# 1ST QUARTER 2019 – FINANCIAL REPORT

## for the three month period ended March 31, 2019

# DIGI COMMUNICATIONS N.V. ("Digi")

**(the "COMPANY")**

(Digi, together with its direct and indirect consolidated subsidiaries are referred to as the "**Group**")

**FINANCIAL REPORT (the "REPORT")**
**for the three month period ended March 31, 2019**

*This Unaudited Condensed Consolidated Interim Financial Report for the period ended 31 March 2019 refers to the Unaudited Condensed Consolidated Interim Financial Statements prepared in accordance with IAS 34 "Interim Financial Reporting".*

# Table of contents

**Important Information** .......... **4**

Cautionary Note Regarding Forward-Looking Statements .......... 5
Operating and Market Data .......... 5
Non-Gaap Financial Measures .......... 6
Rounding .......... 6

**Management's Discussion and Analysis of Financial Condition and Results of Operations** .......... **7**

Overview .......... 8
Recent Developments .......... 8
Historical Results of Operations .......... 12

**Condensed Consolidated Interim Financial Report** .......... **19**

# Important Information

## Cautionary Note Regarding 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. We caution all readers that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. 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

Throughout this Report, we refer to persons who subscribe to one or more of our services as customers. We use the term revenue generating unit ("RGU") to designate a subscriber account of a customer in relation to one of our services. We measure RGUs at the end of each relevant period. An individual customer may represent one or several RGUs depending on the number of our services to which it subscribes.

More specifically:

- for our cable TV and DTH services, we count each basic package that we invoice to a customer as an RGU, without counting separately the premium add-on packages that a customer may subscribe for;
- for our fixed internet and data services, we consider each subscription package to be a single RGU;
- for our fixed-line telephony services, we consider each phone line that we invoice to be a separate RGU, so that a customer will represent more than one RGU if it has subscribed for more than one phone line; and
- for our mobile telecommunication services we consider the following to be a separate RGU: (a) for pre-paid services, each mobile voice and mobile data SIM with active traffic in the last month of the relevant period, except for Romania where pre-paid RGUs are not included due to low usage and small number of users; and (b) for post-paid services, each separate SIM on a valid contract.

As our definition of RGUs is different for our different business lines, you should use caution when comparing RGUs between our different business lines. In addition, since RGUs can be defined differently by different companies within our industry, you should use caution in comparing our RGU figures to those of our competitors.

We use the term average revenue per unit ("ARPU") to refer to the average revenue per RGU in a business line, geographic segment or the Group as a whole, for a period by dividing the total revenue of such business line, geographic segment, or the Group, for such period, (a) if such period is a calendar month, by the total number of RGUs invoiced for services in that calendar month; or (b) if such period is longer than a calendar month, by (i) the average number of relevant RGUs invoiced for services in that period and (ii) the number of calendar months in that period. In our ARPU calculations we do not differentiate between various types of subscription packages or the number and nature of services an individual customer subscribes for. Because we calculate ARPU differently from some of our competitors, you should use caution when comparing our ARPU figures with those of other telecommunications companies.

In this Report RGUs and ARPU numbers presented under the heading "Other" are the RGUs and ARPU numbers of our Italian subsidiary.

## Non-Gaap Financial Measures

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

We calculate EBITDA by adding back to our consolidated operating profit or loss charges for depreciation, amortization and impairment of assets. Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark-to-market results (unrealised) from fair value assessment of energy trading contracts. Adjusted EBITDA Margin is the ratio of Adjusted EBITDA to the sum of our total revenue and other operating income (other than mark-to-market gain/(loss) from fair value assessment of energy trading contracts). EBITDA, Adjusted EBITDA or Adjusted EBITDA Margin under our definition may not be comparable to similar measures presented by other companies and labelled "EBITDA", "Adjusted EBITDA" or "Adjusted EBITDA Margin," respectively. We believe that EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are useful analytical tools for presenting a normalized measure of cash flows that disregards temporary fluctuations in working capital, including due to fluctuations in inventory levels and due to timing of payments received or payments made. Since operating profit and actual cash flows for a given period can differ significantly from this normalized measure, we urge you to consider these figures for any period together with our data for cash flows from operations and other cash flow data and our operating profit. You should not consider EBITDA, Adjusted EBITDA or Adjusted EBITDA Margin as substitutes for operating profit or cash flows from operating activities.

In Note 3 to the Interim Financial Statements, as part of our "Other" segment we reported EBITDA of (i) our Italian operations, together with certain minor operating expenses of Digi. In this Report, EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin represent the results of our Romanian, Hungarian, Spanish and Italian subsidiaries and certain minor operating expenses of Digi.

## 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.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations of the Group should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Group as of March 31, 2019.

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

## Overview

We are a leading provider of telecommunication services in Romania and Hungary, based on the number of RGUs (*Sources: Group and peer reporting*). Our offerings in both countries include cable and DTH television services, fixed internet and data and fixed-line telephony. Our fixed telecommunication and entertainment services are offered through our technologically-advanced fiber-optic network. Our cable and DTH television subscribers enjoy access to custom-made channels and pay-to-view services, which carry premium movies and sports content, as well as various third-party products. We also operate one of the most technologically-advanced mobile networks in Romania, which shares the backbone of our fixed fiber-optic infrastructure. In addition, we provide mobile telecommunication services as an MVNO primarily to the large Romanian communities in Spain and Italy. Starting with September 2018 we have provided fixed internet and data and fixed-line telephony services as resale products in Spain.

For the three months ended March 31, 2019, we had revenues of €281.2 million, net loss of €17.6 million and Adjusted EBITDA of €90.7 million.

## Recent Developments

On 30 April 2019, the GSM approved the distribution of a gross dividend of 0.50 RON per share for 2018.

### Basis of Financial Presentation

The Group prepared its Interim Financial Statements as of March 31, 2019 in accordance with IFRS as adopted by the EU. For the periods discussed in this Report, the Group's presentation currency was the euro. The Group's financial year ends on December 31 of each calendar year.

### Functional Currencies and Presentation Currency

Each Group entity prepares individual financial statements in its functional currency, which is the currency of the primary economic environment in which such entity operates. As our operations in Romania and Hungary generated approximately 64% and 20%, respectively, of our consolidated revenue for the three months ended March 31, 2019 our principal functional currencies are the Romanian leu and the Hungarian forint.

The Group presents its consolidated Interim Financial Statements in euros. The Group uses the euro as the presentation currency of its consolidated Interim Financial Statements because management analysis and reporting is prepared in euros, as the euro is the most used reference currency in the telecommunication industry in the European Union.

### Presentation of Revenue and Operating Expenses

Our Board of Directors evaluates business and market opportunities and considers our results primarily on a country by country basis. We currently generate revenue and incur operating expenses in Romania, Hungary, Spain and Italy. Revenue and operating expenses from our operations are broken down into the following geographic segments: Romania, Hungary, Spain and Other (the Other segment includes Italy).

In line with our management's consideration of the Group's revenue generation we further break down revenue generated by each of our four geographic segments in accordance with our five principal business lines: (1) cable TV; (2) fixed internet and data; (3) mobile telecommunication services; (4) fixed-line telephony; and (5) DTH.

### Exchange rates

In the three month period ended March 31, 2019 the Romanian leu has depreciated with approximately 1.7% and the Hungarian forint has depreciated with approximately 2.2%.

The following table sets out, where applicable, the period end and average exchange rates for the periods under review of the euro against each of our principal functional currencies and the U.S. dollar, in each case as reported by the relevant central bank on its website (unless otherwise stated):

| Value of one euro in the relevant currency | As at and for the three months ended March 31, | |
|---|---|---|
| | 2018 | 2019 |
| **Romanian leu (RON)** [(1)] | | |
| Period end rate | 4.66 | 4.76 |
| Average rate | 4.66 | 4.74 |
| **Hungarian forint (HUF)**[(2)] | | |
| Period end rate | 312.55 | 320.79 |
| Average rate | 311.11 | 318.01 |
| **U.S. dollar (USD)**[(1)] | | |
| Period end rate | 1.23 | 1.12 |
| Average rate | 1.23 | 1.14 |

(1) *According to the exchange rates published by the National Bank of Romania.*
(2) *According to the exchange rates published by the Central Bank of Hungary.*

In the three months ended March 31, 2019 we had a net foreign exchange loss of €10.8 million, compared to a net foreign exchange gain of €2.2 million in the three months ended March 31, 2018.

### Growth in Business, RGUs and ARPU

Our revenue is mostly a function of the number of our RGUs and ARPU. Neither of these terms is a measure of financial performance under IFRS, nor have these measures been reviewed by an outside auditor, consultant or expert. Each of these measures is derived from management estimates. As defined by our management, these terms may not be comparable to similar terms used by other companies.

The following table shows our RGUs (thousand) and monthly ARPU (€/month) by geographic segment and business line as at and for the three month period ended March 31, 2018 and 2019:

| RGUs (thousand)/ARPU (€/month) | As at and for the three months ended March 31, | | % change |
|---|---|---|---|
| | 2018 | 2019 | |
| **Romania** | | | |
| Cable TV | | | |
| RGUs | 3,075 | 3,391 | 10.3% |
| ARPU | 5.1 | 5.1 | 0.0% |
| Fixed internet and data | | | |
| RGUs | | | |
| Residential | 2,185 | 2,427 | 11.1% |
| Business | 143 | 163 | 14.0% |
| ARPU | | | |
| Residential | 4.9 | 4.7 | -4.1% |
| Business | 28.8 | 26.4 | -8.3% |
| Mobile telecommunication services(1) | | | |
| RGUs | 3,373 | 3,404 | 0.9% |
| ARPU | 4.3 | 4.6 | 7.0% |
| Fixed-line telephony | | | |
| RGUs | | | |
| Residential | 1,105 | 1,035 | -6.3% |
| Business | 134 | 132 | -1.5% |
| ARPU | | | |
| Residential | 1.3 | 1.3 | 0.0% |
| Business | 3.3 | 3.3 | 0.0% |
| DTH | | | |
| RGUs | 577 | 516 | -10.6% |
| ARPU | 4.8 | 4.9 | 2.1% |
| | | | |
| **Hungary(5)** | | | |
| Cable TV | | | |
| RGUs | 505 | 692 | 37.0% |
| ARPU | 8.1 | 8.2 | 1.2% |
| Fixed internet and data | | | |
| RGUs | 476 | 753 | 58.2% |
| ARPU | 7.1 | 8.4 | 18.3% |
| Mobile telecommunication services(2) | | | |
| RGUs | 11 | 14 | 27.3% |
| ARPU | 6.8 | 6.8 | 0.0% |
| Fixed-line telephony | | | |
| RGUs | 387 | 689 | 78.0% |
| ARPU | 1.5 | 2.5 | 66.7% |
| DTH | | | |
| RGUs | 288 | 273 | -5.2% |
| ARPU | 9.4 | 9.1 | -3.2% |

| RGUs (thousand)/ARPU (€/month) | As at and for the three months ended March 31, | | % change |
|---|---|---|---|
| | | | |
| **Spain** | | | |
| Fixed internet and data | | | |
| RGUs | - | 19 | 0.0% |
| ARPU | - | 23.7 | 0.0% |
| Mobile telecommunication services(1)(3) | | | |
| RGUs | 1,000 | 1,496 | 49.6% |
| ARPU | 9.4 | 9.3 | -1.1% |
| Fixed-line telephony | | | |
| RGUs | - | 7 | 0.0% |
| ARPU | - | 3.1 | 0.0% |
| | | | |
| **Other(4)** | | | |
| Mobile telecommunication services(1)(3) | | | |
| RGUs | 195 | 201 | 3.1% |
| ARPU | 10.0 | 8.7 | -13.0% |

*(1) Includes mobile telephony and mobile internet and data RGUs*
*(2) Includes mobile internet and data services offered as a reseller through the Telenor network under our "Digi" brand.*
*(3) As an MVNO through Telefónica's network in Spain and TIM's network in Italy*
*(4) Includes Italy.*
*(5) For the three months ended March 31, 2019, RGUs and ARPUs for Hungary include the consolidated RGUs and ARPUs for Digi Hungary and Invitel*

