CABLE COMMUNICATIONS SYSTEMS

Parent Company of

RCS & RDS

FINANCIAL REPORT

for the three month period ended June 30, 2014

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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
- for our mobile internet and data business, we consider each mobile internet and data subscription that we invoice and each mobile internet and data package sold in a bundle with our fixed internet and data subscriptions to be a separate RGU.

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

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

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

NON-GAAP FINANCIAL MEASURES

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

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

We define EBITDA margin as the ratio of revenues and other income to EBITDA (for June 30, 2014, 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. RISK FACTORS

The following section describes the material changes to the risk factors disclosed our 2013 Annual Report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at the date of this report, we are no longer in the position to make the matches of the Romanian Football League and the Romanian Football Cup available to our customers

Our right to broadcast the matches of the Romanian Football League for the past three seasons expired in May 2014.

The award of the right to broadcast the Romanian Football League for the following 5 seasons (starting 2014/2015 and ending 2019/2020) took place was conducted in a non-transparent procedure which did not allow interested parties the opportunity to bid. A Maltese incorporated vehicle, Intel Sky Broadcast Ltd. without any previous activity on the Romanian broadcasting market, was directly and exclusively granted all rights to broadcast the Romanian Football League and the Romanian Football Cup. This company is currently broadcasting these rights through two pay-Tv channels: Look TV and Look Plus. The channels were not owned by Intel Sky Broadcast Ltd at the date of the award and have been acquired in the intervening period and transformed from generalist free-to-air channels into pay-Tv channels focused on Romanian football.

We challenged the Romanian Football League's and the football clubs' behavior before the Romanian courts and the Romanian Competition Council. In August 2014, The Romanian Competition Council triggered an official investigation against the Romanian Football League and the football clubs for suspected breach of competition rules arising from the award procedure. The investigation is currently ongoing.

In the meanwhile, we have not agreed the terms for the carriage of Look TV and Look Plus and there is no assurance that we will be able to agree such terms in the future. The 2014/2015 season started in July 2014 and our main competitors on the Cable TV and DTH markets have agreed to carry these channels, though it should be noted that they have also increased the price of their subscription packages around the same time. The fact that we are currently unable to make the matches of the Romanian Football League and the Romanian Football Cup available to our customers may affect our ability to retain existing subscribers or to attract new customers on our Cable Tv and DTH platforms, may decrease the viewership and may indirectly affect our ability to retain customers for the other services we offer in Romania to the extent such customers were primarily subscribing to our services in order to be able to receive Romanian football matches.

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

Starting with February 2014, Ukraine, one of the main neighbours of Romania and Hungary, our core markets, has been confronting a severe internal crisis in which the Russian Federation is also alleged to be heavily involved. During this crisis, Ukraine lost control over the peninsula of Crimea to the Russian Federation and lost control over a significant part of its other eastern territories to pro-Russian separatists. The conflict was initially mainly political but has escalated into military confrontation (though it should be noted that at the date of this Report a cease-fire is in place and seems to be largely observed).

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

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

3. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS for the three month period ended June 30, 2014

This report includes and analyses the unaudited condensed consolidated financial statements of the Company as of June 30, 2014.

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 six months ended June 30, 2014 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. We also provide DTH satellite services in the Czech Republic. Our service offerings include cable TV, fixed internet and data, fixed- line telephony, mobile telephony, mobile internet and data and DTH satellite television services. We offer to our cable TV and DTH customers a large number of channels produced by third parties. We also offer our own TV channels and pay TV services, which carry premium movies and sports content to our customers in Romania and Hungary.

For the three months ended June 30, 2014, we had revenues of €160.1 million, net profit of €2.1 million and EBITDA of €57.0 million. For the six months ended June 30, 2014, we had revenues of €313.9 million, other income of €8.3 million, net profit of €13.7 million and Adjusted EBITDA of €117.9 million.

RECENT DEVELOPMENTS

Business

In June 19, 2014 we drew the remaining EUR 45 million from the term loan facility of the New Senior Facilities Agreement.

In June 2014, the National Media and Infocommunications Authority (NMHH) in Hungary organised a mobile spectrum auction. We bid for one frequency block in the 1,800 MHz spectrum.

We concluded coupon swaps for the entire Proceeds Loan's value (€450 million), all with a termination date of 23 September 2016.

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

Starting with the beginning of 2014 we launched a retention campaign aiming to increase the contractual period for the existing customers for a period of up to 2 years, offering as incentive media related equipments at a subsidized price or discounts for the monthly subscription.

Starting with April 1, 2014 the interconnection tariffs in Romania were reduced from 3.07 eurocents/minute to 0.96 eurocents/minute for mobile traffic and from 0.67 eurocents/minute to 0.14 eurocents/minute for fixed networks traffic.

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

On March 28, 2014 we signed a full MVNO agreement with Telecom Italia and we expect to finalize the implementation towards the end of the year. The contract is valid for 5 years starting with the moment when the services are fully available.

