CABLE COMMUNICATIONS SYSTEMS NV

CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

PREPARED IN ACCORDANCE WITH
IAS 34 INTERIM FINANCIAL REPORTING
for the six month period ended 30 June 2014

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GENERAL INFORMATION

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Cable Communications Systems N.V.
Condensed Consolidated Statement of Comprehensive Income (unaudited)
for the six month period ended 30 June 2014
(all amounts are in thousand Eur, unless specified otherwise)

	Notes	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	4	650,167	624,672
Intangible assets	5	172,127	168,653
Available for sale financial assets		30,982	30,982
Investments in associates		2,462	2,280
Long term receivables		5,212	2,666
Deferred tax asset		4,367	5,008
Total non-current assets		**865,317**	**834,261**
Current assets			
Inventories		20,593	21,065
Programme assets	5	22,559	29,387
Trade and other receivables		93,472	81,484
Income tax receivable		1,510	4,857
Other assets		13,887	11,680
Cash and short term deposits		79,052	50,234
Total current assets		**231,073**	**198,707**
Total assets		**1,096,390**	**1,032,968**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		51	51
Share premium		8,248	8,248
Treasury shares		(16,703)	(16,703)
Reserves		49,202	54,094
Retained earnings		91,508	71,397
Total equity attributable to equity holders of the parent		**132,306**	**117,087**
Non-controlling interest		2,992	3,396
Total equity		**135,298**	**120,483**
Non-current liabilities			
Interest-bearing loans and borrowings	6	684,900	638,933
Deferred tax liability		26,765	37,826
Other long term liabilities		11,643	5,280
Total non-current liabilities		**723,308**	**682,039**
Current liabilities			
Trade payables and other payables		172,017	174,740
Interest-bearing loans and borrowings	6	14,299	11,458
Income tax payable		907	640
Derivative financial instruments	14	3,404	317
Deferred revenue		47,157	43,291
Total current liabilities		**237,784**	**230,446**
Total liabilities		**961,092**	**912,484**
Total equity and liabilities		**1,096,390**	**1,032,968**

The notes on pages 6 to 18 are an integral part of this condensed consolidated interim financial report.

The condensed consolidated interim financial report was issued on 12 September 2014.

Cable Communications Systems N.V.
Condensed Consolidated Statement of Comprehensive Income (unaudited)
for the six month period ended 30 June 2014
(all amounts are in thousand Eur, unless specified otherwise)

	Notes	Continuing operations	Discontinued operations	Six month period ended 30 June 2014	Continuing operations	Discontinued operations	Six month period ended 30 June 2013
Revenues	8	313,908	-	313,908	300,083	14,503	314,586
Other income		8,332	-	8,332	-		-
Operating expenses	9	(294,514)	-	(294,514)	(279,140)	(7,150)	(286,290)
Operating profit		**27,726**	**-**	**27,726**	**20,943**	**7,353**	**28,296**
Finance income	10	17,773	-	17,773	197	1	198
Finance expenses	10	(30,902)	-	(30,902)	(29,606)	(13)	(29,619)
Net finance costs		**(13,129)**	**-**	**(13,129)**	**(29,409)**	**(12)**	**(29,421)**
Profit / (loss) before taxation		**14,597**	**-**	**14,597**	**(8,466)**	**7,341**	**(1,125)**
Income tax		(888)	-	(888)	1,336	(1,452)	(116)
Net profit / (loss) for continuing operations		**13,709**	**-**	**13,709**	**(7,130)**	**5,889**	**(1,241)**
Other comprehensive income							
Translation reserve		(8,054)		(8,054)	(3,062)	-	(3,062)
Reversal of deferred tax related to prior revaluation of PPE		10,788		10,788	-	-	-
Available for sale financial asset, net change in fair value		-		-	4,820	-	4,820
Movements in prior years reserves		**(156)**		**(156)**	**-**	**-**	**-**
Other comprehensive income for the period, net of income tax		**2,578**		**2,578**	**1,758**	**-**	**1,758**
Total comprehensive income for the period		**16,287**		**16,287**	**(5,372)**	**5,889**	**517**
Profit / (Loss) attributable to:							
Equity holders of the parent		13,198		13,198	(6,917)	5,662	(1,256)
Non-controlling interest		511		511	(212)	227	15
Profit / (Loss) for the year		**13,709**		**13,709**	**(7,130)**	**5,889**	**(1,241)**
Total comprehensive income attributable to:							
Equity holders of the parent		2,905		2,905	(3,767)	5,662	1,895
Non-controlling interest		(327)		(327)	(364)	227	(137)
Total comprehensive income for the period		**2,578**		**2,578**	**(4,131)**	**5,889**	**1,758**