# Historical Results of Operations

## Results of Operations for the three months ended March 31, 2018 and 2019

| | As at and for the three months ended March 31, | |
|---|---|---|
| | **2018** | **2019** |
| | **(€ millions)** | |
| **Revenues** | | |
| Romania | 164.0 | 181.2 |
| Hungary | 37.3 | 55.0 |
| Spain | 27.1 | 40.7 |
| Other | 5.6 | 5.3 |
| Elimination of intersegment revenues | (1.2) | (1.1) |
| **Total revenues** | **232.8** | 281.2 |
| | | |
| **Other income/ (expense)** | **1.2** | **(2.2)** |
| | | |
| **Operating expenses** | | |
| Romania | 99.7 | 108.9 |
| Hungary | 29.4 | 45.4 |
| Spain | 20.7 | 32.2 |
| Other | 6.7 | 5.1 |
| Elimination of intersegment expenses | (1.2) | (1.1) |
| Depreciation, amortization and impairment of tangible and intangible assets | 47.1 | 73.3 |
| **Total operating expenses** | **202.5** | **263.8** |
| | | |
| **Operating profit** | **31.6** | **15.2** |
| | | |
| Finance income | 2.2 | 6.8 |
| Finance expense | (13.2) | (32.5) |
| **Net finance costs** | **(11.0)** | **(25.8)** |
| | | |
| **Profit/ (loss)before taxation** | **20.6** | **(10.5)** |
| | | |
| **Income tax expense** | (5.8) | (7.1) |
| | | |
| **Profit/ (loss) for the period** | **14.8** | **(17.6)** |

## Revenue

Our revenue (excluding intersegment revenue and other income) for the three month period ended March 31, 2019 was €281.2 million, compared with €232.8 million for the three month period ended March 31, 2018, an increase of 20.8%.
The following table shows the distribution of revenue by geographic segment and business line for the three period ended March 31, 2018 and 2019:

| | As at and for the three months ended March 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **% change** |
| | (€ millions) | | |
| **Romania** | | | |
| Cable TV | 46.5 | 51.0 | 9.7% |
| Fixed internet and data | 44.1 | 46.7 | 5.9% |
| Mobile telecommunication services(2) | 43.7 | 46.5 | 6.4% |
| Fixed-line telephony | 5.6 | 5.3 | -5.4% |
| DTH | 8.5 | 7.6 | -10.6% |
| Other revenue(1) | 14.8 | 23.3 | 57.4% |
| **Total** | **163.1** | **180.5** | **10.7%** |
| **Hungary(6)** | | | |
| Cable TV | 12.2 | 17.1 | 40.2% |
| Fixed internet and data | 10.0 | 19.0 | 90.0% |
| Mobile telecommunication services(3) | 0.2 | 0.3 | 50.0% |
| Fixed-line telephony | 1.7 | 5.3 | 211.8% |
| DTH | 8.2 | 7.5 | -8.5% |
| Other revenue(1) | 5.0 | 6.0 | 20.0% |
| **Total** | **37.3** | **55.0** | **47.5%** |
| **Spain** | | | |
| Fixed internet and data | 0.0 | 0.9 | 0.0% |
| Mobile telecommunication services(2)(4) | 26.9 | 39.5 | 46.8% |
| Fixed-line telephony | 0.0 | 0.0 | 0.0% |
| Other revenue(1) | 0.0 | 0.1 | 0.0% |
| **Total** | **26.9** | **40.5** | **50.6%** |
| **Other(5)** | | | |
| Mobile telecommunication services(2)(4) | 5.5 | 5.2 | -5.5% |
| Other revenue(1) | 0.0 | 0.0 | 0.0% |
| **Total** | **5.5** | **5.2** | **-5.5%** |
| | | | |
| **Total** | **232.8** | **281.2** | **20.8%** |

*(1) Includes sales of CPE (primarily mobile handsets and satellite signal receivers and decoders), own content to other operators, advertising revenue from own TV and radio channels and sundry penalties invoiced to subscribers, as the case may be.*
*(2) Includes mobile telephony and mobile internet and data revenue.*
*(3) Represents mobile internet and data revenue generated as a reseller through Telenor's local network.*
*(4) Represents mobile telephony and internet and data revenue from our MVNO operations (Telefónica's network in Spain and TIM's network in Italy).*
*(5) Includes revenue from operations in Italy.*
*(6) Invitel's results are consolidated into the Group's results for the three months ended March 31, 2019.*

***Revenue in Romania*** for the three month period ended March 31, 2019 was €180.5 million compared with €163.1 million for the three month period ended March 31, 2018, an increase of 10.7%. Revenue grew in Romania was the result of both, the increase in telecommunication services prices starting with March 2019; the increase in our cable TV and fixed internet and data RGUs and an increase in our mobile telecommunication services ARPU.
Our cable TV RGUs increased from approximately 3,075 thousand as at March 31, 2018 to approximately 3,391 thousand as at March 31, 2019, an increase of approximately 10.3%, and our residential fixed internet and data RGUs increased from approximately 2,185 thousand as at March 31, 2018 to approximately 2,427 thousand as at March 31, 2019, an increase of approximately 11.1%. These increases were primarily due to our investments in expanding of our fixed fiber-optic network and to our attractive fixed internet and data packages. Mobile telecommunication services RGUs slightly increased from approximately 3,373 thousand as at March 31, 2018 to approximately 3,404 thousand as at March 31, 2019, an increase of approximately 0.9%. Growth in mobile telephony subscribers is partially off-set by the decrease of mobile internet sticks RGUs. Mobile telecommunication services ARPU increased to an average €4.6/month for the three month period ended March 31, 2019, compared to an average €4.3/month for the three month period ended March 31, 2018, an increase of approximately 7.0%, primarily as a result of customers generating more voice and internet and data traffic. Other revenues include mainly sales of equipment, but also contains services of filming sport events and advertising revenue. Sales of equipment includes mainly mobile handsets and other equipment. Growth in our cable TV, fixed internet and data, mobile telecommunication services and other revenues was partially offset by a decrease in revenue generated by our DTH and fixed-line telephony businesses as a result of decreases in RGUs in both business lines. DTH RGUs decreased from 577 thousand as at March 31, 2018 to 516 thousand as at March 31, 2019, a decrease of approximately 10.6%. This decrease was primarily driven by DTH subscribers who terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services. Residential fixed-line telephony RGUs decreased from approximately 1,105 thousand as at March 31, 2018 to approximately 1,035 thousand as at March 31, 2019, a decrease of approximately 6.3%, as a result of the general trend away from fixed-line telephony and towards mobile telecommunication services.

***Revenue in Hungary*** for the three month period ended March 31, 2019 was €55.0 million, compared with €37.3 million for the three month period ended March 31, 2018, an increase of 47.5%. This increase was mainly due to our acquisition of Invitel on May 30, 2018 and the increase in the prices of internet services starting with March 2019.
Our cable TV RGUs increased from approximately 505 thousand as at March 31, 2018 to approximately 692 thousand as at March 31, 2019, an increase of approximately 37.0% (out of which DIGI Hungary's cable TV RGUs, excluding Invitel, increased by 4.4%). These increases were the result of our investments in expanding of our fixed fiber-optic network and to our attractive fixed internet and data packages. Our fixed internet and data RGUs increased from approximately 476 thousand as at March 31, 2018 to approximately 753 thousand as at March 31, 2019, an increase of approximately 58.2% (out of which DIGI Hungary's fixed internet and data RGUs, excluding Invitel, increased by 9.2%), and our fixed-line telephony RGUs increased from approximately 387 thousand as at March 31, 2018 to approximately 689 thousand as at March, 2019, an increase of approximately 78.0% (out of which DIGI Hungary's fixed-line telephony RGUs, excluding Invitel, increased by 5.7%). In addition to our acquisition of Invitel, these RGU increases were driven by our investments in expanding and upgrading our fixed fiber-optic network in Hungary. Our DTH RGUs decreased from approximately 288 thousand as at March 31, 2018 to approximately 273 thousand as at March 31, 2019, a decrease of approximately 5.2%. A number of DTH subscribers terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services.

***Revenue in Spain*** for the three month period ended March 31, 2019 was €40.5 million, compared with €26.9 million for the three month period ended March 31, 2018, an increase of 50.6%. The increase in our Spain revenue was due to the increase in mobile telecommunication services RGUs from approximately 1,000 thousand as at March 31, 2018 to approximately 1,496 thousand as at March 31, 2019, an increase of approximately 49.6%. This was primarily due to new customer acquisitions as a result of more attractive and affordable mobile and data offerings. Fixed internet and fixed telephony services were launched by DIGI Spain towards the end of September 2018, as a resale product on Telefónica's network, and generated revenue of €1.0 million for the period ended March 31, 2019.

***Revenue in Other*** represented revenue from our operations in Italy and for the three month period ended March 31, 2019 was €5.2 million, compared with €5.5 million for the three month period ended March 31, 2018, a decrease of 5.5%. The decrease in our revenue in Italy was primarily due to customers being attracted by lower value offerings. Mobile telecommunication services RGUs increased from approximately 195 thousand as at March 31, 2018 to approximately 201 thousand as at March 31, 2019, an increase of approximately 3.1%.

### Total operating expenses

Our total operating expenses (excluding intersegment expenses and other expenses, but including depreciation, amortization and impairment) for the three period ended March 31, 2019 were €263.8 million, compared with €202.5 million for the three month period ended March 31, 2018, an increase of 30.3%, respectively.

| | As at and for the three months ended March 31, | |
|---|---|---|
| | 2018 | 2019 |
| | | |
| Romania | 99.4 | 108.5 |
| Hungary | 29.4 | 45.4 |
| Spain | 20.1 | 31.7 |
| Other[(1)] | 6.4 | 4.9 |
| Depreciation, amortization and impairment of tangible and intangible assets | 47.1 | 73.3 |
| **Total operating expenses** | **202.5** | **263.8** |

(1) *Includes operating expenses of operations in Italy and operating expenses of Digi.*

***Operating expenses in Romania*** for three month period ended March 31, 2019 were €108.5 million, compared with €99.4 million for the three month period ended March 31, 2018, an increase of 9.2%. On December 29, 2018, the Romanian Government issued the emergency ordinance GEO 114/2018, due to which we recorded a pro-rata basis accrual monitoring fee of 3.0% of telecommunications services revenues (€ 4.4 million). Increase of all other operating expenses are in line with the development of the business.

***Operating expenses in Hungary*** for the three month period ended March 31, 2019 were €45.4 million, compared with €29.4 million for the three month period ended March 31, 2018, an increase of 54.4%. The increase was primarily due to the Invitel's acquisitions. In general, increases of operating expenses are in line with the development of the business.

***Operating expenses in Spain*** for the three month period ended March 31, 2019 were €31.7 million, compared with €20.1 million for the three month period ended March 31, 2018, an increase of 57.7%.

In general, increases of operating expenses are in line with the development of the business.

***Operating expenses in Other*** represented expenses of our operations in Italy and expenses of Digi and for the three month period ended March 31, 2019 were €4.9 million, compared with €6.4 million for the three month period ended March 31, 2018, a decrease of 23.4%.

### Depreciation, amortization and impairment of tangible and intangible assets

The table below sets out information on depreciation, amortization and impairment of our tangible and intangible assets for the three month period ended March 31, 2018 and 2019.

| | As at and for the three months ended March 31, | |
|---|---|---|
| | **2018** | **2019** |
| | (€ millions) | |
| Depreciation of property, plant and equipment | 25.6 | 35.1 |
| Amortization of non-current intangible assets | 10.0 | 15.5 |
| Amortization of right of use assets | - | 10.3 |
| Amortization of programme assets | 10.9 | 11.3 |
| Impairment of property, plant and equipment | 0.6 | 1.0 |
| **Total** | **47.1** | **73.3** |

### Depreciation of property, plant and equipment

Depreciation of property, plant and equipment was €35.1 million for the three month period ended March 31, 2019, compared with €25.6 million for the three month period ended March 31, 2018, an increase of 37.1%. This variation was primarily due to Invitel's acquistion.

### Amortization of non-current intangible assets

Amortization of non-current intangible assets was €15.5 million for the three month period ended March 31, 2019, compared with €10.0 million for the three month period ended March 31, 2018, an increase of 55.0%. This was due to increase in subscriber acquisition cost amortization and customer relationships charge in the period

### Amortization of right of use

The Group has adopted IFRS 16 Leases from January 1, 2019. In accordance with the new leases standard requirements, the impact of adoption on our depreciation, amotization and impairment of tangible and intangible assets was €10.3 million.