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

We evaluate business and market opportunities and considers our results primarily on a country by country basis. As such, we report our results of operations in accordance with four geographic segments: Romania, Hungary, Spain and Other, which includes our operations in the Czech Republic and Italy. During the period under review, our Other segment also included our operations in Croatia, Serbia and Slovakia. We disposed our operations in Croatia (March 2013) and in Slovakia (August 2013), and sold a 76% interest in our operations in Serbia (May 2013).

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 and the Czech koruna), 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 both currencies as we purchase certain content for our cable TV and DTH businesses in U.S. dollars and euros. In the six month period ended June 30, 2014, compared with the same period in 2013, the Romanian leu declined by 1.7% relative to the euro and appreciated by 2.6% relative to the U.S. dollar, and the Hungarian forint declined by 3.7% relative to the euro and appreciated by 0.7% relative to the U.S. dollar. In the 2nd quarter of 2014, compared with the same period in 2013, the Romanian leu declined by 0.7% relative to the euro and appreciated by 4.1% relative to the U.S. dollar, and the Hungarian forint declined by 3.4% relative to the euro and appreciated by 1.5% relative to the U.S. dollar.

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 three months ended June 30		As at and for the six months ended June 30	
	2013	**2014**	**2013**	**2014**
	Value of one euro in the relevant currency			
Romanian leu (RON)				
Beginning of period	4.42	4.46	4.43	4.48
End of period	4.46	4.39	4.46	4.39
Average rate	4.40	4.43	4.39	4.46
Hungarian forint (HUF)				
Beginning of period	304.30	307.06	291.29	296.91
End of period	295.16	310.19	295.16	310.19
Average rate	295.75	305.92	296.13	306.97
Czech koruna (CZK)				
Beginning of period	25.74	27.44	25.14	27.43
End of period	25.95	27.43	25.95	27.45
Average rate	25.83	27.45	25.70	27.44
Serbian dinar (RSD)				
Beginning of period	111.96	*N.R.*	113.72	*N.R.*
End of period	114.17	*N.R.*	114.17	*N.R.*
Average rate	112.15	*N.R.*	111.92	*N.R.*
Croatian kuna (HRK)				
Beginning of period	*N.R.*	*N.R.*	7.55	*N.R.*
End of period	*N.R.*	*N.R.*	7.45	*N.R.*
Average rate	*N.R.*	*N.R.*	7.57	*N.R.*
United States Dollar (USD)(1)				
Beginning of period	1.28	1.38	1.32	1.38
End of period	1.31	1.37	1.31	1.37
Average rate	1.31	1.37	1.31	1.37

(1) According to the exchange rates published by the European Central Bank.
N.R. Not relevant

In the three months ended June 30, 2014, we had a net foreign exchange gain (which is recognized in net finance income on our statement of comprehensive income) of €10.0 million due to the appreciation of the Romanian leu against the euro at the end of the quarter as compared to March 31, 2014. In the three months ended June 30, 2013, we had a net foreign exchange loss of €1.6 million due to the decline of the Romanian leu against the euro at the end of the quarter as compared to March 31, 2013.

In the six months ended June 30, 2014, we had a net foreign exchange gain (which is recognized in net finance income on our statement of comprehensive income) of €17.3 million due to the appreciation of the Romanian leu against the euro at the end of the quarter as compared to December 31, 2013. In the six months ended June 30, 2013, we had a net foreign exchange loss of €6.1 million due to the decline of the Romanian leu against the euro and the US dollar at the end of the quarter as compared to December 31, 2012.

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 end of the third quarter in each of 2013 and 2014 and monthly ARPU for the three months ended June 30, 2014. ARPU figures are not shown on a constant currency basis.

	RGUs (in thousands)						ARPU (EUR/RGU/month)		
	As at March 31,		% change	As at June 30,		% change	For the three month period ended June30,		% change
	2013	2014		2013	2014		2013	2014	
Romania									
Cable TV	2,362	2,506	6%	2,397	2,535	6%	5.15	5.13	0%
Fixed Internet and data									
Residential	1,527	1,648	8%	1,553	1,670	8%	5.21	5.26	1%
Business	72	80	11%	74	83	12%	47.71	43.09	-10%
Mobile internet and data	615	734	19%	647	852	32%	1.75	1.63	-7%
Fixed-line telephony									
Residential	1,434	1,390	-3%	1,427	1,380	-3%	1.68	1.37	-18%
Business	113	119	5%	115	119	3%	5.58	4.36	-22%
Mobile telephony	1,151	1,066	-7%	1,132	1,087	-4%	1.54	1.96	27%
DTH	890	781	-12%	863	765	-11%	4.82	4.81	0%
Hungary									
Cable TV	391	401	3%	392	402	3%	7.36	7.10	-4%
Fixed internet and data	308	330	7%	312	333	7%	7.82	7.69	-2%
Mobile internet and data(1)	23	20	-13%	23	20	-13%	6.71	6.60	-2%
Fixed-line telephony	270	290	7%	273	292	7%	3.00	2.42	-19%
DTH	358	336	-6%	358	341	-5%	8.01	7.84	-2%
Spain									
Mobile telephony(2)	254	336	32%	269	364	35%	14.65	10.19	-30%
Mobile internet and data(2)	52	128	146%	67	154	130%	4.88	5.17	6%
Other									
DTH(6)	176	150	-15%	172	145	-16%	8.43	7.89	-6%
Mobile telephony(5)	53	57	8%	56	57	2%	9.49	6.57	-31%
Mobile internet and data(2)	-	1	N.M.	-	2	N.M.	-	4.72	N.M.
Discontinued Operations									
Cable TV(5)	41	-	N.M.	41	-	N.M.	7.13	-	N.M.
Fixed internet and data(5)	6	-	N.M.	6	-	N.M.	8.23	-	N.M.
DTH(6)	281	-	N.M.	251	-	N.M.	8.06	-	N.M.