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Cable Communications Systems N.V.
Condensed Consolidated Cash Flow Statement (unaudited)
for the six month period ended 30 June 2014
(all amounts are in thousand Eur, unless specified otherwise)

	Notes	Six month period ended 30 June 2014	Six month period ended 30 June 2013
Cash flows from operating activities			
Profit/(loss) before taxation		**14,597**	**(1,125)**
Adjustments for:			
Depreciation, amortization and impairment	9	98,552	105,097
Interest expense, net	6	24,689	18,543
Finance costs		1,179	-
Impairment of trade and other receivables	9	2,317	3,745
Unrealised (gains) / losses on derivative financial instruments		3,087	(408)
Equity settled share-based payments	13	957	837
Unrealised foreign exchange loss / (gain)		(21,967)	5,448
Other non cash items		-	1,848
Gain on disposal of subsidiary		(8,764)	0
Cash flows from operations before working capital changes		**114,647**	**133,985**
Changes in:			
Trade receivables and other assets		(13,941)	(5,932)
Inventories		488	6,499
Trade payables and other current liabilities		(8,287)	(25)
Deferred revenue		3,190	2,964
Cash flows from operations		**96,097**	**137,492**
Interest paid		(21,738)	(16,851)
Income tax paid		(2,157)	(3,021)
Cash flows from operating activities		**72,202**	**117,620**
Cash flow used in investing activities			
Purchases of property, plant and equipment		(58,344)	(75,220)
Purchases of intangibles		(28,945)	(44,871)
Acquisition of subsidiaries		(9,660)	(2,336)
Sale of subsidiaries, net of cash disposed		8,332	1,051
Proceeds from sale of property, plant and equipment		47	47
Cash flows used in investing activities		**(88,570)**	**(121,329)**
Cash flows from financing activities			
Dividends paid to shareholders		(1,613)	(260)
Proceeds from borrowings		48,348	13,867
Proceeds from related party borrowings		-	453
Repayment of borrowings		(440)	(6,224)
Repayment of related party borrowings		-	(443)
Financing costs paid		(4,326)	-
Settlement of derivatives		(1,179)	-
Payment of finance lease obligations		(515)	(513)
Cash flows from financing activities		**40,275**	**6,880**
Net (decrease)/ increase in cash and cash equivalents		**23,907**	**3,171**
Cash and cash equivalents at the beginning of the period		**50,234**	**12,561**
Effect of exchange rate fluctuations of cash and cash equivalents held		4,911	86
Cash and cash equivalents at the end of the period		**79,052**	**15,818**

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Cable Communications Systems N.V.
Condensed Consolidated Statementof Changes in Equity (unaudited)
for the six month period ended 30June 2014
(all amounts are in thousand Eur, unless specified otherwise)

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2014	51	8,247	(16,703)	(23,160)	55,688	21,567	71,397	117,087	3,396	120,483
Comprehensive income for the period										
Net profit for the year							13,198	13,198	511	13,709
Other comprehensive income								-	-	-
Foreign currency translation differences				(7,733)				(7,733)	(321)	(8,054)
Reversal of deferred tax related to prior revaluation of PPE					10,788			10,788	-	10,788
Movements in prior years reserve							(150)	(150)	(6)	(156)
Transfer of revaluation reserve (disposal/ depreciation)					(7,947)		7,947	-		-
Total other comprehensive income	-		-	(7,733)	2,841		7,797	2,905	(327)	2,578
Total comprehensive income for the period	-		-	(7,733)	2,841		20,995	16,103	184	16,287
Transactions with owners, recognized directly in equity										
Contributions by and distributions to owners										
Equity-settled share-based payment transactions	-		-	-	-		920	920	37	957
Total contributions by and distributions to owners	-		-	-	-		920	920	37	957
Changes in ownership interests in subsidiaries										
Movement in ownership interest while retaining control							(1,804)	(1,804)	(625)	(2,429)
Total changes in ownership interests in subsidiaries	-		-	-	-		(1,804)	(1,804)	(625)	(2,429)
Total transactions with owners	-		-	-	-		(884)	(884)	(588)	(1,472)
Balance at 30 June 2014	51	8,247	(16,703)	(30,893)	58,529	21,567	91,508	132,306	2,992	135,298

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Cable Communications Systems N.V.
Condensed Consolidated Statementof Changes in Equity (unaudited)
for the six month period ended 30 June 2014
(all amounts are in thousand Eur, unless specified otherwise)