### Amortization of program assets

Amortization of program assets was €11.3 million for the three month period ended March 31, 2019, compared with €10.9 million for the three month period ended March 31, 2018, an increase of 3.7%.

### Other income/ (expense)

We recorded €2.2 million of net other expense in the three month period ended March 31, 2019 compared with €1.2 million of other income in the three months ended March 31, 2018. This reflected mark-to-market unwinding as the fair value assessment of energy trading contracts is no longer needed (€0.9 million) and accrued expenses for the period in amount of €1.3 million related to the share option plan approved in December 2017.

### Operating profit

For the reasons set forth above, our operating profit was €15.2 million for the three month period ended March 31, 2019, compared with €31.6 million for the three month period ended March 31, 2018.

### Net finance expense

We recognized net finance expense of €25.8 million in the three month period ended March 31, 2019, compared with €11.0 million for the three month period ended March 31, 2018, an increase of 134.0%.
In the three months ended March 31, 2019 we had a net foreign exchange loss of €10.8 million, compared to a net foreign exchange gain of €2.2 million in the three months ended March 31, 2018.
Interest expenses increased in the current period mainly due to the additional € 200 million senior secured notes issued in February 2019. Interest of € 3.3 million deemed to have accrued in respect of the period October 2018 to February 2019, was offset by revenues from interest recognised from the transaction and disclosed under Interest from banks. The increase in the interest for senior secured notes, also triggered an increase in the withholding tax expense.
In addition, we have recorded interest for SFA 2018, which was concluded in the first quarter of 2018.
The adoption of IFRS 16 also had an impact of €1.9 million in the interest expense from lease liability.

### Profit before taxation

For the reasons set forth above, our loss before taxation was €10.5 million in the three month period ended March 31, 2019, compared with €20.6 million profit before taxation for the three month period ended March 31, 2018.

### Income tax expense

An income tax expense of €7.1 million was recognized in the three month period ended March 31, 2019, compared to a tax expense of €5.8 million recognized in the three month period ended March 31, 2018.

### Net profit for the period

For the reasons set forth above, our net loss was €17.6 million in the three month period ended March 31, 2019, compared to profit of the prior period of €14.8 million for the three months ended March 31, 2018.

## Liquidity and Capital Resources

Historically, our principal sources of liquidity have been our operating cash flows as well as debt financing. Going forward, we expect to fund our cash obligations and capital expenditures primarily out of our operating cash flows, credit facilities and letter of guarantee facilities. We believe that our operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.
All of our businesses have historically produced positive operating cash flows that are relatively constant from month to month. Variations in our aggregate cash flow during the periods under review principally represented increased or decreased cash flow used in investing activities and cash flow from financing activities.
We have made and intend to continue to make significant investments in the growth of our businesses by expanding our mobile telecommunication network and our fixed fiber optic networks, acquiring new and renewing existing content rights, procuring CPE which we provide to our customers and exploring other investment opportunities on an opportunistic basis in line with our current business model. We believe that we will be able to continue to meet our cash flow needs by the acceleration or deceleration of our growth and expansion plans.

## Historical cash flows

The following table sets forth our consolidated cash flows from operating activities for the three month period ended March 31, 2018 and 2019, cash flows used in investing activities and cash flows from/(used in) financing activities.

| | As at and for the three months ended March 31, | |
|---|---|---|
| | **2018** | **2019** |
| | **(€ millions)** | |
| **Cash flows from operations before working capital changes** | **80.2** | **85.2** |
| Cash flows from changes in working capital | (3.5) | (8.4) |
| **Cash flows from operations** | **76.6** | **76.8** |
| Interest paid | (4.9) | (6.6) |
| Income tax paid | (0.6) | (1.0) |
| **Cash flow from operating activities** | **71.1** | **69.2** |
| **Cash flow used in investing activities** | **(76.8)** | **(74.3)** |
| **Cash flows from /(used in) financing activities** | **4.4** | **14.2** |
| **Net decrease in cash and cash equivalents** | **(1.3)** | **9.0** |
| **Cash and cash equivalents at the beginning of the period** | **16.1** | **13.8** |
| Effect of exchange rate fluctuation on cash and cash equivalent held | 0.0 | 0.0 |
| **Cash and cash equivalents at the closing of the period** | **14.8** | **22.9** |

Cash flows from operations before working capital changes were €85.2 million in the three month period ended March 31, 2019 and €80.2 million in the three month period ended March 31, 2018 for the reasons discussed in "—*Historical Results of Operations—Results of operations for the three month period ended March 31, 2019 and 2018*".

The following table shows changes in our working capital:

| | For the three months ended March 31, | |
|---|---|---|
| | **2018** | **2019** |
| | **(€ millions)** | |
| (Increase) in trade receivables and other assets | (7.5) | (21.9) |
| Decrease in inventories | 0.3 | 0.4 |
| Increase/(decrease) in trade payables and other current liabilities | (8.8) | 13.1 |
| Increase in contract liabilities | 12.5 | (0.0) |
| **Total** | **(3.5)** | **(8.4)** |

We had a working capital requirement of €8.4 million in the three month period ended March 31, 2019 (compared with a working capital requirement of €3.5 million in the three month period ended March 31, 2018). This is the result of the March 2019 increase in prices for Romania and Hungary; uncompensated receivables linked to sports rights and in line with business growth.

***Cash flows from operating activities*** were €69.2 million in the three month period ended March 31, 2019 and €71.1 million in the three month period ended March 31, 2018. Included in these amounts are deductions for interest paid and income tax paid. Income tax paid which were €1.0 million in the three months ended March 31, 2019 and €0.6 million in the three months ended March 31, 2018. Interest paid was €6.6 million in the three months ended

March 31, 2019, compared with €4.9 million in the three months ended March 31, 2018. The decrease in cash flows from operating activities in the three months ended March 31, 2019 was primarily due to changes in working capital discussed above.

***Cash flows used for investing activities*** were €74.3 million in the three month period ended March 31, 2019 and €76.8 million in the three month period ended March 31, 2018.
Purchases of property, plant and equipment were €46.1 million in the three months ended March 31, 2019 and €53.2 million in the three months ended March 31, 2018.
Purchases of intangible assets were €28.2 million in the three months ended March 31, 2019 and €23.5 million in the three months ended March 31, 2018.
Payments for acquisition of subsidiaries were €0.2 million in the three months ended March 31, 2019 and €0.1 million in the three months ended March 31, 2018.

***Cash flows used in (from) financing activities*** were €14.2 million outflow for the three month period ended March 31, 2019, €4.4 million outflow for the three months ended March 31, 2018.

# DIGI COMMUNICATIONS N.V.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**

**PREPARED IN ACCORDANCE WITH**
**IAS 34 INTERIM FINANCIAL REPORTING**

## For the three-month period ended 31 March 2019

**CONTENTS** **Page**


| | |
|---|---|
| GENERAL INFORMATION | - |
| CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) | - |
| CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited) | 4 |
| CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (unaudited) | 5 |
| CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited) | 6 |
| CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited) | 7 – 8 |
| NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited) | 9 – 33 |

## GENERAL INFORMATION

**Directors:**

Serghei Bulgac

Bogdan Ciobotaru

Valentin Popoviciu

Piotr Rymaszewski

Emil Jugaru

Marius Catalin Varzaru

Zoltan Teszari

**Registered Office:**

**Digi Communications N.V.**

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

**Auditors:**

Ernst & Young Accountants LLP.

| | Notes | 31 March 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 1,153,501 | 1,138,992 |
| Intangible assets | 5 | 244,836 | 245,852 |
| Right of use assets | | 162,165 | - |
| Financial assets at fair value through OCI | | 30,579 | 32,058 |
| Investment in associates | | 970 | 970 |
| Long term receivables | | 9,419 | 5,584 |
| Other non-current assets | | 374 | 4,629 |
| Deferred tax assets | | 2,692 | 2,659 |
| **Total non-current assets** | | **1,604,536** | **1,430,744** |
| **Current assets** | | | |
| Inventories | | 16,460 | 16,586 |
| Programme assets | 5 | 16,126 | 21,379 |
| Trade and other receivables | | 70,137 | 60,002 |
| Contract assets | 9 | 49,660 | 44,076 |
| Income tax receivable | | 9 | 547 |
| Other assets | | 15,260 | 12,419 |
| Derivative financial assets | 14 | 30,478 | 33,287 |
| Cash and cash equivalents | | 22,859 | 13,832 |
| **Total current assets** | | **220,989** | **202,128** |
| **Total assets** | | **1,825,525** | **1,632,872** |
| | | | |
| **EQUITY AND LIABILITIES** | 6 | | |
| **Equity** | | | |
| Share capital | | 6,810 | 6,918 |
| Share premium | | 11,117 | 3,406 |
| Treasury shares | | (11,755) | (14,527) |
| Reserves | | (21,327) | (18,583) |
| Retained earnings | | 143,909 | 168,825 |
| **Equity attributable to equity holders of the parent** | | **128,754** | **146,039** |
| Non-controlling interest | | 6,220 | 7,306 |
| **Total equity** | | **134,974** | **153,345** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings, including bonds | 7 | 823,215 | 716,193 |
| Deferred tax liabilities | | 64,098 | 60,652 |
| Lease liabilities | | 162,312 | - |
| Decommissioning provision | | 6,067 | 6,082 |
| Other long term liabilities | | 43,909 | 34,600 |
| **Total non-current liabilities** | | **1,099,601** | **817,527** |
| **Current liabilities** | | | |
| Trade and other payables | | 481,374 | 461,463 |
| Interest-bearing loans and borrowings | 7 | 77,949 | 168,625 |
| Income tax payable | | 1,532 | 543 |
| Derivative financial liabilities | 14 | - | 1,106 |
| Provisions | | 7,075 | 7,225 |
| Contract liabilities | 9 | 23,020 | 23,038 |
| **Total current liabilities** | | **590,950** | **662,000** |
| **Total liabilities** | | **1,690,551** | **1,479,527** |
| **Total equity and liabilities** | | **1,825,525** | **1,632,872** |

The condensed consolidated interim financial report was issued on 15 May 2019.

| | Notes | Three month period ended 31 March 2019 | Three month period ended 31 March 2018 |
|---|---|---|---|
| Revenues | 9 | 281,179 | 232,792 |
| Other income | 17 | - | 4,257 |
| Operating expenses | 10 | (263,767) | (202,446) |
| Other expenses | 17 | (2,188) | (3,020) |
| **Operating profit** | | **15,224** | **31,583** |
| Finance income | 11 | 6,761 | 2,236 |
| Finance expenses | 11 | (32,524) | (13,245) |
| **Net finance costs** | | **(25,763)** | **(11,009)** |
| **Profit / (loss) before taxation** | | **(10,539)** | **20,574** |
| Income tax | | (7,108) | (5,762) |
| **Net profit / (loss) for the year** | | **(17,647)** | **14,812** |
| | | | |
| **Other comprehensive income** | | | |
| ***Items that are or may be reclassified to profit or loss, net of income tax*** | | | |
| Foreign operations – foreign currency translation differences | | 180 | (817) |
| Change in fair value available for sale asset | | (1,479) | 837 |
| Cash Flow hedge reserves | | (68) | (193) |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Revaluation of equity instruments measured at fair value through OCI | | | - |
| **Other comprehensive income for the year, net of income tax** | | **(1,367)** | **(173)** |
| **Total comprehensive income for the year** | | **(19,014)** | **14,639** |
| | | | |
| **Profit / (Loss) attributable to:** | | | |
| Equity holders of the parent | | (16,472) | 13,817 |
| Non-controlling interest | | (1,175) | 995 |
| **Net profit / (loss) for the year** | | **(17,647)** | **14,812** |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the parent | | (17,845) | 13,702 |
| Non-controlling interests | | (1,169) | 937 |
| **Total comprehensive income for the year** | | **(19,014)** | **14,639** |

The condensed consolidated interim financial report was issued on 15 May 2019.