(1) As a reseller, selling services which utilize the Telenor network under our “Digi” brand.
(2) As an MVNO.
(3) Includes services provided in Czech Republic
(4) As an MVNO. Services only provided in Italy.
(5) Services only provided in Slovakia. We completed the sale of our operations in Slovakia on August 31, 2013.
(6) This includes services provided by our Slovak, Serbian and Croatian operations. A 76% interest in our Serbian subsidiary was sold in May 2013, and our operations in Croatia and in Slovakia were sold in March 2013 and in August 2013, respectively.
N.M – not meaningful

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 €48.3 million was paid to us by the end of June and €2 million was paid to us in September 2014. The balance of €1 million, is expected to be paid until September 5, 2015, subject to the occurrence of certain other events.

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

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

In aggregate, the total revenues generated from these subsidiaries was €7.0 million and the EBITDA generated from these subsidiaries was €2.5 million in the three months ended June 30, 2013 and the total revenues generated from these subsidiaries was €14.5 million and the EBITDA generated from these subsidiaries was €5.0 million in the six months ended June 30, 2013.

These disposals were intended to streamline our operations and further focus our business on our core markets of Romania and Hungary. Should favourable opportunities arise in the future, we may dispose of our operations in the Czech Republic.

HISTORICAL RESULTS OF OPERATIONS

Results of Operations for the three and for the six months ended June 30, 2013 and 2014

	Three months ended June 30,		Six months ended June 30,	
	2013	**2014**	**2013**	**2014**
	(euro in millions)		**(euro in millions)**	
Revenues				
Romania	103.7	112.8	206.8	221.4
Hungary	29.9	30.2	59.3	59.5
Spain	12.6	12.9	24.5	25.3
Other	6.0	4.6	12.0	9.5
Discontinued operations	7.0	-	14.5	-
Elimination of intersegment revenues	(1.2)	(0.6)	(2.6)	(1.7)
Total revenues	**158.0**	**160.1**	**314.6**	**313.9**
Other income	**-**	**-**	**-**	**8.3**
Operating expenses				
Romania	52.9	68.6	107.7	129.4
Hungary	19.0	18.5	36.8	36.3
Spain	10.6	12.3	20.3	23.7
Other	4.4	4.2	9.4	8.3
Discontinued operations	4.6	-	9.5	-
Elimination of intersegment expenses	(1.2)	(0.6)	(2.6)	(1.7)
Depreciation, amortization and impairment of tangible and intangible assets	50.8	50.2	105.1	98.6
Total operating expenses	**141.1**	**153.3**	**286.3**	**294.5**
Operating profit	**17.0**	**6.8**	**28.3**	**27.7**
Finance income	0.1	10.3	0.2	17.8
Finance expense	(14.3)	(15.9)	(29.6)	(30.9)
Net finance costs	**(14.2)**	**(5.6)**	**(29.4)**	**(13.1)**
Profit / (Loss) before taxation	**2.7**	**1.2**	**(1.1)**	**14.6**
Income tax benefit/(expense)	(0.2)	1.0	(0.1)	(0.9)
Profit / (Loss) for the period	**2.5**	**2.1**	**(1.2)**	**13.7**

Revenues

Our revenues for the three months ended June 30, 2014 were €160.1 million, compared with €158.0 million for the three months ended June 30, 2013, an increase of 1.3%. On a constant currency basis (by reference to the three month period ended June 30, 2013 average exchange rates), our revenues would have grown by an additional €1.8 million to €161.9 million for the three months ended June 30, 2014, an aggregate increase of 2.5%.

Our revenues from continuing operations for the three months ended June 30, 2014 were €160.1 million, compared with €151.0 million for the three months ended June 30, 2013, an increase of 6.0%. On a constant currency basis (by reference to the three month period ended June 30, 2013 average exchange rates), our revenues from continuing operations would have grown by an additional €1.8 million to €161.9 million for the three months ended June 30, 2014, an aggregate increase of 7.2%.

Our revenues for the six months ended June 30, 2014 were €313.9 million, compared with €314.6 million for the six months ended June 30, 2013, a decrease of 0.2%. On a constant currency basis (by reference to the six month period ended June 30, 2013 average exchange rates), our revenues would have grown by an additional €5.5 million to €319.4 million for the six months ended June 30, 2014, an aggregate increase of 1.5%.

Our revenues from continuing operations for the six months ended June 30, 2014 were €313.9 million, compared with €300.1 million for the six months ended June 30, 2013, an increase of 4.6%. On a constant currency basis (by reference to the six month period ended June 30, 2013 average exchange rates), our revenues from continuing operations would have grown by an additional €5.5 million to €319.4 million for the six months ended June 30, 2014, an aggregate increase of 6.4%.

