year</b>		<b>(20,918)</b>	<b>21,528</b>	<b>610</b>	<b>(20,489)</b>	<b>13,406</b>	<b>(7,083)</b>
<b>Profit / (Loss) attributable to:</b>							
Equity holders of the parent		(16,667)	20,637	3,970	(19,281)	12,847	(6,434)
Non-controlling interest		(834)	891	57	(973)	559	(414)
<b>Net profit / (loss) for the year</b>		<b>(17,501)</b>	<b>21,528</b>	<b>4,027</b>	<b>(20,254)</b>	<b>13,406</b>	<b>(6,848)</b>
<b>Total comprehensive income attributable to:</b>							
Equity holders of the parent		(19,896)	20,637	741	(19,176)	12,847	(6,329)
Non-controlling interests		(1,022)	891	(131)	(1,313)	559	(754)
<b>Total comprehensive income for the year</b>		<b>(20,918)</b>	<b>21,528</b>	<b>610</b>	<b>(20,489)</b>	<b>13,406</b>	<b>(7,083)</b>

The financial statements were approved by the Board of Directors on 15 April 2016 and were signed on its behalf by:

Zoltan Teszari, President of the Board of Directors

Monique Charlotte Rosenkotter-Donker, Member of the Board of Directors

Marius Catalin Varzaru, Member of the Board of Directors

Parveen Chantal Soebrati, Member of the Board of Directors

Serghei Bulgac, CFO

**CABLES COMMUNICATIONS SYSTEMS**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2015**

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

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
<b>Profit/(loss) before taxation</b>		<b>9,452</b>	<b>(11,978)</b>
<b>Adjustments for:</b>			
Depreciation, amortization and impairment	5, 6	187,905	192,061
Interest expense, net	18	54,265	49,865
Impairment of trade and other receivables	22	10,069	7,999
Impairment of investments in associates		1,542	-
Losses/(gains) on derivative financial instruments	22	(5,523)	2,886
Equity settled share-based payments	23	2,054	2,418
Unrealised foreign exchange loss/(gain)		(837)	(1,343)
Other non cash items		(64)	(313)
Gain on sale of assets		(744)	-
Gain on disposal of subsidiary	20	(20,882)	(9,604)
<b>Cash flows from operations before working capital changes</b>		<b>237,237</b>	<b>231,991</b>
<b>Changes in:</b>			
Decrease/(increase) in trade receivables and other assets		15,144	(33,540)
Increase in inventories		(3,704)	(4,463)
Increase in trade payables and other current liabilities		21,191	28,525
(Decrease)/increase in deferred revenue		(28,388)	3,791
<b>Cash flows from operations</b>		<b>241,480</b>	<b>226,304</b>
Interest paid		(44,235)	(46,746)
Income tax paid		(5,062)	(4,618)
<b>Net cash flows from operating activities</b>		<b>192,183</b>	<b>174,940</b>
<b>Cash flow used in investing activities</b>			
Purchases of property, plant and equipment	5,14	(113,733)	(113,084)
Purchases of intangibles	6,14	(80,618)	(87,775)
Acquisition of subsidiaries, net of cash and NCI	21	(1,827)	(12,758)
Acquisition of AFS	21	(1,460)	(1,160)
Sale of subsidiaries, net of cash disposed	20	25,132	10,137
Proceeds from sale of property, plant and equipment		919	196
<b>Net cash flows used in investing activities</b>		<b>(171,587)</b>	<b>(204,444)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(1,622)	(1,741)
Proceeds from borrowings		258,229	49,634
Repayment of borrowings		(272,905)	(4,459)
Financing costs paid		(4,082)	(6,780)
Settlement of derivatives		(3,739)	(2,210)
Payment of finance lease obligations		(1,618)	(856)
<b>Net cash flows (used in)/from financing activities</b>		<b>(25,737)</b>	<b>33,588</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,141)</b>	<b>4,084</b>
Cash and cash equivalents at the beginning of the year	11	54,288	50,234
Effect of exchange rate fluctuations of cash and cash equivalents held		515	(30)
<b>Cash and cash equivalents at the end of the year</b>	11	<b>49,662</b>	<b>54,288</b>

The amount presented as Interest expense in Cash Flow as at 31 December 2015, includes interest expense during the year (EUR 49,342) and unamortized borrowing costs recognized as expense (EUR 4,923) related to the 2013 New Senior Facility repaid in 2015. For details, please see Note 13 Borrowings.

**CABLE COMMUNICATIONS SYSTEMS**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2015**

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

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
<b>Balance at 1 January 2015</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(31,616)</b>	<b>46,775</b>	<b>30,128</b>	<b>-</b>	<b>68,261</b>	<b>105,143</b>	<b>2,197</b>	<b>107,340</b>
<b>Comprehensive income for the period</b>											
Profit for the year								3,970	3,970	57	4,027
Foreign currency translation differences				(110)					(110)	2	(108)
Fair Value for AFS						1,227			1,227	-	1,227
Cash Flow hedge reserves							(4,346)		(4,346)	(189)	(4,535)
Transfer of revaluation reserve (depreciation)					(10,461)		-	10,461	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(110)</b>	<b>(10,461)</b>	<b>1,227</b>	<b>(4,346)</b>	<b>14,431</b>	<b>741</b>	<b>(130)</b>	<b>611</b>
<b>Transactions with owners, recognised directly in equity</b>											
<b>Contributions by and distributions to owners</b>											
Equity-settled share-based payment transactions (Note 23)								1,968	1,968	86	2,054
Dividends distributed (note 12)								(3,500)	(3,500)		(3,500)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,532)</b>	<b>(1,532)</b>	<b>86</b>	<b>(1,446)</b>
<b>Changes in ownership interests in subsidiaries</b>											
Payments while having full control (Note 21)								(707)	(707)	(31)	(738)
Movement in ownership interest while retaining control (Note 21)								(2,991)	(2,991)	38	(2,953)
<b>Total changes in ownership interests in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,698)</b>	<b>(3,698)</b>	<b>7</b>	<b>(3,691)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,230)</b>	<b>(5,230)</b>	<b>93</b>	<b>(5,137)</b>
<b>Balance at 31 December 2015</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(31,726)</b>	<b>36,314</b>	<b>31,355</b>	<b>(4,346)</b>	<b>77,462</b>	<b>100,654</b>	<b>2,160</b>	<b>102,814</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2015**  
*(all amounts are in thousand Euro, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
<b>Balance at 1 January 2014</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(23,160)</b>	<b>55,688</b>	<b>21,567</b>	<b>71,397</b>	<b>117,087</b>	<b>3,396</b>	<b>120,483</b>
<b>Comprehensive income for the period</b>										
Profit for the year	-	-	-	-	-	-	(6,434)	(6,434)	(414)	(6,848)
Foreign currency translation differences	-	-	-	(8,456)	-	-	-	(8,456)	(340)	(8,796)
Fair Value for AFS	-	-	-	-	-	8,561	-	8,561	-	8,561
Transfer of revaluation reserve (depreciation)	-	-	-	-	(8,913)	-	8,913	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,456)</b>	<b>(8,913)</b>	<b>8,561</b>	<b>2,479</b>	<b>(6,329)</b>	<b>(754)</b>	<b>(7,083)</b>
<b>Transactions with owners, recognised directly in equity</b>										
<b>Contributions by and distributions to owners</b>										
Equity-settled share-based payment transactions (Note 23)	-	-	-	-	-	-	2,325	2,325	93	2,418
Dividends distributed (note 12)	-	-	-	-	-	-	(3,500)	(3,500)	-	(3,500)
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,175)</b>	<b>(1,175)</b>	<b>93</b>	<b>(1,082)</b>
<b>Changes in ownership interests in subsidiaries</b>										
Payments while having full control (Note 21)	-	-	-	-	-	-	(1,995)	(1,995)	(80)	(2,075)
Movement in ownership interest while retaining control (Note 21)	-	-	-	-	-	-	(2,445)	(2,445)	(458)	(2,903)
<b>Total changes in ownership interests in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,440)</b>	<b>(4,440)</b>	<b>(538)</b>	<b>(4,978)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,615)</b>	<b>(5,615)</b>	<b>(445)</b>	<b>(6,060)</b>
<b>Balance at 31 December 2014</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(31,616)</b>	<b>46,775</b>	<b>30,128</b>	<b>68,261</b>	<b>105,143</b>	<b>2,197</b>	<b>107,340</b>



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**1. CORPORATE INFORMATION**

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

The parent company of the Group is Cable Communications Systems N.V. (“CCS” or “the Company” or “the Parent”), a company incorporated in Netherlands. The main operations are carried by RCS&RDS S.A (Romania) (“RCS&RDS”), Digi T.S kft (Hungary), Digi Spain Telecom SLU, and Digi Italy SL. CCS registered office is located in Amsterdam (1043 BW), Naritaweg 165, Telestone 8, The Netherlands.

RCS&RDS is a company incorporated in Romania and its registered office is located at Dr. Staicovici 75, Bucharest, Romania.

RCS&RDS was setup in 1994, under the name of Analog CATV, and initially started as a cable TV operator in several cities in Romania. In 1996 following a merger with a part of another cable operator (Kappa) the name of the company became Romania Cable Systems S.A. (“RCS”).

In 1998 Romania Cable Systems S.A established a new subsidiary Romania Data Systems S.A. (“RDS”) for the purposes of offering internet, data and fixed telephony services to the Romanian market.

In August 2005, Romania Cable Systems S.A. absorbed through merger its subsidiary Romania Data Systems S.A. and changed its name into RCS&RDS.

RCS&RDS evolved historically both by organic growth and by acquisition of telecommunication operators and customer relationships.

The Group provides telecommunication services of Cable TV (television), Fixed and Mobile Internet and Data, Fixed-line and Mobile Telephony (“CBT”) and Direct to Home television (“DTH”) services in Romania, Hungary, Spain and Italy. The largest operating company of the Group is RCS&RDS. At the end of 2015, CCS Group had a total of 12,453 employees (2014: 12,205 employees).

The principal shareholder of the CCS is RCS Management (“RCSM”) a company incorporated in Romania. The ultimate shareholder of CCS is Mr. Zoltan Teszari, the principal controlling shareholder of RCSM. CCS and RCSM have no operations, except for holding and financing activities, and their primary/ only asset is the ownership of RCS&RDS and respectively CCS.

The consolidated financial statements were authorized for issue by the Board of Directors of CCS on 15 April 2016.

## **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").

#### **(b) Non –statutory consolidated financial statements**

These Consolidated financial statements are not intended for statutory filing purposes in any jurisdiction. Consequently, they are not suitable for statutory filing in any jurisdiction. They are prepared as part of the filing obligations stated in the Offering Memorandum dated 4 November 2013. For statutory Dutch filing purposes the Group has applied the exception 408 of the Dutch Civil Code Book 2 Title 9 and therefore, the parent company, RCSM will file its consolidated financial statements for the year ended 31 December 2015, prepared in accordance with IFRS as adopted by the EU, with the auditor's opinion and the annual report in English within six months after the balance sheet date or within one month after a lawfully made later publication at the office of the commercial register.

#### **(c) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for buildings, cable plant, equipment and devices and customer premises equipment measured at revalued amount, and except for available for sale financial assets and derivative financial instruments measured at fair value as described in the accounting policies under Note 2.2 below.

#### **(d) Going concern assumption**

Management believes that the Group will continue as a going concern for the foreseeable future. In recent years the Group operated in an environment of exchange rate volatility whereby the functional currencies (RON, HUF, etc.) fluctuated against the USD and EUR. The unfavourable evolution of the exchange rates has impacted the financial result. However it did not affect the operations of the Group. Despite these circumstances, the Group was able to mitigate the effects of the financial crisis that started globally in the second half of 2008 by readjusting its tariffs, maintaining its investment program and paying higher attention to the working capital management.

In the current year and recent years, the Group has managed to achieve consistently strong local currency revenue streams and cash flows from operating activities and has continued to grow the business. These results have been achieved during a period of significant investments in technological upgrades, new services and footprint expansion. The ability to offer multiple services is a central element of CCS Group strategy and helps the Group to attract new customers, to expand the uptake of service offerings within the existing customer base and to increase customer loyalty by offering high value-for-money package offerings of services and exclusive content.

#### **(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).

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

The consolidated financial statements are presented in Euro ("EUR") and all values are rounded to the nearest thousand EUR except when otherwise indicated. The Group uses the EUR as a presentation currency of the consolidated financial statements under IFRS based on the following considerations:

- management analysis and reporting is prepared in EUR;
- EUR is used as a reference currency in telecommunication industry in the European Union;
- Main debt finance instruments are denominated in EUR.

The translation into presentation currency of the financial statements of each entity is described under Note 2.2 below.

**(f) Significant estimates and judgments**

In the process of applying the Group's accounting policies, management has made the following significant judgements and estimates, including assumptions, that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 21 purchase price allocation and goodwill calculation;
- Notes 2.2 (d): recognition and classification of programme assets;
- Notes 2.2 (c) and 5: recognition of customer premises equipment.

A significant judgment specific for the year 2014 was that, as at 31 December 2014 management considered that the IFRS 5 criteria for the recognition of the sale of Czech Subsidiary were not met, as at the year end there was no firm decision taken to sell Digi Czech Republic SRO. The subsidiary was eventually sold in April 2015.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3b: fair value of customer relationships acquired in a business combination;
- Note 6: key assumptions used in discounted cash flow projections in relation to goodwill impairment testing;
- Notes 7 and 22 iv): measurement of available for sale financial assets;
- Note 2.2 (c): useful lives of property, plant and equipment;
- Note 5: revaluation of buildings, cable plant, equipment and devices and customer premises equipment;
- Note 22 i): impairment of trade receivables;
- Notes 22 iv): fair value of financial instruments;
- Note 25: contingencies;
- Note 13 and 22 iv): bonds embedded derivatives;
- Note 19: recognition of deferred tax assets.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **2.2 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Parent has prepared the consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances for all Group entities.

#### **New pronouncements**

The accounting policies used are consistent with those of the previous financial year except for the following new and amended IFRSs which have been adopted by the Group as of 1 January 2015:

- Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015:
- IFRS 3 Business Combinations: This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 Fair Value Measurement: This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- IAS 40 Investment Properties: This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

These amendments did not have a significant effect on the financial position or performance of the Group.

#### **a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of CCS and its subsidiaries and the Group's interest in associates as at 31 December 2015. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using mostly consistent accounting policies. Upon consolidation adjustments are recorded in order to align the few inconsistent accounting policies.