| | Notes | Three months period ended 31 March 2019 | Three months period ended 31 March 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before taxation** | | **(10,539)** | **20,574** |
| **Adjustments for:** | | | |
| Depreciation, amortization and impairment | 10 | 73,322 | 47,145 |
| IFRS 16 rent expense | | (11,439) | - |
| Interest expense, net | 11 | 17,910 | 9,887 |
| Impairment of trade and other receivables | 10 | 1,719 | 2,766 |
| Losses/(gains) on derivative financial instruments | 12 | 1,620 | (3,872) |
| Equity settled share-based payments expense | 13 | 848 | 3,614 |
| Unrealised foreign exchange loss/(gain) | | 11,795 | 78 |
| Gain on sale of assets | | (31) | (32) |
| Provisions | | 0 | - |
| **Cash flows from operations before working capital changes** | | **85,205** | **80,160** |
| | | | |
| **Changes in:** | | | |
| Decrease/(increase) in trade receivables and other assets and contract assets | | (21,921) | (7,471) |
| Decrease/(increase) in inventories | | 413 | 280 |
| (Decrease)/increase in trade payables and other current liabilities | | 13,142 | (8,806) |
| (Decrease)/increase in deferred revenue/contract liabilities | | (18) | 12,451 |
| **Cash flows from operations** | | **76,821** | **76,614** |
| | | | |
| Interest paid | | (6,612) | (4,935) |
| Income tax paid | | (1,041) | (628) |
| **Net cash flows from operating activities** | | **69,168** | **71,051** |
| | | | |
| **Cash flow used in investing activities** | | | |
| Purchases of property, plant and equipment | 4 | (46,095) | (53,221) |
| Purchases of intangibles | 5,7 | (28,198) | (23,472) |
| Acquisition of subsidiaries, net of cash and acquisition of NCI | 13 | (162) | (140) |
| Proceeds from sale of property, plant and equipment | | 157 | 61 |
| **Net cash flows used in investing activities** | | **(74,298)** | **(76,772)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | | - | - |
| Cash outflows from acquisition of treasury shares | | (165) | - |
| Proceeds from borrowings | 7 | 202,257 | 8,520 |
| Repayment of borrowings | 7 | (182,795) | (1,386) |
| Financing costs paid | 7 | (3,282) | (1,717) |
| Settlement of derivatives | | - | (406) |
| Payment of finance lease obligations | | (1,862) | (570) |
| **Net cash flows (used in)/from financing activities** | | **14,153** | **4,441** |
| **Net increase/(decrease) in cash and cash equivalents** | | **9,023** | **(1,280)** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | **13,832** | **16,074** |
| Effect of exchange rate fluctuations of cash and cash equivalents held | | 4 | 43 |
| **Cash and cash equivalents at the end of the year** | | **22,859** | **14,837** |

The condensed consolidated interim financial report was issued on 15 May 2019.

| | Share capital | Share premium | Treasury shares | Translation reserve | Revaluation reserve | Fair value Reserves | Cash Flow hedge reserves | Retained earnings | Total equity attributable to equity holders of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **6,918** | **3,406** | **(14,527)** | **(34,242)** | **29,320** | **(13,755)** | **94** | **168,825** | **146,039** | **7,306** | **153,345** |
| **Comprehensive income for the year** | | | | | | | | | | | |
| Profit/(loss) for the year | | | | | | | | (16,472) | **(16,472)** | (1,175) | **(17,647)** |
| Foreign currency translation differences | | | | 170 | | | | | **170** | 10 | **180** |
| Revaluation of equity instruments measured at fair value through OCI | | | | | | (1,479) | | | **(1,479)** | - | **(1,479)** |
| Cash flow hedge reserves | | | | | | | (64) | | **(64)** | (4) | **(68)** |
| Transfer of revaluation reserve (depreciation) | | | | | (1,371) | | | 1,371 | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **170** | **(1,371)** | **(1,479)** | **(64)** | **(15,101)** | **(17,845)** | **(1,169)** | **(19,014)** |
| **Transactions with owners, recognised directly in equity** | | | | | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | | | | | |
| Purchase of treasury shares (Note 6) | | | (165) | | | | | | **(165)** | - | **(165)** |
| Conversion of class A shares to class B shares | (108) | | | | | | | 108 | - | - | - |
| Equity-settled share-based payment transactions (Note 13) | | 7,711 | 2,937 | | | | | (9,886) | 762 | 86 | 848 |
| Dividends distributed (Note 6) | | | | | | | | | | | |
| ***Total contributions by and distributions to owners*** | **(108)** | **7,711** | **2,772** | | | | | **(9,778)** | **597** | **86** | **683** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | | | | |
| Movemenent in ownership interest while retaining control | | | | | | | | (37) | (37) | (3) | (40) |
| ***Total changes in ownership interests in subsidiaries*** | | | | | | | | **(37)** | **(37)** | **(3)** | **(40)** |
| **Total transactions with owners** | ***(108)*** | ***7,711*** | ***2,772*** | | | | | ***(9,815)*** | **560** | **83** | **643** |
| **Balance at 31 March 2019** | ***6,810*** | ***11,117*** | ***(11,755)*** | ***(34,072)*** | ***27,949*** | ***(15,234)*** | ***30*** | ***143,909*** | **128,754** | **6,220** | **134,974** |

| | Share capital | Share premium | Treasury shares | Translation reserve | Revaluation reserve | Fair value Reserves | Cash Flow hedge reserves | Retained earnings | Total equity attributable to equity holders of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | **6,918** | **3,406** | **(13,922)** | **(29,957)** | **35,120** | **(3,667)** | **(248)** | **138,869** | **136,519** | **6,029** | **142,548** |
| **Comprehensive income for the year** | | | | | | | | | | | |
| Profit/(loss) for the year | - | - | - | - | - | - | - | 13,817 | **13,817** | 995 | **14,812** |
| Foreign currency translation differences | - | - | - | (771) | - | - | - | - | **(771)** | (46) | **(817)** |
| Movements Fair Value reserves for AFS | - | - | - | - | - | 837 | - | - | **837** | - | **837** |
| Cash flow hedge reserves | - | - | - | - | - | - | (181) | - | **(181)** | (12) | **(193)** |
| Transfer of revaluation reserve (depreciation) | - | - | - | - | (1,439) | - | - | 1,439 | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **(771)** | **(1,439)** | **837** | **(181)** | **15,256** | **13,702** | **937** | **14,639** |
| **Transactions with owners, recognised directly in equity** | | | | | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | | | | | |
| Increase of share capital through conversion of share premium and reserves | | | | | | | | | | | |
| Conversion of class A shares to class B shares | | | | | | | | | | | |
| Purchase of treasury shares | | | | | | | | | | | |
| Swap of treasury shares against AFS | | | | | | | | | | | |
| Equity-settled share-based payment transactions | - | - | - | - | - | - | - | 3,420 | **3,420** | 194 | **3,614** |
| Dividends distributed (Note 6) | | | | | | | | | | | |
| ***Total contributions by and distributions to owners*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,420** | **3,420** | **194** | **3,614** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | | | | |
| Swap of NCI against AFS | - | - | - | - | - | - | - | - | **-** | - | **-** |
| Swap of treasury shares against NCI (Note 13) | - | - | - | - | - | - | - | - | **-** | - | **-** |
| ***Total changes in ownership interests in subsidiaries*** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | ***3,420*** | **3,420** | **194** | **3,614** |
| **Balance at 31 March 2018** | **6,918** | **3,406** | **(13,922)** | **(30,728)** | **33,681** | **(2,830)** | **(429)** | ***157,545*** | **153,641** | **7,160** | **160,801** |

## 1. CORPORATE INFORMATION

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

The parent company of the Group is Digi Communications N.V. ("DIGI" or "the Company" or "the Parent"), a company incorporated in Netherlands, with place of business and registered office in Romania. The main operations are carried by RCS&RDS S.A (Romania) ("RCS&RDS"), Digi T.S kft (Hungary), Invitel Távközlési Zrt. (Hungary), Digi Spain Telecom SLU, and Digi Italy SL. DIGI registered office is located in Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5, Bucuresti, Romania.

RCS&RDS is a company incorporated in Romania and its registered office is located at Dr. Staicovici 75, Bucharest, Romania.

RCS&RDS was setup in 1994, under the name of Analog CATV, and initially started as a cable TV operator in several cities in Romania. In 1996 following a merger with a part of another cable operator (Kappa) the name of the company became Romania Cable Systems S.A. ("RCS").

In 1998 Romania Cable Systems S.A established a new subsidiary Romania Data Systems S.A. ("RDS") for the purposes of offering internet, data and fixed telephony services to the Romanian market. In August 2005, Romania Cable Systems S.A. absorbed through merger its subsidiary Romania Data Systems S.A. and changed its name into RCS&RDS. RCS&RDS evolved historically both by organic growth and by acquisition of telecommunication operators and customer relationships.

The Group provides telecommunication services of Cable TV (television), Fixed and Mobile Internet and Data, Fixed-line and Mobile Telephony ("CBT") and Direct to Home television ("DTH") services in Romania, Hungary, Spain and Italy. The largest operating company of the Group is RCS&RDS.

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

On 21 July 2017, DIGI Távközlési és Szolgáltató Kft. ("Digi HU") our subsidiary in Hungary, acting as purchaser, has signed a share-purchase agreement ("SPA") with Ilford Holding Kft. and Invitel Technocom Távközlési Kft., acting as sellers for the acquisition of shares representing in total 99.998395% of the share capital and voting rights of Invitel Távközlési Zrt ("Invitel").

The consolidated financial statements were authorized for issue by the Board of Directors of DIGI on 15 May 2019.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

**(a) Statement of compliance**

These unaudited interim condensed consolidated financial statements for the three month period ended 30 March 2019 have 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 2018. These interim condensed consolidated financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and part 9 of book 2 of the Dutch Civil code.

**(b) Basis of measurement**

The interim condensed consolidated financial statements have been prepared on the historical cost basis, except for buildings, cable plant, equipment and devices and customer premises equipment measured at revalued amount, and except for financial assets at fair value through OCI and derivative financial instruments measured at fair value.

**(d) Judgements and estimates**

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

In preparing these interim condensed consolidated financial statements, 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 2018.

**(e) Functional and presentation currency**

The functional currency as well as the presentation currency for the financial statements of each Group entity is the currency of the primary economic environment in which the entity operates (the local currency).

The interim condensed consolidated financial statements are presented in Euro ("EUR") and all values are rounded to the nearest thousand EUR except when otherwise indicated. The Group uses the EUR as a presentation currency of the interim condensed consolidated financial statements under IFRS based on the following considerations:

- management analysis and reporting is prepared in EUR;
- EUR is used as a reference currency in telecommunication industry in the European Union;
- Main debt finance instruments are denominated in EUR.

The translation into presentation currency of the financial statements of each entity is described under Note 2.2 below.

The assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the reporting date (none of the functional currencies of the subsidiaries or the Parent is hyperinflationary for the reporting periods). The income and expenses of the Parent and of the subsidiaries are translated at transaction date exchange rates. The exchange differences arising on the retranslation from functional currency to presentation currency are taken directly to equity under translation reserve. On disposal of a foreign entity, accumulated exchange differences relating to it and previously recognized in equity as translation reserve are recognized in profit or loss as component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The following rates were applicable at various time periods according to the National Banks of Romania and Hungary:

| Currency | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Jan – 1 | Average for the 3 months | Mar – 31 | Jan – 1 | Average for the 3 months | Mar – 31 |
| RON per 1EUR | 4.6639 | 4.7351 | 4.7628 | 4.6597 | 4.6553 | 4.6576 |
| HUF per 1EUR | 321.51 | 318.01 | 320.79 | 310.14 | 311.11 | 312.55 |
| USD per 1EUR | 1.1450 | 1.1356 | 1.1235 | 1.1993 | 1.2295 | 1.2321 |

The Group established vendor financing and reverse factoring agreements with suppliers. In some cases, payment terms are extended in agreements between the supplier and the Group. Depending on the nature of the agreements' clauses, these transactions are classified as trade payables. If these agreements imply extended payment terms, trade payables are classified as long term. Corresponding cash flows are presented as Cash flow from investing or operating activities, as applicable.

