DIGI communications n.v.

ANNUAL REPORT

For the year ended December 31, 2019

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MESSAGE FROM THE CEO

Dear shareholders and investors,

2019 was an outstanding year for our company, in terms of growth in revenues, improved EBITDA and technological development.

Our teams have concluded a financial year which meant for the company an increase of consolidated revenues by 14%, to approximately 1.2 billion EUR. Revenue Generating Units (RGUs) rose to the highest level in the company`s history to 16.1 million, across all services, up by 8% as of December 31, 2019 compared to December 31, 2018. Adjusted EBITDA (including the impact of IFRS 16) reached EUR 446 million, an increase of 37.5 % compared to December 31, 2018 and EUR 380 million adjusted EBITDA (excluding the impact of IFRS 16), an increase of 17% compared to December 31, 2018. This results show our commitment to a long-term vision, founded on a continuous, stable accelerated growth.

Our main market, Romania, achieved 64% of the group's consolidated revenues, contributing to the total revenue generating units with 71%. Globally, the segment of mobile voice and data services spearheaded Digi's commercial strategy. Mobile communications segment marked an increase of the total number of services by 14.5%, from RGU 5 million to RGU 5.7 million. This outcome was possible through the efforts of our teams from Romania, Spain, Italy and Hungary. In Spain, Digi is the second mobile operator, in terms of growth rate, and the fifth operator on the market. The branch thus marked the eleventh quarter of accelerated growth, adding another 210,000 services to the portfolio, in the last three months of last year. In Hungary, just half a year after the launch of mobile telephony services on the local market, we were already registering 99,000 RGU on this segment.

We continued to invest in "state-of-the-art" infrastructure. With a consolidated CAPEX of approximately €318 million, we maintained our technological advance, we carried on our network expansion and upgrading projects. We are very proud of launching 5G communications in selected areas in Romania and Hungary and gaining speed in rolling out our fixed networks in Spain.

I would like to thank all our clients, partners and my colleagues for the outstanding achievements of 2019.

As we prepare this report, we are confronted with the unprecedented COVID-19 pandemic wave. Our teams conceived and implemented contingency planning in order to provide to our clients and partners robust services and business continuity. While we have no visibility on further extent of the epidemy and its impact on the general economy and our business, we remain committed to continue servicing our clients in the best manner we can.

Thank you. Sincerely,

Serghei Bulgac

Chief Executive Officer and Executive member of the Board of Directors

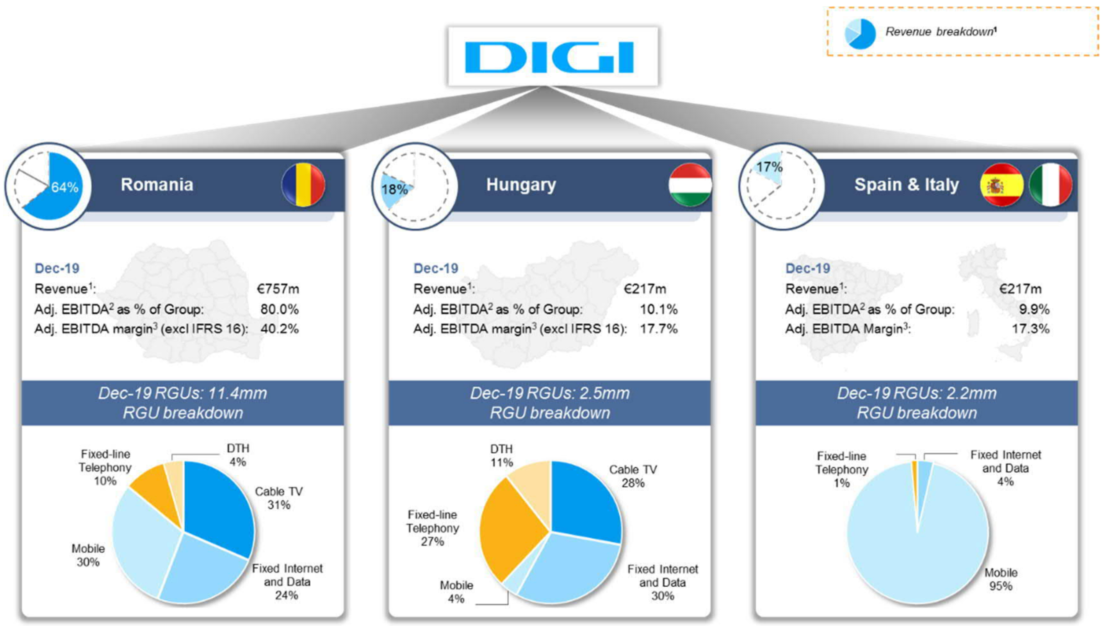
Key Figures. Objectives and strategic directions.

KEY FIGURES FOR DIGI GROUP

We are a leading provider of telecommunication services in our core Romanian and Hungarian markets based on number of revenue generating units ("**RGUs**"), have significant operations in Spain and are also present in Italy. Our offerings in our core markest 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, covering approximately 69.8% and 47.0% of dwellings in Romania and Hungary, respectively, and both countries are entirely within the footprint of our DTH signal. 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 a technologically advanced mobile networks in Romania, which shares the backbone of our fixed fiber optic infrastructure. In addition, we provide mobile telecommunication services as a Mobile Virtual Network Operator ("**MVNO**") to the large Romanian communities in Spain and Italy and starting from September 2018, in Spain we also offer fixed internet and data and fixed-line telephony services through Telefónica's fixed line network and through our own GPON FTTH network.