##### *Business combinations*

The Group accounts for business combinations using the acquisition method. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. If the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### *Non-controlling interests*

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

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

### *Subsidiaries*

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

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

### *Loss of control*

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

### *Investments in associates*

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

Investments in associates are accounted for using the equity method (equity-accounted investees)

Under the equity method, the investment in an associate is initially recognised at cost. The cost of the investment includes transaction costs. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

*Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**b) Foreign currency**

*Foreign currency - Transactions and balances*

Transactions in foreign currencies have been recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been retranslated into the functional currency at the rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective and
- qualifying cash flow hedges to the extent that the hedges are effective.

*Foreign operations - Translation to presentation currency*

The assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the reporting date (none of the functional currencies of the subsidiaries or the Parent is hyperinflationary for the reporting periods). The income and expenses of the Parent and of the subsidiaries are translated at transaction date exchange rates. The exchange differences arising on the retranslation from functional currency to presentation currency are taken directly to equity under translation reserve. On disposal of a foreign entity, accumulated exchange differences relating to it and previously recognized in equity as translation reserve are recognized in profit or loss as component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The following rates were applicable at various time periods according to the National Banks of Romania, Hungary and Czech Republic:

Currency	2015			2014		
	Jan – 1	Average for the year	Dec – 31	Jan – 1	Average for the year	Dec – 31
RON per 1EUR	4.4821	4,4450	4.5245	4.4847	4.4446	4.4821
HUF per 1EUR	314.89	309.89	313.12	296.91	308.66	314.89
CZK per 1EUR	27.73	27.58*	N/A	27.43	27.53	27.73
USD per 1EUR (ecb.eu)	1.2141	1.1095	1.0887	1.3791	1.3285	1.2141

\*The average rate for CZK is the average of period starting 1 January 2015, ending 30 April 2015.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**c) Property, plant and equipment**

Property, plant and equipment is carried:

- using the cost model, at purchase or construction cost less accumulated depreciation and accumulated impairment losses: vehicles, furniture and office equipment; or
- using the revaluation model, at a revalued amount, which is the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses: land, buildings, cable plant, equipment and devices and customer premises equipment ("CPE").

Land is not depreciated.

Property, plant and equipment is measured at cost upon initial recognition.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to their present location and condition necessary for their intended use, and capitalised borrowing costs, when applicable.

The costs of internally developed networks include proportionate direct material and labour costs, as well as costs relating to subcontracting the development services.

Cost includes the cost of replacing part of the plant or equipment when that cost meets the recognition criteria. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred.

Property, plant and equipment includes customer premises equipment, such as DTH, cable, Internet and 3G equipment in custody with customer, when the Group retains control over such assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying amount of customer premises equipment in custody of customers with suspended services as at the reporting date is fully impaired.

The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

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

<i>Property, plant and equipment</i>	<i>Useful life</i>
Buildings	40 years
Cable plant	15 years
Mobile Radio Network	10 years
Equipment and devices	3-12 years
Customer premises equipment	
- Indoor DTH and CBT equipment	5 years
- Outdoor DTH and CBFT equipment	5-9 years
- Mobile handsets and mobile Internet devices	3 years
Vehicles	5 years
Furniture and office equipment	3-9 years

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year when the asset is derecognized.

### *Revaluation*

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

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in the profit or loss. A revaluation deficit is recognized in profit or loss, except where a deficit is directly offsetting a previous surplus on the same asset in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve is transferred to retained earnings as the assets are depreciated or upon disposal.

Items of property, plant and equipment with zero net book value are not revalued.

### **d) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortized over the useful economic life on a straight line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss.

### *Customer relationships*

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies. Customer relationships acquired directly from other companies are recognized at the cost of acquisition, which is the fair value of the consideration paid. Customer relationships obtained by acquiring control of certain companies are recognized at their fair value at the date of the acquisition and are presented separately from any goodwill resulting in the acquisition.

Management determines the useful life used for the amortization of customer relationships based on management analysis and past experience. The useful life used for amortizing customer relationships is of 7 years (straight line method is used).



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

*Subscriber acquisition costs*

Subscriber acquisition costs ("SAC") represent the costs for acquiring and connecting new subscribers of the Group companies, consisting of commissions paid to third parties for contracting a new subscriber at the point at which the contract is signed with the customer. The Company capitalises as intangible assets the subscriber acquisition costs as they meet the requirements of IAS 38 for capitalization.

SAC are amortized over the related contract period, being a one or two year period. SAC are fully written off for all customers with suspended services as at the reporting date.

*Goodwill*

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.2 (a).

Goodwill is subsequently measured at cost less accumulated impairment losses, being tested at least annually for impairment.

Where goodwill forms part of cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

*Programme assets*

The Group is concluding multi-annual contracts for the acquisition of broadcasting rights for national and international sports competitions ("sports rights"), as well as contracts for the acquisition of film and television broadcasting rights. When entering into such contracts, the rights acquired are classified as contractual commitments. They are recognised in the statement of financial position and classified as current intangible assets (programme assets) as follows:

- Sports broadcasting rights for the current season are recognized at their acquisition cost, at the opening of the broadcasting period of the related sports season. Sports rights are amortized over the period they relate to on a straight line basis. Any rights not expected to be utilized are written off;
- Film and television broadcasting rights are recognised at their acquisition cost, when the programme is available for screening and are amortised over their broadcasting period.

Advance payments for sports rights related to future seasons and for film and television rights are also presented as current intangible assets (programme assets).

The Group classifies the cash outflows for the purchase of programme assets as cash flows used in investing activities in the Consolidated Statement of Cash Flows, based on the long-term nature of the contribution of these assets to the subscriber acquisition, subscriber retention and consequent revenue generation, based on the comprehensive strategy of the Group.

*Other intangible assets*

Other intangible assets that are acquired by the Group (the 2100 MHz, the 900 MHz, the 2600 MHz and the 3600 MHz mobile telephony licenses in Romania, the 1800 MHz mobile telephony license in Hungary, software and other intangible assets) have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

Amortization of the mobile telephony licences is charged on a straight line basis over the period of each license (15 years). Software licenses (including software related to telecommunication equipment) are amortized on a straight line over their estimated useful life which is generally 3 to 8 years. Other contractual intangible assets are amortized over their underlying contract period.

**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 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.

**Cash and cash equivalents**

Cash and cash equivalents 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)**

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.

#### **Derecognition**

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

### *(iii) Share capital*

#### **Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Transactions with the Company's shares between shareholders are considered completed at the date the transfer of ownership has been agreed upon by the parties in a written contract.

#### **Repurchase, disposal and reissue of share capital (treasury shares)**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

### *(iv) Derivative financial instruments*

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### **Derivatives held for trading**

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **Derivatives as hedging instruments**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

On initial designation of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

#### *Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit and loss.

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **f) Impairment**

#### *i) Non-financial assets*

#### **Property, plant and equipment and intangible assets other than goodwill**

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

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

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

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

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

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

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

#### **Goodwill**

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

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

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit and loss.

Impairment losses recognized for goodwill cannot be subsequently reversed.

### *ii) Financial assets*

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

#### **Financial assets measured at amortised cost**

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Trade and other receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a future write-off is later recovered, the recovery is recognized in profit or loss.

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

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI. Impairment losses for an impaired available-for-sale equity instrument are not reversed through profit or loss, but only through OCI.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **Investments in associates**

An impairment loss in respect of investments in associates is measured by comparing the recoverable amount of the investment with its carrying amount. The recoverable amount of the investment is the higher of its fair value less costs of disposal and its value in use. The Group determines the fair value less costs of disposal based on a DCF valuation model.

An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

### **g) Inventories**

Inventories are stated at the lower of cost and net realizable value.

Cost is determined on a FIFO basis, and it comprises all costs of purchase, costs of conversion and other costs in bringing the inventories to their current location and condition.

Net realizable value of the equipment sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### **h) Employee benefits**

#### *Short-term employee benefits*

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses as services are rendered.

#### *Pensions and other post-employment benefits*

Under the regulatory regimes applicable in the countries where it operates, the Group is required to make payments to national social security funds for the benefit of its employees (defined contribution plans financed on a pay-as-you go basis). The Group has no legal or constructive obligation to pay future contributions if the state managed funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Its only obligation is to pay the contributions as they fall due and if it ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

The Group does not operate any other pension schemes or post employment benefit plans.

#### *Share based payment transactions*

Refer to paragraph q) below.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **i) Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as a finance cost.

### **j) Leases**

#### *The Group as a lessee*

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

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

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

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

Leases, including IRU leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

When a sale and lease back transaction results in a finance lease, any excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term (no profit on disposal of the asset is recorded in profit or loss). No loss is recognized unless the asset is impaired. If no loss is recognised, the leased asset is recorded at the previous carrying amount and continues to be accounted as before the sale and leaseback transaction.



## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### *The Group as a lessor*

The Group currently has no material arrangements as a lessor. The existing arrangements as a lessor, which are not material, are all operating leases.

### **k) Contingencies**

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

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

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

### **l) Revenue and other income**

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

#### ***Revenues from services***

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

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

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

The above revenues are recognized as follows:

- *Subscription fees and voice traffic services*

Video services subscriptions, pay TV fees, internet and data subscriptions, telephony subscriptions and voice minutes consumption revenues are earned over the period when those services are provided. These revenues are collected through subscription fees that arise from the monthly billing of subscribers for these services, and monthly billing of voice traffic. Revenue is recognized in the month the service is rendered. Voice traffic revenue is recognized in the profit or loss at the time the call is made. Revenue from interconnect fees is recognised at the time the services are performed.

- *Deferred revenue*

Any subscription revenue received in advance of the service being provided is recorded as deferred revenue and recognized over the period when the service is provided.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

• *Prepaid services*

Revenue from the sale of prepaid cards, net of discounts allowed, included in the Group's prepaid services packages, is recognised based on usage. Prepaid revenue is deferred until the customer uses the traffic or the card expires.

***Equipment sales***

Revenue is recognized when the significant risks and rewards of ownership of the equipment have passed to the buyer, usually upon delivery.

***Instalment sales***

Revenue attributable to the sales price, exclusive of interest, is recognized when the risks and rewards of ownership have passed to the buyer, usually upon delivery. The revenue recognised on the sale is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, using the effective interest method.

***Rental income***

Rental income arising from operating leases of assets is accounted for on a straight-line basis over the lease term of ongoing leases.

***Multiple element arrangements***

Sales of certain packaged offers are considered as comprising identifiable and separate components to which general revenue recognition criteria can be applied separately. Once the separate components have been identified, the amount received or receivable from the customer is allocated, based on each component's fair value, first to the undelivered element and the remainder, if any, to the delivered element. For the delivered element the revenue is recognized only when the following criteria are met:

- the delivered item has a value to the consumer on a standalone basis, and
- there is objective and reliable evidence of the fair value of the undelivered item.

Where the promotional offer includes a period of free service, a portion of the revenue is recognized over the period of the free service.

***Other income***

Other income includes the effect of reductions in estimates (accruals) of certain elements of other expenses, as well as gains on trade and other payables released during the period.

**m) Finance income and finance expense**

Finance income comprises interest income on funds invested, dividend income, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on derivative financial instruments that are recognised in profit or loss and reclassifications of net gains in hedging instruments previously recognised in other comprehensive income.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on derivative financial instruments that are recognised in profit or loss and reclassifications of net losses on hedging instruments previously recognised in other comprehensive income. Unamortised borrowing fees are expensed upon termination of related borrowings.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

### **n) Related parties**

Parties are considered related when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also include individuals that are principal owners, management and members of the Board of Directors and members of their families, or any company that is related party to Group's entities.

### **o) Income tax**

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

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

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

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **p) Dividends**

Dividends are recognized as distributions within equity in the period in which they are declared to shareholders (at the date of the approval by the shareholders). Dividends for the year are declared after the reporting date.

### **q) Share-based payment transactions**

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

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. For determination of fair value of equity instruments, refer to Note 3(e).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### **r) Discontinued operations**

A discontinued operation is a component of the Group's business, operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

### **s) Subsequent events**

Post period-end events that provide additional information about the Group's position at the reporting date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the consolidated financial statements. Post period events that are not adjusting events are disclosed in the notes, when material.

### **t) Segment reporting**

The information by operating segment is based on internal reporting to the Board of Directors, identified as "Chief Operating Decision-Maker", as defined by IFRS 8 *Operating Segments*. The Board of Directors reviews segment information on revenue and non-current assets on a monthly basis and segment EBITDA (earnings before interest, taxes, depreciation and amortization) on a quarterly basis.

The Group considers EBITDA, a non-IFRS measure, to be the key operating performance measure of its operating segments. The method used in calculating EBITDA and its reconciliation to the line items in the statement of comprehensive income is disclosed in Note 27. All other information included in the disclosure per segment is prepared under IFRSs applicable to the consolidated financial statements.

The Chief Operating Decision-Maker has chosen to review geographical operating segments because the Group's risks and rates of return are affected predominantly by the fact that it operates in different countries.

### **2.3 Standards issued but not yet effective and not early adopted**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group does not plan to adopt these standards early.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**  
The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.
- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**  
The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. 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)**

- **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. The management is in process of assessing the impact of this new standard on the consolidated financial position or performance of the Group.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IFRS 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. The management is in process of assessing the impact of this new standard on the consolidated financial position or performance of the Group.

- **IAS 27 Separate Financial Statements (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

- **IAS 1: Disclosure Initiative (Amendment)**

The amendments to IAS 1 *Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The amendment will have impact on the disclosures from the consolidated financial statements of the Group.

- **The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.

- **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has assessed that these amendments will not have an impact on the consolidated financial position or performance of the Group.
  - **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - **IFRS 7 Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
  - **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
  - **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.
- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The management is in process of assessing the impact of this new standard on the consolidated financial position or performance of the Group.
- **IAS 12 Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. For example, the amendments clarify the accounting for deferred tax assets when an entity is not allowed to deduct unrealised losses for tax purposes or when it has the ability and intention to hold the debt instruments until the unrealised loss reverses. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.
- **IAS 7 Statement of Cash Flows (Amendments): Disclosure Initiative**

The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendment will have impact on the disclosures from the consolidated financial statements of the Group.



