CABLE COMMUNICATIONS SYSTEMS

Parent Company of

RCS & RDS

FINANCIAL REPORT

for the three months period ended March 31, 2016

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1. IMPORTANT INFORMATION

FORWARD-LOOKING STATEMENTS

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

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

The forward-looking statements contained in this report are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. 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. 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, without limitation, various risks related to our business, risks related to regulatory matters and litigation, risks related to investments in emerging markets, risks related to our financial position as well as risks related to the notes and the related guarantee.

Any forward-looking statements are only made as of the date of this report. Accordingly, we do not intend, and do not undertake any obligation, to update forward-looking statements set forth in this report. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this report. As a result, you should not place undue reliance on such forward-looking statements.

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
- 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.

NON-GAAP FINANCIAL MEASURES

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

We calculate EBITDA by adding back to consolidated operating profit/(loss) our charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is defined as EBITDA adjusted for the effect of extraordinary or one-off items. In addition, we adjust EBITDA for mark to market results (unrealised) from fair value assessment of energy trading contracts. EBITDA and Adjusted EBITDA under our definition may not be comparable to similar measures presented by other companies and 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 EBITDA to revenues (for March 31, 2016 and March 31, 2015, Adjusted EBITDA).

The covenants computation for the Notes 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.

2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for the three month period ended March 31, 2016

This report includes and analyses the unaudited condensed consolidated financial statements of the Company as of March 31, 2016.

The following discussion and analysis of the financial condition and results of operations of the Company and its subsidiaries should be read in conjunction with the unaudited condensed consolidated interim financial report of the Company and its subsidiaries as at and for the three months ended March 31, 2016 and the related notes, prepared in accordance with IFRS.

The following discussion includes forward-looking statements based on assumptions about our future business.

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 and Hungary through our cable TV and DTH satellite television platforms.

For the three months ended March 31, 2016, we had revenues of €199.8 million, net profit of €13.0 million and Adjusted EBITDA of €64.0 million.

RECENT DEVELOPMENTS

Business

In February 2016 the Group has concluded a new loan agreement in amount of RON 32 million (EUR 7.2 million equivalent) repayable in 5 years, which was used for the acquisition of a property in Bucharest. Out of the total facility, the amount drawn was RON 31.6 million (EUR 7.1 million equivalent).

In March 2016 the national roaming agreement with Vodafone was extended for 1 additional year (initially the agreement was signed in March 2014 for 2 years). Our own network covers approximately 94% of the population.

In March 2016 the Group acquired the rights for Formula 1 for the 2016 –2017 seasons.

On 29 April 2016 we repaid the second principal installment from the 2015 Senior Facility, in amount of RON 110 million (EUR 24.6 million equivalent).

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 the euro is used as a reference currency in the telecommunications industry in the European Union and management analysis and reporting is prepared in euros.

Segments

Management 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. For period ended March, 31 2015, Other includes also the results of Czech Republic subsidiary, disposed of in April 2015.

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.

Exchange Rates

Our operating subsidiaries record their financial results in their respective functional currencies (principally the Romanian leu; to a lesser extent, 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 considerably relative to the euro, our presentation currency, and the U.S. dollar. We have significant exposure to euro and to a lesser degree to U.S. dollar, as most of our financing agreements are in euro and we purchase certain content and services for our cable TV and DTH businesses in U.S. dollars and euros. In the 1st quarter of 2016, compared with the same period in 2015, the Romanian leu depreciated by 0.9% relative to the euro and depreciated by 3.2% relative to the U.S. dollar, and the Hungarian forint declined by 1% relative to the euro and by 3.6% relative to the U.S. dollar. The changes in currencies discussed are computed using the average rates in the period.