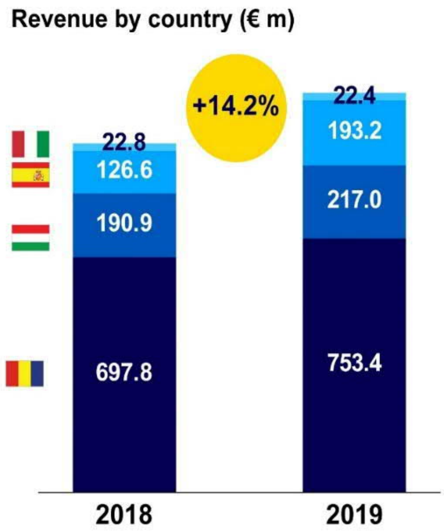
We have grown mainly organically from approximately 14.9 million RGUs as at December 31, 2018 to approximately 16.1 million RGUs as at December 31, 2019.

As at December 31, 2019, we had a total of approximately 4.3 million cable TV RGUs, approximately 3.6 million fixed internet and data RGUs, approximately 5.7 million mobile telecommunication services RGUs, approximately 1.8 million fixed-line telephony RGUs and approximately 0.8 million DTH RGUs.



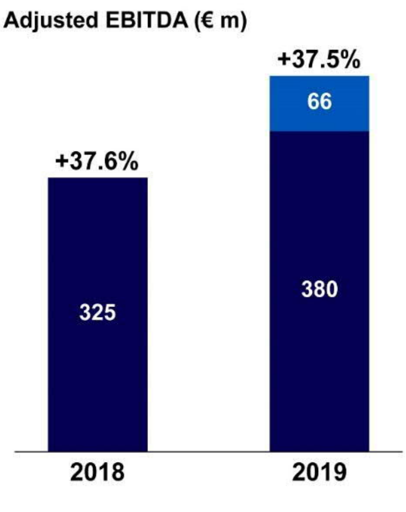
Notes: 1. Including intersegment eliminations; 2. Excluding the impact of IFRS 16. 3. On a pre-IFRS 16 basis, as % of preliminary Dec-2019 revenue, incl. intersegment eliminations.

We have consistently generated strong revenue streams. We generated €1,186.0 million in year ended December 31, 2019, an increase of 14.2% compared to prior period.



The Group’s operations generated €446 million EBITDA (including impact of IFRS 16) and €380 million (excluding the impact of IFRS 16) in the year ended December 31, 2019, an increase of 37.5% and 17.1% respectively, compared to prior period.

The Adjusted EBITDA margin was 37.6% (including impact of IFRS 16) and 32.0% (excluding impact of IFRS 16) in the year ended December 31, 2019, an increase compared to prior period.



OBJECTIVES AND STRATEGIC DIRECTIONS

Strategy

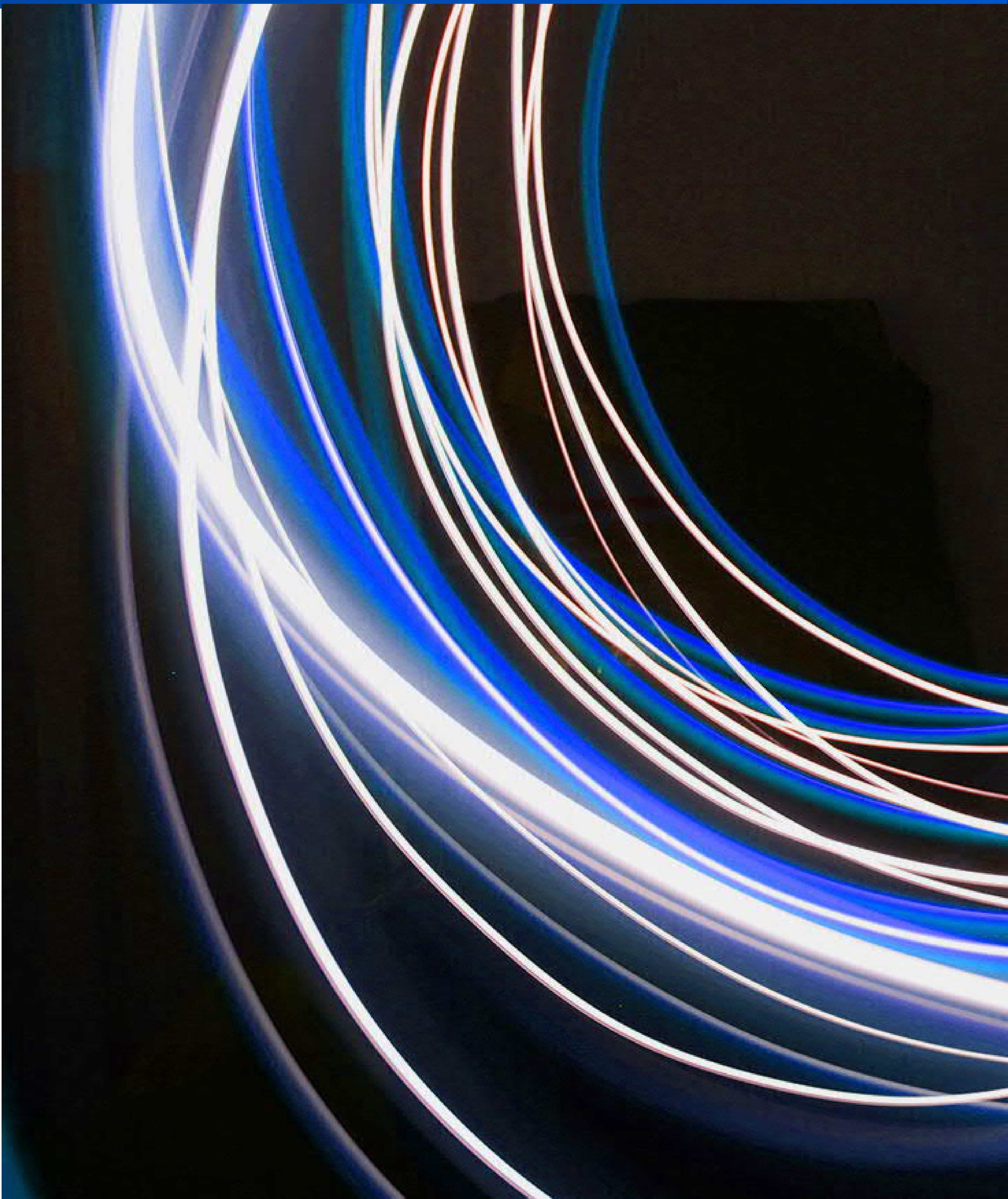
Our mission is to provide our customers with high-quality telecommunications services at competitive prices. Specific components of our strategy include the following:

- Continue to leverage our advanced fixed networks in Romania and Hungary, offering high-quality service, while maintaining competitive prices. The current technological state of our Romanian and Hungarian fixed networks allows us to offer a wide range of advanced high-quality services to customers at competitive prices, while maintaining low infrastructure operating expenses. In particular, our Romanian and Hungarian networks are more than 90% fiber (excluding certain parts of Invitel's network, which we are currently upgrading) and are faster and more cost-effective than traditional networks operated by our competitors in those countries. We intend to continue leveraging existing network capabilities to further increase the number of cable TV and fixed internet and data subscribers in those core markets. In both countries, we intend to also continue expanding our networks further (particularly, in rural areas) and we plan to finalize the upgrade of Invitel's Hungarian network to fiber in the near future, along with further upgrades to FTTH elsewhere.
- ***Continue to grow our RGU base in all business lines, both organically and through acquisitions.*** Growth in RGUs has always been the primary driver of increases in our revenue, both organically and through acquisitions (such as that of Invitel), but primarily due to the expansion of our fixed networks in Romania and Hungary, cross-selling of additional services to our existing customers and refocusing on our mobile telecommunication business. Our goal is to continue that RGU growth in all our business lines and geographies. We aim to grow organically by expanding our networks and increasing the penetration of our cable TV, fixed internet and data, mobile telecommunication, fixed-line telephony and DTH services through multiple service offers and cross-selling to existing and prospective customers. In addition to organic growth, we may choose to further expand our RGU base through acquisitions in line with, or complementary to, our current business. We regularly monitor potential acquisition targets, while assessing their attractiveness relative to other strategic alternatives available to us. We believe that acquisition opportunities in Romania could be significant, including in the near term, in light of recent publicly reported developments in the local competitive landscape and the resulting potential for further market consolidation or new entrants. We also may acquire smaller businesses on an opportunistic basis. However, a decision to proceed with any such acquisition will be subject to a number of conditions that may or may not materialize, including regulatory support and availability of third-party financing.
- Further grow our mobile telecommunication business in Romania and Hungary by expanding the coverage of our mobile networks and acquiring additional license blocks or bandwidth. As at December 31, 2019, our 3G (2G+4G in certain areas) and 4G mobile telecommunication services covered (outdoor voice coverage) approximately 99.5% and 87.2% of Romania's population, respectively. As at the same date, our 2G and 4G mobile telecommunication services covered (outdoor voice coverage) approximately 78.0% of Hungary's population (although our mobile telecommunication offering in Hungary is still in the testing phase and is currently only available to our existing customers in the country). We have 2G, 3G and 4G licenses, as relevant, in both countries and have been able to introduce a 5G service in certain Romanian cities based on our existing 3,700 MHz license. We believe that our dense fixed networks and existing licenses provide a solid foundation for further development of our mobile telecommunication infrastructure and offerings in these core markets. We may also participate in additional frequency blocks/bandwidth tenders or auctions to complement our existing set of mobile telecommunication licenses as and when they get organized by relevant licensing authorities.
- Focus on current core Romanian and Hungarian markets, while maintaining expansion dynamics in Spain and remaining open to opportunities in Italy. We intend to focus primarily on Romania and Hungary, our current core markets, while continuing our expansion in Spain and remaining open to opportunities in Italy. In the core jurisdictions, our advanced networks allow us to efficiently deliver multiple services in the areas covered and we believe there is scope for increase in uptake of our services in these areas with relatively low additional investment. Our large and growing customer base creates significant economies of scale. For example, it allows us to make use of common infrastructure design and centralized facilities, as well as exploit centralized purchasing opportunities with respect to programming, equipment, TV broadcast rights and other assets and services. We also see potential for growth of our mobile telecommunication and internet and data services, as we believe that the core Romanian and Hungarian mobile markets still offer opportunities for us to expand. In addition, we remain open to attractive opportunities in Spain and Italy, such as our expansion into Spain's fixed telecommunications market in September 2018 with an offering through Telefónica's local network and our own GPON FTTH network. We originally launched the service in the Community of Madrid but have thereafter expanded to 16 other Spanish provinces and expect that

expansion to continue in the future. We believe that Spain presents significant future growth opportunities for our business outside of the core Romanian and Hungarian markets and expect our Spanish operations to continue gaining prominence relative to our other geographic segments.

- ***Offer premium content to increase the attractiveness of our product offerings.*** We intend to maintain and increase the attractiveness of our cable TV and DTH services by continuing to offer sports, film and other premium content through our existing own channel line-up, which may be further developed or expanded in the future. Our large number of pay TV RGUs results in economies of scale enabling an attractive cost structure.