The following tables show the distribution of revenues by country and business line for the three and six months ended June 30, 2013 and 2014 and the revenues calculated on constant currency basis:

	Three months ended June 30,		**% change**	**Six months ended June 30,**		**% change**
	2013	**2014**		**2013**	**2014**	
	(euro in millions)			**(euro in millions)**		
Romania						
Cable TV	36.7	38.8	5.7%	73.1	76.7	4.9%
Fixed internet and data	34.5	36.7	6.4%	68.3	72.9	6.7%
Fixed-line telephony	9.1	7.2	-20.9%	18.0	16.0	-11.1%
Mobile internet and data	3.3	3.9	18.2%	6.5	7.4	13.8%
Mobile telephony	5.3	6.3	18.9%	10.6	11.5	8.5%
DTH	12.7	11.2	-11.8%	25.8	22.4	-13.2%
Other revenues	1.2	8.2	583.3%	2.5	13.0	420.0%
Total	**102.8**	**112.3**	**9.2%**	**204.7**	**219.9**	**7.4%**
Hungary						
Cable TV	8.6	8.6	0.0%	17.1	17.1	0.0%
Fixed internet and data	7.3	7.6	4.1%	14.4	15.0	4.2%
Fixed-line telephony	2.4	2.1	-12.5%	5.1	4.2	-17.6%
Mobile internet and data	0.5	0.4	-20.0%	0.9	0.8	-11.1%
DTH	8.6	8.0	-7.0%	17.2	15.8	-8.1%
Other revenues	2.5	3.5	40.0%	4.6	6.6	43.5%
Total	**29.9**	**30.2**	**1.0%**	**59.3**	**59.5**	**0.3%**
Spain						
Mobile internet and data	0.9	2.2	144.4%	1.5	4.0	166.7%
Mobile telephony	11.5	10.7	-7.0%	22.5	20.9	-7.1%
Total	**12.4**	**12.9**	**4.0%**	**24.0**	**24.9**	**3.7%**
Other						
Mobile telephony	1.6	1.1	-31.3%	3.1	2.3	-25.8%
DTH	4.4	3.5	-20.5%	8.9	7.1	-20.2%
Other revenues	0.0	0.1	N.M.	0.0	0.1	N.M.
Total	**6.0**	**4.6**	**-23.3%**	**12.0**	**9.5**	**-20.8%**
Discontinued operations						
Cable TV	0.9	0.0	N.M.	1.8	-	N.M.
Fixed internet and data	0.1	0.0	N.M.	0.3	-	N.M.
DTH	5.8	0.0	N.M.	12.2	-	N.M.
Other revenues	0.2	0.0	N.M.	0.3	-	N.M.
Total	**7.0**	**0.0**	**N.M.**	**14.5**	**0.0**	**N.M.**
Total	**158.0**	**160.1**	**1.3%**	**314.6**	**313.9**	**-0.2%**

Revenues in Euro millions in constant currency

Segment	Three months ended June 30, 2013 Actual	Three months ended June 30, 2014 Constant Currency	Six months ended June 30, 2013 Actual	Six months ended June 30, 2014 Constant Currency
Romania	103.7	113.5	206.8	224.2
Hungary	29.9	31.2	59.3	61.7
Spain	12.6	12.9	24.5	25.3
Other	6.0	4.9	12.0	10.0
Discontinued operations	7.0		14.5	
Elimination of intersegment revenue	(1.2)	(0.6)	(2.6)	(1.7)
Total	**158.0**	**161.9**	**314.6**	**319.4**

Revenues in Romania (including intersegment revenues) for the three months ended June 30, 2014 were €112.8 million compared with €103.7 million for the three months ended June 30, 2013, an increase of 8.8%. On a constant currency basis (by reference to second quarter of 2013 average exchange rates), our revenues in Romania would have been €113.5 million for the three months ended June 30, 2014 (higher by €0.6 million), leading to an aggregate increase of 9.5%. Revenue growth in Romania was driven mainly by an increase in our cable TV and fixed internet and data RGUs. Our cable TV RGUs increased from 2,397,000 at June 30, 2013 to 2,535,000 at June 30, 2014, an increase of 5.8%, and our fixed internet and data RGUs increased from 1,627,000 at June 30, 2013 to 1,753,000 at June 30, 2014, an increase of 7.7%. 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. Growth in our cable TV and fixed internet and data RGUs were partially offset by a decrease in our number of DTH RGUs and a decrease in mobile telephony RGUs. DTH RGUs decreased from 863,000 at June 30, 2013 to 765,000 at June 30, 2014, a decrease of 11.4%. That decrease was driven by low levels of investment in CPE, which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment, such as satellite receivers and decoders, and DTH subscribers leaving our services for financial reasons, moving to our competitors or migrating from our DTH services to our cable TV services. Mobile telephony RGUs decreased from 1,132,000 at June 30, 2013 to 1,087,000 at June 30, 2014, a decrease of 4.0%. The decreasing trend was reversed in the second quarter of 2014, as mobile telephony RGUs increased from 1,066,000 at June 30, 2013 to 1,087,000 at June 30, 2014, an increase of 2.0%. This increase is the result of launching a new offer with competitive tariffs and also the possibility of acquiring a mobile handset. As a result, the revenues from mobile telephony increased in the three months ended June 30, 2014 compared with the three months ended June 30, 2013. Other revenues increased mainly as a result of revenues from sales of equipment to our customers (€5.7 million) for retention purposes as well as sales of energy (€1.0 million).