Going forward, we plan to continue to present our consolidated financial results in euros. Any further 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 of the euro against each of our local functional currencies, in each case as reported by the relevant central bank on its website (unless otherwise stated):

	As at and for the year ended December 31		**As at and for the three months ended March 31**	
	2014	**2015**	**2015**	**2016**
	Value of one euro in the relevant currency			
Romanian leu (RON)				
Period end rate	4.48	4.52	4.41	4.47
Average rate	4.44	4.45	4.45	4.49
Hungarian forint (HUF)				
Period end rate	314.89	313.12	299.14	314.16
Average rate	308.66	309.89	308.97	312.05
Czech koruna (CZK)				
Period end Rate	27.73	N.R	27.73	N.R
Average rate	27.53	27.62	27.53	N.R
United States Dollar (USD)(1)				
Period end rate	1.21	1.09	1.08	1.14
Average rate	1.33	1.11	1.13	1.10

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

In the three months ended March 31, 2016, we had a net foreign exchange gain (which is recognized in net finance income on our statement of comprehensive income) of €6.9 million due to the appreciation of the Romanian leu against the euro at the end of the quarter as compared to December 31, 2015. In the three months ended March 31, 2015, we had a net foreign exchange gain of €7.9 million due to the appreciation of the Romanian leu against the euro at the end of the quarter as compared to December 31, 2014.

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. See "*Important Information – Operating and Market Data*"

The following table shows, by segment and business, our RGUs at the beginning and at the end of the first quarter in each of 2015 and 2016 and ARPU for the three months ended March 31, 2015 and 2016. ARPU figures are not shown on a constant currency basis.

	RGUs (in thousands)						ARPU (EUR/RGU/month)		
	As at December 31,		% change	As at March 31,		% change	For the three months period ended March 31,		% change
	2014	2015		2015	2016		2015	2016	
Romania									
Cable TV[1]	2,599	2,733	5.2%	2,633	2,752	4.5%	5.12	5.22	2.0%
Fixed Internet and data[1]									
Residential	1,745	1,873	7.3%	1,776	1,907	7.4%	5.17	5.04	-2.5%
Business	89	103	15.7%	92	106	15.2%	40.61	36.70	-9.6%
Fixed-line telephony									
Residential	1,346	1,287	-4.4%	1,331	1,270	-4.6%	1.26	1.30	3.2%
Business	124	127	2.4%	124	127	2.4%	3.63	3.72	2.5%
Mobile telephony[1]	1,388	1,906	37.3%	1,485	2,060	38.7%	2.86	3.85	34.6%
Mobile internet and data[1][2]	739	810	9.6%	759	794	4.6%	1.94	1.96	1.0%
DTH	725	674	-7.0%	693	666	-3.9%	4.77	4.87	2.1%
Hungary									
Cable TV	411	437	6.3%	416	452	8.7%	7.25	7.24	-0.1%
Fixed internet and data	347	382	10.1%	355	398	12.1%	7.68	7.70	0.3%
Fixed-line telephony	301	327	8.6%	307	334	8.8%	2.19	1.74	-20.5%
Mobile internet and data[3]	19	16	-15.8%	18	15	-16.7%	6.55	6.67	1.8%
DTH	330	318	-3.6%	326	317	-2.8%	7.62	7.97	4.6%
Spain									
Mobile telephony[4]	423	491	16.1%	451	510	13.1%	9.26	9.67	4.4%
Mobile internet and data[4]	187	244	30.5%	203	240	18.2%	6.21	7.80	25.6%
Italy									
Mobile telephony[2][4]	48	59	22.9%	54	62	14.8%	10.45	10.38	-0.7%
Mobile internet and data[4]	3	7	133.3%	3	10	233.3%	5.98	7.37	23.2%
Other									
DTH[5]	134	N.M	-100.0%	131	N.M	-100.0%	7.76	0.00	-100.0%

(1) In Q4 2015 we recorded certain adjustments which referred to the entire year ended December 31, 2015. For comparison and presentation purposes, revenues for Q1 2015 were restated accordingly. More precisely, a reassessment of revenues from promotions was made, as well as reallocation of revenues between business lines. ARPU comparatives as at March, 31 2015 were restated accordingly.

(2) As of December 31, 2015 we have revised the definition of Mobile Internet and data RGU. Comparative as of December 31, 2014 and March 31, 2015 were 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 month of the reported period. RGU and ARPU comparatives were restated accordingly as of December 31, 2014 and March 31, 2015.

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

(4) As an MVNO.