Management structure. Corporate Governance



Management Structure. Corporate Governance

Introduction

The Company is a public company with limited liability (*naamloze vennootschap*) organized under the laws of the Netherlands. The Company has its official seat in Amsterdam, the Netherlands, and its principal place of business in Bucharest, Romania. As a company with shares listed on the Regulated Spot Market of the Bucharest Stock Exchange (the "**BSE**") (available through *www.bvb.ro*), we are subject to the BSE Corporate Governance Code, in effect starting from January 4, 2016 (the "**BSE CGC**"). As a Dutch company, the Company is also subject to the Dutch Corporate Governance Code, current version in effect starting from January 1, 2017 ("**DCGC**") (available through: *www.mccg.nl*) that applies, on a 'comply or explain' basis, *inter alia*, to all companies which have their statutory seat in the Netherlands and whose shares are listed on a regulated market in the EU/EEA or a comparable system outside the EU/EEA.

However, with its shares listed on the Regulated Spot Market of the Bucharest Stock Exchange and with its principle place of business located also in Romania, the Company has chosen to primarily apply the BSE Corporate Governance Code. In addition, the Company aims to comply with as many principles of the DCGC as possible.

Compliance with the Corporate Governance Code of the Bucharest Stock Exchange

During 2019, we continued our efforts to comply with the BSE CGC.

The main principles of the BSE CGC that we did not implement[1] are the following:

- the directors are appointed following a nomination made by the Class A Meeting, instead of a nomination proposal made by a nomination committee consisting of non-executive directors. Although we do not follow the provisions of the BSE CGC when it comes to the nomination of directors, the corporate governance principles sought by the BSE CGC are achieved by ensuring that the nomination procedure at the Company's level seeks to fulfil a series of requirements, the Class A Meeting upon making a proposal seeks to ensure that the board of directors (the "**Board of Directors**") is composed by members that have the requisite expertise, background, competences and – as regards the non-executive directors – independence, allowing thus the Board of Directors to carry out its duties properly;
- the cash dividend distribution policy is approved by the General Meeting, rather than being approved at the level of the Board of Directors. This setup provides greater shareholder protection by escalating the decision to the General Meeting;
- the president of the Audit Committee is not an independent director, as required by the BSE CGC, however the majority of committee members are independent. In addition, the Audit Committee has high-standard terms of reference (these are available for consultation at https://www.digi-communications.ro/en/corporate-governance).

The Company is required to report its compliance with the BSE corporate governance requirements by filling in and attaching to its annual report the "comply or explain" statement imposed by the BSE's rules, attached as Annex 2 to this report.

Complementary compliance with the Dutch Corporate Governance Code

We acknowledge the importance of good corporate governance. In addition to its compliance with the corporate governance requirements under the BSE CGC (with the exceptions described above), the Company also ensures that it complies with the provisions DCGC, with some exceptions. In particular, the Company does not comply with the following best practice provisions of the DCGC[2]:

- best practice provision 2.1.5 of the DCGC: the Company does not have a diversity policy in relation to the Board of Directors. The desired expertise and background of the candidates are decisive when Board Members are appointed or reappointed. The members of the Board of Directors, as well as all employees of the Company and of the Group companies are recruited and promoted primarily based on professional achievements, experience and performance within the Group, irrespective of gender, age, origin or any other

1 At the General Meeting of Shareholders on 21 April 2017 and in the Board of Directors meetings from 14 and 15 May 2017, the relevant corporate documentation and policies including these departures from the BSE CGC were put in vote and approved

2 At the General Meeting of Shareholders on 21 April 2017 and in the Board of Directors meetings from 14 and 15 May 2017, the relevant corporate documentation and policies including these departures from the DCGC were put in vote and approved personal or social feature. Although the Company does not have in place a formal diversity policy, in practice, the Company has not and does not discriminate between potential candidates for any available Board position due to their gender, age, origin or any other personal or social feature.