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2013	**51**	**8,247**	**(16,703)**	**(17,866)**	**75,948**	**16,272**	**37,044**	**102,993**	**3,516**	**106,509**
Comprehensive income for the period										
Net loss for the year	-		-	-	-		(1,256)	**(1,256)**	15	**(1,241)**
Other comprehensive income								-		-
Foreign currency translation differences	-		-	(2,925)	-		-	**(2,925)**	**(137)**	**(3,062)**
Fair value of AFS financial assets	-		-	-	-	4,820	-	**4,820**	-	**4,820**
Transfer of revaluation reserve (disposal/ depreciation)	-		-	-	(10,676)		10,676	-	-	-
Total other comprehensive income	***-***	***-***	***-***	***(2,925)***	***(10,676)***	***4,820***	***10,676***	***1,895***	***(137)***	***1,758***
Total comprehensive income for the period	**-**	**-**	**-**	**(2,925)**	**(10,676)**	**4,820**	**9,420**	**639**	**(122)**	**517**
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Equity-settled share-based payment transactions	-		-	-	-		801	**801**	36	**837**
Dividends distributed	-		-	-	-		-	-	-	-
Total contributions by and distributions to owners	***-***	***-***	***-***	***-***	***-***	***-***	***801***	***801***	***36***	***837***
Changes in ownership interests in subsidiaries										
Movement in ownership interest while retaining control	-		-	-	-		-	-	(384)	**(384)**
Total changes in ownership interests in subsidiaries	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***(384)***	***(384)***
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(384)**	**(384)**
Balance at 30 June 2013	**51**	**8,247**	**(16,703)**	**(20,791)**	**65,272**	**21,092**	**47,265**	**104,433**	**3,046**	**107,479**

The notes on pages 6 to 18 are an integral part of this condensed consolidated interim financial report.

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

1. CORPORATE INFORMATION

Cable Communications Systems Group ("the Group" or "CCS Group") comprises CCS N.V., RCS & RDS S.A. and their subsidiaries.

The parent holding company of the Group is CCS N.V. ("CCS" or "the Company"), a company incorporated in Netherlands. The main operations are carried by RCS & RDS S.A (Romania) ("RCS&RDS"), Digi T.S kft (Hungary), Digi Spain Telecom SLU, Digi Czech Republic S.R.O., Digi Italy SL (Italy). CCS registered office is located in Amsterdam (1043 BW), Naritaweg 165, Telestone 8, The Netherlands.
RCS&RDS is a company incorporated in Romania and its registered office is located at Dr. Staicovici 75, Bucharest, Romania.

The principal shareholder of the CCS is RCS Management ("RCSM") a company incorporated in Romania. The ultimate shareholder of RCSM is Mr. Zoltan Teszari, the principal controlling shareholder of RCSM. CCS and RCSM have no operations, except for holding and financing activities, and their primary/ only asset is the ownership of RCS&RDS and respectively CCS.

The condensed consolidated interim financial report was issued on 12 September 2014.

2.1 BASIS OF PREPARATION

(a) Statement of compliance

This condensed consolidated interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. This condensed consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

(b) Judgements and estimates

Preparing the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

(b) Judgements and estimates

The following rates were applicable at various time periods according to the National Banks of Romania, Hungary, Czech Republic, Serbia and Croatia:

	2014			**2013**		
Currency	Jan – 1	Average for the 6 months	Jun – 30	Jan – 1	Average for the 6 months	30-Jun
RON per 1EUR	4.4287	4.4645	4.3870	4.4282	4.3916	4.4588
HUF per 1EUR	296.91	306.97	310.19	291.29	296.13	295.16
CZK per 1EUR	27.43	27.44	27.45	25.14	25.70	25.95
XDR per 1EUR	111.61	115.66	115.79	113.72	111.92	114.17
HRK per 1EUR	7.58	7.62	7.57	7.55	7.57	7.45
USD per 1EUR	1.3765	1.3705	1.3658	1.3190	1.3134	1.3080

2.2. GOING CONCERN

Management believes that the Group will continue as a going concern for the foreseeable future. In recent years the Group operated in an environment of exchange rate volatility whereby the functional currencies (RON, HUF, etc.) fluctuated against the USD and EUR. The unfavourable evolution of the exchange rates has impacted the financial result. However it did not affect the operations of the Group. Despite these circumstances, the Group was able to mitigate the effects of the financial crisis that started globally in the second half of 2008 while maintaining its investment program and paying higher attention to the working capital management.