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

N.M – not meaningful

HISTORICAL RESULTS OF OPERATIONS

Results of Operations for the three months ended March 31, 2015 and 2016

	Three months ended March 31,	
	2015	**2016**
	(euro in millions)	
Revenues		
Romania[(1)]	126.9	145.0
Hungary	31.0	32.9
Spain	16.1	20.5
Other	1.7	2.1
Discontinued operations	3.1	
Elimination of intersegment revenues	(0.6)	(0.7)
Total revenues	**178.0**	**199.8**
Other income	0.0	3.3
Operating expenses		
Romania[(1)]	85.0	96.6
Hungary	18.7	19.6
Spain	14.0	17.1
Other	2.5	3.1
Discontinued operations	2.1	
Elimination of intersegment expenses	(0.6)	(0.7)
Depreciation, amortization and impairment of tangible and intangible assets	47.3	45.7
Total operating expenses	**168.9**	**181.5**
Operating profit	**9.1**	**21.6**
Finance income	7.9	6.9
Finance expense	(15.6)	(14.2)
Net finance costs	**(7.7)**	**(7.4)**
Profit / (Loss) before taxation	**1.5**	**14.3**
Income tax benefit/(expense)	(1.2)	(1.3)
Profit / (Loss) for the period[(1)]	**0.3**	**13.0**

(1) In Q4 2015 we recorded certain adjustments which referred to the entire year-ended December 31, 2015. For comparison and presentation purposes, Q1 2015 results were restated accordingly. The net impact of the restatement in Q1 2015 is a surplus of EUR 0.35 million for EBITDA and Net result for the period.

Revenues

Our revenues for the three months ended March 31, 2016 were €199.8 million, compared with €178.0 million (restated) for the three months ended March 31, 2015, an increase of 12.2%. On a constant currency basis (by reference to the three month period ended March 31, 2015 average exchange rates), our revenues would have been higher by €1.3 million, meaning total revenues of €201.1 million for the three months ended March 31, 2016, an aggregate increase of 13%.

Our revenues from continued operations for the three months ended March 31, 2016 were €199.8 million, compared with €174.9 million (restated) for the three months ended March 31, 2015, an increase 14.2%.

The following tables show the distribution of revenues by country and business line for the three months ended March

31, 2015 and 2016 and the revenues calculated on constant currency basis:

	Three months ended March 31,		**% change**
	2015	**2016**	
	(euro in millions)		
Romania[(1)]			
Cable TV	40.2	43.0	7.0%
Fixed internet and data	38.3	40.1	4.7%
Fixed-line telephony	6.4	6.4	0.0%
Mobile telephony	12.3	22.9	86.2%
Mobile internet and data	4.4	4.7	6.8%
DTH	10.1	9.8	-3.0%
Other revenues	14.7	17.8	19.7%
Total	**126.5**	**144.6**	**14.3%**
Hungary			
Cable TV	9.0	9.7	7.8%
Fixed internet and data	8.1	9.0	11.1%
Fixed-line telephony	2.0	1.7	-15.0%
Mobile internet and data	0.4	0.3	-25.0%
DTH	7.5	7.6	1.3%
Other revenues	4.1	4.6	12.2%
Total	**31.0**	**32.9**	**6.1%**
Spain			
Mobile telephony	12.1	14.5	19.8%
Mobile internet and data	3.6	5.7	58.3%
Other	0.1	0.0	-100.0%
Total	**15.8**	**20.2**	**27.8%**
Italy			
Mobile telephony	1.6	1.9	18.8%
Mobile internet and data	0.1	0.2	100.0%
Other	0.0	0.1	N.M
Total	**1.7**	**2.1**	**23.5%**
Discontinued operations			
DTH	3.1	-	N.M
Total	**3.1**	**-**	**N.M**
Total	**178.0**	**199.8**	**12.2%**

(1) In Q4 2015 we recorded certain adjustments which referred to the entire year ended December 31, 2015. For comparison and presentation purposes, revenues for Q1 2015 were rested accordingly.
More precisely a reassessment of revenues from promotions was made, as well as reallocation of revenues between business lines.