Revenues in Hungary for the three months ended June 30, 2014 were €30.2 million compared with €29.9 million for the three months ended June 30, 2013, an increase of 1.0%. On a constant currency basis (by reference to second quarter of 2013 average exchange rates), our revenues in Hungary would have grown by an additional €1.0 million to €31.2 million for the three months ended June 30, 2014, leading to an aggregate an increase of 4.3%. The increase in revenues (in constant currency) was principally due to an increase our cable TV RGUs, fixed internet and data RGUs, fixed line telephony RGUs and other revenues. Our cable TV RGUs increased from 392,000 at June 30, 2013 to 402,000 as at June 30, 2014, an increase of 2.6%. Our fixed internet and data RGUs increased from 312,000 at June 30, 2013 to 333,000 at June 30, 2014, an increase of 6.7%. Our fixed-line telephony RGUs increased from 273,000 at June 30, 2013 to 292,000 at June 30, 2014, an increase of 7.0%. Despite the increase in the fixed-line telephony RGUs, the revenues decreased as a result of lower fixed-line interconnection rates by approximately 60%, starting with 2014. Those increases were driven primarily by our investments in expanding and upgrading our fiber optic network. Other revenues are composed primarily of fees we receive from other pay 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. The above increases were partially offset by a decrease in our DTH RGUs. Our DTH RGUs decreased from 358,000 at June 30, 2013 to 341,000 at June 30, 2014, a decrease of 4.7%. 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 three months ended June 30, 2014 were €12.9 million compared with €12.6 million for the three months ended June 30, 2013, an increase of 2.4%. This growth was the result of an increase in our number of mobile telephony RGUs from 269,000 at June 30, 2013 to 364,000 at June 30, 2014, an increase of 35.3%, and an increase in the number of mobile internet and data RGUs from 67,000 at June 30, 2013 to 154,000 at June 30, 2014. Despite the increase in RGUs the revenues from mobile telephony decreased due to a decrease in our tariffs as a result of a reduction in mobile termination rates from 2.76 €cents/minute to1.09 €cents/minute starting with 1 July 2013 and also due to increased competition.

Revenues in Other for the three months ended June 30, 2014 were €4.6 million compared with €6.0 million for the three months ended June 30, 2013, a decrease of 23.3%. On a constant currency basis (by reference to 2nd quarter of 2013 average exchange rates), our revenues in Other would have been higher by €0.3 million meaning €4.9 million in the three months ended June 30, 2014, an aggregate decrease of 18.3% compared to the three months ended June 30, 2013. The decrease in revenues was principally due to a decrease in the number of DTH RGUs in the Czech Republic from 172,000 as at June 30, 2013 to 145,000 DTH RGUs as at June 30, 2014. The decrease in Czech Republic was driven by the competitive pressure as well as low levels of investment in DTH CPE which reduced the number of subscribers that we could connect to our DTH services by limiting our stock of the necessary equipment, such as satellite receivers and decoders, and DTH subscribers leaving our services for financial reasons. The number of RGUs in Italy increased from 56,000 as at June 30, 2013 to 57,000 as at June 30, 2014; however the revenues decreased as a result of lower tariffs applied starting with the first part of 2014.

Total operating expenses

Our total operating expenses for the three months ended June 30, 2014 were €153.3 million compared with €141.1 million for the three months ended June 30, 2013, an increase of 8.6%.

Our total operating expenses for the six months ended June 30, 2014 were €294.5 million compared with €286.3 million for the six months ended June 30, 2013, a decrease of 2.9%.

The table below sets out the expenses per segment (which excludes depreciation and amortization) as a percentage of revenues for the three months ended June 30, 2014 and 2013 (including intersegment transactions).

	Three months ended June 30,		**Six months ended June 30,**	
Segment	**2013**	**2014**	**2013**	**2014**
	Expenses as % of revenues		**Expenses as % of revenues**	
Romania	51.0%	60.8%	52.1%	58.4%
Hungary	63.6%	61.4%	62.0%	61.0%
Spain	84.3%	94.8%	82.8%	93.7%
Other	73.0%	90.4%	78.7%	87.8%
Discontinued operations	65.0%	-	65.5%	-

Operating expenses in Romania (including intersegment expenses) for the three months ended June 30, 2014 were €68.6 million compared with €52.9 million the three months ended June 30, 2013, an increase of 29.7%. This increase comes mainly from sales of CPEs at cost (€7.6 million in the three months ended June 30, 2014 which did not exist in the same period of 2013), increase in salaries, the new tax on special constructions (of approximately 1% of our revenues in Romania) and additional spectrum costs for the new 900 Mhz license.

Operating expenses in Hungary for the three months ended June 30, 2014 were €18.5 million compared with €19.0 million the three months ended June 30, 2013, a decrease of 2.6%.