### **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 on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of property, plant and equipment is based on the market approach and, where market approach cannot be used given the high degree of specialization of the asset being valued, cost approach. Market approach relies on quoted market prices for similar items when available or on valuation models that use inputs observable on the market. The cost approach relies on the determination of the depreciated replacement cost. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

#### **b) Intangible assets**

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

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**3. DETERMINATION OF FAIR VALUES (continued)**

**c) Derivatives**

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

**d) Non-derivative financial assets and liabilities**

Non-derivative financial assets and liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

**e) Equity-settled share-based payment transactions**

The fair value of the options granted to employees is measured using a generally accepted valuation technique, in which the main input is the market value of shares at the grant date as the exercise price of the options is equal to the nominal value of shares which is close to zero (refer to Note 23). Given the short life of the options and the low volatility in the market value of the Group's shares, management estimates that the time value of the share options is not significant. The market value of the shares is determined based on a discounted cash flow method and comparable enterprise/equity values of other entities in the telecom industry. The main inputs used in the discounted cash flow calculation are Group revenues, EBITDA, WACC, terminal growth rate.

**f) Available for sale investments**

The market value of the shares is determined based on a discounted cash flow method and comparable enterprise/equity values of other entities in the telecom industry. The main inputs used in the discounted cash flow calculation are Group revenues, EBITDA, WACC, terminal growth rate.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**as of and for the year ended 31 December 2015**  
*(all amounts are in thousand Euro, unless specified otherwise)*

**4. SEGMENT REPORTING**

<b>31 December 2015</b>	<b>Romania</b>	<b>Hungary</b>	<b>Spain</b>	<b>Other</b>	<b>Eliminations</b>	<b>Reconciling item</b>	<b>Group</b>
Segment revenue and other income	540,134	125,933	72,679	11,384	-	-	<b>750,130</b>
Inter-segment revenues	1,638	-	1,074	-	(2,712)	-	
Segment operating expenses	(363,210)	(76,549)	(62,755)	(12,973)	2,712	-	<b>(512,775)</b>
<b>EBITDA (Note 27)</b>	<b>178,562</b>	<b>49,384</b>	<b>10,998</b>	<b>(1,589)</b>	<b>-</b>	<b>-</b>	<b>237,355</b>
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(187,905)	<b>(187,905)</b>
Gain from sale of discontinued operations	-	-	-	20,882	-	-	<b>20,882</b>
<b>Operating profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,332</b>
Additions to tangible non-current assets	125,621	15,303	522	174	-	-	<b>141,620</b>
Additions to intangible non-current assets	27,600	1,017	2,962	670	-	-	<b>32,250</b>
<i>Carrying amount of:</i>							
Property, plant and equipment	575,008	98,711	954	70	-	-	<b>674,743</b>
Non-current intangible assets	169,529	31,208	3,510	881	-	-	<b>205,128</b>
Investments in associates and AFS	1,000	-	-	43,373	-	-	<b>44,373</b>

The types of products and services from which each segment derives its revenues are disclosed in Note 16.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**as of and for the year ended 31 December 2015**  
*(all amounts are in thousand Euro, unless specified otherwise)*

**4. SEGMENT REPORTING (continued)**

<b>31 December 2014</b>	<b>Romania</b>	<b>Hungary</b>	<b>Spain</b>	<b>Other</b>	<b>Eliminations</b>	<b>Reconciling item</b>	<b>Group</b>
Segment revenue and other income	469,652	119,051	54,028	18,876	-	-	661,607
Inter-segment revenues	1,445	-	740	-	(2,185)	-	-
Segment operating expenses	(294,103)	(72,309)	(50,354)	(16,213)	2,185	-	(430,794)
<b>EBITDA (Note 27)</b>	<b>176,994</b>	<b>46,742</b>	<b>4,414</b>	<b>2,663</b>	<b>-</b>	<b>-</b>	<b>230,813</b>
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(192,061)	(192,061)
Gain from sale of discontinued operations	-	-	-	9,604	-	-	9,604
<b>Operating profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,356</b>
Additions to tangible non-current assets	142,405	5,704	655	518	-	-	149,282
Additions to intangible non-current assets	16,644	32,818	2,668	847	-	-	52,977
<i>Carrying amount of:</i>							643,079
Property, plant and equipment	539,782	102,017	747	533	-	-	643,079
Non-current intangible assets	142,016	53,385	3,730	610	-	-	199,741
Investments in associates and AFS	2,492	-	-	41,296	-	-	43,788

The types of products and services from which each segment derives its revenues are disclosed in Note 16.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**as of and for the year ended 31 December 2015**  
*(all amounts are in thousand Euro, unless specified otherwise)*

**5. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Cable plant	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
<b>Cost</b>									
<b>At December 31, 2014</b>	<b>10,405</b>	<b>43,277</b>	<b>431,870</b>	<b>64,665</b>	<b>120,121</b>	<b>197,960</b>	<b>27,446</b>	<b>15,428</b>	<b>911,172</b>
Additions	1,894	3,234	5,038	119,749	442	7,918	1,171	1,880	141,326
Acquired through business combinations (note 21 b)	-	-	-	-	-	290	-	4	294
Transfer from construction in progress ("CIP")/reallocation	-	16,400	44,292	(111,294)	25,103	21,743	2,280	1,476	-
Transfers from inventories	-	-	-	11,967	-	-	-	-	11,967
Discontinued operations (note 20)	-	-	-	-	(1,122)	(28)	(116)	(68)	(1,334)
Disposals	(126)	-	(609)	(773)	(506)	(267)	(625)	(87)	(2,993)
Effect of movements in exchange rates	(130)	(721)	(4,109)	(917)	(1,401)	(1,269)	(16)	(160)	(8,723)
<b>At December 31, 2015</b>	<b>12,043</b>	<b>62,190</b>	<b>476,482</b>	<b>83,397</b>	<b>142,637</b>	<b>226,347</b>	<b>30,140</b>	<b>18,473</b>	<b>1,051,709</b>
<b>Depreciation and impairment</b>									
<b>At December 31, 2014</b>	<b>-</b>	<b>5,506</b>	<b>72,582</b>	<b>-</b>	<b>74,758</b>	<b>83,258</b>	<b>21,747</b>	<b>10,242</b>	<b>268,093</b>
Depreciation charge	-	1,971	43,267	-	29,297	35,867	2,242	2,332	114,976
Impairment	-	-	-	-	337	-	-	-	337
Discontinued operations (note 20)	-	-	-	-	(713)	(12)	(64)	(49)	(838)
Disposals	-	-	(431)	-	(443)	(251)	(629)	(80)	(1,834)
Effect of movements in exchange rates	-	(75)	(1,350)	-	(1,162)	(1,065)	(13)	(103)	(3,768)
<b>At December 31, 2015</b>	<b>-</b>	<b>7,402</b>	<b>114,068</b>	<b>-</b>	<b>102,074</b>	<b>117,797</b>	<b>23,283</b>	<b>12,342</b>	<b>376,966</b>
<b>Net book value</b>									
<b>At December 31, 2014</b>	<b>10,405</b>	<b>37,771</b>	<b>359,288</b>	<b>64,665</b>	<b>45,363</b>	<b>114,702</b>	<b>5,699</b>	<b>5,186</b>	<b>643,079</b>
<b>At December 31, 2015</b>	<b>12,043</b>	<b>54,788</b>	<b>362,414</b>	<b>83,397</b>	<b>40,563</b>	<b>108,550</b>	<b>6,857</b>	<b>6,131</b>	<b>674,743</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**as of and for the year ended 31 December 2015**  
*(all amounts are in thousand Euro, unless specified otherwise)*

**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land	Buildings	Cable plant	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
<b>Cost</b>									
<b>At December 31, 2013</b>	<b>9,299</b>	<b>35,128</b>	<b>387,634</b>	<b>35,191</b>	<b>97,852</b>	<b>168,507</b>	<b>24,622</b>	<b>13,483</b>	<b>771,715</b>
Additions	882	1,705	1,548	126,644	1,670	5,803	955	478	139,685
Acquired through business combinations (note 21 b)	202	-	6,762	2,197	-	381	50	5	9,597
Transfer from construction in progress ("CIP")/reallocation	26	6,607	40,785	(101,476)	21,951	27,843	2,588	1,676	-
Transfer from inventories	-	-	-	2,795	-	-	-	-	2,795
Disposals	-	-	(419)	(71)	(549)	(1,335)	(508)	(40)	(2,922)
Effect of movements in exchange rates	(4)	(163)	(4,440)	(615)	(803)	(3,239)	(261)	(174)	(9,699)
<b>At December 31, 2014</b>	<b>10,405</b>	<b>43,277</b>	<b>431,870</b>	<b>64,665</b>	<b>120,121</b>	<b>197,960</b>	<b>27,446</b>	<b>15,428</b>	<b>911,172</b>
<b>Depreciation and impairment</b>									
<b>At December 31, 2013</b>	<b>-</b>	<b>4,314</b>	<b>34,536</b>	<b>-</b>	<b>38,003</b>	<b>41,544</b>	<b>20,393</b>	<b>8,253</b>	<b>147,043</b>
Depreciation charge	-	1,239	38,978	-	34,392	43,327	1,967	2,147	122,050
Impairment	-	-	-	-	3,691	-	-	-	3,691
Disposals	-	-	(189)	-	(449)	(549)	(300)	(31)	(1,518)
Effect of movements in exchange rates	-	(47)	(743)	-	(879)	(1,064)	(313)	(127)	(3,173)
<b>At December 31, 2014</b>	<b>-</b>	<b>5,506</b>	<b>72,582</b>	<b>-</b>	<b>74,758</b>	<b>83,258</b>	<b>21,747</b>	<b>10,242</b>	<b>268,093</b>
<b>Net book value</b>									
<b>At December 31, 2013</b>	<b>9,299</b>	<b>30,813</b>	<b>353,098</b>	<b>35,191</b>	<b>59,850</b>	<b>126,963</b>	<b>4,228</b>	<b>5,230</b>	<b>624,672</b>
<b>At December 31, 2014</b>	<b>10,405</b>	<b>37,771</b>	<b>359,288</b>	<b>64,665</b>	<b>45,363</b>	<b>114,702</b>	<b>5,699</b>	<b>5,186</b>	<b>643,079</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

*Property, plant and equipment additions*

Most of the additions in 2015 and 2014 relate to the triple play network, as the Group has continued to invest in expanding to new areas but also has continued the upgrade of the existing network. Other additions relate to continued investment in the 3G network coverage 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 14,255 as of 31 December 2015 (31 December 2014: 11,850) 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 13 (x)).

*Revaluation of buildings*

The Group engaged an accredited independent appraiser to determine the fair value of its buildings. The last revaluation was performed as of 31 December 2013, being registered a decrease in fair value of EUR 2,720. The fair value was determined by reference to market-based evidence, using the market comparison and income approach (Level 3 in the fair value measurement hierarchy) – with main unobservable inputs being sales value per sqm and rental value per sqm).

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cost	62,253	43,278
Accumulated depreciation	(11,537)	(9,789)
<b>Net carrying amount</b>	<u><b>50,716</b></u>	<u><b>33,489</b></u>
<b>Fair value</b>	<u><b>54,788</b></u>	<u><b>37,771</b></u>

*Revaluation of cable plant, equipment and devices and customer premises equipment*

Cable plant, equipment and devices, and customer premises equipment were revalued as of 31 December 2012 on the basis of their depreciated replacement cost calculated by the Group's personnel (fair value is classified as Level 3 in the fair value measurement hierarchy). Replacement cost was determined as follows:

- for materials and equipment, based on price quotations from suppliers and prices of the most recent acquisitions;
- for personnel costs, based on the historical salaries multiplied by the Group's salary growth rate;
- for subcontractor costs, based on historical fees multiplied by the consumer price indices for services.

Cable plant, equipment and devices, and customer premises equipment are part of cash generating units containing goodwill, which are tested annually for impairment (refer to Note 6).

For details related to the fair value measurements refer to Note 3.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

If cable plant, equipment and devices, and customer premises equipment were measured using the cost model, the carrying amounts would be as follows:

*Cable plant*

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cost	541,447	496,568
Accumulated depreciation	(216,408)	(178,050)
<b>Net carrying amount</b>	<b>325,039</b>	<b>318,518</b>
<b>Fair value</b>	<b>362,414</b>	<b>359,288</b>

*Equipment and devices*

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cost	334,719	306,596
Accumulated depreciation	(232,416)	(198,666)
<b>Net carrying amount</b>	<b>102,303</b>	<b>107,930</b>
<b>Fair value</b>	<b>108,550</b>	<b>114,702</b>

*Customer premises equipment*

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cost	484,842	461,747
Accumulated depreciation	(446,588)	(418,945)
Impairment	(3,825)	(3,417)
<b>Net carrying amount</b>	<b>34,429</b>	<b>39,385</b>
<b>Fair value</b>	<b>40,563</b>	<b>45,363</b>

For details on the pledges placed on the Group assets refer to Note 13 (ix).