In the current year and recent years, the Group has managed to achieve consistent local currency revenue streams and cash flows from operating activities and has continued to grow the business. These results have been achieved during a period of significant investments in technological upgrades, new services and footprint expansion. The ability to offer multiple services is a central element of CCS Group strategy and helps the Group to attract new customers, to expand the uptake of service offerings within the existing customer base and to increase customer loyalty by offering high value-for-money services and exclusive content. Historically capital expenditure has been significant given the upgrade of the network. As result the Group has the ability to add subscribers through bundled services at minimal incremental cost.

For further information refer to Note 12b) Liquidity risk.

2.3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

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

3. SEGMENT REPORTING

30 Jun 14	**Romania**	**Hungary**	**Spain**	**Other**	**Eliminations**	**Reconciling item**	**Group**
Segment revenue	219,946	59,508	24,951	9,503			**313,908**
Inter-segment revenues	1,428	-	310	-	(1,738)		**-**
Segment operating expenses	(129,385)	(36,314)	(23,657)	(8,344)	1,738		**(195,962)**
							-
EBITDA	**91,989**	**23,194**	**1,604**	**1,159**	**-**		**117,946**
Depreciation, amortization and impairment of tangible and intangible assets					-	(98,552)	**(98,552)**
One off transactions						8,332	**8,332**
Operating profit					**-**		**27,726**
Additions to tangible non-current assets	76,395	6,122	31	145	-	-	**82,693**
Additions to intangible non-current assets	9,276	137	1,227	238	-	-	**10,878**
Carrying amount of:							
Property, plant and equipment	543,936	105,743	249	239	-	-	**650,167**
Non-current intangible assets	145,113	22,308	4,202	504	-	-	**172,127**
Investments in associates	33,444	-	-	-	-	-	**33,444**

The types of products and services from which each segment derives its revenues are disclosed in Note 8.

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

30 June 2013	**Romania**	**Hungary**	**Spain**	**Other**	**Eliminations**	**Reconciling item**	**Group**
Segment revenue	204,742	59,329	24,029	26,487	-	-	314,587
Inter-segment revenues	2,060	-	513	-	(2,573)	-	-
Segment operating expenses	(107,703)	(36,807)	(20,315)	(18,942)	2,573	-	(181,193)
EBITDA	**99,098**	**22,522**	**4,227**	**7,545**	**-**	**-**	**133,394**
Depreciation, amortization and impairment of tangible and intangible assets						(105,098)	(105,098)
Operating profit					**-**		**28,296**
Additions to tangible non-current assets	50,313	9,065	77	336	-		59,791
Additions to intangible non-current assets	17,008	343	422	236	-		18,009
Carrying amount of:							
Property, plant and equipment	511,505	123,239	294	1,087	-		636,125
Non-current intangible assets	149,637	24,004	1,808	1,694	-		177,143
Investments in associates	2,393	-	-	-	-		2,393

The types of products and services from which each segment derives its revenues are disclosed in Note 8.

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

4. PROPERTY, PLANT AND EQUIPMENT (PPE)

Acquisitions and disposals

During the six month period ended 30 June 2014, the Group acquired property, plant and equipment with a cost of EUR 82,693 (30 June 2013: EUR 59,791). The acquisitions related mainly to cable plant - EUR 34,717 (six months ended 30 June 2013: EUR 21,483) out of which EUR 8,295 represents the network assets of the newly acquired CFO Integrator, customer premises equipment of EUR 27,678 (six months ended 30 June 2013: EUR 13,667) out of which EUR 12,220 represents CPE found in group’s inventory, equipment and devices of EUR 11,638 (six months ended 30 June 2013: EUR 12,154), buildings and structures of EUR 4,713 (six months ended 30 June 2013: EUR 18), furniture of EUR 1,863 (six months ended 30 June 2013: EUR 6,838), vehicles of EUR 1,402 (six months ended 30 June 2013: EUR 472) and new investment in solar energy projects of EUR 95 (six months ended 30 June 2013: EUR 8,235).

Assets with a net book value of EUR 2,508 (30 June 2013: EUR 526) were disposed or transferred to inventory by the Group during the six month period ended 30 June 2014.

The reversal of deferred tax related to prior revaluation of PPE comes as a result of applying from 31 December 2013 the revaluation accounting treatment for statutory purposes thus eliminating the difference from IFRS.

5. NON-CURRENT INTANGIBLE ASSETS AND PROGRAMME ASSETS

Acquisitions

Non-current intangible assets
During the six month period ended 30 June 2014, the Group acquired non-current intangible assets with a cost of EUR 10,878 (30 June 2013: EUR 18,009) as follows:

- Software and licences in amount of EUR 2,992 (30 June 2013: EUR 14,961);
- Customer relationships by acquiring control in other companies in amount of EUR 3,371 (30 June 2013: EUR 11,028);
- Subscriber acquisition costs (“SAC”) in amount of EUR 1,351 (30 June 2013: EUR 885); SAC represents third party costs for acquiring and connecting customers of the Group;
- Goodwill in amount of EUR 3,164 acquired through business combination (30 June 2013: EUR 913).