Operating expenses in Spain (including intersegment expenses) for the three months ended June 30, 2014 were €12.3 million compared with €10.6 million for the three months ended June 30, 2013, an increase of 16.0%. This increase is the result of an increase in the traffic as a result of an increase in our RGU number and higher traffic per user.

Operating expenses in Other for the three months ended June 30, 2014 were €4.2 million compared with €4.4 million for the three months ended June 30, 2013, a decrease of 4.5%. This decrease was principally due to a decrease in programming expense as a result of the decrease in the number of RGUs subscribing to our DTH service in Czech Republic from 172,000 as at June 30, 2013 to 145,000 as at June 30, 2014, a decrease of 15.7%. That decrease was primarily due subscribers leaving our services for financial reasons or migrating to our competitors.

Depreciation, amortization and impairment of tangible and intangible assets

Depreciation, amortization and impairment of tangible and intangible assets was €50.2 million for the three months ended June 30, 2014 compared with €50.8 million for three months ended June 30, 2013, a decrease of 1.2%. This comes mainly from lower Amortization of programme assets as a result of decreased purchases of sport rights.

Operating profit

For the reasons set forth above, our operating profit was €6.8 million for the three months ended June 30, 2014 compared with €17.0 million for three months ended June 30, 2013.

Net finance income (expense)

We recognized net finance expense of €5.6 million in the three months ended June 30, 2014 compared with €14.2 million in the three months ended June 30, 2013. The decrease comes mainly from the gain from foreign exchange of €10.0 million recognised in the three months ended June 30, 2014 compared with a loss of €1.6 million recognised in the three months ended June 30, 2013. On the other hand, there was also an increase in the interest expense of €2.8 million, from €9.6 million in the three months ended June 30, 2013 to €12.4 million in the three months ended June 30, 2014, as a result of the new bond issued on November 4, 2013, which has a higher interest rate compared with the previous financing facilities.

Profit / Loss before taxation

For the reasons set forth above, we had a profit before taxation of €1.2 million for the three months ended June 30, 2014 compared and a profit before taxation of €2.7 million for the three months ended June 30, 2013.

Income tax expense (gain)

An income tax benefit of €1.0 million was recognized in the three months ended June 30, 2014 mainly as a result of fiscal losses incurred in Romania and Italy. An income tax expense of €0.2 million was recognized in the three months ended June 30, 2013 as a result of the profit incurred in the period.

Profit/ Loss for the year

For the reasons set forth above, our net profit for the three months ended June 30, 2014 was €2.1 million and our net profit for the three months ended June 30, 2013 was €2.5 million.

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 New Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement, other letter of guarantee facilities and other credit agreements. We believe that our strong and, in local currency, relatively predictable operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

All of our businesses generally produce positive operating cash flows that are relatively constant from month to month. Due to the recent upgrade of our fiber optic network, our network-related capital expenditure is expected to be lower in the near to medium term than in the previous years. Variations in our aggregate cash flow during the periods under review principally represented increased or decreased cash flow used in investing activities and cash flow from financing activities.

We have made and intend to continue to make significant investments in the growth of our businesses by acquiring new and renewing existing content rights, expanding our mobile telecommunications network (including making payments in order to comply with obligations under our license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum) and our fiber optic networks and procuring CPE which we lend free of charge to our customers for the duration of their subscriptions. We believe that we will be able to continue to regulate our cash flow needs by the acceleration or deceleration of our growth and expansion plans.

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

Historical Cash Flows

The following table sets forth, for the Six months ended June 30, 2013 and 2014 our consolidated cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

	Three months ended June 30,		Six months ended June 30,	
	2013	**2014**	**2013**	**2014**
	(euro in millions)		**(euro in millions)**	
Cash flows from operations before working capital changes	**65.0**	**54.5**	**134.0**	**114.6**
Cash flows from changes in working capital	14.5	(6.4)	3.5	(18.6)
Cash flows from operations	**79.4**	**48.1**	**137.5**	**96.1**
Interest paid	(9.3)	(18.4)	(16.9)	(21.7)
Income tax paid	(2.7)	(1.6)	(3.0)	(2.2)
Cash flow from operating activities	**67.4**	**28.0**	**117.6**	**72.2**
Cash flow used in investing activities	**(59.1)**	**(45.4)**	**(121.3)**	**(88.6)**
Cash flows from financing activities	**2.8**	**43.1**	**6.9**	**40.3**
Net increase (decrease) in cash and cash equivalents	11.1	25.7	3.2	23.9
Cash and cash equivalents at the beginning of the period	4.6	49.9	12.6	50.2
Effect of exchange rate fluctuation on cash and cash equivalent held	0.1	3.4	0.1	4.9
Cash and cash equivalents at the closing of the period	**15.8**	**79.1**	**15.8**	**79.1**

Cash flows from operations before working capital changes were €54.4 million in the three months ended June 30, 2014 and €65.0 million in the three months ended June 30, 2013 for the reasons discussed above under "*—Results of Operations for the Six months ended June 30, 2014 and 2013.*"

The following table shows changes in our working capital:

	Three months ended June 30,		Six months ended June 30,	
	2013	**2014**	**2013**	**2014**
Changes in:	**(euro in millions)**		**(euro in millions)**	
Trade receivables and other assets	(3.7)	(13.2)	(5.9)	(13.9)
Inventories	4.7	4.1	6.5	0.5
Trade payables and other current liabilities	13.9	1.8	(0.0)	(8.3)
Deferred revenue	(0.4)	0.8	3.0	3.2
Total	**14.5**	**(6.4)**	**3.5**	**(18.6)**

We had a net working capital requirement of €6.4 million in the three months ended June 30, 2014. This requirement comes mainly from an increase in trade receivables and other assets balances of €13.2 million primarily as a result of sale of equipments in instalments and/or with a discount to our subscribers.