Revenues in Euro millions in constant currency

Segment	**Three months ended March 31,** 2015	2016
	Actual	**Constant Currency**
Romania	126.9	146.0
Hungary	31.0	33.2
Spain	16.1	20.5
Other	1.7	2.1
Discontinued operations	3.1	-
Elimination of intersegment revenue	(0.6)	(0.7)
Total	**178.0**	**201.1**

Revenues in Romania (including intersegment revenues) for the three months ended March 31, 2016 were €145.0 million compared with €126.9 million (restated) for the three months ended March 31, 2015, an increase of 14.3%. On a constant currency basis (by reference to the 1st quarter of 2015 average exchange rates), our revenues in Romania would have been €146 million for the three months ended March 31, 2016 (higher by €0.9 million), leading to an aggregate increase of 15.1%. Revenue growth in Romania was driven primarily by an increase in our mobile telephony RGUs and ARPU, cable TV and fixed internet and data RGUs and other revenues. Mobile telephony RGUs increased from 1,485,000 at March 31, 2015 to 2,060,000 at March 31, 2016, an increase of 38.7%. This increase is the result of our attractive offers with competitive tariffs and also the possibility of acquiring a mobile handset. As a result, also the ARPU from mobile telephony increased in the three months ended March 31, 2016 to 3.85 €/month compared with 2.86 €/month for the three months ended March 31, 2015, an increase of 34.6%. Our cable TV RGUs increased from 2,633,000 at March 31, 2015 to 2,752,000 at March 31, 2016, an increase of 4.5%, and our fixed internet and data RGUs increased from 1,868,000 at March 31, 2015 to 2,013,000 at March 31, 2016, an increase of 7.8%. Both increases were driven primarily by our investments in expanding and upgrading our fiber optic network, which allowed us to connect more customers to our fiber optic network. Other revenues increased mainly as a result of revenues from sales of equipment to our customers, as well as increase in revenues from advertising. 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 693,000 at March 31, 2015 to 666,000 at March 31, 2016, a decrease of 3.9%. Residential fixed telephony RGUs decreased from 1,331,000 at March 31, 2015 to 1,270,000 at March 31, 2016, a decrease of 4.6%. Fixed telephony ARPU increased from 1.26 €/month for the three months ended March, 2015 to 1.30 €/month for the three months ended March 31, 2016, an increase of 3.2%.

Revenues in Hungary for the three months ended March 31, 2016 were €32.9 million compared with €31.0 million for the three months ended March 31, 2015, an increase of 6.1%. On a constant currency basis (by reference to 1st quarter of 2015 average exchange rates), our revenues in Hungary would have grown by an additional €0.3 million to €33.2 million for the three months ended March 31, 2016, an increase of 7.1%. The increase in revenues was principally due to an increase in our cable TV RGUs as well as fixed internet and data RGUs. Our cable TV RGUs increased from 416,000 at March 31, 2015 to 452,000 as at March 31, 2016, an increase of 8.7%. Our fixed internet and data RGUs increased from 355,000 at March 31, 2015 to 398,000 at March 31, 2016, an increase of 12.1%. Our fixed-line telephony RGUs increased from 307,000 at March 31, 2015 to 334,000 at March 31, 2016, an increase of 8.8%. Despite the increase in the fixed-line telephony RGUs, the revenues decreased as a result of price revision due to decrease in interconnection rates, as well as lower usage of the fixed line services. The above increases were partially offset by a decrease in our DTH RGUs. Our DTH RGUs decreased from 326,000 at March 31, 2015 to 317,000 at March 31, 2016, a decrease of 2.8%.

Revenues in Spain (including intersegment revenues) for the three months ended March 31, 2016 were €20.5 million compared with €16.1 million for the three months ended March 31, 2015, an increase of 27.3%. This growth was the result of an increase in our number of mobile telephony RGUs from 451,000 at March 31, 2015 to 510,000 at March 31, 2016, an increase of 13.1%, and an increase in the number of mobile internet and data RGUs from 203,000 at March 31, 2015 to 240,000 at March 31, 2016, an increase of 18.2%.

Revenues in Other (Italy) for the three months ended March 31, 2016 were €2.1 million compared with €1.7 million for the three months ended March 31, 2015, an increase of 23.5%. The increase in revenues was due to an increase our mobile telephony RGUs from 54,000 at March 31, 2015 to 62,000 as at March 31, 2016.

Revenues in Discontinued Operations (Czech Republic subsidiary disposed of in April 2015) for the three months ended March 31, 2016 were nil. For the three months ended March 31, 2015 revenues were €3.1 million.

Total operating expenses

Our total operating expenses for the three months ended March 31, 2016 were €181.5 million compared with €168.9 million (restated) for the three months ended March 31, 2015, an increase of 7.5%.

The table below sets out the expenses per segment (which excludes depreciation and amortization) as a percentage of revenues for the three months ended March 31, 2015 and 2016 (including intersegment transactions).