- best practice provisions 2.1.7 and 2.1.8 of the DCGC: the Company has 5 Non-executive Directors, of which 3 do not meet the independence criteria contained in the DCGC. Upon the appointment of the non-executive members of the Board of Directors, the general shareholders meeting aimed to set-up a Board of Directors whose members are selected individuals, with most extensive experience and insight into the Group's business. Therefore, Mr. Teszari Zoltan was appointed as the Non-executive Board Director and as the President of the Board of Directors and Mr. Marius Varzaru (current general manager of Digi Spain) and Mr. Emil Jugaru (current Head of RCS & RDS Sales and Customer Care Business Unit) were appointed as Non-executive members of the Board of Directors. Given the particularity of the business and operations of our Group companies and the need for business continuity and internal and industry awareness, the general shareholders meetings gave priority to these functionality needs. In order to ensure that proper corporate governance is observed by such non-executive members of the Board of Directors, they are under the obligation to observe the provisions of the Company's articles of association (the "Articles") and the corporate governance documents, which establish clear and detailed rules regarding independent behaviour and management of any conflict of interest that any member of the Board of Directors, and particularly all non-executive members of the Board of Directors are strictly required to comply with.
- best practice provision 2.1.9 of the DCGC: the president of the Board of Directors (the "President") does not meet the independence criteria contained in the DCGC. Mr. Zoltan Teszari's appointment as the President was voted by the general shareholders meeting of the Company held on 21 April 2017 and will continue to occupy this position for as long as he will be a member of the Board of Directors. The President is the principal shareholder of the Company. The President is not a member of the Audit Committee.
- best practice provision 2.2.2 of the DCGC: the President of the Board of Directors may be reappointed for an indefinite number of terms. For details regarding the expected applicability period of and rationale for the deviation, please see the explanations in relation to best practice provisions 2.1.7., 2.1.8 and 2.1.9 above.
- best practice provisions 2.2.4, 2.2.5 and 2.3.2 of the DCGC: the Company does not have a nomination committee. The Company has decided not to set up a nomination committee as referred to in the DCGC (and has not allocated such tasks to another board committee), since Class A Meeting currently performs the duties of a nomination committee. For details as to the reasoning for such deviation, please refer to the text above, where the same deviation is discussed when referring to compliance with the BSE CGC.
- best practice provision 2.3.1 and 2.7.2 of the DCGC: there are no rules in place for the Non-executive Directors. However, Chapter VII from the Articles include detailed provisions and rules regarding the Board of Directors, including on the composition, remuneration, the allocation of tasks and duties among the executive Directors (the "Executive Directors") and the Non-executive Directors, on the decision-making process and the management of any conflict of interest.
- best practice provision 2.3.4 of the DCGC: more than half of the members of the Remuneration Committee do not comply with the independence criteria contained in the DCGC. Please refer to the explanations regarding the deviations from the best practice provisions 2.1.7 and 2.1.8 of the DCGC, which apply here as well.
- best practice provisions 3.1.2 of the DCGC: if shares options are being awarded, share options can be exercised before three years have lapsed after they have been awarded (minimum term required by the DCGC), the minimum term of exercising share options is settled under the general shareholders or board of directors meetings, under which the share options plans are approved.
- best practice provision 3.3.1 of the DCGC: Non-executive Directors receive the same fixed base salary as the Executive Directors receive and such fixed base salary is not related to the time spent by the Non-executive Directors and the specific responsibilities of their role as required by the DCGC. Non-executive Directors additionally are members in the Company's Audit and Remuneration Committees. The remuneration conditions as adopted by the General Meeting on April 21, 2017 and as laid down in the terms of reference of the Remuneration Committee and the Remuneration Policy will apply for an indefinite period until further amendment (these are available for consultation at https://www.digi-communications.ro/en/corporate-governance).
- best practice provision 3.3.2 of the DCGC: Non-executive Directors who are directors in other Group companies or employees of other Group companies may be awarded remuneration in the form of share options. Any such grant of shares as part of share option plans will need to be expressly decided by the Company's general shareholders resolutions and considering the activity under the functions occupied by the Non-executive Directors within the Group companies.
- best practice provision 4.3.3 of the DCGC: which requires that a resolution of the General Meeting to cancel the binding nature of a nomination for the appointment of a Director or to remove such a Director, be passed

with an absolute majority of the votes cast, representing at least one-third of the issued share capital. Instead, such resolution can be adopted by the General Meeting with a majority of two-thirds of the votes, representing at least half of the issued share capital. This deviation is meant to avoid vote inefficiencies or blockages upon the appointment or dismissal of any relevant Director.

- best practice provision 3.4.2 of the DCGC: the main elements of the agreement of an Executive Director with the Company have not been published on the Company's website. However, sufficient information was disclosed regarding the remuneration of Directors (see Management - Compensation for directors and managers).

In order to ease your review with respect to the Company's status of compliance or deviation from the DCGC, we have prepared and included in Annex 3 to this report a descriptive table, similar to the explanations included in Annex 2 with respect to the Company's compliance with the BSE CGC.

Publicly available corporate governance rules on the Company's website and in the Company's Prospectus

The Company has made available since 2017 (with all subsequent updates) the relevant corporate information and corporate governance rules on the relevant sections of its website:

- identity and background information about the members of the Board of Directors: *http://www.digi-communications.ro/en/board-of-directors*;
- dedicated section to the documents regarding the General Shareholders' Meetings: *http://www.digi-communications.ro/en/general-share-holders*;
- internal corporate governance documents: *http://www.digi-communications.ro/en/corporate-governance.*

Any other details on relevant corporate and governance information regarding the Company are available in the relevant sections of the share Prospectus from 26 April 2017, as well as of the additional notes Prospectus from 11 March 2019 and in the relevant sections of the Offering Memorandum of the Senior Secured Notes due 2025 and 2028 issued by its Romanian subsidiary, RCS&RDS in February 2020 (all the mentioned documents available on the Company's official website: *www.digi-communications.ro*).

Management

Board of directors

Since April 2017, the Company applies a one-tier board structure comprising of two Executive Directors and five Non-executive Directors, of which two are independent Non-executive Directors (within the meaning of the BSE CGC).

Current Composition of the Board of Directors

As of April 2019 and until the date of this report, the Board of Directors is comprised of the Directors mentioned below.

Name	Age	Position
Zoltan Teszari	49	President (Non-executive Director)
Serghei Bulgac	43	Chief Executive Officer (Executive Director)
Valentin Popoviciu	45	Executive Director
Emil Jugaru[3]	46	Non-executive Director
Marius Varzaru	40	Vice-President Non-executive Director
Bogdan Ciobotaru	41	Independent Non-executive Director
Piotr Rymaszewski	55	Independent Non-executive Director

Biographical Details of the Directors

Zoltán Teszári (President and Non-Executive Director)

Mr. Teszari founded RCS & RDS in 1996 and is the controlling shareholder. Before starting Analog CATV (a precursor company to RCS & RDS), he founded TVS Holding Brasov in 1992, another large Romanian cable TV company that later was merged into RCS & RDS. Prior to founding TVS Holding Brasov, Mr. Teszari owned and ran his own business. Mr. Teszari has been a board member since 2000 and his current term as President and Non-executive Director is due to expire in April 2020, though he can be re-appointed for an indefinite number of terms.