## 2.2. GOING CONCERN

Management believes that the Group will continue as a going concern for the foreseeable future. In the current year and recent years, the Group has managed to achieve consistently strong local currency revenue streams and cash flows from operating activities and has continued to grow the business. These results have been achieved during a period of significant investments in technological upgrades, new services and footprint expansion. The ability to offer multiple services is a central element of DIGI Group strategy and helps the Group to attract new customers, to expand the uptake of service offerings within the existing customer base and to increase customer loyalty by offering high value-for-money package offerings of services and attractive content.

For further information refer to Note 14b) Liquidity risk.

## 2.3 SIGNIFICANT ACCOUNTING POLICIES

Starting from 1 January 2019, the Group has implemented IFRS 16 which is effective for annual periods beginning on or after 1 January 2019. The rest of the significant 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 2018.

**New pronouncements**

The accounting policies used are consistent with those of the previous financial year except for the following new and amended IFRSs which have been adopted by the Group as of 1 January 2019.

The Group has initially adopted IFRS 16 Leases from January 1, 2019. The effects of this standard are described in the following paragraphs and notes below.

- **IFRS 16: Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12

## 2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

**Transition to IFRS 16**

The Group has transitioned to IFRS 16 in accordance with the modified retrospective approach, therefore the prior-year figures have not been adjusted.

***Statement of financial position:*** IFRS 16 requires lessees to adopt a uniform approach to the presentation of leases. In future, assets must be recognized for the right of use received and liabilities must be recognized for the payment obligations entered into for all leases.

The Group has made use of the relief options provided for leases of low-value assets and short-term leases. In contrast, the accounting requirements for lessors remain largely unchanged, particularly with regard to the continued requirement to classify leases according to IAS 17.
For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability will be recognized at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate at the time the standard is first applied. The right of use asset will generally be measured at the amount of the lease liability plus initial direct costs. Advance payments and liabilities from the previous financial year will also be accounted for. The preliminary results of the analysis indicate a probable significant increase in lease liabilities and total assets. The Group's equity ratio will decline and the Net debt will rise accordingly due to the material increase in lease liabilities.

The financial impact of the adoption of IRFS 16 can be observed in above financial statements and the below notes to this statements.

***Statement of comprehensive income***: In contrast to the presentation to date of operating lease expenses, in future depreciation charges on right of use assets and the interest expense from the unwinding of the discount on the lease liabilities will be recognized. IFRS 16 also provides new guidance on the treatment of sale and leaseback transactions. The seller/lessee recognizes a right of use asset in the amount of the proportional original carrying amount that relates to the right of use retained. Accordingly, only the proportional amount of gain or loss from the sale must be recognized.
These changes will improve the profit from operating activities (EBIT).

***Cash flow statement***: The change in presentation of operating lease expenses will result in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

In order to ensure the proper application of IFRS 16 the Group performs an on-going analysis of its operational lease's contracts. To assess whether a contract is or contains a lease, the Group analyses if:

- The contract relates to an identified asset, which may be physically distinct or represent substantially all the capacity of a physically distinct asset;
- The Group has the right to obtain substantially all the economic benefits from the use of the asset throughout the contractual period;

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

- The Group has the right to direct the use of the asset

The remaining lease payments of the contracts, which were considered to be in the scope of IFRS 16, were discounted using the incremental borrowing rate which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Discount rates estimated considering lessee's incremental borrowing rate for each type of lease contracts reflects the specific risk of the lessee, country of operation and each sector for which funding would be needed.

The Group performs an on-going analysis to estimate the present value of the rent expenses which will represent the estimated additional impact on debt to be recognized in the Consolidated financial position and the carrying amount of the Right of usage asset; to estimate the depreciation expense for the additional assets recognized in the Consolidated financial position and the estimated interest expense of the lease liability, based on maturity profiles.

**Standards issued but not yet effective and not early adopted**

Other standards which were issued but not yet effect and not early adopted have no impact on the Group's financial statements:

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 9: Prepayment features with negative compensation (Amendment)
- IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
- IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
- Conceptual Framework in IFRS standards
- the Annual Improvements to IFRSs 2015 – 2017 Cycle issued by IASB.

## 3. SEGMENT REPORTING

| 31 March 2019 | Romania | Hungary[1] | Spain | Other | Eliminations | Reconciling item | Group |
|---|---|---|---|---|---|---|---|
| Segment revenue | 180,472 | 55,042 | 40,494 | 5,171 | - | - | **281,179** |
| Inter-segment revenues | 744 | - | 194 | 145 | (1,083) | - | **-** |
| Segment operating expenses | (108,850) | (45,426) | (32,185) | (5,077) | 1,083 | - | **(190,455)** |
| **Adjusted EBITDA (Note 17)** | **72,366** | **9,616** | **8,503** | **239** | **-** | **-** | **90,724** |
| Depreciation, amortization and impairment of tangible and intangible assets | | | | | | (73,312) | **(73,312)** |
| Other income (Note 17) | | | | | | | |
| Other expenses (Note 17) | (2,188) | | | | | | **(2,188)** |
| **Operating loss** | | | | | | | **15,224** |
| Additions to tangible non-current assets | 37,370 | 24,692 | 5,394 | 21 | | | **67,476** |
| Additions to intangible non-current assets | 12,645 | 1,045 | 3,703 | 382 | | | **17,775** |
| *Carrying amount of:* | | | | | | | |
| Property, plant and equipment | 819,920 | 319,221 | 14,118 | 242 | | | **1,153,501** |
| Non-current intangible assets | 274,230 | 113,413 | 16,986 | 2,372 | | | **407,001** |
| Investments in associates and financial assets at fair value through OCI | 970 | - | - | 30,579 | | | **31,549** |

The types of products and services from which each segment derives its revenues are disclosed in Note 9.

[1] *As at 31March 2019, Hungarian operations include the consolidated results of both Digi Hu and Invitel*

## 3. SEGMENT REPORTING (continued)

| **31 March 2018** | **Romania** | **Hungary** | **Spain** | **Other** | **Eliminations** | **Reconciling item** | **Group** |
|---|---|---|---|---|---|---|---|
| Segment revenue and other income | 163,099 | 37,300 | 26,891 | 5,502 | - | - | **232,792** |
| Inter-segment revenues | 870 | - | 182 | 141 | (1,193) | - | **-** |
| Segment operating expenses | (99,739) | (29,370) | (20,705) | (6,680) | 1,193 | - | **(155,301)** |
| **Adjusted EBITDA (Note 17)** | **64,230** | **7,930** | **6,368** | **(1,037)** | **-** | **-** | **77,491** |
| Depreciation, amortization and impairment of tangible and intangible assets | - | - | - | - | - | (47,145) | **(47,145)** |
| Other income (Note 17) | 4,257 | - | - | - | - | - | **4,257** |
| Other expenses (Note 17) | (3,020) | - | - | - | - | - | **(3,020)** |
| **Operating profit** | | | | | | | **31,583** |
| Additions to tangible non-current assets | 38,599 | 11,280 | 985 | 14 | - | - | **50,878** |
| Additions to intangible non-current assets | 8,545 | 212 | 1,897 | 494 | - | - | **11,148** |
| *Carrying amount of:* | | | | | | | |
| Property, plant and equipment | 768,638 | 151,036 | 4,472 | 251 | - | - | **924,397** |
| Non-current intangible assets | 178,145 | 29,014 | 6,450 | 2,442 | - | - | **216,051** |
| Investments in associates and available for sale financial assets | 784 | - | - | 42,983 | - | - | **43,767** |

The types of products and services from which each segment derives its revenues are disclosed in Note 9.

## 4. PROPERTY, PLANT AND EQUIPMENT

**Acquisitions and disposals**

During the three month period ended 31 March 2019, the Group acquired property, plant and equipment with a cost of EUR 67,476 (31 March 2018: EUR 50,878). The acquisitions related mainly to networks EUR 35,570 (three months ended 31 March 2018: EUR 19,997), customer premises equipment of EUR 12,108 (three months ended 31 March 2018: EUR 5,959), equipment and devices of EUR 15,831 (three months ended 31 March 2018: EUR 15,761) and buildings and structures of EUR 1,398 (three months ended 31 March 2018: EUR 4,375).

## 5. INTANGIBLE ASSETS

**Acquisitions**

***Non-current intangible assets***
During the three-month period ended 31 March 2019, the Group acquired non-current intangible assets with a cost of EUR 17,775 (31 March 2018: EUR 11,148) as follows:

- Software and licences in amount of EUR 5,303 (31 March 2018: EUR 3,503);
- Customer relationships by acquiring control in other companies in amount of EUR 4,112 (31 March 2018: EUR 1,090);
- Costs to obtain contracts with customers (Subscriber Acquisition Costs "SAC") in amount of EUR 8,360 (31 March 2018: EUR 6,555); SAC represents third party costs for acquiring and connecting customers of the Group;
- Goodwill didn't increase through new additions in the first three months of 2019 (31 March 2018: EUR 0).

***Programme assets***
During the three month period ended 31 March 2019, additions of programme assets in the amount of EUR 6,500 (31 March 2018: EUR 3,786) represent broadcasting rights for sports competitions for 2018/2019 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 2018** | **76,089** |
| Additions | - |
| Effect of movement in exchange rates | (144) |
| **Balance at 31 March 2018** | **75,945** |
| | |
| **Balance at 1 January 2019** | **82,903** |
| Additions | |
| Effect of movement in exchange rates | (1,048) |
| **Balance at 31 March 2019** | **81,855** |

***(ii) Impairment testing of goodwill***

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 31 March 2019.

## 6. EQUITY

On January 14, 2019, the Board of Directors converted 1.2 million Class A shares of the Company that were held as treasury shares by the Company into an equal number of Class B shares. As a result of this conversion, the issued share capital of the Company currently amounts to €6,810,042.52 divided into:

- 64,556,028 Class A Shares with a nominal value of €0.10 each in the share capital of the Company; and
- 35,443,972 Class B Shares with a nominal value of €0.01 each in the share capital of the Company

Given the difference in the nominal value between a class A share (EUR 0.1) and a class B share (EUR 0.01) of the Company, in accordance with article 5 (4) from the Company's articles of association, the conversion resulted in a decrease by EUR 0.09 in nominal value per class A share subject of the conversion (in total—EUR 108.000). This amount was added to the general equity reserves of the Company.

The class B shares resulting from the Conversion will be used by the Company (in addition to the existing treasury class B shares and to the class B shares repurchased through the ongoing buy-back program) for the purpose of the several ongoing Company's subsidiaries employees and managers' stock option plans having a vesting period in 2019.

As at 31 March 2019, the Company had 5.2 million treasury shares.

The GSM from 30 April 2019 approved the distribution of a gross dividend of 0.50 RON per share for 2018.

## 7. INTEREST BEARING LOANS AND BORROWINGS

Included in Long term interest-bearing loans and borrowings are bonds EUR 546,485 (December 2018: EUR 349,490), bank loans EUR 272,650(December 2018: EUR 363,125) and leasing EUR 4,081 (December 2018: EUR 3,578).

Included in Short term interest-bearing loans and borrowing are bank loans EUR 42,755 (December 2018: EUR 44,240), short portion of long term interest-bearing loans EUR 15,809 (December 2018: EUR 112,580), leasing obligations amounting to EUR 4,251(December 2018: EUR 4,389, other short-term debts of EUR 21 (December 2018: EUR 18) and interest payable amounting to EUR 15,112 (December 2018: EUR 7,397).

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

| | Carrying amount |
|---|---:|
| **Balance as of 1 January 2019** | **884,818** |
| ***New drawings*** | |
| Proceeds from bank borrowings | 202,257 |
| Leasing contracts | 2,341 |
| Interest expense for the period | 14,861 |
| ***Repayment*** | |
| Payment of lease obligations | (1,862) |
| Repayment of borrowings | (182,795) |
| Current year interest paid | (6,522) |
| Additional financing costs | (5,438) |
| ***Effect of movements in exchange rates*** | (6,496) |
| **Balance as of 31 March 2019** | **901,164** |

Included in liabilities we have supplier balances that are part of several factoring arrangements amounting to EUR 100,124.