	Three months ended March 31,	
Segment	**2015**	**2016**
	Expenses as % of revenues	
Romania	67.01%	66.65%
Hungary	60.46%	59.63%
Spain	86.74%	83.58%
Other	150.30%	145.10%
Discontinued operations	67.23%	N.M

Operating expenses in Romania (including intersegment expenses) for the three months ended March 31, 2016 were €96.6 million compared with €85 million (restated) the three months ended March 31, 2015, an increase of 13.6%. This increase is in line with growth of the business. The largest cost increase comes mainly from interconnection fees related to our mobile operations.

Operating expenses in Hungary for the three months ended March 31, 2016 were €19.6 million compared with €18.7 million the three months ended March 31, 2015, an increase of 4.8%. This is mainly the result of the increase in direct costs associated with the increase in RGUs in cable tv and fixed telephony business lines.

Operating expenses in Spain (including intersegment expenses) for the three months ended March 31, 2016 were €17.1 million compared with €14.0 million for the three months ended March 31, 2015, an increase of 22.1%. This increase is the result of an increase in the traffic as a result of an increase in our RGU number.

Operating expenses in Other (Italy) for the three months ended March 31, 2016 were €3.1 million compared with €2.5 million for the three months ended March 31, 2015, an increase of 24%. The increase is the result of higher RGUs and traffic in our subsidiary in Italy. In addition we incurred certain costs related to migration to Telecom Italia.

Operating expenses in Discontinued Operations (Czech Republic subsidiary disposed of in April 2015) for the three months ended March 31, 2016 were nil compared with €2.1 million for the three months ended March 31, 2015.

Depreciation, amortization and impairment of tangible and intangible assets

Depreciation, amortization and impairment of tangible and intangible assets was €45.7 million for the three months ended March 31, 2016 compared with €47.3 million for three months ended March 31, 2015, a decrease of 3.4%. This decrease was primarily due to slightly lower depreciation of CPE.

Other income for the three months ended March 31, 2016 of €3.3 million represents mark to market gain from fair valuation of energy trading contracts.

Operating profit

For the reasons set forth above, our operating profit was €21.6 million for the three months ended March 31, 2016 compared with €9.1 million (restated) for three months ended March 31, 2015.

Net finance expense

We recognized net finance expense of €7.4 million in the three months ended March 31, 2016 compared with €7.7 million in the three months ended March 31, 2015. The slight decrease is mainly the result of fluctuations in mark to market fair value assessment of derivative instruments, together with lower net foreign exchange result recorded in the three months period ended March 31, 2016.

Profit / Loss before taxation

For the reasons set forth above, we had a profit before taxation of €14.3 million for the three months ended March 31, 2016 compared with a profit before taxation of €1.5 million (restated) for the three months ended March 31, 2015.

Income tax expense

An income tax expense of €1.3 million was recognized in the three months ended March 31, 2016 as a result of the net profit incurred profit in that period, adjusted for the effect of non-deductible expenses. An income tax expense of €1.2

million was recognized in the three months ended March 31, 2015 for the same reasons.

Profit/ Loss for the year

For the reasons set forth above, our net profit for the three months ended March 31, 2016 was €13.0 million and our net profit for the three months ended March 31, 2015 was €0.3 million (restated).

LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows and 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 2015 Senior Facilities Agreement (signed on April 30, 2015), the ING Facilities Agreement, the Citi Facilities Agreement, other letter of guarantee facilities and other credit agreements. We believe that our strong and, in local currency, relatively predictable operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

All of our businesses generally produce positive operating cash flows that are relatively constant from month to month. 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 lend free of charge to our customers for the duration of their subscriptions.

We also believe that, for the coming 12 months, our operating cash flows will be adequate to fund our working capital requirements.