Serghei Bulgac (Chief Executive Officer and Executive Director)

Mr. Bulgac is a member of the Board of Directors and Chief Executive Officer. Mr. Bulgac was appointed the Chief Executive Officer of RCS & RDS in 2015. Prior to becoming Chief Executive Officer, he was Vicepresident of the Corporate Finance of RCS & RDS. Mr. Bulgac joined RCS & RDS in 2003. Prior to joining RCS & RDS, he worked as a corporate finance associate at EPIC (European Privatization and Investment Corporation) and as a research analyst at Eastbrokers, a brokerage company. Mr. Bulgac graduated from the Bucharest Academy of Economic Studies and holds an MBA degree from INSEAD. Mr. Bulgac current term as Chief Executive Officer and Executive Director is due to expire in April 2020.

Valentin Popoviciu (Executive Director)

Mr. Popoviciu is an executive member of the Board of Directors. He is also a non-executive member and Vice-President of the board of directors of RCS & RDS, a position he has held since 2015. Prior to his appointment to the board of directors of RCS & RDS, Mr. Popoviciu had held the position of Business Development Manager of

[3] *Appointed under the annual shareholders meeting held on 30 April 2019, replacing Dr. Sambor Ryszka who informed the Company in writing of the resignation of his position as Non-Executive Director of the Company with effect from 1 May 2019 (inclusive)*

RCS & RDS since 1999, after joining the company in 1998 as a branch manager in the Constanta office. Mr. Popoviciu graduated from the economics faculty of the Constanta—Tomis University in 1997. Mr. Popoviciu current term as Executive Director is due to expire in April 2020.

Mr. Emil Jugaru (Non-executive Director)

Mr. Emil Jugaru is a non-executive member of the Board of Directors since April 30, 2019, when he replaced Dr. Sambor Ryszka. Mr. Emil Jugaru is a graduate of the Faculty of Automation and Computers Sciences of the Polytechnic University of Bucharest. Since 1997, Mr. Emil Jugaru has coordinated the start-up and development of the broadband Internet business line of RCS & RDS S.A., Romanian subsidiary of Digi Communications N.V., actively participating at the development of Group's successful Internet network and services. He currently holds also the position of Head of RCS & RDS Sales and Customer Care Business Unit. Mr. Emil Jugaru current term as a Non-executive Director is due to expire in April 2020.

Marius Varzaru (Vice-President and Non-executive Director)

Mr. Varzaru was appointed in 2013 as a Non-executive Director of the Company. Mr. Varzaru has been the Managing Director of Digi Spain since 2008. Mr. Varzaru joined RCS & RDS in 2005 as Reporting Manager and was shortly thereafter appointed to the position of Finance Director, a position he held up until 2008. Before joining RCS & RDS, Mr. Varzaru worked at KPMG. Mr. Varzaru graduated from the Bucharest Academy of Economic Studies in 2001. Mr. Varzaru current term as Vice-President and Non-executive Director is due to expire in April 2020.

Bogdan Ciobotaru (Independent Non-executive Director)

Bogdan Ciobotaru is an independent, non-executive member of the Board. He is also a non-executive member of the board of directors of RCS & RDS, a position he has held since 2013. Prior to joining RCS & RDS, Mr. Ciobotaru held the position of Head of Financing for Central and Eastern Europe, Middle East & Africa at Renaissance Capital and the position of Executive Director in the Global Capital Markets, at Morgan Stanley in London, where he worked for over 10 years. Mr. Ciobotaru graduated from the Bucharest Academy of Economic Studies and holds an Executive MBA from Oxford University. Mr. Ciobotaru current term as Independent Non-executive Director is due to expire in April 2020.

Piotr Rymaszewski (Independent Non-executive Director)

Mr. Rymaszewski is an independent, non-executive member of the Board of Directors. Mr. Rymaszewski also holds the position of CEO of Octava Asset Management, a Polish real- estate portfolio management company, part of the Elliott Group, a position he has held since 2014. Since 2007, Mr. Rymaszewski has also served as the CEO and president of the board of directors of Octava S.A., a Polish public company active in real estate and part of the Elliott Group. Mr. Rymaszewski's experience in advisory and supervisory roles includes serving on the Board of Nominees of Fondul Proprietatea S.A., a Romanian publicly traded AIF since 2012. Mr. Rymaszewski holds a Bachelor's degree in Physics from the University of Pennsylvania and a JD degree in International and Commercial Law from Cornell Law School. Mr. Rymaszewski current term as Independent Non-executive Director is due to expire in April 2020.

Senior Management team

The Group's current senior management team, in addition to the Executive Directors listed above, is as follows:

Name	Age	Position
Dan Ionita	41	Non-executive director and co-Chief Financial Officer of RCS&RDS and co-Chief Financial Officer of the Company
Mihai Dinei	50	Non-executive Director of RCS&RDS
Smaranda Streanga	40	Co-Chief Financial Officer of RCS&RDS and of the Company
Silviu Georgescu	43	Technical Director for IP fixed services, software and security of RCS&RDS
Emil Grecu	43	Technical Director for TV services and broadcasting of RCS&RDS
Catalin Neagoe	39	Head of Fixed and Mobile Telephony Unit of RCS&RDS
Emil Jugaru	46	Head of RCS & RDS Sales and Customer Care Business Unit
Mihaela Toroman	39	Accounts Manager and Treasurer of RCS&RDS
Dragos Spataru	43	Managing Director of Digi Hungary and Invitel
Dragos Chivu	48	Managing Director of Digi Italy

General provisions applicable to the activity of the Company's Board of Directors

Set out below is a summary of certain provisions of Dutch corporate law as at the date of this report, as well as relevant information concerning the BSE CGC, the Board of Directors and certain provisions of the Articles concerning the Board of Directors, in force since April 2017[4].