Programme assets
During the six month period ended 30 June 2014, additions of programme assets in the amount of EUR 20,609(30 June 2013: EUR 17,674) represent broadcasting rights for sports competitions for 2014/2015 season and related advance payments for future seasons, and also rights for movies and documentaries.

Goodwill

(i) Reconciliation of carrying amount
Cost

Balance at 1 January 2013	**81,649**
Additions from acquisition of subsidiaries	913
Sales of subsidiaries	(22)
Effect of movement in exchange rates	(688)
Balance at 30 June 2013	**81,852**
Balance at 1 January 2014	**80,554**
Additions from acquisition of subsidiary	3,164
Effect of movement in exchange rates	304
Balance at 30 June 2014	**84,022**

(ii) Impairment testing of goodwill

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

Goodwill is not amortized, but is tested for impairment annually (as at 31 December) and when circumstances indicate the carrying values may be impaired. There were no impairment indicators for the cash generating units to which goodwill was allocated as of 30 June 2014.

6. INTEREST-BEARING LOANS AND BORROWINGS

Included in Long term interest-bearing loans and borrowings are bonds EUR 435,074 (December 2013: EUR 434,245), bank loans EUR243,726 (December 2013: EUR 198,154) and leasing EUR 6,100 (December 2013: EUR 6,534).

Included in Short term interest-bearing loans and borrowing are bank loans EUR 7,102 (December 2013: EUR 4,674), leasing obligations amounting to EUR939(December 2013: EUR1,007), other short term debts of EUR 463 (December 2013: EUR 500) and interest payable amounting to EUR 5,795 (December 2013: EUR 5,777).

The movements in total Interest bearing loans and borrowings is presented in the table below:

	Carrying amount
Balance as of 01 January 2014	**650,391**
New drawings	
Proceeds from bank borrowings	48,348
Interest expense for the period	24,689
Repayment	
Payment of lease obligations	(515)
Repayment of borrowings	(440)
Current year interest paid	(21,738)
Effect of movements in exchange rates	(1,536)
Balance as of 30 June 2014	**699,199**

7. RELATED PARTY DISCLOSURES

Receivables from Related Parties		**30 June 2014**	**31 December 2013**
RCS Management S.A.	(i)	199	72
Ager Imobiliare S.R.L.	(i)	642	626
Music Channel S.R.L.	(i)	65	63
Digi Serbia	(i)	168	-
Other			80
Total		**1,074**	**841**

Payables to Related Parties		**30 June 2014**	**31 December 2013**
Related parties-share options	(i)	68	88
RCS-Management	(i)	2,792	3,173
Digi Serbia	(i)	76	-
Total		**2,936**	**3,261**
Individuals			
Mr. Teszari Zoltan	(ii)	420	416
Others		25	
Total		**3,381**	**3,677**

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

(i) Entities affiliated to a shareholder of the parent
(ii) Ultimate beneficial shareholder

Compensation of key management personnel of the Group

	Six months ended 30 June 2014	Six months ended 30 June 2013
Short term employee benefits – salaries	678	310

Certain members of the management team (including key management personnel) benefit from a share based payment plan mandated by the shareholders of RCS&RDS. Total share options granted for the year 2014 of 1,305,500 are part of the remuneration received by key management personnel (30 June 2013: approximately 1,009,000), in addition to the salaries above.

8. REVENUES

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

	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenues from continuing operations	**313,908**	**300,083**
Cable TV		
Romania	76,680	73,088
Hungary	17,058	17,100
	93,738	**90,188**
Internet and data		
Romania	80,342	74,731
Hungary	15,836	15,329
Spain	4,027	1,490
Italy	22	-
	100,227	**91,550**
Telephony Revenues		
Romania	27,504	28,565
Hungary	4,221	5,066
Spain	20,916	22,534
Italy	2,332	3,054
	54,973	**59,219**
DTH Revenue		
Romania	22,403	25,847
Hungary	15,811	17,203
Czech Republic	7,110	8,901
	45,324	**51,951**
Other revenues		
Romania	13,017	2,512
Hungary	6,582	4,629
Czech Republic	41	28
Spain	7	6
	19,647	**7,175**

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

Allocation of revenues through business lines and geographical areas is as follows: (continued)