Historical Cash Flows

The following table sets forth, for the three months ended March 31, 2015 and 2016 our consolidated cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

	Three months ended March 31,	
	2015	**2016**
	(euro in millions)	
Cash flows from operations before working capital changes[(1)]	**54.5**	**66.8**
Cash flows from changes in working capital[(1)]	14.8	(5.9)
Cash flows from operations	**69.3**	**60.8**
Interest paid	(3.6)	(3.2)
Income tax paid	(0.9)	(0.8)
Cash flow from operating activities	**64.8**	**56.8**
Cash flow used in investing activities	**(57.7)**	**(59.9)**
Cash flows from financing activities	**(2.9)**	**2.5**
Net increase (decrease) in cash and cash equivalents	4.2	(0.6)
Cash and cash equivalents at the beginning of the period	54.3	49.7
Effect of exchange rate fluctuation on cash and cash equivalent held	(0.9)	(0.6)
Cash and cash equivalents at the closing of the period	**57.6**	**48.6**

(1) In Q4 2015 we recorded certain adjustments which referred to the entire year-ended December 31, 2015. For comparison and presentation purposes, Q1 2015 results and cash flows were restated accordingly.

Cash flows from operations before working capital changes were €66.8 million in the three months ended March 31, 2016 and €54.5 million (restated) in the three months ended March 31, 2015 for the reasons discussed above under "—*Results of Operations for the three months ended March 31, 2016 and 2015*."

The following table shows changes in our working capital:

	Three months ended March 31,	
	2015	**2016**
Changes in:	**(euro in millions)**	
Trade receivables and other assets[(1)]	(7.7)	(20.6)
Inventories	1.7	0.5
Trade payables and other current liabilities[(1)]	15.4	9.4
Deferred revenue	5.4	4.9
Total	**14.8**	**(5.9)**

[(1)]In Q4 2015 we recorded certain adjustments which referred to the entire year-ended December 31, 2015. For comparison and presentation purposes, Q1 2015 results and cash flows were restated accordingly.

We had a net working capital requirement of €5.9 million in the three months ended March 31, 2016. The net working capital requirements is mainly the result of an increase in trade receivables balances coming mostly from the energy activity. This is partially offset by a decrease in trade payables balances of €9.4 million mainly due to reverse factoring agreements concluded with suppliers of equipments, which increased the long-term fixed assets payables balance, but on the other hand allowed for higher payments of the overall trade payables balances.

We had a net working capital of €14.8 million (restated) in the three months ended March 31, 2015. This is the result of an increase in trade payables of €15.4 due to sales of equipments, especially mobile handsets, increase in several other expenses such as mobile interconnection, salaries and programming. The net working capital is also the result of an increase in deferred revenue, mainly as a result of increase in our RGUs in Romania and Hungary. These changes were partially offset by an increase in our trade receivables and other assets balances of €7.7 million primarily as a result of sale of customer equipment in installments and/or with a subsidy to our subscribers.

Cash flows from operating activities were €56.8 million in the three months ended March 31, 2016 and €64.8 million in the three months ended March 31, 2015. Included in these amounts are deductions for interest paid and income tax paid, which were €4.0 million in the three months ended March 31, 2016 and €4.5 million in the three months ended March 31, 2015.

Cash flows used in investing activities were €59.9 million in the three months ended March 31, 2016 and €57.7 million in the three months ended March 31, 2015.

Purchases of property, plant and equipment were €38.2 million in the three months ended March 31, 2016 and €30.5 million in the three months ended March 31, 2015. The increase is the result of higher investments in our fixed and mobile networks in Romania.

Purchases of intangible assets were €20.4 million in the three months ended March 31, 2016 and €25.8 million in the three months ended March 31, 2015. In the 3 months period ended March 31, 2015 there were higher payments made for sport rights (Romanian Football League).

Payments for acquisition of subsidiaries were €1.3 million in the three months ended March 31, 2016 and €1.4 million in the three months ended March 31, 2015.

Cash flows from financing activities were a positive amount of €2.5 million (representing an inflow) in the three months ended March 31, 2016 and a negative amount of €2.9 million (representing an outflow) in the three months ended March 31, 2015. In February 2016 a new loan agreement was concluded in amount of RON 32 million (EUR 7.2 million equivalent) repayable in 5 years, which was used for the acquisition of a property in Bucharest. Out of the total facility, the amount drawn was RON 31.6 million (EUR 7.1 million equivalent). During the first quarter of 2016 we have repaid interest for our 2015 Senior Facility and settled derivatives in amount of €3.7 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 and financial leasing arrangements for part of our headquarters in Bucharest, and certain other assets.