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**6. INTANGIBLE ASSETS**

**a) Non-current intangible assets**

	<b>Goodwill</b>	<b>Customer relationships</b>	<b>Trade marks</b>	<b>Subscriber acquisition costs ("SAC")</b>	<b>Licences and software</b>	<b>Total non-current intangible assets</b>
<b>Cost</b>						
<b>At December 31, 2014</b>	<b>80,994</b>	<b>69,255</b>	<b>235</b>	<b>58,298</b>	<b>133,839</b>	<b>342,621</b>
Additions	-	2,838	-	6,249	20,467	29,554
Reclassifications	(3,321)	3,321	-	-	-	-
Disposals	-	-	-	-	-	-
Additions from acquisition of subsidiaries (note 21b)	-	-	2,695	-	1	2,696
Discontinued operations (note 20)	-	-	-	(256)	(4)	(260)
Effect of movement in exchange rates	(433)	(632)	(47)	(119)	(877)	(2,108)
<b>At December 31, 2015</b>	<b>77,240</b>	<b>74,782</b>	<b>2,883</b>	<b>64,172</b>	<b>153,426</b>	<b>372,503</b>
<b>Depreciation</b>						
<b>At December 31, 2014</b>	<b>-</b>	<b>47,080</b>	<b>146</b>	<b>54,011</b>	<b>41,643</b>	<b>142,880</b>
Amortization	-	9,876	438	4,180	11,100	25,594
Disposals	-	-	-	-	-	-
Discontinued operations (note 20)	-	-	-	(256)	(4)	(260)
Effect of movement in exchange rates	-	(396)	(7)	(126)	(310)	(839)
<b>At December 31, 2015</b>	<b>-</b>	<b>56,560</b>	<b>577</b>	<b>57,809</b>	<b>52,429</b>	<b>167,375</b>
<b>Net Book Value</b>						
<b>At December 31, 2014</b>	<b>80,994</b>	<b>22,175</b>	<b>89</b>	<b>4,287</b>	<b>92,196</b>	<b>199,741</b>
<b>At December 31, 2015</b>	<b>77,240</b>	<b>18,222</b>	<b>2,306</b>	<b>6,363</b>	<b>100,997</b>	<b>205,128</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**6. INTANGIBLE ASSETS (continued)**

	<b>Goodwill</b>	<b>Customer relationships</b>	<b>Trade marks</b>	<b>Subscriber acquisition costs ("SAC")</b>	<b>Licences and software</b>	<b>Total non-current intangible assets</b>
<b>Cost</b>						
<b>At December 31, 2013</b>	<b>80,549</b>	<b>62,015</b>	<b>235</b>	<b>55,085</b>	<b>95,166</b>	<b>293,050</b>
Additions	-	5,822	-	4,590	39,232	49,644
Disposals	-	-	-	-	-	-
Additions from acquisition of subsidiaries (note 21 b)	1,705	1,628	-	-	-	3,333
Effect of movement in exchange rates	(1,260)	(210)	-	(1,377)	(559)	(3,406)
<b>At December 31, 2014</b>	<b>80,994</b>	<b>69,255</b>	<b>235</b>	<b>58,298</b>	<b>133,839</b>	<b>342,621</b>
<b>Depreciation</b>						
<b>At December 31, 2013</b>	<b>-</b>	<b>38,502</b>	<b>105</b>	<b>52,869</b>	<b>32,921</b>	<b>124,397</b>
Amortization	-	8,717	41	2,506	8,822	20,086
Disposals	-	-	-	-	-	-
Effect of movement in exchange rates	-	(139)	-	(1,364)	(100)	(1,603)
<b>At December 31, 2014</b>	<b>-</b>	<b>47,080</b>	<b>146</b>	<b>54,011</b>	<b>41,643</b>	<b>142,880</b>
<b>Net Book Value</b>						
<b>At December 31, 2013</b>	<b>80,549</b>	<b>23,513</b>	<b>130</b>	<b>2,216</b>	<b>62,245</b>	<b>168,653</b>
<b>At December 31, 2014</b>	<b>80,994</b>	<b>22,175</b>	<b>89</b>	<b>4,287</b>	<b>92,196</b>	<b>199,741</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

(all amounts are in thousand Euro, 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 television), in countries where the Group is providing both CBT and DTH services, the Group identified separate CGUs for CBT and DTH respectively. In countries where either CBT or DTH services are provided, only one CGU was identified for telecom activities. In addition, solar electricity production companies are also considered distinct CGUs.

Goodwill acquired through business combinations has been allocated among cash generating units for the purposes of impairment testing as follows:

- CBT Romania;
- CBT Hungary;
- CBT Spain.

	<b>Goodwill</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>CBT</b>		<b>76,908</b>	<b>80,588</b>
Romania		55,781	59,579
Hungary		20,899	20,781
Spain		228	228
<b>DTH</b>		<b>332</b>	<b>406</b>
Romania		332	406
<b>Total</b>		<b>77,240</b>	<b>80,994</b>

Recoverable amounts for the CGUs have been determined on the basis of fair value less costs to sell calculations using cash flow projections based on financial budgets approved by senior management covering a five-year period.

*Key assumptions used in the calculations of the recoverable amounts*

Key assumptions used in the calculation of the recoverable amounts are revenues, EBITDA margins, discount rate, terminal value growth rate and capital expenditure.

*Discount rate*

- for the Romanian territory 8.48% p.a. (2014: 8.40%);
- for the Hungarian territory 9.4% p.a. (2014: 8.40%).

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

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**6. INTANGIBLE ASSETS (continued)**

*Terminal growth rates*

- for Romanian CBT CGU 1.7% p.a. (2014: 1.5%);
- for Hungarian CBT CGU 1.7% p.a. (2014: 1.5%).

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.

For the Romanian CBT CGU, budgeted EBITDA is based on past experience and incremental increase in future years generated from incremental increase in revenues from new subscribers to our cable Tv, internet and mobile telephony business; budgeted EBITDA for the Hungarian CBT CGU is based on past experience and growth expectation from tighter cost control and additional revenue from new subscribers connected to the fixed network.

Due to confidentiality reasons the Company does not disclose information regarding budgeted EBITDA margins and revenue growth rates for the budget period, given the strategic nature of this information.

*Capital expenditure*

Budgeted capital expenditure (tangible and intangible assets including programme assets) is based on past experience, forecasted growth of subscribers (new subscribers connected to the fixed network) and other business drivers.

Management believes that as of 31 December 2015 no reasonable change in the main assumptions could result in an impairment charge (31 December 2014: same).

**(iii) Subscriber acquisition costs ("SAC")**

SAC represents third party costs for acquiring and connecting customers of the Group. In 2015 SAC was generated in relation with contracting customers in Romania (EUR 2,567), Spain (EUR 2,942), Hungary (EUR 328) and Italy (EUR 412). In 2014 SAC was generated in relation with contracting customers in Romania (EUR 1,487), in Spain (EUR 2,616), Hungary (EUR 190) and Italy (EUR 297).

**(iv) Licences and software**

*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 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 2015 is EUR 7,011 (2014: EUR 8,240).

*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 2015 is EUR 34,911 (2014: EUR 37,901). 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.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**6. INTANGIBLE ASSETS (continued)**

*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 2015 is EUR 30,137 (2014: EUR 31,562). 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 2015 is EUR 5,722.

*3600 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 3600 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 2015 is EUR 1,847.

*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 13 (ix).

**b) Current intangible assets - programme assets**

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Balance at 1 January</b>	<b>16,838</b>	<b>29,387</b>
Additions	60,074	33,765
Amortization	(46,999)	(46,235)
Effect of movement in exchange rates	(377)	(79)
<b>Balance at 31 December</b>	<b>29,536</b>	<b>16,838</b>

Included in "Additions" is an amount of EUR 42,956 representing broadcasting rights for sports competitions for 2015/2016 season (2014: EUR 26,004 for 2014/2015 season) and related advance payments for future seasons, the difference representing movies and documentaries rights. Contractual obligations related to future seasons are presented as commitments in Note 25.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**7. AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)**

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Balance at 1 January</b>	<b>41,296</b>	<b>30,982</b>
Additions	850	1,753
Fair value adjustment	1,227	8,561
<b>Balance at 31 December</b>	<b>43,373</b>	<b>41,296</b>

The above available for sale financial assets comprise shares in RCSM. As at 31 December 2015 the percentage of ownership of CCS in RCSM is 9.17% (31 December 2014: 8.75%). For additional disclosures on the fair values of the AFS refer to Note 22 (iv).

**8. INVENTORIES**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Merchandise and equipment (at cost)	7,603	7,990
Materials and consumables (at cost)	5,602	14,838
<b>Total inventories, net</b>	<b>13,205</b>	<b>22,828</b>

*Merchandise and equipment*

This category includes terminal equipment sold to the customers. Such equipment includes mobile phones, tablets, TV sets.

*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.

As at 31 December 2014 this line also included materials and consumables used for network construction amounting to EUR 12,274. Starting with 2015 materials and consumables used for network construction are included in non-current assets (under Construction in progress in Property, plant and equipment).

*Collateral*

For details on the pledges placed on the Group assets refer to Note 13 (iv).

**9. TRADE AND OTHER RECEIVABLES**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade receivables	76,685	100,248
Receivable from related parties (refer to Note 15)	974	1,185
Other taxes receivable	180	35
Other receivables	4,706	8,394
<b>Total trade and other receivables</b>	<b>82,545</b>	<b>109,862</b>

*Collateral*

For details on the pledges placed on the Group assets refer to Note 13 (iv).

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**10. OTHER ASSETS**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Advances to suppliers	6,167	8,794
Prepayments	2,042	1,133
<b>Total other assets</b>	<b>8,209</b>	<b>9,927</b>

**11. CASH AND CASH EQUIVALENTS**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Bank accounts	49,423	53,729
Petty cash	239	559
<b>Total cash and cash equivalents</b>	<b>49,662</b>	<b>54,288</b>

For details on the pledges placed on the Group assets refer to Note 13 (vii).

**12. EQUITY**

As of 31 December 2015, CCS has an authorised share capital of EUR 250 comprised of 250,000 units of ordinary shares of EUR 1 each. At the date of the balance sheet 50,594 ordinary shares were issued and fully paid. These are no other issued shares.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Ordinary Shares – Issued and Paid (No.)	50,594	50,594
Ordinary Shares – Unissued (No.)	199,406	199,406
Nominal Value	1 EUR per share	1 EUR per share
Share Capital Value (EUR thousand)	<u>51</u>	<u>51</u>

At 31 December 2015 and 2014, the shareholders of CCS are as follows:

Shareholder name	<u>31 December 2015</u>		<u>31 December 2014</u>	
	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%
CCS - treasury shares	4,135	8.17%	4,135	8.17%
Other	2,209	4.38%	2,209	4.38%
<b>Total</b>	<b>50,594</b>	<b>100.00%</b>	<b>50,594</b>	<b>100.00%</b>

The largest ultimate beneficial shareholder of the Group is Mr. Zoltan Teszari. Mr. Zoltan Teszari is the controlling shareholder of the Group, being the controlling shareholder of RCSM (the controlling parent of CCS) and minority shareholder of CCS and RCS&RDS.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**12. EQUITY (continued)**

*Dividends*

As stated previously, these financial statements are not the statutory financial statements of CCS. The profit available for distribution is the profit for the year recorded in the Dutch GAAP statutory financial statements, which differs from the result in these financial statements, prepared in accordance with IFRS.

In December 2015 a gross dividend of 3,500 EUR (2014: EUR 3,500) was distributed from the CCS statutory retained earnings of 2014 (2013). The related amount of dividend per share for 2015 was EUR 0.069 and for 2014 was EUR 0.069.

*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.



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**13. INTEREST BEARING LOANS AND BORROWINGS**

Long term portion	Nominal interest rate	31 December 2015	31 December 2014
Bonds	(i) 7.5% p.a.	439,176	436,410
2013 Senior Facilities Agreement	3M EURIBOR + 4.35%p.a.	-	210,270
2015 Senior Facilities Agreement	(ii) 3M ROBOR + 2.5%p.a.	179,005	-
Obligations under finance leases	(iii) Variable linked to LIBOR and EURIBOR+ respective margin	6,716	6,052
<b>Total long term portion</b>		<b>624,897</b>	<b>652,732</b>
Current portion	Nominal interest rate	31 December 2015	31 December 2014
2013 Senior Facilities Agreement	3M EURIBOR + 4.35%p.a.	-	34,297
2015 Senior Facilities Agreement	(ii) 3M ROBOR + 2.5%p.a.	48,287	-
2013 ING Bank facility agreement	(iii) Variable linked to EURIBOR/ROBOR/LIBOR+ respective margin	4,757	3,960
Obligations under finance leases	(x) Variable linked to LIBOR and EURIBOR+ respective margin	2,046	969
Other		8,028	6,520
<b>Total current portion</b>		<b>63,118</b>	<b>45,746</b>

**(i) Bonds**

In November 2013, CCS issued non-convertible bonds in amount of EUR 450,000 with a coupon yield of 7.5% and maturity in November 2020. The bonds were placed at face value and have a half year coupon period. The Bonds include several call options as well as one put option. Please see Note 24 for details.

*Arrangement fees*

The total cost of concluding the Bonds is amortised using the effective interest method over the life of the Bonds. As of 31 December 2015 the unamortized balance of bond issuance related fees was EUR 10,822 (2014: EUR 13,589).

*Drawing*

As of 31 December 2015, the nominal balance is EUR 450,000 (EUR 439,177 - presented net of borrowing fees).

*Pledges*

Details on pledges are presented further in section (ix) of the Note 13.

*Covenants*

The Group has agreed to certain covenants with respect to the Bonds, including, among other things, limitations on its ability to: incur or guarantee additional indebtedness; make investments or other restricted payments; sell assets and subsidiary stock; enter into certain transactions with affiliates; create liens; consolidate, merge or sell all or substantially all of our assets; enter into agreements that restrict our restricted subsidiaries' ability to pay dividends; sell or issue capital stock of restricted subsidiaries; engage in any business other than a permitted business; and impair the security interests with respect to the Collateral. Each of these covenants is subject to certain exceptions and qualifications. Certain of these covenants may also be suspended in the event that the Bonds receive investment grade ratings from the relevant credit rating agencies.

In accordance with the terms of the Notes, the Group is required to compute the Consolidated Leverage Ratio if certain events take place. The Consolidated Leverage Ratio means the ratio of (i) the aggregate amount of Consolidated Total Indebtedness outstanding on such date to (ii) the aggregate amount of EBITDA (computed in accordance with the terms of the Notes) for the most recent four full consecutive fiscal quarters for which internal consolidated financial statements of the Company are available at the time of such determination. The Consolidated Leverage Ratio would not exceed 3.50 to 1.

The Group is in compliance with all the covenants under these Bonds as at 31 December 2015 and 31 December 2014.

### **13. INTEREST BEARING LOANS AND BORROWINGS (continued)**

#### **(ii) 2013 Senior Facilities Agreement**

On October 21, 2013 RCS&RDS entered into a committed facility agreement, as borrower, with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the repayment of the existing facilities and for general corporate purposes (the "2013 Senior Facilities Agreement"). The 2013 Senior Facilities Agreement consists of a term loan facility with a capacity of EUR 250 million and a revolving credit facility with a capacity of EUR 50 million. On June 19, 2014 RCS&RDS drew the remaining EUR 45 million under the term loan. On May 22, 2015 RCS&RDS repaid the facility using the proceeds of the 2015 Senior Facilities Agreement and own funds.

#### **2015 Senior Facilities Agreement**

On April 30, 2015 RCS&RDS entered into a committed facility agreement, as borrower, with BRD-Groupe Societe Generale, Citibank, London branch, ING Bank, and Unicredit Tirioc Bank as mandated lead arrangers, for the repayment of the 2013 Senior Facilities Agreement (the "2015 Senior Facilities Agreement").

At signing the 2015 Senior Facilities Agreement consisted of a term loan facility with a capacity of RON 994.2 million and a revolving credit facility with a capacity of RON 39.8 million. The facility had an option to be increased by EUR 25 million (in RON at the exchange rate from the date of the notice) until the end of 2015. RCS&RDS exercised the option and drew EUR 23.3 million (RON 105.4 million) from the term loan and the revolver credit on 29 December 2015 (the "Accordion" agreement).