	Six months ended 30 June 2014	**Six months ended 30 June 2013**
Revenues from discontinued operations	**-**	**14,503**
Cable TV		
Slovakia	-	1,784
	-	**1,784**
Internet and data		
Slovakia	-	282
	-	**282**
DTH Revenue		
Slovakia	-	11,040
Serbia	-	892
Croatia	-	231
	-	**12,163**
Other revenues		
Slovakia	-	60
Serbia	-	180
Croatia	-	34
	-	**274**
Total revenues	**313,908**	**314,586**

9. OPERATING EXPENSES

	Six months ended 30 June 2014	**Six months ended 30 June 2013**
Operating expenses from continuing operations	**294,514**	**279,141**
Depreciation of property, plant and equipment	60,995	61,608
Amortization of programme assets	28,794	32,759
Amortization of non-current intangible assets	8,749	8,843
Salaries and related taxes	58,621	53,653
Programming expenses	30,707	32,704
Telephony expenses	26,343	24,365
Rentals	18,324	16,502
Invoicing and collection expenses	6,247	5,987
Taxes and penalties	6,007	4,315
Utilities	6,496	7,698
Copyrights	4,120	4,013
Internet connection and related services	2,482	2,686
Impairment of receivables, net of reversals	2,317	3,734
Impairment of property, plant and equipment	15	19
Other expenses	34,297	20,256
Operating expenses from discontinued operations	-	**7,150**
Total operating expenses	**294,514**	**286,291**

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

10. NET FINANCE COSTS

	Six months ended 30 June 2014	**Six months ended 30 June 2013**
Financial revenues		
Interest from banks	43	73
Other financial revenues	414	125
	457	**197**
Financial expenses		
Interest expense	(24,689)	(18,575)
Net gain/(loss) on derivative financial instruments	(4,231)	(621)
Other financial expenses	(1,982)	(4,262)
	(30,902)	**(23,458)**
Foreign exchange differences (net)	17,316	(6,148)
Net Financial Gain / (Expenses) from continuing operations	**(13,129)**	**(29,409)**
Net Financial Gain / (Expenses) from discontinued operations	**-**	**(12)**
Net finance costs	**(13,129)**	**(29,421)**

11. ACQUISITIONS OF SUBSIDIARY

In March 2014 the Group acquired CFO Integrator, UCR and Vesatel. The entities are located in Romania.

12. FINANCIAL RISK MANAGEMENT

(a) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in other currencies than the functional currencies of the Company and each of its subsidiaries.

Management has set up a policy to manage the foreign exchange risk against the functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses forward/option contracts, transacted with local banks.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity’s functional currency.

(b) Liquidity risk

At 30 June 2014, the Group had net current liabilities of EUR 6,711 (31 December 2013: EUR 31,739).As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities.

The Group’s policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and to keep the Group’s leverage optimized. The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and working capital, whilst considering future cash flows from operations. Management believes that there is no significant risk that the Group will encounter liquidity problems in the foreseeable future.

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

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables from customers.

The carrying amount of trade and other receivables, net of impairment adjustment, and cash and cash equivalents represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Cash and cash equivalents are placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

13. SHARE-BASED PAYMENT

For the year 2014, 1,305,500 share options were granted to eligible employees under the share based payment plan. Half of the fair value equivalent of the share options has been accrued as of 30 June 2014 as management estimates that performance criteria will be met. The related share option expense for six months ended 30 June 2014 of EUR 957 (June 2013: EUR 837) has been recorded in the consolidated statement of comprehensive income in the line item Operating expenses, within Salaries and related taxes (refer to Note 9).

14. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2014 the Group had derivative financial liabilities in amount of EUR 3,404 which included an amount of EUR 1,790 corresponding to a cross currency interest rate swap and an amount of EUR 1,614 corresponding to a USD/RON Treasury Hedging Transaction.

Until June 30, 2014 we concluded cross currency interest rate swaps for the entire Proceeds Loan's value (€450 million), all with a termination date of 23 September 2016.

Following the refinancing of its USD debt into EUR, RCS&RDS restructured on 13 March 2014 its USD/RON Participating Cross-currency swap into a USD/RON Treasury Hedging Transaction corresponding to a series of options structures for buying USD against RON at certain exchange rates. The cost of the option amounts to fifteen equal monthly payments of RON 910, amounting to a total of RON 13,650, including the amount required for replacing the previous derivative financial instrument. The maturity of the new instrument is 20 May 2015.

v) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	**Level 2**	**Level 3**	**Total**
30 June 2014				
Cross currency swap	-	-	(1,790)	(1,790)
Foreign exchange forwards	-	(1,614)	-	(1,614)
Total liabilities	-	(1,614)	(1,790)	(3,404)

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

	Level 1	Level 2	Level 3	Total
31 December 2013				
Cross currency swap	-	-	(254)	(254)
Foreign exchange forwards	-	(63)	-	(63)
Total liabilities	-	(63)	(254)	(317)

15. GENERAL COMMITMENTS AND CONTINGENCIES

(a) Contractual commitments
Commitments are presented on a discounted basis, using an interest rate of 3M LIBOR + 5% p.a., 3M EURIBOR + 5% p.a. or 3M ROBOR + 5% p.a.