The Board of Directors is collectively responsible for the Company's general affairs. The Articles divide duties of the Board of Directors among its members. The Executive Directors are responsible for the continuity of the Company and its business, focusing on long-term value creation thereby taking into account the interests of the Company's stakeholders and should direct the day-to-day strategy of the Company. The Executive Directors are entrusted with managing the day-to-day affairs of the Company and are responsible to achieve the Company's objectives, strategy and the accompanying risk profile, the performance trend and results and for the corporate social responsibility issues relevant to the business of the Company and its subsidiaries. The Non-executive Directors are, *inter alia*, responsible for the supervision of the management of the Executive Directors and of the general affairs of the Company and the business connected with it and providing advice to the Executive Directors. In addition, both Executive Directors and Non-Executive Directors must perform such duties as are specifically assigned to them by the Articles. Each Director has a duty to properly perform the duties assigned to him or her and to act in the corporate interest of the Company. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees, and other stakeholders. The General Meeting will appoint a Director either as an Executive Director or as a Non-executive Director.

An Executive Director may not be allocated the tasks of: (i) serving as chairperson of the Board of Directors; (ii) determining the remuneration of the Executive Directors; or (iii) nominating Directors for appointment. An Executive Director may not participate in (i) the adoption of resolutions (including any deliberations in respect of such resolutions) relating to the remuneration of Executive Directors and (ii) the appointment of the statutory auditor in the case General Meeting has not done so.

Tasks that have not been specifically allocated fall within the power of the Board of Directors as a whole. All Directors remain collectively responsible for proper management as a whole regardless of the allocation of tasks.

[4] These descriptions do not purport to give a complete overview and should be read in conjunction with and is qualified in its entirety by reference to the relevant provisions of Dutch law and the BSE Corporate Governance.

The Board of Directors is comprised of seven members of which two members shall be Executive Directors and five members are Non-executive Directors. Three Non-executive Directors are non-independent within the meaning of the BSE CGC.

The Articles provide that Directors are appointed by the General Meeting upon a binding nomination by the meeting of Class A shareholders. The General Meeting may at all times deprive such a nomination of its binding character with a two-thirds majority of the votes representing at least half of the issued share capital, following which the Class A Meeting shall draw up a new binding nomination. When making a nomination, the Class A Meeting shall take into account that the Board of Directors shall be composed such that the requisite expertise, background, competences and – as regards certain of the Non-executive Directors – independence are present for them to carry out their duties.

In accordance with the Articles, the General Meeting has appointed Mr. Zoltán Teszári from among the Non-executive Directors as President of the Board of Directors and Mr. Marius Varzaru as Vice-President of the Board of Directors (the "**Vice-President**"). In addition, the Articles provide that the Board of Directors may grant titles to Executive Directors including, but not limited to, CEO and CFO. In accordance therewith, the Board of Directors has granted the title of Chief Executive Officer to Serghei Bulgac.

Operation of the Board of Directors

Rules regarding the meetings and the voting

The Non-executive Directors are to meet together with the Executive Directors, unless the Non-executive Directors wish to meet without the Executive Directors being present. As a rule, the Board of Directors shall meet at least once every quarter, and other meetings of the Board of Directors may be called at any time by (i) the President, (ii) the Vice-President or (iii) any three Directors, of which at least one Executive Director, acting jointly. Except when the Non-executive Directors wish to meet without the Executive Directors being present, at any meeting of the Board of Directors a quorum shall be present if all Directors have been invited and at least four members are present or represented, which must include the President being present or represented. Absent Directors shall be informed immediately of the resolutions adopted in their absence. Except in emergencies, matters of the field of responsibility of an absent Director shall only be discussed and decided on after the absent Director has been contacted. The Executive Directors and the Non-executive Directors respectively may separately adopt legally valid resolutions with regard to matters that fall within the scope of their respective duties.

The Board of Directors may also adopt resolutions outside a meeting (whether physical, by videoconference or by telephone), in writing or otherwise, provided that the proposal concerned is submitted to all relevant Directors then in office (and in respect of whom no conflict of interest exists) and provided that none of them objects to such decision-making process. Adoption of resolutions in writing shall be effected by written statements from all relevant Directors then in office in respect of whom no conflict of interest exists.

The Board of Directors may only adopt resolutions by the favorable vote of the majority of the votes of the relevant Directors present or represented at the meeting of the Board of Directors. In a meeting of the Board of Directors, each Director, other than the President, is entitled to cast one vote. The President is entitled to cast as many votes as can be cast by all other Directors present or represented at that meeting in respect of whom no conflict of interest (as set out below) exists.

Dutch law provides that a Director may not participate in any discussions and decision making if he or she has a (potential) personal conflict of interest in the matter being discussed. The Articles provide that if for this reason no resolution can be taken by the Board of Directors, the General Meeting will resolve on the matter.

During 2019, starting with the date of the previous annual report and until the date of this report, the Board of Directors adopted a number of 24 resolutions, in writing. These resolutions mainly regarded, amongst others, operational decisions (such as the appointment of the new Company's secretary, a new member and president of the Remuneration Committee, approval of financing agreements etc.), the approval of the quarterly, semester and annual financial statements and the approval of several financial agreements entered into by the Group companies, including the Company, the implementation of the multiple stock option plans and of the share buy-back program, the amendment of existing corporate policies and the approval of new ones, the approval of the registration and participation of the Company to the Hungarian auction for achieving the frequency use rights supporting the introduction of 5G and related to additional wireless broadband services in Hungary. With the few exceptional situations of particular objective conflict of interest, all Board of Directors decisions were adopted unanimously.