We had a net working capital surplus of €14.5 million in the three months ended June 30, 2013. This net working capital surplus comes from an increase in trade payables and other current liabilities of €13.9 million, as a result of the management decision to manage liquidity in a more prudent manner.

Cash flows from operating activities were €28.0 million in the three months ended June 30, 2014 and €67.4 million in the three months ended June 30, 2013. Included in these amounts are deductions for interest paid and income tax paid, which were €20.0 million in the three months ended June 30, 2014 and €12.0 million in the three months ended June 30, 2013. Interest paid in the three months ended June 30, 2014 was €18.4 million as we paid the interest for the first 6 months of the bond at the end of April 2014. Interest paid in the three months ended June 30, 2013 was €9.3 million as in the past we used to pay interest quarterly.

Cash flows used in investing activities were €45.4 million in the three months ended June 30, 2014 and €59.1 million in the three months ended June 30, 2013

Purchases of property, plant and equipment were €34.5 million in the three months ended June 30, 2014, a slight decreased compared with €35.6 million in the three months ended June 30, 2013.

Purchases of intangible assets were €6.8 million in the three months ended June 30, 2014 and €22.5 million in the three months ended June 30, 2013. In the three months ended June 30, 2013 we paid the last instalment from the 900 MHz license.

Cash flows from financing activities were €43.1 million in the three months ended June 30, 2014 and €2.8 million in the three months ended June 30, 2013. In June 19, 2014 we drew the remaining €45 million under the term loan under our New Senior Facilities Agreement

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 under both our new license for a frequency block of 5 MHz of bandwidth in the 900 MHz frequency spectrum and our 2100 MHz license, the remaining payments for certain broadcasting rights, operational leasing arrangements, financial leasing arrangements for part of our headquarters in Bucharest and a plot 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 June 30, 2014 based on the agreements in place as at that date. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in this table:

	TOTAL	**July 1, 2014 - June 30, 2015**	**July 1, 2015 - June 30, 2017**	**July 1, 2017 - June 30, 2019**	**July 1, 2019 and after**
			(euro in millions)		
Interest bearing loans and borrowings, including short term facilities(1)	924.6	51.6	227.4	178.6	467.0
Finance lease obligations(1)	8.2	1.3	4.5	0.7	1.7
Overdraft facilities	7.1	7.1	—	—	—
Capital expenditure and operating expenditure contractual commitments(2)	176.9	53.5	56.3	31.9	35.3
Acquisition of subsidiaries	3.1	3.1	—	—	—
Trade and other payables(3)	184.6	172.9	11.6	—	—
Interest rate swaps used for hedging	3.4	3.4	—	—	—
Total	**1,307.9**	**292.9**	**299.8**	**211.2**	**504.0**

(1) Includes estimated interest. Interest was estimated by using 3-month LIBOR or EURIBOR or a fixed rate as of June 30, 2014 for all future periods.
(2) Includes mainly payments for premium content, satellite usage, spectrum fee payments, open orders for purchases of equipment and obligations under agreements to lease real property or movable property that are enforceable and legally binding and that specify all significant terms (*e.g.*, object of the lease, pricing terms and duration).
(3) Includes trade payables, other long-term liabilities and income tax.
*all amounts are presented without discounting

Financial Obligations

Bond (the Notes)

On October 25, 2013, CCS entered into a Purchase Agreement through which on November 4, 2013 issued Notes with a value of €450 million. The Notes, are secured, by (i) substantially all of the movable assets of RCS&RDS, including bank accounts, receivables, intellectual property rights, networks, equipment, inventories, insurance and proceeds related to any of the foregoing, (ii) certain shares of the Company's material subsidiaries and its own treasury shares, in each case, held by the Company and (iii) certain assets of the Company, including the shares it holds in RCS&RDS, certain bank accounts and receivables under the Proceeds Loan (collectively, the "Collateral"). The Collateral is shared with the New Senior Facilities Agreement, ING Facilities Agreement and the Citi Facilities Agreement on a pari passu basis pursuant to the terms of the Intercreditor Agreement. The Proceeds Loan is the loan provided by CCS to its subsidiary, RCS&RDS on 4 November 2013.

New Senior Facilities Agreement

On October 21, 2013 we entered into a committed facility agreement, as borrower, with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the repayment of our existing facilities and for general corporate purposes (the "**New Senior Facilities Agreement**"). The New Senior Facilities Agreement is unconditionally guaranteed by CCS on a senior secured basis, and shares in the Collateral pursuant to the terms of the Intercreditor Agreement.