As at 30 June 2014, contractual commitments for capital expenditure amounted to approximately EUR 14,460 (31 December 2013: EUR 23,871) and contractual operating commitments amounted to approximately EUR 78,344 (31December 2013: EUR 88,503), including operating leases.

In addition to the above, there are approximately another 603 operating lease contracts signed for a period of over 5 years, with an automatic renewal clause or for an indefinite term. The annual rent for these contracts is of maximum EUR 1,960 (quarterly rent of EUR 490).

(b) Letters of guarantee
As of 30 June 2014, there were bank letters of guarantee and letters of credit issued in amount of EUR 49,807 mostly in favour of content and satellite suppliers and for participation to tenders (31 December 2013: EUR 18,212). As of 30 June 2014 included in the cash and short term deposit balance there is an amount of EUR 32,985 restricted cash for the above letters of guarantee.

(c) Legal proceedings
During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

Intact Media Group Litigation

RCS&RDS is part in a series of lawsuits with Intact Media Group - a Romanian media conglomerate. Management considers that all these lawsuits are groundless, abusive and vexatious.

a) The “must carry” related litigations
In 2011, Antena Group (or “Antena”) initiated three separate lawsuits against RCS&RDS alleging that it breached, inter alia, the Romanian must carry rules in relation to three tv stations owned by the plaintiff. Antena is claiming damages of approximately EUR 100,000 and has requested that the Court impose other non-monetary remedies, such as requiring RCS&RDS to provide the Intact Media Group channels to its subscribers free of charge and in compliance with the highest technical standards.

In the first proceedings, Antena Group claimed that RCS&RDS is bound by the must carry rules to provide Antena 1, the Intact Media Group’s lead channel free of charge to subscribers within a distinct package containing only must carry channels. Antena Group requested injunctive relief, which would require RCS&RDS to offer such a package to subscribers, and sought damages of EUR 65,000 for the alleged breach of the must carry rules by failing to do so in the past. The initial case file was split into two proceedings as Antena Group assigned its monetary claims related to this lawsuit to First Quality Debt Recovery.

The trial relating to the claim for damages of EUR 65,000 was suspended until the final settlement of the trial regarding injunctive relief and a lawsuit initiated by RCS&RDS challenging the validity and legality of the assignment of receivables from Antena Group to First Quality Debt Recovery.

The trial regarding the injunctive relief requested by Antena Group was settled in the court of first instance and the court of appeals in RCS&RDS's favour, with both courts dismissing Antena Group's request. However, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality and quashed the decisions from both the first instance and the appeal courts, ordering a retrial of the case by the first court. As the higher appeals requesting the retrial of the case were based solely on procedural matters, it results that the decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case. Moreover, RCS&RDS considers that the proceedings before the High Court were performed in breach of basic principles governing a fair trial, as the higher appeals were solved based on grounds never disclosed to us. Consequently, we requested the retrial of the higher appeal by means of an extraordinary appeal. The first hearing in the extraordinary appeal was set for 7 October 2014. Should the court admit our request, the higher appeal will be settled again.

The next hearing in the retrial of the injunctive relief was scheduled for 17 October 2014.

Separately, Antena Group have also filed two law suits claiming that RCS&RDS breached the must carry rules by refusing to include two other channels of the Intact Media Group (GSP tv in one case file and Antena 2 in the other) in the packages provided to customers and to carry such channels in compliance with the highest technical standards. Antena Group requested that they be awarded damages of approximately EUR 35,000 and that RCS&RDS provides the disputed channels to customers in compliance with the highest technical standards in the future. As Antena Group also assigned to First Quality Debt Recovery the claim for damages of EUR 35,000, First Quality Debt Recovery became involved in these proceedings.

At RCS&RDS request, both lawsuits for monetary damages have been suspended until the final settlement of the challenge concerning the validity of the assignment of receivables between Antena Group and First Quality Debt Recovery.