The interest rate under the 2015 Senior Facilities Agreement is floating at a margin of 2.5% per annum plus ROBOR for the revolver credit portion. On May 22, 2015 RCS&RDS concluded an interest rate SWAP for the entire initial term loan facility through which interest is fixed at 5.75% until maturity date. The interest rate SWAP is secured by the Collateral pursuant to the terms of the Intercreditor Agreement (balance of the initial term loan as at 31 December 2015: EUR 197.8 million excluding borrowing costs; balance of the initial revolver loan as at 31 December 2015: EUR 8.8 million excluding borrowing costs).

The interest rate for the additional amount drawn in December 2015 (the "Accordion" agreement) is floating at a margin of 2.5% per annum plus ROBOR for the term loan facility portion (the interest rate was fixed at 5.50% through an interest rate SWAP concluded in January 2016) and floating ROBOR + 2.5% for the revolver credit portion (balance of the additional amount related to the term loan as at 31 December 2015: EUR 21 million; balance of the initial revolver loan as at 31 December 2015: EUR 2.3 million).

#### *Arrangement fees*

The total cost of concluding the loan is amortised using the effective interest method over the life of the loan. As of 31 December 2015 the unamortized balance of borrowings related fees was EUR 2,568.

#### *Drawing*

On May 22, 2015 RCS&RDS drew the entire amount available from both the term loan facility and the revolving credit facility. On 29 December 2015 RCS&RDS drew an additional amount under the "Accordion" agreement.

As of 31 December 2015, RCS&RDS drew in total EUR 229,860 (EUR 227,292 - presented net of borrowing fees).

#### *Maturities and repayment schedule*

The term loan facility is repayable in 10 equal semi annual installments starting with October 30, 2015 and the revolving credit facility is repayable in full on April 30, 2018. On October 30, 2015 RCS&RDS have repaid the first principal instalment in amount of €22 million (equivalent of 99.4 million RON at exchange rate as at 31 December 2015).

#### *Pledges*

The 2015 Senior Facilities Agreement is unconditionally guaranteed by CCS on a senior secured basis, and shares in the Collateral pursuant to the terms of the Intercreditor Agreement.

### **13. INTEREST BEARING LOANS AND BORROWINGS (continued)**

#### *Covenants*

The Group has agreed under the New Facility Agreement to comply with two financial ratio covenants regarding leverage ("total net debt to EBITDA ratio) and interest cover and certain qualitative covenants, mainly related to authorisations, compliance with corporate legislation in force, preservation of assets, negative pledge, limitations on disposals, mergers, acquisitions, arm's length transaction, change in nature of business, limitation on subsidiary indebtedness, events of default and others. The Group is in compliance with all the covenants under the Senior Facility Agreement as at 31 December 2015.

The financial ratio covenants included in 2015 Senior Facilities Agreement include maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.75 until December 31, 2016 and afterwards a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 3.75 until December 31, 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25.

#### **(iii) 2013 ING Facilities Agreement**

On November 1, 2013, RCS&RDS entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the New Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of (i) an uncommitted overdraft facility of up to EUR 5.0 million and (ii) an uncommitted facility for letters of guarantee of up to EUR 5.0 million.

#### *Drawings*

As of December 31, 2015, EUR 4,757 were drawn under the overdraft facility. In addition EUR 2,007 and RON 13,574 Letters of Guarantee were issued under the letters of guarantee facility.

#### **(iv) Citi Facilities Agreement**

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

On October 25, 2013, the RCS&RDS entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group. The Citi Facilities Agreement share the Collateral, pursuant to the terms of the Intercreditor Agreement.

On November 4, 2013 RCS&RDS repaid the Citi Facilities Agreement using the proceeds from the Bond and the New Senior Facilities Agreement.

The Citi Facilities Agreement consists of:

- a) an uncommitted overdraft/bank guarantee facility in the amount of US\$ 6,750, as at 31 December 2015 utilised as letters of guarantee in the amount of US\$ 1,733
- b) an uncommitted bank guarantee facility in the amount of US\$ 8,100, as at 31 December 2015 utilised as letters of guarantee in the amount of US\$ 4,994
- c) an uncommitted bank guarantee facility in the amount of EUR 500, fully drawn as at 31 December 2015.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**13. INTEREST BEARING LOANS AND BORROWINGS (continued)**

As of December 31, 2015, overdraft/bank guarantee facility utilised was (i) USD 1,733 thousand all of them being letters of guarantee, and (b)&(c) had letters of guarantee issued in the amount of USD 2,957 thousand, EUR 1,236 thousand and RON 12,187 thousand.

**(v) Santander Facility**

On November 4, 2014, Digi Spain (subsidiary of RCS&RDS) entered into a new short-term facility agreement with Banco Santander for EUR 1,500 which consolidates and replaces all the previous facilities. The maturity date for this new facility is October 30, 2016 and the amount provided decreased to EUR 1,000 starting with March 4, 2015. As of December 31, 2015, the balance drawn under the Santander Facility was EUR 950.

**(vi) Caixa Facility**

On February 6, 2014, Digi Spain (subsidiary of RCS&RDS) entered into an overdraft and a reverse factoring facility agreement with Caixabank, S.A. (the "Caixa Facility"). On January 30, 2015, Digi Spain renewed the Caixa Facility agreement. The term of the Caixa Facility is indefinite and the maximum amount which can be used is EUR 500. As of December 31, 2015, the balance drawn under the Caixa Facility overdraft was EUR 82.

**(vii) Unicredit cash collateral agreement**

On October 5, 2010, RCS&RDS entered into a cash collateral agreement with UniCredit Tiriack Bank S.A., for EUR 59 for issuance of a letter of counter guarantee, which is valid until January 31, 2017 (the "Unicredit Cash Collateral Agreement"). The agreement entered into force on October 8, 2012, and is secured with a moveable mortgage over a cash collateral account opened with UniCredit Tiriack Bank S.A.

**(viii) BRD Letters of Guarantee Facility**

As of December 31, 2015 the Group had letters of guarantee issued by BRD with a value of EUR 0.9 million.

**(ix) Collateral for all facilities**

The obligations of the Group under the Bonds, as well as their obligations under the 2015 Senior Facilities Agreement (including under the Accordion Increase of the Total Commitments, as defined under the Facilities Agreement, as at 22 December 2015), under the ING Facilities Agreement and the Citi Facilities Agreement on a pari passu basis pursuant to the terms of the Intercreditor Agreement of 4 November 2013, are secured by a first-ranking security interest in certain assets of RCS&RDS and CCS, namely:

(a) Certain Capital Stock that CCS holds in RCS&RDS (other than certain shares of Capital Stock of RCS&RDS that are subject to a call option in favor of the purchaser of our Serbian subsidiary), which as at 31 December 2015 accounted for 87,392856% of the issued Capital Stock of RCS&RDS

(b) All bank accounts of CCS, including any new bank accounts, except for an account used for short term facilities granted by RCS&RDS, amounting to EUR 8.9 million as at 31 December 2015.

(c) Receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by CCS to its subsidiary, RCS&RDS on 4 November 2013 - EUR 450,000,000)

(d) Treasury shares of RCS&RDS held by itself, which on the Issue Date accounted for 8.55% of its issued Capital Stock (as of 31 December 2015: EUR 36,122,540);

(e) 100% of the issued Capital Stock of DIGI T.S. Kft Hungary;

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**13. INTEREST BEARING LOANS AND BORROWINGS (continued)**

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

(g) subject to certain exclusions, all present and future movable assets of RCS&RDS including bank account monies, trade and other receivables, intragroup receivables, inventories, movable tangible property (including installations, machinery, equipment, vehicles, furniture and other similar assets), intangible assets, intellectual property rights, insurance and proceeds related to any of the foregoing as described in the General Movable Mortgage Agreement between RCS&RDS and Wilmington Trust (London) Limited.

**(x) Obligations under finance leases**

The Group financed the acquisition of certain assets (buildings and land) through finance leases. As at 31 December 2015 there are four leasing contracts in place.

One leasing contract is with Raiffeisen Leasing (the initial contract was signed with ING Lease Romania, which sold its portfolio to Raiffeisen Leasing at the beginning of 2014) (in December 2015 this lease was refinanced in EUR) and another one is with Piraeus Lesing. The remaining length of these lease contracts is 42 months for Raiffeisen Leasing and 97 months for Piraeus Leasing.

In December 2015 the Group entered into two new lease agreements with Unicredit Leasing IFN for two buildings in Timisoara and Arad. The remaining length of these lease contract is 36 months.

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

	<b>31-Dec-15</b>		<b>31-Dec-14</b>	
	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>
Within one year	2,046	2,345	969	1,348
Later than one but less than five years	5,688	6,208	5,023	5,582
More than five years	1,027	1,118	1,027	1,118
Less: future finance charges (interest)		(909)	-	(1,029)
<b>Total</b>	<b>8,762</b>	<b>8,762</b>	<b>7,019</b>	<b>7,019</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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**14. TRADE AND OTHER PAYABLES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade payables and payables to fixed assets suppliers	188,431	143,036
Accruals	49,869	33,550
Value added tax ("VAT")	1,069	12,688
Other payable related to investments	3,062	2,582
Salary and related taxes	15,677	13,526
Amounts payable to related parties (Note 15)	631	799
Dividends payable (Note 15)	9,413	7,611
Other	2,966	3,379
<b>Total trade and other payables</b>	<b>271,118</b>	<b>217,171</b>

Included in payables to suppliers and accruals above is EUR 78,752 (31 December 2014: EUR 52,349) representing amounts due for property, plant and equipment and EUR 19,227 (31 December 2014: EUR 11,213) representing payment obligations for intangible assets.

*Other payables related to investments*

Payables for investments are related mostly to scheduled payments for purchase of shares of newly acquired subsidiaries and non controlling interests, and payments for customer relationships.

**15. RELATED PARTY DISCLOSURES**

The consolidated financial statements include the financial statements of CCS and its subsidiaries (the main subsidiaries are included in Note 21(a)); RCSM is the Group's ultimate holding company.

*Terms and conditions of transactions with related parties*

Outstanding balances at the year-end are interest free. There have been no guarantees provided or received for any related party receivables or payables, other than the pledge on shares of RCS&RDS, provided by CCS for loans and borrowings (refer to Note 13 (ix)). For the year ended 31 December 2015, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2014: nil).

This assessment is made each year through examining the financial position of the related party and the market in which the related party operates.

The following tables provide the total amount of transactions and balances, which have been entered into with related parties for the relevant financial year.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**15. RELATED PARTY DISCLOSURES (continued)**

**Receivables from related parties**

		<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Party</b>			
Ager Immobiliare S.R.L.	(ii)	673	651
Digi Serbia	(ii)	211	189
Music Channel S.R.L.	(ii)	51	64
RCSM	(i)	26	1
Other		13	280
<b>Total</b>		<u>974</u>	<u>1,185</u>

**Payables to related parties**

		<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Party</b>			
Related parties-share options	(ii)	453	610
RCSM	(i)	5,628	4,683
Digi Serbia	(ii)	114	85
Mr. Zoltan Teszari	(iii)	700	559
Other		3,149	2,473
<b>Total</b>		<u>10,044</u>	<u>8,410</u>

- (i) Shareholder of CCS
- (ii) Entities affiliated to a shareholder of the parent
- (iii) Ultimate beneficial shareholder

**Compensation of key management personnel of the Group**

	<u>2015</u>	<u>2014</u>
Short term employee benefits – salaries	1,776	1,703
Share-based payments	2,054	2,418

Certain members of the management team (including key management personnel) benefit from a share based payment plan at the level of RCS&RDS. Total share options granted to key management personnel during the 2015 financial year amounted to 935,000 shares (2014: 1,305,500 shares), in addition to the salaries shown above (refer to Note 23).

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**16. REVENUES**

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

	<u>2015</u>	<u>2014</u>
<b>Revenues from continuing operations</b>	<b>746,290</b>	<b>647,831</b>
<b>Cable TV</b>		
Romania	166,845	155,458
Hungary	36,586	34,483
	<b>203,431</b>	<b>189,941</b>
<b>Internet and data</b>		
Romania	174,445	163,215
Hungary	34,788	31,930
Italy	369	90
Spain	17,748	9,945
	<b>227,350</b>	<b>205,180</b>
<b>Telephony Revenues</b>		
Romania	91,441	54,464
Spain	54,494	43,440
Hungary	6,939	8,296
Italy	6,983	4,853
	<b>159,857</b>	<b>111,053</b>
<b>DTH Revenue</b>		
Romania	40,176	43,253
Hungary	30,479	30,832
	<b>70,655</b>	<b>74,085</b>
<b>Other revenues*</b>		
Romania	67,227	53,262 *
Hungary	17,141	13,510
Spain	438	643
Italy	191	157
	<b>84,997</b>	<b>67,572</b>
<b>Revenues from discontinued operations</b>	<b>3,840</b>	<b>13,776</b>
<b>DTH Revenue</b>		
Czech Republic	3,816	13,720
	<b>3,816</b>	<b>13,720</b>
<b>Other revenues</b>		
Czech Republic	24	56
	<b>24</b>	<b>56</b>
<b>Total revenues</b>	<b>750,130</b>	<b>661,607</b>

Other revenues refer to sales of other equipment, own content to other operators, advertising revenue and sundry penalties invoiced to subscribers. Sales of goods include mainly mobile handsets and other equipment.