The following table sets forth our payment obligations as at March 31, 2016 based on the agreements in place as at that date. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in this table:

	TOTAL	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2019	April 1, 2019 - March 31, 2021	April 1, 2021 and after
			(euro in millions)		
Interest bearing loans and borrowings, including short term facilities	891	112.0	194.9	583.9	0.0
Finance lease obligations(1)	9.1	2.4	4.7	1.0	1.0
Overdraft facilities	3.5	3.5	0.0	0.0	0.0
Capital expenditure and operating expenditure contractual commitments(2)	227	106.4	72.7	17.8	30.6
Acquisition of subsidiaries	1.5	1.5			
Trade and other payables(3)	290.2	278.9	11.3		
Interest rate swaps used for hedging	8.5	8.5			
Total	**1,431.1**	**513.2**	**283.6**	**602.7**	**31.6**

(1) Includes estimated interest. Interest was estimated by using 3-month EURIBOR or a fixed rate as of March 31, 2016 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.

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 have been increased by EUR 25 million (in RON and the exchange rate from the date of the notice) until the end of 2015. 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.

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.

The 2015 Senior Facilities Agreement contains certain other covenants, including a cross-default provision pursuant to which an event of default occurs if any financial obligation of the Group is not paid when due or becomes payable or is capable of becoming payable before its due date or any facility under which financial obligations arise ceases to be available or becomes capable of early termination.

On 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 29th December 2015 we have drawn an additional amount of RON 105.4 million from the term loan and the revolver credit ("Accordion Agreement"). On 29th April 2016 we repaid the second principal installment in amount of RON 110 million.

On May 22, 2015 we concluded an interest rate SWAP for the entire initial term loan facility through which interest is fixed 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 ("Accordion Agreement") in December 2015 is fixed through interest rate SWAP for the term loan facility portion and floating ROBOR + 2.5% for the revolver credit portion.

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 March 31, 2016, we had €3.5 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 13.1 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$ 7 million and (ii) an uncommitted bank guarantee facility with an initial amount of US$4.1 million and €500,000.

As of March 31, 2016, 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$ 0.9 million, €1.0 million and lei 15.1 million.

BRD Letters of Guarantee Facility

The BRD Letters of Guarantee Facility consists of an uncommitted bank guarantee facility with an amount of EUR 5 million. As of March 31, 2016 we had letters of guarantee issued by BRD with a value of €0.9 million.

Santander Facility

On October 30, 2015, we entered into a new short-term facility agreement with Banco Santander for €1.5 million ("the Santander Facility"). The maturity date for this new facility is October 30, 2016. As of March 31, 2016, the balance drawn under the Santander Facility was €0.18 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 and on July 28, 2015 we agreed to modify the facility agreement to get lower financing interest rates. The term of the Caixa Facility is indefinite and the maximum amount which can be used is €500,000. As of March 31, 2016, the balance drawn under the Caixa Facility overdraft was €0.09 million.

Unicredit facilities

We have cash collateral agreements with UniCredit Tiriac Bank S.A. for issuance of letters of counter guarantees. As at March 31, 2016 we had letters of guarantee issued in amount of €0.2 million. These agreements are secured with moveable mortgage over cash collateral accounts opened with UniCredit Tiriac Bank S.A.

We have an agreement for an uncommitted overdraft/ bank guarantee facility in amount of €2 million. As at March 31, 2016 this facility was not used.

Libra Bank facility

In February 2016 a new loan agreement was concluded in amount of RON 32 million (EUR 7.2 million equivalent) repayable in 5 years, which was used for the acquisition of a property in Bucharest. Out of the total facility, the amount drawn was RON 31.6 million (EUR 7.1 million equivalent). As at March 31, 2016 the outstanding amount was RON 31 million (EUR 6.9 million equivalent).

Financial Leasing Agreements

As at March 31, 2016, we had four leasing agreements in place with a total outstanding value of approximately €8.3 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 €4.3 million. As at March 31, 2016, the outstanding amount under the sale-leaseback agreement was EUR 4 million.

We have also entered into a leasing agreement for a parcel of land in Poiana Brasov city, Brasov County, with a financed amount of €3.2 million (excluding VAT). As at March 31, 2016, the outstanding amount under this leasing agreement was €2.3 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 €2.2 million. As at March 31, 2016, the outstanding amount under these leases was €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 offering memorandum. There were no changes in our accounting policy during the three months period ended March 31, 2016.