## 8. RELATED PARTY DISCLOSURES

The following tables provide the total amount of balances with related parties:

| **Receivables from related parties** | | | |
|---|---|---|---|
| | | **31 March 2019** | **31 December 2018** |
| **Party** | | | |
| Ager Imobiliare S.R.L. | (ii) | 745 | 743 |
| Music Channel S.R.L. | (ii) | - | - |
| RCSM | (i) | 1 | 1 |
| Other | | 9 | 9 |
| **Total** | | **755** | **753** |

| **Payables to related parties** | | | |
|---|---|---|---|
| | | **31 March 2019** | **31 December 2018** |
| **Party** | | | |
| Related parties - shares | (ii) | - | - |
| RCSM* | (i) | 5,282 | 5,756 |
| Mr. Zoltan Teszari | (iii) | 8 | 8 |
| Other | | 637 | 720 |
| **Total** | | **5,927** | **6,484** |

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

***RCS Management loan**

Included in the EUR 5,282 payables to RCSM is the management loan entered into by RCS&RDS on 12 May 2017, for a principal amount of EUR 5,000. The loan bears a 5.5% per annum interest rate, the repayment date being extended until May 2019. As at 31 March 2019 the outstanding amount is EUR 526.

**Compensation of key management personnel of the Group**

| | **Theree months ended 31 March 2019** | **Theree months ended 31 March 2018** |
|---|---|---|
| Short term employee benefits - salaries | 866 | 824 |

In 2017 and 2018 several share option plans were implemented for certain members of management and employees. In May 2018, one of the share option plans for management vested. For details, please refer to Note 13.

## 9. REVENUES

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

| | Theree months ended 31 March 2019 | Theree months ended 31 March 2018 |
|---|---|---|
| **a) Revenues from contracts with costumers** | | |
| **Cable TV** | | |
| Romania | 51,032 | 46,511 |
| Hungary | 17,070 | 12,197 |
| | **68,102** | **58,708** |
| **Internet and data** | | |
| Romania | 46,656 | 44,131 |
| Hungary | 18,959 | 10,029 |
| Italy | - | - |
| Spain | 924 | - |
| | **66,539** | **54,160** |
| **Telephony Revenues** | | |
| Romania | 51,842 | 49,246 |
| Hungary | 5,552 | 1,900 |
| Spain | 39,501 | 26,872 |
| Italy | 5,165 | 5,478 |
| | **102,060** | **83,496** |
| **DTH Revenue** | | |
| Romania | 7,603 | 8,451 |
| Hungary | 7,471 | 8,181 |
| | **15,074** | **16,632** |
| **Other revenues from contracts with costumers** | | |
| Romania | 18,811 | 12,743 |
| Hungary | 5,990 | 4,980 |
| Spain | 70 | 18 |
| Italy | 8 | 25 |
| | **24,879** | **17,766** |
| | | |
| **b) Other revenues** | | |
| Romania | 4,525 | 2,030 |
| | | |
| **Total revenues** | **281,179** | **232,792** |

Other revenues from contracts with costumers as at 31 March 2019 include mainly revenues from sale of handsets and other CPE, as well as advertising revenues.

The split of revenues based on timing of revenue recognition is presented below:

| Timing of revenue recognition | Theree months ended 31 March 2019 | Theree months ended 31 March 2018 |
|---|---|---|
| Goods transferred at a point in time | 10,275 | 5,556 |
| Services transferred over time | 270,904 | 227,236 |
| **Total revenues** | **281,179** | **232,792** |

The transfer of goods to the customer at a point in time are presented in the first table above as “Other revenues”. The rest of the services provided to customers and presented as revenues for each business line and geographical segment

## 10. OPERATING EXPENSES

| | Theree months ended 31 March 2019 | Theree months ended 31 March 2018 |
|---|---|---|
| Depreciation of property, plant and equipment (Note 4) | 35,115 | 25,601 |
| Amortization of programme assets (Note 5) | 11,336 | 10,906 |
| Amortisation of right of use assets | 10,347 | - |
| Amortisation of non-current intangible assets (Note 5) | 15,462 | 10,008 |
| Impairment of property, plant and equipment (Note 4) | 1,030 | 625 |
| Impairment of non-current intangible assets (Note 5) | 22 | 5 |
| Salaries and related taxes | 49,655 | 41,143 |
| Contribution to pension related fund | 1,453 | 1,055 |
| Programming expenses | 26,531 | 20,891 |
| Telephony expenses | 48,047 | 40,991 |
| Cost of goods sold | 9,544 | 1,324 |
| Rentals | 8,743 | 15,057 |
| Invoicing and collection expenses | 5,374 | 4,348 |
| Taxes and penalties | 10,551 | 2,400 |
| Utilities | 5,992 | 4,386 |
| Copyrights | 2,809 | 2,387 |
| Internet connection and related services | 2,070 | 845 |
| Impairment of receivables and other assets, net of reversals | 1,720 | 2,766 |
| Taxes to authorities | 2,406 | 2,395 |
| Other materials and subcontractors | 2,750 | 2,609 |
| Other services | 7,304 | 5,524 |
| Miscellaneous operating expenses | 5,506 | 7,180 |
| **Total operating expenses** | **263,767** | **202,446** |

In 2019 share option plans expenses accrued in the period are included in the caption “Salaries and related taxes”. For details, please see Note 13.

Miscellaneous operating expenses mainly include expenses related to advertisings costs, expenses related to own TV channels, settlements of contracts, network maintenance expenses and various other fees and commissions to third parties.

## 11. NET FINANCE COSTS

| | Theree months ended 31 March 2019 | Theree months ended 31 March 2018 |
|---|---|---|
| ***Finance income*** | | |
| Interest from banks | 3,255 | 16 |
| Other financial revenues | 3,506 | - |
| Foreign exchange differences (net) | **-** | 2,220 |
| | **6,761** | **2,236** |
| ***Finance expenses*** | | |
| Interest expense | (16,022) | (9,887) |
| Loss on derivative financial instruments | (8) | (380) |
| Other financial expenses | (3,788) | (2,978) |
| Interest lease liabilities | (1,888) | - |
| Foreign exchange differences (net) | (10,818) | - |
| | **(32,524)** | **(13,245)** |
| | | |
| **Net Finance Costs total** | **(25,763)** | **(11,009)** |

## 12. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from the use of financial instruments:

- credit risk
- liquidity risk
- market risk (including currency risk, interest rate risk and price risk).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### *(a) 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.
Management mitigates credit risk mainly by monitoring the subscribers base and identifying bad debt cases, which are suspended, in general, in an average of 15 days period after the invoice due date.

The carrying amount of the non-derivative financial assets, net of the recorded allowances for expected credit losses, represents the maximum amount exposed to credit risk. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low. Although collection of receivables could be influenced by macro-economic factors, management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The credit exposure for derivatives is limited, as there will be no incoming cash-flow arising from the embedded derivatives

**12. FINANCIAL RISK MANAGEMENT (continued)**

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

The credit risk on cash and cash equivalents is very small, since the cash and cash equivalents are held at reputable banks in different countries. The most significant part of cash and cash equivalents balance is generally kept at the main subsidiary (RCS RDS) level with internationally reputable banks, having at least A-2 rating in a country with a "BBB-" rating.

***(b) Liquidity risk***

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, vendor financing and reverse factoring agreements. Management monitors on a monthly basis the forecast of cash outflows and inflows in order to determine its funding needs.

At 31 March 2018, the Group had net current liabilities of EUR 369,961 (31 December 2018: EUR 459,872). As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities. Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

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

***(c) Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, market electricity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Exposure to currency risk**

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

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 used 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.

The Group imports services and equipment and attracts substantial amount of foreign currency denominated borrowings.

The Board of Directors actively manages the exposure to EUR and USD currency only for borrowings.

## 12. FINANCIAL RISK MANAGEMENT (continued)

**Exposure to electricity price risk**

The electricity production and commercial activity are not core activities for the Group. Through its electricity production and commercial trading activities, the Group is exposed to electricity price risk, due to the volatility of prices on the electricity market and the potential mismatches between purchase prices and selling prices. In particular, due to the fixed prices we charge customers related to our electricity supply activities, increases in the cost of the electricity we acquire from third parties could adversely affect our financial condition.

***(d) Fair values***

The Group measures at fair value the following: financial assets at fair value through other comprehensive income, embedded derivatives, interest rate swaps, cross currency swaps.

## 13. SHARE-BASED PAYMENTS

On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions of the stock option plan for Class B Shares, applicable to the executive Board members of the Company. A total number of 280,000 class B shares were granted as part of the stock option plan, with vesting date in one year's time. On 15 May 2018, this stock option plan vested and Mr. Serghei Bulgac, Chief Executive Officer and Executive Director of the Company and Mr. Valentin Popoviciu, Executive Director of the Company, have exercised their stock options. In accordance with this stock option plan, Mr. Serghei Bulgac was granted 220,000 shares, while Mr. Valentin Popoviciu was granted 60,000 shares.

In December 2017, 1.5 million shares were granted as options to eligible employees under the share based payment plan. A total number of 2,746 employees are included in the share based payment plan, which was a one-time event after the IPO.

On 2 May 2018, the General Shareholder's Meeting has approved the grant of stock options for class B shares applicable to the executive and non-executive Board members in 2018.

In May 2018, Mr. Serghei Bulgac (Chief Executive Officer and Executive Director of the Company), Mr. Valentin Popoviciu (Executive Director of the Company), Mr. Marius Varzaru (Non-executive Director) and Mr. Bogdan Ciobotaru (Non-executive Director) have been granted by the Company conditional stock options pursuant to the decision of the Company's general meeting of shareholders dated 2 May 2018. The number of options of class B shares granted as part of this stock option plan (applicable for the years 2018 and 2019) amounts to a total of 686,090 stock options. The further vesting of all option shares granted will be conditional upon several performance criteria and the passage of a minimum duration of 1 year.

The Company also granted on 24 May 2018 conditional stock options to a limited number of Romanian directors and employees. The number of options of class B shares granted to such directors and employees amounts to a total of 250,000 stock options. The further vesting of all option shares granted will be conditional upon several performance criteria and the passage of a minimum duration of 1 year.

The Company approved in June 2018 the implementation of a stock option plan to the benefit of the officers and employees of Digi Spain S.L.U., the Company's subsidiary in Spain. The maximum number of options of class B shares allocated to this plan amounts to 35,000. The grant of the stock options under this plan will be determined based on performance criteria and the vesting will be conditional upon the passage of a minimum duration of 1 year.

For the three month period ended 31 March 2019, the related share option expense of EUR 848 (three month period ended 31 March 2018: 3,614).

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March 2019 the Group had derivative financial assets in amount of EUR 30,478(31 December 2018: 33,287), which included:

- Embedded derivatives of EUR 30,478 related to the bond (31 December 2018: 31,115) (the 2016 Bond include several call options as well as one put option, for which the combined fair value of these embedded options was assessed through the Option Adjusted Spread model and recognized a separate embedded derivative asset).
- From January 2019 the electricity contracts are no longer considered for fair value assessment (31 December 2018: 2,052).

As at 31 March 2019 the Group had derivative financial liabilities in amount of EUR nill (31 December 2018: EUR 1,106), which included:

- From January 2019 the electricity contracts are no longer considered for fair value assessment (31 December 2018: 1,106).
- On May 22, 2015 and in January 2016 RCS & RDS concluded interest rate swaps for the entire term loan facility and Accordion term loan facility under the 2015 SFA, through which RCS&RDS hedged against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e.: ROBOR). Under the interest rate swaps RCS&RDS pays fixed and receives variable cash flows on the same dates on which is settles the interest on its hedged borrowings. Hedged cash flows occur periodically, on the settlement of the interest on hedged loans, and impact profit or loss throughout the life of the loan, through accrual. Given that critical terms of the hedging instrument match the critical terms of the hedged cash flows, there is no significant ineffectiveness. The interest rate swaps remain valid until the maturity of the agreement in 2020.

***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 |
|---|---|---|---|---|
| **31 March 2019** | | | | |
| Available for sale financial assets | | | 30,579 | **30,579** |
| Interest rate swaps | | | 8 | **8** |
| Embedded derivatives | | | 30,469 | **30,469** |
| Electricity trading assets (term contracts) | | | - | **-** |
| Electricity trading liabilities (term contracts) | | | - | **-** |
| **Total** | | | **61,056** | **61,056** |
| | | | | |
| **31 December 2018** | | | | |
| Available for sale financial assets | | | 32,058 | **32,058** |
| Interest rate swaps | | | 120 | **120** |
| Embedded derivatives | | | 31,115 | **31,115** |
| Electricity trading assets (term contracts) | | | 2,052 | **2,052** |
| Electricity trading liabilities (term contracts) | | | (1,106) | **(1,106)** |
| **Total** | | | **64,239** | **64,239** |

## 15. CONTINGENCIES AND COMMITMENTS

### (a) Contractual commitments

Commitments are presented on a discounted basis, using an interest rate of 3M LIBOR + 6.2% p.a., 3M EURIBOR + 6.2% p.a. or 3M ROBOR + 6.2% p.a.