The New Senior Facilities Agreement consists of a term loan facility with a capacity of €250 million and a revolving credit facility with a capacity of €50 million. The interest rate under the New Senior Facilities Agreement is floating at a margin of 4.35% per annum plus EURIBOR. Interest is payable every three or six months with respect to the term loan, and one, three or six months with respect to the revolving credit facility.

The New Senior Facilities Agreement contains certain financial covenants, including maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 4.25.

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

On November 4, 2013 we drew €205 million of the term loan facility on the Issue Date to repay certain of our existing credit facilities and on June 19, 2014 we drew the remaining €45 million under the term loan. The revolving credit facility remains available until October 21, 2016.

The following table sets out the repayment schedule in respect of the €250 million term loan:

Repayment date	**Amount EUR (in millions)**
October 21, 2015	35.7
April 21, 2016	35.7
October 21, 2016	35.7
April 21, 2017	35.7
October 21, 2017	35.7
April 21, 2018	35.7
October 21, 2018	35.7
Total	**250.0**

ING Facilities Agreement

On November 1, 2013, we entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the New Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of (i) an uncommitted overdraft facility of up to €5.0 million, of which up to €1.0 million can also be used for letters of guarantee and (ii) an uncommitted facility for letters of guarantee with an initial amount of €9.675 million and Romanian lei 8.1 million.

As of June 30, 2014, we had €4.6 million utilised under the overdraft facility (out of which €0.6 million are Letters of Guarantee), and €8.3 million and Romanian lei 1.3 million utilised under the uncommitted facility for letters of guarantee.

Citi Facilities Agreement

On October 25, 2013, we entered into, as borrower, the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes. On October 25, 2013, the Company entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group.

On November 4, 2013 we repaid the Citi Facilities Agreement using the proceeds from the Bond and the New Senior Facilities Agreement. Following the repayment, the maximum amount made available under the Citi Facilities Agreement was decreased. Thus amended, the Citi Facilities Agreement consists of (i) an uncommitted overdraft/bank guarantee facility in the amount of US$5.0 million and (ii) an uncommitted bank guarantee facility with an initial amount of US$8.1 million and €500,000.

As of June 30, 2014, overdraft/bank guarantee facility was fully utilised (US$5.0 million), and we had Letters of Guarantee issued in the amount of US$7.3 million and €500,000.

BRD Letters of Guarantee Facility

As of June 30, 2014 we had letters of guarantee issued by BRD with a value of €1.2 million.

Santander Facility

On February 20, 2013, we entered into a short-term facility agreement with Banco Santander S.A., for €500,000 (the "**Santander Facility**"). The maturity date is February 20, 2014. On February 6, 2014, we entered into a new short-term facility agreement with Banco Santander S.A on the same terms as before, the maturity date being February 6, 2015. As of June 30, 2014, the balance drawn under the Santander Facility was €335,000. On July 01, 2014, we entered into an additional short-term facility agreement with Banco Santander S.A., for €500,000. The maturity date is July 01, 2015.

Caixa Facility

On February 6, 2014, we entered into a reverse factoring facility agreement with Caixabank, S.A. (the "**Caixa Facility**") through which Caixa pays in advance DIGI Spain's suppliers. The term of the Caixa Facility is indefinite and the maximum amount which can be used is €500,000. As of June 30, 2014, the balance drawn under the Caixa Facility was €128,000.

Unicredit cash collateral agreement

On October 5, 2010, we entered into a cash collateral agreement with UniCredit Tiriac Bank S.A., for €59,484 for issuance of a letter of counter guarantee, which is valid until January 31, 2017 (the "**Unicredit Cash Collateral Agreement**"). The agreement entered into force on October 8, 2012, and is secured with a moveable mortgage over a cash collateral account opened with UniCredit Tiriac Bank S.A.

Banca Transilvania credit agreement

On July 14, 2014 we signed two credit agreements with Banca Transilvania, with a total value of RON 29.3 million (€6.7 million using the exchange rate from June 30, 2014). *Banca Transilvania credit agreement* is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement. As of the date of this report *Banca Transilvania credit agreement* remains undrawn.

Financial Leasing Agreements

As at June 30, 2014, we had five leasing agreements in place with a total outstanding value of approximately €7.0 million.

One of these leasing agreements is a sale-leaseback arrangement entered into on May 11, 2009 for part of our headquarters in Bucharest with ING Lease Romania IFN SA, with a financed amount (including interest) of US$12.5 million. ING Lease Romania IFN SA has sold all its assets to Raiffeisen Leasing IFN SA at the end of January 2014. As at June 30, 2014, the outstanding amount under the sale-leaseback agreement was US$5.8 million.

We have also entered into a leasing agreement for a parcel of land in Poiana Brasov city, Brasov County, with a financed amount (including interest) of €4.35 million (excluding VAT). As at June 30, 2014, the outstanding amount under this leasing agreement was €2.7 million.

The remaining three finance leases are with Porsche Leasing Romania IFN SA for 58 cars with a total remaining financed amount of approximately €76,000 at June 30, 2014.

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 month period ended June 30, 2014.