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

\*In 2015 a reallocation of service revenues between business lines was made in order to present more accurately the substance of each type of revenues. For the purpose of this presentation, the comparatives for 2014 were reclassified accordingly:

- Cable Tv: EUR 178 were reclassified to Other Revenue (Romania)
- Internet and data: EUR 768 were partially reclassified to Telephony and partially to Other Revenue (Romania)
- Telephony: EUR 198 and EUR 157 were reclassified to Other Revenue (Spain, Italy respectively)
- DTH: EUR 645 and EUR 600 were reclassified to Other Revenue (Romania, Hungary respectively)



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**17. OPERATING EXPENSES**

	<b>2015</b>	<b>2014</b>
<b><i>Operating expenses from continuing operations</i></b>	<b>697,565</b>	<b>612,404</b>
Depreciation of property, plant and equipment	114,838	123,676
Amortization of programme assets	46,998	46,235
Amortisation of non-current intangible assets	25,594	20,086
Salaries and related taxes	113,618	102,195
Contribution to pension related fund	16,181	16,959
Programming expenses	67,445	58,202
Telephony expenses	106,305	62,806
Cost of goods sold	48,006	43,038
Rentals	42,727	36,824
Invoicing and collection expenses	13,476	11,801
Taxes and penalties	12,025	13,004
Utilities	13,403	12,586
Copyrights	8,408	8,118
Internet connection and related services	4,512	4,876
Impairment of receivables, net of reversals	10,068	7,884
Impairment of property, plant and equipment	337	1,508
Other expenses	53,624	42,606
<b><i>Operating expenses from discontinued operations</i></b>	<b>3,115</b>	<b>10,451</b>
<b>Total operating expenses</b>	<b>700,680</b>	<b>622,855</b>

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 entirely due to the increase in Mobile telephony expenses.

**18. NET FINANCE COSTS**

	<b>2015</b>	<b>2014</b>
<b><i>Finance income</i></b>		
Interest from banks	64	158
Gain on derivative financial instruments and other financial revenue	9,805	594
	<b>9,869</b>	<b>752</b>
<b><i>Finance expenses</i></b>		
Interest expense	(49,342)	(49,865)
Loss on derivative financial instruments	(3,207)	(2,893)
Other financial expenses	(12,725)	(5,775)
Foreign exchange differences (net)	(5,452)	(2,609)
	<b>(70,726)</b>	<b>(61,142)</b>
<i>Net Finance Costs from continuing operations</i>	<b>(60,857)</b>	<b>(60,390)</b>
<i>Net Finance Costs from discontinued operations</i>	<b>(23)</b>	<b>56</b>
<b>Net Finance Costs total</b>	<b>(60,880)</b>	<b>(60,334)</b>

Other financial expenses in 2015 and 2014 include fees related to short-term vendor financing, commitment fees for undrawn facilities and other bank charges. Also in 2015 they include unamortised transaction costs, of EUR 4.9 million relating to 2013 Senior Facilities Agreement repaid in 2015.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**19. INCOME TAX**

The statutory tax rate applied in Netherlands during 2015 was 25% (2014: 25%)

Other entities

The statutory tax rate applied in the Romanian entities during 2015 was 16% (2014: 16%).

The statutory tax rate applied in Hungary during 2015 was 19% (2014: 19%).

The statutory tax rate applied in Czech Republic during 2015 was 19% (2014: 19%)

The statutory tax rate applied in Spain during 2015 was 28% (2014: 30%).

The statutory tax rate applied in Italy during 2015 was 31.4% (2014: 31.4%).

Components of income tax expense for the periods ended 31 December 2015 and 2014 respectively were:

	<b>2015</b>	<b>2014</b>
Current income tax charge	6,605	2,178
Deferred income tax relating to origination and reversal of temporary differences	<u>(1,236)</u>	<u>(6,887)</u>
<b>Income tax expense/ (credit) recognised in profit or loss for continuing operations</b>	<b><u>5,369</u></b>	<b><u>(4,709)</u></b>
<i>Income tax expense/ (credit) recognised in profit or loss for discontinuing operations</i>	<u>56</u>	<u>(421)</u>

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate (Netherlands) applicable to the net result before tax to the income tax expense at the Group's effective income tax rate for the financial years 2015 and 2014 is as follows:

	<b>2015</b>	<b>2014</b>
<b>Net (loss) before income tax for continuing operations</b>	<b>(12,132)</b>	<b>(24,963)</b>
At statutory income tax rate of the Company	(3,033)	(6,241)
Effect of difference in tax rates applicable for foreign subsidiaries	2,346	2,756
Non-deductible expenses / Non-taxable income	5,632	(2,267)
Fiscal losses for which no deferred tax has been recognized	1,010	1,043
Fiscal credit	<u>(586)</u>	<u>-</u>
<b>Effective tax expense / (credit) from continuing operations</b>	<b><u>5,369</u></b>	<b><u>(4,709)</u></b>
<i>Effective tax expense from discontinuing operations</i>	<u>56</u>	<u>(421)</u>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**19. INCOME TAX (continued)**

Deferred taxes in the consolidated statement of financial position are:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Deferred tax assets	3,951	2,933
Deferred tax liabilities	(26,981)	(28,204)
	<u>(23,030)</u>	<u>(25,271)</u>

Movement of deferred taxes:

	<u>2015</u>	<u>2014</u>
<b>Deferred taxes recognized in the statement of financial position</b>	<b>23,030</b>	<b>25,271</b>
Difference from prior year balance	(2,241)	(7,547)
<i>Of which:</i>		
Recognized in profit or loss	(1,327)	(8,131)
Deferred tax liability resulted from business combinations	-	260
Deferred tax liability disposed on sale of subsidiary	(184)	-
Deferred tax liability related to interest rate swaps, recognised in other comprehensive income	(864)	-
Effect of movement in exchange rates	134	324

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**19. INCOME TAX (continued)**

The deferred tax (asset)/ liability for the financial year 2015 comprises the tax effect of temporary differences related to:

	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Disposed on sale of subsidiary	Effect of movement in exchange rates	Balance 31 December 2015
Property, plant and equipment	33,183	267	-	(184)	(59)	33,208
Intangibles	2,229	2,345	-	-	171	4,745
Accounts receivable	1,027	1,415	-	-	(34)	2,408
Accounts payable	(4,069)	3,068	-	-	(15)	(1,015)
Long term borrowings	7,080	(6,147)	-	-	42	974
Inventory	59	-	-	-	(59)	-
<b>Deferred tax liabilities</b>	<b>39,508</b>	<b>948</b>	<b>-</b>	<b>(184)</b>	<b>46</b>	<b>40,319</b>
Intangibles	160	-	-	-	-	160
Accounts receivable	(54)	95	-	-	(1)	40
Accounts payable	(110)	110	-	-	-	-
Interest expense postponed for deduction	(4,357)	(5,285)	-	-	133	(9,508)
Inventory	(550)	195	-	-	(3)	(358)
Cash Flow hedge reserves	-	-	(864)	-	-	(864)
Fiscal losses	(9,327)	2,608	-	-	(39)	(6,758)
<b>Deferred tax assets</b>	<b>(14,238)</b>	<b>(2,276)</b>	<b>(864)</b>	<b>-</b>	<b>89</b>	<b>(17,289)</b>
<i>Offsetting (refer to Note 2.2 o)</i>	(11,304)	-	-	-	-	(13,337)
<i>Recognition</i>						
Deferred tax liabilities	28,204	-	-	-	-	26,981
Deferred tax assets	(2,933)	-	-	-	-	(3,951)
Net deferred tax liability	25,271	-	-	-	-	23,030
<b>Deferred tax benefit</b>	<b>-</b>	<b>(1,327)</b>	<b>(864)</b>	<b>(184)</b>	<b>134</b>	<b>-</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**19. INCOME TAX (continued)**

The deferred tax (asset)/ liability for the financial year 2014 comprises the tax effect of temporary differences related to:

	Balance 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in business combinations	Effect of movement in exchange rates	Balance 31 December 2014
Property, plant and equipment	34,447	(1,548)	-	-	283	33,183
Intangibles	1,871	117	-	260	(20)	2,228
Accounts receivable	1,997	(977)	-	-	8	1,027
Accounts payable	5,173	(9,307)	-	-	66	(4,069)
Long term borrowings	0	7,140	-	-	(60)	7,080
Inventory	60	-	-	-	(1)	59
<b>Deferred tax liabilities</b>	<b>43,547</b>	<b>(4,575)</b>	-	<b>260</b>	<b>274</b>	<b>39,508</b>
Intangibles	160	-	-	-	-	160
Accounts receivable	(1,325)	1,282	-	-	(11)	(54)
Accounts payable	(73)	(37)	-	-	1	(110)
Interest expense postponed for deduction	-	(4,394)	-	-	37	(4,357)
Inventory	(8)	(551)	-	-	9	(550)
Fiscal losses	(9,483)	146	-	-	11	(9,327)
<b>Deferred tax assets</b>	<b>(10,729)</b>	<b>(3,556)</b>	-	-	<b>47</b>	<b>(14,238)</b>
<i>Offsetting (refer to Note 2.2 o)</i>	(5,721)	-	-	-	-	(11,304)
<i>Recognition</i>						
Deferred tax liabilities	37,826	-	-	-	-	28,204
Deferred tax assets	(5,008)	-	-	-	-	(2,933)
Net deferred tax liability	32,818	-	-	-	-	25,271
<b>Deferred tax benefit</b>	-	<b>(8,131)</b>	-	<b>260</b>	<b>324</b>	-

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**19. INCOME TAX (continued)**

Deferred tax assets recognised for fiscal losses relate mainly to the Group's operations in Hungary. Such losses, in amount of EUR 18,917 at 31 December 2015 (31 December 2014: EUR 27,758), are not subject to preapproval by tax authorities and can be carried forward indefinitely.

In addition, in 2015 and 2014 a deferred tax asset was recognized for interest expenses of RCS&RDS which are postponed for deduction until the gearing ratio falls again below 3. Such interest expenses can be carried forward indefinitely

For statutory purposes, RCS&RDS has performed several revaluations of its property, plant and equipment. Should the statutory revaluation reserves of RCS&RDS be distributed to its shareholders they would be taxed, i.e. they would generate a tax liability of EUR 6,826 (2014: EUR 8,489).

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 25.

**20. DISCONTINUED OPERATIONS**

In 2014, the Group received EUR 10,344 representing the additional contingent consideration for the sale of the Slovak subsidiary Digi Slovakia s.r.o, that was sold in 2013, resulting from the fulfilling certain conditions in 2014, which were netted off by commissions paid of EUR 740. In 2015 an amount of EUR 1,000 was received as additional contingent consideration for the sale of the respective subsidiary, resulting from the fulfilling of the last conditions in 2015. Included under line "Gain from sale of discontinued operations" from Consolidated Statement of profit or loss and other comprehensive income and under line "Gain on disposal of subsidiary" from the Consolidated Statement of cash flows for the year ended 31 December 2015 there is an aggregate presentation of proceeds received from Slovak subsidiary disposal (EUR 1,000 in 2015 and EUR 10,344 in 2014) and Czech subsidiary disposal presented in the table below.

In 2014 the Group had discussions regarding the sale of its Czech subsidiary, Digi Czech republic s.r.o., however as of 31 December 2014 no commitment regarding the selling decision was made. An agreement was reached in April 2015 and the sale of the subsidiary was completed at the end of April 2015.

Details of income and expenses and other comprehensive income of the discontinued operations are presented in the consolidated statement of profit or loss and other comprehensive income.

**Effect in 2015 of disposal on the financial position of the Group**

	<b>31 December 2015</b>
Property, plant and equipment (note 5)	495
Inventories	316
Trade and other receivables	675
Cash and cash equivalents	733
Deferred tax asset, net position (note 19)	184
Trade, other payables and other liabilities	(1,111)
<b>Net assets and liabilities</b>	<b>1,294</b>
<b>Income from sale of discontinued operations</b>	<b>21,176</b>
<b>Gain from sale of discontinued operations</b>	<b>19,882</b>
Consideration received, satisfied in cash	24,865
Cash and cash equivalents disposed of	(733)
<b>Net cash inflow</b>	<b>24,132</b>

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**20. DISCONTINUED OPERATIONS (continued)**

The sale agreement regarding the Czech subsidiary stipulates, besides the consideration already recognised in 2015 and settled by the buyer by 31 December 2015, an amount of EUR 750 that may be received after 13 months following the Group fulfilling certain obligations, and if so, will be recognised as income in the future. The income from sale of discontinued operations was reduced by accrued costs of EUR 4,285 that are expected to be incurred by the Group in relation with this disposal.

**21. BUSINESS COMBINATIONS**

**a) Subsidiaries**

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

CCS owns shares 87.6% in RCS&RDS (2014: 87.1%). Below are the presented the main subsidiaries of RCS&RDS:

Subsidiary	Country of Incorporation	Field of activity	Legal Ownership	
			2015	2014
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 CZECH REPUBLIC s.r.o.	Czech Republic	DTH	0.00%	100.00%
DIGI ITALY SL	Italy	Telephony	100.00%	100.00%
ITV.	Hungary	CATV	100.00%	100.00%
CFO Integrator	Romania	Duct Rent	100.00%	100.00%
S.C. ENERGIAFOTO SRL	Romania	Solar energy	100.00%	100.00%
S.C. NOVITAS Electro	Romania	Solar energy	100.00%	100.00%
S.C. DELALINA S.R.L.	Romania	Solar energy	100.00%	100.00%
S.C. DALVIG CORP S.R.L.	Romania	Internet	100.00%	100.00%
S.C. AIR BITES S.R.L.	Romania	CATV	100.00%	100.00%

**b) Business acquisitions**

	2015	2014
<b>Total consideration payable in cash</b>	<b>2,990</b>	<b>4,650</b>
Customer relationships	-	1,628
Other intangibles	2,696	-
Deferred tax liabilities	-	(260)
Property, plant and equipment	294	9,597
Payables	-	(10,447)
Cash and cash equivalents	-	261
Other	-	2,166
<b>Total identifiable net assets</b>	<b>2,990</b>	<b>2,945</b>
<b>Goodwill</b>	<b>-</b>	<b>1,705</b>

None of the goodwill recognized is expected to be deductible for tax purposes.

**c) Changes in ownership interests while retaining control**

In 2015 CCS acquired 1,924,100 (2014: 1,318,500) shares in RCS &RDS, for a total amount of EUR 2,953 (2014: EUR 2,903).

During 2015 the Group acquired non-controlling interest for an amount of EUR 738 (31 December 2014: EUR 2,075) from previous owners of the non-controlling interest.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from the use of financial instruments:

- credit risk
- liquidity risk
- market risk (including currency risk and interest rate risk).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**(i) Credit risk**

**Credit risk exposure**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables from customers.

The carrying amount of trade and other receivable, net of an impairment adjustment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by macro-economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Cash and cash equivalents are placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date was:

	<b>Note</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade and other receivables	9	82,545	109,862
Cash and cash equivalents	11	49,662	54,288
Derivative assets	24	9,937	-
Long term receivables*		2,926	4,625
<b>Total</b>		<b>145,071</b>	<b>168,775</b>

\* The long term receivables position does not include green certificates balance as at 31 December 2015.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Romania	63,270	89,363
Hungary	10,307	9,624
Spain	3,767	2,495
Czech Republic	-	637
Other countries	2,266	2,754
<b>Total</b>	<b>79,610</b>	<b>104,873</b>



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT (continued)**

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Citibank	1,710	22,082
ING Bank	42,041	28,360
Banca Comerciala Romana	277	664
BRD Groupe Societe Generale	118	134
Unicredit Tiriatic Bank	2,540	201
Other	2,976	2,847
<b>Total</b>	<b>49,662</b>	<b>54,288</b>

The credit risk on cash and cash equivalents is very small, since the cash and cash equivalents are held at reputable banks in different countries. The most significant part of cash and cash equivalents balance is generally kept at the main subsidiary (RCS RDS) level with internationally reputable banks, having at least A-2 rating in a country with a "BBB-" rating.