The Group leases under operating leases several main types of assets:

- pillars for network support in Romania and Hungary in several rural areas for the Romanian and Hungarian fibre optics main ring and pillars/land for mobile network in Romania and Hungary;
- pillars for network support in Romania in several urban areas for "fibre to the block networks";
- fibre optic line capacities in Hungary;
- commercial spaces for cash collection points in Romania and Hungary;
- office facilities in Romania, Hungary, Spain, Italy.

As at 31 March 2019, contractual commitments for capital expenditure amounted to approximately EUR 66,468 (31 December 2018: EUR 82,325) and contractual operating commitments amounted to approximately EUR 125,208 (31 December 2018: EUR 199,022), including operating leases.

**(b) Letters of guarantee**

As of 31 March 2019, there were bank letters of guarantee and letters of credit issued in amount of EUR 16,333 mostly in favour of content and satellite suppliers and for participation to tenders (31 December 2018: EUR 19,639).

We have cash collateral agreements for issuance of letters of counter guarantees. As at March 31, 2019 we had letters of guarantee issued in amount of EUR 719 (31 December 2018: EUR 719). These agreements are secured with moveable mortgage over cash collateral accounts.

**Uncertainties associated with the fiscal and legal system**

The tax frameworks in Romania and other Eastern and Central Europe countries are subject to frequent changes (some of them resulting from EU membership, others from the domestic fiscal policy) and often subject of contradictory interpretations, which might be applied retrospectively.

Furthermore, the Romanian and other Eastern and Central Europe governments work via a number of agencies authorized to carry on audits of the companies operating in these countries. These audits cover not only fiscal aspects but also legal and regulatory ones that are of interest to these agencies.

The Dutch, Romanian and other Eastern and Central Europe Fiscal legislation include detailed regulations regarding transfer pricing between related parties and includes specific methods for determining transfer prices between related prices at arm's length. Transfer pricing documentation requirements have been introduced so that taxpayers who carry out transactions with affiliated parties are required to prepare a transfer pricing file that needs to be presented to the tax authorities upon request.

The Company and its subsidiaries entered into various transactions within the Group, as well as other transactions with related parties. In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result of the Company and/ or its subsidiaries with additional taxable revenues/ non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

Group management believes that it has paid or accrued all taxes, penalties and interest that are applicable, at the Company and subsidiaries level.

**(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 the management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements. Specifically, for the litigations described below the Group recognized provisions only for some case, as for the others management

**15. CONTINGENCIES AND COMMITMENTS (continued)**

assessed that the outcome of these litigations is not more likely than not to result in significant cash outflows for the Group.

**Intact Media Group Litigations, which ceased under a Settlement Agreement**

Since March 2011, we have been engaged in a number of legal proceedings against Intact Media Group, which is a leading media group in Romania. In particular, Intact Media Group (largely, through Antena Group) initiated a series of legal proceedings against us, inter alia, alleging violations of Romanian “must carry” regulations, claiming damages because of our refusal to retransmit certain of their channels, claiming copyright infringement and alleging our abuse of dominant market position. We also initiated proceedings against Intact Media Group claiming compensation of damages to reputation and violations of certain contractual arrangements.

On June 15, 2018, we settled all underlying disputes with Intact Media Group and both parties waived all their remaining claims and agreed to formally terminate all pending legal proceedings. As at the date of this report, Romanian courts have acknowledged the settlement and formally terminated all such proceedings, except for the following (in each case, applications were submitted and formal termination is pending):

- a litigation where Antena Group is challenging the RCC’s dismissal of its claim alleging our abuse of dominant position in relation to their GSP TV channel (Antena Group’s claims were dismissed by the court of first instance, and the final hearing before the higher appeal court is currently scheduled for September 26, 2019); and
- a litigation where we are claiming damages from Antena Group for breach of certain contracts, to which Antena Group has filed certain counterclaims (as per the publicly available information, a hearing before the higher appeal court is scheduled for 11 June 2019).

**Pecuniary claim filed by the National Cinematography Centre**

On 4 November 2016, the National Cinematography Centre filed before the Bucharest Tribunal a claim for payment with respect to a value of EUR 1,200, including principal and accessories as royalty tax due by law to this claimant. In March 2019, the Bucharest Court of Appeal admitted the National Cinematography Centre’s claim in part by granting to the claimant lei 3.9 million (by maintaining the first court solution). Although already enforceable, this decision is not final and we filed an appeal in this case.

For great part of the amounts claimed by the National Cinematography Centre we continue to consider the claim as ungrounded and abusive, and we will continue to resist to these claims, as the amounts that we deem legitimate to be paid by RCS&RDS are significantly smaller.

**Litigation with Electrica Distribuţie Transilvania Nord in relation to a concession agreement between RCS&RDS and the Oradea municipality**

In 2015, Electrica Distribuţie Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged in a court the concession agreement we have concluded with the local municipality from Oradea regarding the use of an area of land for the development of an underground cable trough, arguing that the tender whereby we obtained the concession agreement was irregularly carried out. Furthermore, Electrica Distribuţie Transilvania Nord S.A. claims that the cable trough is intended to include electricity distribution wires that would breach its alleged exclusive right to distribute electricity in the respective area.

Based on our request, the trial was suspended pending final settlement of a separate lawsuit in which two Group companies are challenging the validity of the alleged exclusivity rights of incumbent electricity distributors (this claim was denied by the court of first instance). Should the final court decision be unfavourable to us, it may result in a partial loss of our investment in the underground cable trough.

**Motion filed by certain US individuals against the Company, RCS&RDS, RCS Management S.A., DIGI Távközlési és Szolgáltató Kft, and its subsidiary, i-TV Digitális Távközlési Zrt.**

On 2 May 2017, certain individuals (William Hawkins, Eric Keller, Kristof Gabor, Justin Panchley, and Thomas Zato) (collectively, the “Plaintiffs”) filed in the United States District Court for the Eastern District of Virginia –

**15. CONTINGENCIES AND COMMITMENTS (continued)**

Alexandria Division (the “**US Court**”) a motion to enforce a default judgment (the “**Motion**”) that was issued in favour of the Plaintiffs by the US Court in the Civil Action No. 1:05-cv-1256 (LMB/TRJ) in February 2007 (the “**Default Judgment**”) against Laszlo Borsy, Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. (the predecessor to i-TV Digitális Távközlési Zrt.) (the “**Defendants**”) jointly and severally. Additionally, the Motion sought to extend the enforcement of the Default Judgment against the following entities

that were not parties to the original proceedings and not named in the Default Judgment: i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., and the Company.

The Default Judgment, of which enforcement is sought before the US Court, awarded the Plaintiffs approximately $1.8 million in damages resulting from alleged unpaid debts that appear to have been caused by Laszlo Borsy and several related entities. It also ordered that the ownership interest of Defendants Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. be distributed to the Plaintiffs in total percentage of 56.14%. Finally, it prohibited Defendants Laszlo Borsy, Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. from disposing of or dissipating any assets of the initial defendant entities or engaging in any corporate transactions without the consent of the Plaintiffs.

The Motion alleges that i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft. and the upstream separate companies RCS&RDS, the Company, and RCS Management S.A. violated the Default Judgment, to which these companies were not party, when, ten years ago, DIGI Távközlési és Szolgáltató Kft. entered the share capital of DMCC Kommunikacios Rt. (i-TV Digitális Távközlési Zrt.'s predecessor).

For more than ten years after the Default Judgment was issued in 2007, the Plaintiffs filed no actual claim against i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. or the Company. During the same period, the Plaintiffs never sought to enforce the Default Judgment against i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company in Hungary or another foreign jurisdiction. Nor did they seek to enforce the Default Judgment against any of the Defendants in their domestic countries.

We deem the Motion, which requests payment from the Defendants, i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. and the Company, jointly and severally, of $1.8 million, plus interest, as well as other compensation, damages, fees and expenses, as vexatious for numerous legal and factual reasons. Those reasons include, but are not limited to, the lack of any actual proof of fraud on behalf of either of i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company, the Plaintiffs' passivity for more than ten years, the lack of jurisdiction of the US Court over i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, S.A., RCS Management S.A., or the Company, as well as the fact that the Motion, if granted, would go against mandatory legal provisions of any of the jurisdictions where i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company operate.

On 8 February 2018, the US Court granted the Defendants' motion to vacate and dismissed the entire lawsuit for lack of subject matter jurisdiction. The US Court also vacated all prior orders entered in the case (the "**US Court's Decision**"). The Plaintiffs filed an appeal against the US Court's Decision with the United States Court of Appeals for the Fourth Circuit (the "**Appellate Court**"). The Defendants also filed a conditional cross-appeal on multiple grounds that need only be considered if the Appellate Court reverses the US Court's Decision. The Appellate Court has issued a scheduling order for the exchange of written arguments (phase completed), and the hearing took place at the end of January 2019. The Appellate Court is expected to issue its decision in the forthcoming months.

Should the Appellate Court grant the Plaintiffs' appeal in whole or in part and reject the Defendants' cross-appeal in whole or in part, the matter would return to the US Court for trial on the merits of the case.

We additionally believe any judgment issued by the US Court against i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. or the Company would not be enforceable, as it would need to be first recognized in the relevant jurisdictions where these companies operate, subject to the foreign judgement's compliance with those jurisdictions' mandatory legal provisions.

## 15. CONTINGENCIES AND COMMITMENTS (continued)

### Investigation by the Romanian National Anti-Corruption Agency brought to court

In 2009, RCS&RDS entered into a joint venture with Bodu S.R.L. (the "JV") with respect to an events hall in Bucharest. This venue enjoys a good location in the city and is relatively close to our headquarters. We believed at

the time that the property would have been very helpful to the development of our media business and, potentially, other businesses and desired to acquire the venue from Bodu S.R.L. However, Bodu S.R.L. only agreed to a joint venture arrangement, making certain representations concerning future economic benefits of its joint development, which we accepted in good faith. At the time when RCS&RDS entered into the JV, Bodu S.R.L. was owned by Mr. Bogdan Dragomir, a son of Mr Dumitru Dragomir, who served as the President of the Romanian Professional Football League (the "**PFL**").

In 2013, certain individuals within Antena Group (with which we had a number of ongoing litigations at the time) blackmailed Mr. Ioan Bendei (who at the time was a member of the Board of Directors of RCS&RDS and is a director of Integrasoft S.R.L. (see below)) threatening to report him (and us) to the prosecuting authorities. They alleged that our investment into the JV represented a means to extend an unlawful bribe to Mr. Dumitru Dragomir in exchange for his alleged assistance with granting to us content rights to Romania's national football competitions administered by the PFL and to certain subsequent modifications to the payment terms of content rights awarded through an auction process in 2008. Mr. Ioan Bendei reported the blackmailers to the prosecutors, which resulted in the General Manager of Antena Group being convicted of blackmail and incarcerated. However, Antena Group's allegations against Mr. Ioan Bendei were also brought to the attention of the Romanian National Anti-Corruption Agency (the "**DNA**").

By 2015, the JV became virtually insolvent, as initial expectations on its prospects had failed to materialize. In 2015, in order to recover the EUR 3,100 investment, it had made into the JV from 2009 to 2011 and to be able to manage the business of the events hall directly and efficiently, RCS&RDS entered into a settlement agreement with Bodu S.R.L. In 2016, in accordance with that settlement agreement, RCS&RDS acquired (at a discount to nominal value) Bodu S.R.L.'s outstanding bank debt (which was secured by its share of, and assets it contributed to, the JV). Thereafter, RCS&RDS set-off its acquired receivables against Bodu S.R.L. in exchange for the real estate and business of the events hall. Bodu S.R.L. was replaced as RCS&RDS's JV partner by Integrasoft S.R.L., one of our Romanian subsidiaries.