The case file regarding the GSP tv channel was settled by the Bucharest Tribunal in favour of Antena Group, the court ordering us to include the channel in our network in compliance with some technical requirements. However, RCS&RDS is carrying the channel as of January 2012 and therefore the decision did not impact our network. RCS&RDS appealed the decision of the Bucharest Tribunal, the next hearing before the Court of Appeal being scheduled on 23 September 2014.

The case file regarding the carriage of Antena 2 channel was settled in March 2014 by the Bucharest Tribunal in our favour; Antena Group's claims were rejected in their entirety. Antena Group has appealed this decision, the first hearing before the Court of Appeal being scheduled for 8 October 2014.

b) Damage claim regarding alleged copyright infringement

In June 2014, Antena Group filed a claim requesting us to pay approx. €40 million for the alleged unlawful retransmission in the period June 2011 - June 2014 of four of its channels: Antena 1, Antena 2 (currently Antena Stars), Euforia Lifestyle and GSP TV (currently ZU TV). Antena Group grounded its claim on copyright legislation, alleging that we should have obtained a different authorization and paid a different fee than the ones regulated under the audiovisual legislation for the retransmission of its channels.

We have requested the Court: (i) to join this file either to the injunctive relief request regarding Antena 1 or to the €65 million monetary damages file or to another case regarding a contractual dispute between the same parties, as well as (ii) to dismiss the claim for Antena Group's lack of legal standing or on the merits of the case as ungrounded since we broadcasted the channels either under a legal obligation – must carry or under specific agreements concluded with Intact Media Group.

The first hearing in this case was held on 4 September 2014 and was limited to our request to join the current files to one of other two files between the same parties, which was rejected by the court. The next hearing is set for 9 October 2014.

Competition Council Investigations

As per our knowledge, RCS&RDS is subject to two investigations by the Competition Council. An investigation by the Romanian Competition Council could take up to several years. If RCS&RDS is found to have committed breaches of competition law, sanctions could include fines as well as cancellation of contracts or rights that contravene applicable legislation.

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

Given that the investigations are in progress and that the Competition Council has not issued preliminary reports in this respect, RCS&RDS was not able to quantify the risks related to these investigations, but management does not believe RCS&RDS has committed any violations of competition law and would challenge any ruling that would be made against RCS&RDS.

Telecom market interconnection investigation

In May 2010, RCS&RDS made a complaint to the Romanian Competition Council in relation to the interconnection tariffs applied on the Romanian mobile telecom market, seeking to obtain a reduction in the tariffs charged. In February 2011, the Romanian Competition Council opened an investigation on the mobile telephony market in relation to relatively high interconnection tariffs. Subsequently, the investigation seemed to also focus on differences in fees charged to consumers based on whether the person being called subscribed to the same network as the consumer making the call. RCS&RDS is fully cooperating with the Romanian Competition Council in this investigation.

GSP investigation

In May 2011, the Antena Group, a media group in Romania and a former commercial partner of RCS&RDS, made a complaint to the Romanian Competition Council in relation to RCS&RDS refusal to retransmit one of the group's channel, GSP TV. The Romanian Competition Council opened an investigation against RCS&RDS in relation to this matter in August 2011. RCS&RDS does not believe it has engaged in any anticompetitive behavior and believes that the Intact Media Group made the complaint as a means of pressurizing RCS&RDS in relation to other existing disputes (refer to the "Legal proceedings" paragraph above). Although RCS&RDS considers the demands of the Antena Group to be abusive and groundless, GSP TV is retransmitted (following injunctive relief the Antena Group has obtained against RCS&RDS). RCS&RDS has cooperated with this investigation, which is still ongoing, and it will continue to defend vigorously against it.

17. EBITDA

In the telecommunications industry the benchmark for measuring profitability is EBITDA (earnings before interest, taxes, depreciation and amortization). EBITDA is a non-IFRS accounting measure.

For the purposes of disclosure in these notes, EBITDA is the consolidated operating profit/ (loss) of the Group before taking into account:

- any interest expenses and other financing charges,
- income tax or interest income and other financing revenues,
- add back charges for depreciation, amortization and impairment of assets
- extraordinary and one off items.

In years where there are extraordinary and one off items, EBITDA is referred to as "Adjusted EBITDA".

	Six month period ended 30 June 2014	Six month period ended 30 June 2013
Revenues	**313,908**	**314,586**
EBITDA		
Operating profit	27,726	28,296
Depreciation, amortization and impairment	98,552	105,097
One off transactions	8,332	-
EBITDA/Adjusted EBITDA	**117,946**	**133,393**
EBITDA /Adjusted EBITDA (%)	*37.57%*	*42.40%*

For breakdown of depreciation, amortization and impairment refer to Note 9.