**Impairment losses**

The ageing of trade and other receivables at the reporting date was:

	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>	<b>Gross</b>	<b>Impairment</b>	<b>Net</b>
	<b>31-Dec-15</b>	<b>31-Dec-15</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-14</b>	<b>31-Dec-14</b>
Not Past Due	58,393	(618)	57,776	90,546	(778)	89,769
Past Due less 30 days	18,197	(1,348)	16,849	7,680	(474)	7,206
Past Due 30-90 days	6,689	(2,698)	3,990	4,043	(1,040)	3,003
Past Due 90-360 days	11,133	(8,427)	2,706	11,040	(4,545)	6,495
Past Due over 1 year	65,571	(64,347)	1,224	68,502	(65,112)	3,389
<b>Total</b>	<b>159,984</b>	<b>(77,439)</b>	<b>82,545</b>	<b>181,811</b>	<b>(71,949)</b>	<b>109,862</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<b>2015</b>	<b>2014</b>
Balance at 1 January	71,949	67,021
Impairment loss recognized	10,069	7,999
Impairment related to receivables of discontinued operations Utilised	(1,598)	-
Amounts written off	-	(566)
Effect of movement in exchange rates	(2,302)	(1,802)
<b>Balance at 31 December</b>	<b>77,439</b>	<b>71,949</b>

**(ii) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2015:

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT (continued)**

	31 December 2015						
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
<b>Non derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds	679,254	889,422	52,734	55,179	92,170	689,339	-
Finance lease liabilities	8,761	9,701	1,107	1,238	2,476	3,732	1,148
Trade and other payables and other liabilities	280,462	281,021	248,485	24,823	7,714	-	-
<b>Derivative financial liabilities</b>							
Interest rate swaps	6,094	12,715	2,330	2,335	3,737	4,313	-
Foreign currency swaps	493	493	493	-	-	-	-
Energy trading mark to market liability	1,666	1,666	1,234	424	8	-	-
<b>Total</b>	<b>976,730</b>	<b>1,195,019</b>	<b>306,383</b>	<b>83,998</b>	<b>106,106</b>	<b>697,384</b>	<b>1,148</b>

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2014:

	31 December 2014						
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
<b>Non derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds	691,458	933,502	32,780	58,072	113,486	250,869	478,295
Finance lease liabilities	7,019	8,048	674	674	4,492	1,090	1,118
Trade and other payables and other liabilities	228,059	231,025	189,198	30,356	11,471	-	-
<b>Derivative financial liabilities</b>							
Interest rate swaps	993	993	993	-	-	-	-
<b>Total</b>	<b>927,529</b>	<b>1,173,568</b>	<b>223,645</b>	<b>89,102</b>	<b>129,449</b>	<b>251,959</b>	<b>479,413</b>

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

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT (continued)**

At 31 December 2015, the Group had net current liabilities of EUR 171,756 (31 December 2014: EUR 97,418). 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 and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Exposure to currency risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in currencies other than the functional currencies of the Company and each of its subsidiaries.

The Group imports services and equipment and attracts substantial amount of foreign currency denominated borrowings.

The Group's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2015		31 December 2014	
	USD	EUR	USD	EUR
Trade and other receivables	3,938	3,637	952	2,221
Cash and cash equivalents	50	3,087	90	49,714
Interest bearing loans and borrowings	-	(446,161)	-	(686,603)
Bank overdraft	-	(4,757)	(33)	(3,967)
Finance lease liabilities	-	(8,759)	(5,373)	(2,597)
Trade and other payables	(36,712)	(42,288)	(28,201)	(47,148)
<b>Gross statement of financial position exposure</b>	<b>(32,724)</b>	<b>(495,241)</b>	<b>(32,565)</b>	<b>(688,380)</b>
Derivative financial instruments*	-	25,406	-	59,156
<b>Gross exposure</b>	<b>(32,724)</b>	<b>(469,835)</b>	<b>(32,565)</b>	<b>(629,224)</b>

\*Represents amounts to be received as part of the cross currency interest rate swaps in place at the end of each period.

The following significant exchange rates applied for the year ended 31 December 2015:

	2015	2014
<b>Romania</b>		
USD	4,1477	3.6868
EUR	4.5245	4.4821
<b>Hungary</b>		
USD	286.63	259.13
EUR	313.12	314.89
<b>Czech Republic</b>		
USD	24.82	22.83
EUR	27.02	27.73

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

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

	Equivalent in EUR	Equivalent in EUR
	2015	2014
EUR	49,524	68,838
USD	3,000	2,679
<b>Total</b>	<b>52,524</b>	<b>71,517</b>

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Parent and of the subsidiaries at 31 December would have had the equal but opposite effect on the equity and loss, on the basis that all other variables remain constant.

**Exposure to interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk (USD and EUR) through market fluctuations of interest rates. The interest rates of borrowings are disclosed in Note 13.

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

<b>Variable rate instruments</b>	Carrying amounts <b>31 December 2015</b>	Carrying amounts <b>31 December 2014</b>
Financial liabilities - loans and borrowings	234,616	254,831
Trade payables	13,758	20,479
Finance lease liabilities	8,761	7,019
<b>Total</b>	<b>257,135</b>	<b>282,330</b>

The 2015 Senior Facilities Agreement bears variable interest rate but the Group has entered into fixed for floating interest rate swaps for a significant portion of this facility, that match the characteristics of the respective loans. Consequently the interest rate of the combined instrument (i.e.: loan and swap) is fixed for the respective portion of this facility – relevant details are included in Note 13 (ii).

*Sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates (applicable until the maturity date of the loan) at the reporting date would have increased (decreased) profit or loss before tax by:

	<b>Profit or loss</b>	
	100 basis points increase	100 basis points decrease
<b>31 December 2015</b>		
Variable rate instruments	(5,436)	5,436
	<b>Profit or loss</b>	
	100 basis points increase	100 basis points decrease
<b>31 December 2014</b>		
Variable rate instruments	(5,848)	5,848

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT (continued)**

**iv) Fair values**

The Group measures at fair value available for sale investments, embedded derivatives, interest rate swaps, cross currency swaps, electricity trading assets (term contracts) and electricity trading liabilities (term contracts).

**Fair value hierarchy**

Fair value measurements are analysed by level in the fair value hierarchy as follows:

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

The significance of a valuation input is assessed against the fair value measurement in its entirety.

**Recurring fair value measurements**

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	Level 1	Level 2	Level 3	Total
<b>31 December 2015</b>				
Available for sale financial assets	-	-	43,373	<b>43,373</b>
Cross currency swaps	-	-	(493)	<b>(493)</b>
Interest rate swaps	-	-	(6,094)	<b>(6,094)</b>
Embedded derivatives	-	9,255	-	<b>9,255</b>
Electricity trading assets (term contracts)	-	-	682	<b>682</b>
Electricity trading liabilities (term contracts)	-	-	(1,666)	<b>(1,666)</b>
<b>Total</b>	-	<b>9,255</b>	<b>35,802</b>	<b>45,057</b>
<b>31 December 2014</b>				
Available for sale financial assets	-	-	41,296	41,296
Cross currency swap	-	-	(993)	<b>(993)</b>
Foreign exchange forwards	-	-	-	-
<b>Total</b>	-	-	<b>40,303</b>	<b>40,303</b>

Available for sale financial assets

Available for sale assets comprise shares in RCSM, not traded on active markets. The valuation model used to assess their fair value is based on the income approach. Cash flows were projected based on financial budgets approved by senior management covering a five-year period, after which a terminal annual revenue growth was used.

The significant unobservable inputs used in the model include:

- Forecast terminal annual revenue growth rate (2015: 1.7%; 2014: 1.5%).
- Risk-adjusted discount rate (2015: 8.48%; 2014: 8.40%).

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT (continued)**

Note 6 a) (ii) includes details regarding other key assumptions used for the cash flow projections (revenues, EBITDA margins and Capital expenditure), which are relevant for this calculation as well. (the valuation model used is based on the Equity value of the Group, determined using DCF method).

The estimated fair value would increase (decrease) if:

- the terminal annual revenue growth rate were higher (lower);
- the risk-adjusted discount rate were lower (higher).

*Sensitivity analysis for available for sale financial assets*

A change in growth rate and/ or WACC at the reporting date would have an impact as follows:

	WACC		Growth rate	
	100 basis points increase	100 basis points decrease	50 basis points decrease	50 basis points increase
<b>31-Dec-15</b>				
Available for sale financial assets	(10,747)	14,484	(3,160)	8,054
<b>31-Dec-14</b>				
Available for sale financial assets	(10,480)	14,048	(4,683)	5,351

Cross-currency and interest rate swaps

The fair value of derivatives acquired for risk management purposes was obtained from the counterparty financial institutions. The management has determined that such prices were developed in accordance with the requirements of IFRS 13. However the management has not performed a due diligence to understand in detail how the prices were developed, consequently the fair value was categorised in Level 3 of the fair value hierarchy.

Embedded derivatives

The fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a "plain vanilla" bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds

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 around the valuation date, and
- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date.

A change in electricity spot price or in the discount rate at the reporting date would have an impact as follows:

	spot price		discount rate	
	Average 10% increase	Average 10% decrease	0.5 points increase	0.5 points decrease
<b>31-Dec-15</b>				
Electricity trading assets	277	(279)	3	(3)
Electricity trading liabilities	(1,339)	1,348	8	(8)

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. FINANCIAL RISK MANAGEMENT (continued)**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2015 is as follows:

	<b>Available for sale</b>	<b>Cross currency swaps</b>	<b>Interest rate swaps</b>	<b>Embedded derivatives</b>	<b>Trading assets</b>	<b>Trading liabilities</b>
<b>1 January 2015</b>	<b>41,296</b>	<b>(993)</b>	-	-	-	-
Gains or (losses) recognised in profit or loss for the year	-	500	(4,434)	9,255	682	(1,666)
Gains or (losses) recognised in other comprehensive income	1,227	-	(5,399)	-	-	-
Purchases	850	-	-	-	-	-
Sales	-	-	-	-	-	-
Settlements	-	-	3,739	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Transfers into level 3	-	-	-	-	-	-
<b>31 December 2015</b>	<b>43,373</b>	<b>(493)</b>	<b>(6,094)</b>	<b>9,255</b>	<b>682</b>	<b>(1,666)</b>

	<b>Available for sale</b>	<b>Cross currency swaps</b>	<b>Interest rate swaps</b>	<b>Embedded derivatives</b>	<b>Trading assets</b>	<b>Trading liabilities</b>
<b>1 January 2014</b>	<b>30,982</b>	<b>(317)</b>	-	-	-	-
Gains or (losses) recognised in profit or loss for the year	-	(676)	-	-	-	-
Gains or (losses) recognised in other comprehensive income	8,561	-	-	-	-	-
Purchases	1,753	-	-	-	-	-
Sales	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-
Transfers into level 3	-	-	-	-	-	-
<b>31 December 2014</b>	<b>41,296</b>	<b>(993)</b>	-	-	-	-

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**22. 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 2015) and fair value measurement hierarchy are presented in the table below:

	<b>31 December 2015</b>		
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Hierarchy</b>
<b>Loans (Note 13)</b>	<b>666,468</b>	<b>709,202</b>	
Bonds	439,176	477,852	Level 1
2015 Senior Facilities	227,292	231,350	Level 2
	<b>31 December 2014</b>		
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Hierarchy</b>
<b>Loans (Note 13)</b>	<b>680,978</b>	<b>703,374</b>	
Bonds	436,411	456,615	Level 1
2013 Senior Facilities	244,567	246,759	Level 2

The fair value of bonds is calculated on the basis of the market price while the fair value of the loans is based on contractual cash flows discounted using a market rate prevailing at the reporting date (latest LIBOR reset rate plus the market credit spread received by the Group for financial liabilities with similar features).

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, 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 New Senior facilities agreement. Currently the ratio is 2.8 (2014: 2.9), level which, as mentioned, is constantly monitored.

**23. SHARE-BASED PAYMENTS**

In February 2007, the Group implemented a share based payment plan for certain members of the management team and key employees. The options vest if and when certain revenue, subscriber targets and other targets of the Group are met.

According to the plan, in 2015, share options were granted to eligible employees under the share based payment plan 935,000 (2014: 1,305,500). The related share option expense of EUR has been recorded as an expense in 2015 EUR 2,054 (2014: EUR 2,418) in the Consolidated statement of profit or loss and other comprehensive income in the line item Operating expenses, within salaries and related taxes. (Note 17).



**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

As at 31 December 2015 the Group had both derivative financial liabilities and derivative financial assets.

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Derivative financial asset</b>	<b>9,937</b>	-
Embedded derivatives	9,255	-
Electricity trading assets (term contracts)	682	-
	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Derivative financial liability</b>	<b>8,253</b>	<b>993</b>
Interest rate swaps	6,094	-
Cross currency swaps	493	993
Electricity trading liabilities (term contracts)	1,666	-

As at 31 December 2015 the Group had had derivative financial assets in amount of EUR 9,937 (31 December 2014: nil), which included:

- Embedded derivatives of EUR 9,255 related to the bond (the Bonds include several call options as well as one put option, for which Management has assessed the combined fair value of these embedded options through the Option Adjusted Spread model and recognized a separate embedded derivative asset) (31 December 2014: nil).
- Electricity trading assets (term contracts) of EUR 682 being mark to market gain from fair valuation of electricity trading contracts (31 December 2014: nil).