Following this acquisition, in addition to its investigation of Antena Group's bribery allegations in relation to our investment into the JV, the DNA opened an enquiry as to whether the transactions that followed (including the 2015 settlement and the 2016 acquisition) represented unlawful money-laundering activities.

On 7 June 2017, Mr. Bendei Ioan, member of the Board of directors of RCS&RDS, was indicted by the DNA in connection with the offences of bribery and accessory to money laundering. Mr. Bendei Ioan was also placed under judicial control. On 25 July 2017, RCS&RDS was indicted by the DNA in connection with the offences of bribery and money laundering, Integrasoft S.R.L. (one of RCS&RDS's subsidiaries in Romania) was indicted for the offence of accessory to money laundering, Mr. Mihai Dinei (member of the Board of directors of RCS&RDS), was indicted by the DNA in connection with the offences of accessory to bribery and accessory to money laundering. On 31 July 2017, Mr. Serghei Bulgac (Chief Executive Officer of RCS&RDS and General Manager and President of the Board of Directors of RCS&RDS), was indicted by the DNA in connection with the offence of money laundering.

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

On 15 January 2019, the Bucharest Tribunal dismissed the giving of bribe related allegations against RCS&RDS and its past and current directors on the basis that they had become time-barred, convicted RCS&RDS in connection with the offence of money laundering for which the court applied a criminal fine in the amount of lei 1,250,000. The Bucharest Tribunal's decision also decided on the confiscation from RCS&RDS of an amount of Euro 3,100 plus lei 655,124 and it maintained the seizure over the two real estate assets first instituted by the DNA. Integrasoft S.R.L. was convicted in connection with the offence of accessory to money laundering for which the court applied a

**15. CONTINGENCIES AND COMMITMENTS (continued)**

criminal fine of lei 700,000. Mr. Bendei Ioan was convicted to a 4 years imprisonment sentence in connection with the offence of accessory to money laundering resulting from his capacity of director of Integrasoft S.R.L.

Mr. Serghei Bulgac (Chief Executive Officer and President of the board of directors of RCS&RDS), Mr. Mihai Dinei (member of the board of directors of RCS&RDS), as well as Mr. Alexandru Oprea (former Chief Executive Officer of RCS&RSD) were acquitted in connection with all the accusations brought against them by the DNA.

In the same case file, Mr. Dumitru Dragomir was convicted to a 4 years imprisonment sentence in connection with the offences of receiving of bribe and accessory to money laundering, Mr. Bădiță Florin Bogdan (director of Bodu S.R.L.) was convicted to a 4 years imprisonment sentence in connection with the offences of accessory to the receiving of bribe and to money laundering, the company Bodu S.R.L. was convicted in connection with the offences of accessory to the receiving of bribe and money laundering, while Mr. Bogdan Dumitru Dragomir was acquitted in connection with all the accusations brought against him by the DNA.

The decision also cancels the joint-venture agreement from 2009 concluded between RCS&RDS and Bodu S.R.L., as well as all the agreements concluded between RCS&RDS, Bodu S.R.L. and Integrasoft S.R.L. in 2015 and 2016.

We strongly deem the Bucharest Tribunal’s decision to be profoundly unjust, incorrect and ungrounded. This decision is neither final nor enforceable and the appeal can be judged only once we receive the written reasoning of the decision taken by the first instance. We have anyway already challenged this decision to the Bucharest Court of Appeal.

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

**Claim for indemnity filed against RCS&RDS in connection to certain matters related to the sale by RCS&RDS of its subsidiary in the Czech Republic in 2015**

In March 2018, Yolt Services s.r.o., a Czech company, filed against RCS&RDS a claim for indemnification in front of the Vienna International Arbitral Centre (the “**VIAC**”). The claimant grounds its request on the sale purchase agreement (the “**SPA**”) concluded between RCS&RDS and Lufusions s.r.o., a subsidiary of Lama Energy Group Czech-based holding, whereby RCS&RDS sold in April 2015 to Lufusions s.r.o. its wholly owned subsidiary in the Czech Republic (the “**Sold Company**”). As an accessory to the business it had sold to the Lama Energy Group, RCS&RDS as seller accepted to indemnify Lufusions s.r.o., as buyer, for certain types of claims (such as tax, copyright) related to the past activity of the Sold Company, under certain conditions provided under the SPA.

After completing the sale, RCS&RDS conducted in good faith the claims against the Sold Company, aiming to obtain the dismissal and/or the mitigation of such claims. However, under the control of the new owner, the Sold Company suffered several corporate changes (including chain de-mergers) that finally resulted in the Sold Company no longer operating the business sold by RCS&RDS through the SPA. Later, the Sold Company (which had meanwhile become a shell entity) was renamed to Yolt Services s.r.o. In RCS&RDS’s view, all these post-closing changes have severely impaired the scope of the indemnity provided under the SPA.

In its claim in front of the VIAC, Yolt Services s.r.o. requests RCS&RDS to pay approximately EUR 4,500 together with the accrued default interest and other costs (amounting to approximately EUR 2,800) as indemnity under the SPA for tax and copyright claims (the latter in favor of a Czech collective rights management body), as well as indemnity for breach of the seller’s warranties and for other losses. We deem that the claimant lacks legal standing, and these claims as ungrounded and abusive, while some of them are either statute barred or do not meet the conditions for indemnification under the SPA.

We have also filed in front of the VIAC a counterclaim against the claimant for unpaid amounts for services provided by RCS&RDS to the Sold Company post-closing, in approximate outstanding unpaid amount of EUR 1,100 together with accrued default interest, as well as for other amounts due to RCS&RDS under the SPA.

## 15. CONTINGENCIES AND COMMITMENTS (continued)

The hearing in the arbitration proceeding took place in January 2019, and, further, the parties submitted additional documents and arguments. Due to the fact that the claimant submitted a new witness statement on that occasion, the Arbitral Tribunal required the respondent to reply thereto and further decided to set a new hearing in the proceedings. This was set for 23 May 2019. After this hearing, the parties are expected to submit their final written notes and, in the following months thereafter, the Arbitral Tribunal is awaited to issue its award on the case matter.

### Competition Council GSP Tv Investigation

RCS&RDS has been until the date of this report subject to one infringement investigation by the Competition Council which has been finalized in 2015. To the best of our knowledge, no other infringement investigation is pending against RCS&RDS.

In May 2011, Antena TV Group S.A., a leading media group in Romania, made a complaint to the RCC based on our refusal to retransmit one of its channels, GSP TV. The RCC opened an investigation against us in relation to this matter in August 2011.

The RCC issued its decision on March 3, 2015 declaring our initial refusal to retransmit GSP TV channel not abusive and not in violation of any competition laws. The RCC additionally considered that such refusal was justified by the existence of multiple judicial disputes between the parties, including with respect to the application and meaning of the must-carry regime.

The RCC also issued a formal, but not-binding recommendation for us to produce general terms to be complied by third party broadcasters wishing to retransmit their content via our network. Our relations with “must-carry” and pay-tv channels are expressly excluded from the scope of that recommendation.

The RCC’s decision was subjected to judicial review. Antena TV Group S.A.’s challenge against the RCC’s decision was rejected as ungrounded by the Bucharest Court of Appeal, but Antena TV Group S.A. filed a higher appeal against the first court’s award. The trial will be settled as per the Settlement Agreement (the details of this case are explained in a dedicated section above: “Litigation regarding the outcome of the GSP investigation”).

### Reassessment by the Hungarian Competition Authority of limited aspects in connection with the Invitel acquisition

In connection with the decision issued by the Hungarian Competition Authority (Gazdasági Versenyhivatal – “**GVH**”) in May 2018 (the “**Initial Decision**”) approving the acquisition by our Hungarian subsidiary – DIGI Távközlési és Szolgáltató Kft. (“**Digi HU**”), as the purchaser, of shares representing in total 99.998395% of the share capital and voting rights of Invitel Távközlési Zrt. (“**Invitel**”) from Ilford Holding Kft. and InviTechnocom Kft., acting as sellers (the “**Transaction**” – the completion of which we have disclosed to the market on 30 May 2018), on 14 November 2018, the GVH issued several decisions whereby it formally withdrew the Initial Decision and it opened a new investigation (“**New Procedure**”) for reassessing limited aspects in connection with certain settlements where i-TV Digitális Távközlési Zrt. (“**i-TV**” – one of Digi HU’s subsidiaries in Hungary) and Invitel overlap.

GVH’s stated reason for withdrawing the Initial Decision is based on allegations that Digi HU has failed to proactively comment during the initial assessment on certain data regarding the territorial scope of certain telecommunications services provided by i-TV, which has been used by the GVH in its Initial Decision. On that basis, the GVH also imposed a fine on Digi HU of approximately EUR 280 (HUF 90,000,000).

Digi HU’s ownership and control over Invitel is not affected by the above-mentioned GVH’s decisions, as the GVH simultaneously decided on 14 November 2018 to allow Digi HU to continue to exercise control over Invitel (“**Exemption Decision**”) before the issuance by the GVH of a new decision on the Transaction. As a consequence, on the basis of the Exemption Decision, the implementation by Digi HU of the Transaction is not affected by the GVH’s New Procedure, except for certain limited behavioural restrictions from the Initial Decision that were reinstated.

## 15. CONTINGENCIES AND COMMITMENTS (continued)

In relation to the operation of i-TV, the GVH imposed certain behavioural interim obligations on Digi HU until the completion of the New Procedure. i-TV represents a minor part of DIGI HU's business in Hungary.

We continue to strongly hold that Digi HU fully cooperated during the initial procedure by providing complete and accurate information, and that the GVH's decision to withdraw the Initial Decision and to apply a fine is incorrect. In December 2018, we have challenged in court the parts of the GVH's decision alleging Digi Hu's guilt and setting the size of the fine. This procedure is ongoing. The Judgement is expected to be announced on 4 June 2019.

Meanwhile, we will continue to fully and in good faith cooperate with the GVH during the New Procedure in order to ensure that a new decision re-approving the Transaction is finalized as soon as possible.

## 16. SUBSEQUENT EVENTS

The GSM from 30 April 2019 approved the distribution of a gross dividend of 0.50 RON per share for 2018.

For developments in legal proceedings in which the Group was involved (both as a plaintiff and a defendant), subsequent to 31 March 2019, please refer to Note 15.

## 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 calculated by adding back to consolidated operating profit/(loss) the charges for depreciation, amortization and impairment of assets. Our Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark to market results (unrealized) from fair value assessment of energy trading contracts.

| | Three month period ended 31 March 2019 | Three month period ended 31 March 2018 |
|---|---|---|
| **Revenues** | **281,179** | **232,792** |
| Operating profit | 15,224 | 31,583 |
| Depreciation, amortization and impairment | 73,312 | 47,145 |
| **EBITDA** | **88,536** | **78,728** |
| Other income | - | (4,257) |
| Other expenses | 2,188 | 3,020 |
| **Adjusted EBITDA** | **90,724** | **77,491** |
| Adjusted EBITDA (% of revenue) | *32.27%* | *33.29%* |

Starting with January 1, 2019, the Company adopted the IFRS 16. The impact of adopting IFRS 16 on EBITDA was EUR 11,439.

For breakdown of depreciation, amortization and impairment refer to Notes 4 and 5(a) and 5(b).

For the three-month period ended 31 March 2019 and 31 March 2018, EBITDA was adjusted to exclude Other income and Other expense.

Other expenses include: (i) EUR 1,256 representing the accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events (for details, please see Note 13); and (ii) EUR 932 impact from the derecognition of the fair value assessment of energy trading contracts.

## 18. FINANCIAL INDICATORS

| Financial Indicator | Value as at 31 March 2019 |
|---|---|
| **Current ratio** | |
| Current assets/Current liabilities | 0.37 |
| **Debt to equity ratio** | |
| Long term debt/Equity x 100<br>(where Long term debt = Borrowings over 1 year) | 642% |
| Long term debt/Capital employed x 100<br>(where Capital employed = Long term debt+ Equity) | 87% |
| **Trade receivables turnover** | |
| Average receivables/Revenues x 90 | 35.83 days |
| **Non-current assets turnover** | |
| (Revenues/Non-current assets) | 0.70 |

**Serghei Bulgac,**

**CEO,**

______________________

**Valentin Popoviciu**

**Executive Director,**

______________________