As at 31 December 2015 the Group had derivative financial liabilities in amount of EUR 8,253 (31 December 2014: EUR 993), which included:

- Cross currency swaps with fair value of EUR 493 (31 December 2014: EUR 993). The Group does not use hedge accounting in accordance with IAS 39 because an effective hedging relationship as set out in IAS 39 does not exist. Therefore the changes in the fair values of these derivatives are recognized in profit or loss. In 2014 were concluded coupon swaps for the entire Proceeds Loan's value ( EUR 450 million), all with a termination date of 23 September 2016.
- Interest rate swaps: On May 22, 2015 RCS & RDS concluded an interest rate SWAP for the entire term loan facility through which the company hedges against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e.: ROBOR). For this purpose the company uses interest rate swaps, paying fixed and receiving variable cash flows on the same dates on which it settles the interest on its hedged borrowings. Hedged cash flows occur periodically, on the settlement of the interest on hedged loans, and impact profit or loss throughout the life of the loan, through accrual. Given that critical terms of the hedging instrument match the critical terms of the hedged cash flows, there is no significant ineffectiveness.
- Electricity trading liabilities (term contracts) of EUR 1,666 being mark to market loss from fair valuation of electricity trading contracts (31 December 2014: nil).

## **25. GENERAL COMMITMENTS AND CONTINGENCIES**

### **Uncertainties associated with the fiscal and legal system**

The tax frameworks in Romania and other Eastern and Central Europe countries are subject to frequent changes (some of them resulting from EU membership, others from the domestic fiscal policy) and often subject of contradictory interpretations, which might be applied retrospectively.

Furthermore, the Romanian and other Eastern and Central Europe governments work via a number of agencies authorized to carry on audits of the companies operating in these countries. These audits cover not only fiscal aspects but also legal and regulatory ones that are of interest to these agencies.

The Dutch, Romanian and other Eastern and Central Europe Fiscal legislation include detailed regulations regarding transfer pricing between related parties and includes specific methods for determining transfer prices between related parties at arm's length. Transfer pricing documentation requirements have been introduced so that taxpayers who carry out transactions with affiliated parties are required to prepare a transfer pricing file that needs to be presented to the tax authorities upon request.

The Company and its subsidiaries entered into various transactions within the Group, as well as other transactions with related parties. In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result of the Company and/ or its subsidiaries with additional taxable revenues/ non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

Group management believes that it has paid or accrued all taxes, penalties and interest that are applicable, at the Company and subsidiaries level.

### **Legal proceedings**

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

#### ***Intact Media Group Litigation***

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

##### **a) The must carry related litigation**

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

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

The claim regarding the EUR 65 million monetary damages was suspended until final settlement of both the claim for injunctive relief and a lawsuit we initiated challenging the effects of an arrangement

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

---

regarding the assignment of receivables from Antena Group to First Quality Debt Recovery. On April 15, 2015, the Bucharest Tribunal partially admitted RCS&RDS' claim and annulled the assignment of receivables from Antena Group to First Quality Debt Recovery. We expect this decision to have a significant positive impact on RCS&RDS' defence against Antena Group's claim regarding the EUR 65 million monetary damages. Please note that this decision is not final as it is subject of review if either party decides to challenge it.

In the case regarding the injunctive relief request, both the court of first instance and the court of appeal ruled in our favor and dismissed Antena Group's claims. However, in February 2014, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality Debt Recovery and quashed the decisions issued by both the first instance and the appeal courts, ordering a retrial of the case by the first court. The decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case, as the retrial was ordered solely based on procedural reasons. The Bucharest Tribunal annulled the monetary claims (EUR 65 million) filed in the case file 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.

Separately, Antena Group has also filed two lawsuits claiming (i) monetary damages of approximately EUR 35 million consisting of loss of revenue due to our temporary refusal to carry the tv channels GSP TV and Antena 2 which allegedly breached, among other things, the must carry rules; and (ii) injunctive relief that would require us to provide the disputed channels to our customers in compliance with the highest technical standards. Approximately EUR 24 million out of these claims are related to our refusal to carry GSP TV, while the remaining EUR 11 million is related to our refusal to carry Antena 2. Because Antena Group assigned to First Quality Debt Recovery the claims regarding the EUR 35 million monetary damages as well, First Quality Debt Recovery became involved in these proceedings. Consequently, the court split both the GSP TV and the Antena 2 lawsuits into two: in each case, the monetary claim formed one lawsuit and the claim for injunctive relief another one. At our request, both the GSP TV and the Antena 2 claims for monetary damages were suspended until the final settlement of the lawsuit we initiated for challenging the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

The case regarding the injunctive relief sought in relation to the GSP TV channel was settled by the Bucharest Tribunal in favour of Antena Group, the court ordering us to include the channel in our network in compliance with several technical requirements. However, we have been carrying the channel as of January 2012 and therefore the decision did not impact our network. The appeal filed by RCS & RDS against the first court decision was rejected in October 2014. The decision of the Bucharest Tribunal remained final.

The case regarding the injunctive relief sought in respect to Antena 2 was settled in March 2014 by the Bucharest Tribunal in our favour; Antena Group's claims were rejected in their entirety. Antena Group appealed the decision, but the appeal was rejected in October 2014. Antena Group filed a higher appeal against the appeal decision and the High Court of Cassation and Justice ordered a retrial of the appeal by the Bucharest Court of Appeal. At the hearing taking place on 29 March 2015, the court heard the case and is to issue a final decision not earlier than 19 April.

At the end of 2014, Antena Group initiated two new lawsuits requesting damages in relation to the carriage of GSP TV and Antena 2. The claims are almost identical to the ones regarding the same channels and assigned to First Quality Debt Recovery in 2012, except for the much lower amounts requested, specifically RON 500,000 in relation to GSP TV and RON 250,000 in relation to Antena 2. Both lawsuits have been suspended until the final settlement of the trial initiated by RCS&RDS to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

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

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

**b) Litigation on grounds of an alleged abuse of dominant position**

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

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

In March 2015, RCS & RDS requested the court to stay the proceedings until the final settlement of four other trials. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until the final settlement of the lawsuit including the €65 million monetary damages. The decision on suspension of the trial was challenged by Antena Group. The first hearing in front of the Bucharest Tribunal was not scheduled yet.

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

**c) The copyright related litigation**

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

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

On 30 October 2014, the Bucharest Tribunal rejected the claim on procedural grounds and stated that Antena Group does not have legal standing in this lawsuit. On 16 March 2016 the Bucharest Court of Appeals admitted Antena Group's appeal, annulled the first court's decision and sent the file back to the Bucharest Tribunal for a trial on the merits of the case. A higher appeal before the Supreme Court is available to RCS & RDS, but the full decision of the Court of Appeals has not been yet communicated to us.

**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. The next hearing in front of Bucharest Court of Appeals is scheduled for April 26, 2016.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

---

Should the court decide in favour of Antena Group's claim, it might force the Competition Council to reopen the investigation against RCS&RDS, which could ultimately lead to the application of antitrust fines amounting up to 10% of RCS&RDS' turnover.

**e) Reciprocal contractual claims with the Intact Media Group**

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

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

In the first lawsuit, on 2 November 2015, the Bucharest Tribunal fully rejected our claim for a refund of the retransmission fees paid until 2010 and partially admitted the counterclaim of Antena Group regarding the retransmission in 2010 and 2011. As a result, we were ordered to pay to Antena Group approx. EUR 1,9 million representing (i) retransmission fees and (ii) judiciary expenses. Both RCS&RDS and Antena Group filed an appeal against the decision of the first court. The next hearing in front of the Bucharest Court of Appeals is scheduled for June 3, 2016.

In the lawsuit regarding telecommunication and advertising services, the court of first instance fully rejected both our claim and the counterclaim of Antena Group. Both RCS&RDS and Antena Group appealed the decision of the first court, the case currently pending before the Bucharest Court of Appeals. The next hearing is scheduled for 23 May 2016.

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

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

CFO Integrator S.R.L. submitted its statement of defence on April 4, 2015. The court appointed an accounting expert to certify both the claimant's and the defendant's computation of the penalties making the object of the case file. At this stage, the appointed expert was required to redo her calculations according to the observations submitted by the Cluj Napoca Municipality against the initial report (that generally sustained CFO Integrator S.R.L.' defences). The case file has been judged at the hearing taking place on 15 April 2016. The court will issue a decision on 29 April 2016.

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

***Competition Council Investigations***

RCS&RDS has been until 2015 subject to two investigations by the Competition Council. As per our knowledge, no other investigation is pending against RCS&RDS.

***Telecom market interconnection investigation***

In May 2010, RCS&RDS made a complaint to the Romanian Competition Council in relation to the interconnection tariffs applied on the Romanian mobile telecom market, seeking to obtain a reduction in

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

---

the tariffs charged. In February 2011, the Romanian Competition Council opened an investigation on the mobile telephony market in relation to relatively high interconnection tariffs. Subsequently, the investigation focused on differences in fees charged to consumers based on whether the person being called subscribed to the same network as the consumer making the call. We have submitted a commitment that has been accepted by the Competition Council by decision no 33/2015. We will need to implement this commitment for 2 years. During the term of the commitments, RCS&RDS is required to provide to the Romanian Competition Council, upon request, business information, and to commission periodic independent market studies on the evolution of the mobile telephony sector.

The Competition Council's decision accepting RCS&RDS' 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. Failure by RCS&RDS to comply with the terms of the commitment as accepted by the Competition Council may lead to penalties of up to 10% of the aggregate turnover of RCS&RDS.

***GSP investigation***

In May 2011, the Antena Group, a media group in Romania and a former commercial partner of RCS&RDS, made a complaint to the Romanian Competition Council in relation to RCS&RDS refusal to retransmit one of the group's channel, GSP TV. The Romanian Competition Council opened an investigation against RCS&RDS in relation to this matter in August 2011. The Romanian Competition Council issued its final decision on March 3, 2015. The antitrust authority's decision amounted to the conclusion that RCS&RDS' refusal to negotiate the carriage of GSP TV channel is not abusive and that it does not amount to a competition law infringement. The Romanian Competition Council additionally considered that such refusal was justified by the existence of multiple judicial disputes between the parties, including with respect to the application and meaning of the must-carry regime.

The Romanian Competition Council's decision is not final and is subject to judicial review. Antena TV Group S.A. challenged the decision and that trial is ongoing (the details of this case are explained in a dedicated section above: "Litigation regarding the outcome of the GSP investigation").

**Material commitments and contingencies**

Commitments are presented on a discounted basis, using an interest rate of 3M LIBOR + 5% p.a., 3M EURIBOR + 5% p.a. or 3M ROBOR + 5% p.a.

***Operating leases***

The Group leases under operating leases several main types of assets:

- pillars for network support in Romania and Hungary in several rural areas for the Romanian and Hungarian fibre optics main ring;
- pillars for network support in Romania in several urban areas for "fibre to the block networks";
- fibre optic line capacities in Hungary;
- commercial spaces for cash collection points in Romania and Hungary;
- office facilities in Romania, Hungary, Czech Republic, Spain, Italy.

Minimum lease payments under non-cancellable operating lease agreements are as follows:

	<b>2015</b>	<b>2014</b>
Less than one year	21,948	34,388
Between one and five years	41,276	36,971
More than five years	6,562	3,755
	<b>69,786</b>	<b>75,114</b>

The leases for local offices and commercial spaces typically run for an initial period of one year, with an option to renew the lease after that date. The leases of pillars for network support typically run for an initial period of 17 years. The leases for fibre optical line capacities typically run for an initial period between 4 and 7 years. None of the leases include contingent rentals.

Besides these lease agreements, there are approximately another 530 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 1,720.

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

---

*Capital expenditure*

The capital expenditure the Group has assumed until 31 December 2015 is mostly made of commitments for the purchase of 3G and fixed network equipment amounting to approximately EUR 86,045 (31 December 2014: EUR 19,443).

*Satellite capacity expenses*

The Group has committed under the long term agreement with Intelsat, the satellite solution provider, to use until 30 November 2017 the contracted services and to pay monthly equal fees cumulating to EUR 17,528 (31 December 2014: EUR 24,833).

*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 12,131 (31 December 2014: EUR 13,848).

*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 21,721 (31 December 2014: EUR 22,927).

*1800 MHz spectrum fee*

The Group has committed to pay an annual fee to the Hungarian Communication Authority for the 1800 MHz radio spectrum license awarded until 31 October 2029 inclusively, amounting to a cumulated value of EUR 6,033 (31 December 2014: EUR 6,265).

*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 14,228.

*3600 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 3600 MHz radio spectrum license awarded until 31 November 2025 inclusively, amounting to a cumulated value of EUR 2,744.

*Sports rights and TV films and documentaries*

As of 31 December 2015, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 71,448 (31 December 2014: EUR 16,692).

*Letters of guarantee and letters of credit*

As of 31 December 2015, there were bank letters of guarantee and letters of credit issued in amount of EUR 12,717 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2014: EUR 10,401).

**CABLE COMMUNICATIONS SYSTEMS**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2015**

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

**26. SUBSEQUENT EVENTS**

In the first quarter of 2016 RCS&RDS renewed the national roaming Agreement with Vodafone for one more year.

In March 2016 the Group acquired the rights for Formula 1 for the 2016 –2017 seasons.

Also in February 2016, the Group concluded a loan agreement of EUR 7,080 (in original currency thousand RON 32,000), which was used for the acquisition of a property in Bucharest.

**27. EBITDA**

In the telecommunications industry the benchmark for measuring profitability is EBITDA (earnings before interest, taxes, depreciation and amortization). EBITDA is a non-IFRS accounting measure.

For the purposes of disclosure in these notes, EBITDA is the consolidated operating profit/ (loss) of the Group before taking into account:

- any interest expenses and other financing charges,
- income tax or interest income and other financing revenues,
- add back charges for depreciation, amortization and impairment of assets
- non-recurring and one off items.

In years where there are non-recurring and one off items, EBITDA is referred to as “Adjusted EBITDA”.

	<b>2015</b>	<b>2014</b>
<b>Revenues and other income</b>	<b>750,130</b>	<b>661,607</b>
<b>EBITDA</b>		
Operating profit	70,332	48,356
Depreciation, amortization and impairment	187,905	192,061
<b>EBITDA</b>	<b>258,237</b>	<b>240,417</b>
One off transactions (Note 20)	(20,882)	(9,604)
<b>Adjusted EBITDA</b>	<b>237,355</b>	<b>230,813</b>
Adjusted EBITDA (% of revenue and other income)	31.64%	34.89%

For breakdown of depreciation, amortization and impairment refer to Notes 5 and 6(a) and 6(b). One off transactions in 2015 and 2014 represents the net gains from discontinued operations in Czech Republic and Slovakia.