The Board of Directors is advised and supported by the Senior Management Team. formed by individuals playing key roles for the Company's subsidiaries in Romania, Hungary, Spain and Italy, whom do not hold executive positions with the Company. The Senior Management Team is an operational decision-making body of the Company, which is responsible for operating performance of the business and making decisions on certain operational matters. The Senior Management Team comprises financial, accounting and legal specialists. The role of these specialists is to conduct the day-to-day operations and management of the Company, ensure compliance by the Company with applicable legal, financial, accounting, tax and any other relevant regulations, prepare the due filings and reporting incumbent on the Company, and advise the Board of Directors with respect to the daily operations during the Board of Director's decision-making process. The financial and legal members of the Senior Management Team with specific roles within the Company provide continuous support to the Audit Committee and have the duty to prepare and support the relationship and the meetings between the members of the Audit Committee and the external and internal auditors of the Company.

Board committees

The Board of Directors has established two board committees: an audit committee (the "**Audit Committee**") and a remuneration committee (the "**Remuneration Committee**"). The board committees have a preparatory and/or advisory role to the Board of Directors. The Board of Directors from 14 and 15 May 2017 have adopted rules on each board committee's role, responsibilities and functioning. The board committees consist of Non-executive Directors only. They report their findings to the Board of Directors, which pursuant to Dutch law remain fully responsible for all actions undertaken by such committees. The Audit Committee is to report to the Non-executive Directors separately on its deliberations and findings.

Audit Committee – the Audit Committee's activity during 2019

The Audit Committee consists of three members, Mr. Marius Varzaru, Mr. Piotr Rymaszewski and Mr. Bogdan Ciobotaru, who are Non-executive Directors. The Audit Committee reports directly to the Non-executive Directors. The Audit Committee assists the Board of Directors with its oversight responsibilities regarding the quality and integrity of our Financial Statements, the Company's compliance with legal and regulatory requirements, the auditors' qualifications and independence, internal audits and other related matters.

Terms of reference of the Audit Committee

Set out below is a summary of the terms of reference of the Audit Committee.

The Audit Committee assists, supervises, reviews, advises and challenges the Board of Directors with respect to, *inter alia*:

(a) the integrity and quality of the financial reporting of the Company and its subsidiaries;
(b) the operation of the internal risk-management and control systems;
(c) the provision of financial information by the Company (including the choice of accounting policies, application and assessment of the effects of new rules, and the treatment of estimated items in the Company's annual accounts);
(d) compliance with recommendations and observations of the Company's internal and external auditors;
(e) the role and functioning of the Company's internal auditors;
(f) the Company's tax policy;
(g) the Company's relationship with its external auditor, including the independence and remuneration of the external auditor;
(h) the funding of the Company;
(i) the assessment of any situation that may generate a conflict of interest in transactions involving the Company, its subsidiaries and their respective related parties; and
(j) matters relating to information and communication technology.

During 2019, the Audit Committee also cooperated and met with the Company's external auditors and advised the Board of Directors and the Executive Directors in particular regarding the Company's half-yearly figures and quarterly trading updates.

In addition, the Audit Committee assessed the management's responsiveness and effectiveness in dealing with identified internal control deficiencies or weaknesses. The Audit Committee also evaluated the efficiency of the Company's risk management system, as well as assessed the applicable situations of conflicts of interest.

The Audit Committee met four times during 2019, and once in 2020. Attendance during all meetings was of 100%, either in person or by telephone. During these meetings, the Audit Committee heard and debated on the main findings of the internal and external audit process in 2019, as well as compliance matters and also on a number of operational matters meant at improving the Company's internal functions and activities. The Audit Committee met with the Company's external auditors four times during 2019. Attendance during all meetings was of 100%, either in person or by telephone. Also, during 2019 until the date of this report, the Audit Committee was called to decide on several particular matters that were dealt by in writing, such as conflict of interest issues for non-audit work, discussions with the appointed internal auditor and the compliance officer of the Company.

Remuneration Committee – the Remuneration Committee's activity during 2019

The Remuneration Committee is composed of three members, Mr. Zoltán Tesári, Mr. Emil Jugaruand Mr. Piotr Rymaszewski, who are Non-executive Directors. The Remuneration Committee assists the Board of Directors with the implementation and development of remuneration and benefits policies, including bonuses for the Directors and employees.

The Remuneration Committee is responsible for preparing the decision-making of the Non-executive Directors regarding the determination of remuneration. In addition, the Remuneration Committee is further responsible for reporting to the Non-executive Directors on the implementation of the remuneration in each financial year in light of corporate goals and objectives relevant to the remuneration.

Terms of reference of the Remuneration Committee

Set out below is a summary of the terms of reference of the Remuneration Committee.

The Remuneration Committee assists the Board of Directors in supervising with respect to, *inter alia*:

(a) drafting a proposal to the Non-executive Directors for the remuneration policy to be pursued, which policy shall be adopted by the General Meeting;

(b) recommending to the Non-executive Directors and making a proposal for the remuneration of each Director, within the limits of the remuneration policy. Such proposal shall, in any event, deal with:

   (i) the remuneration structure; and

   (ii) the amount of the fixed remuneration, the shares and/or options to be granted and/or other variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the Company and its affiliated enterprise.

When drafting the proposal for the remuneration of the Directors, the Remuneration Committee shall take note of individual Directors' views with regard to the amount and structure of their own remuneration. The Remuneration Committee shall ask the Directors to pay attention to the aspects as included in the remuneration policy.

(c) preparing the remuneration report;

(d) making it aware of and advising the Board of Directors on any major changes in employee benefit structures throughout the Company or its subsidiaries; and

(e) administering all aspects of any executive share scheme operated by or to be established by the Company.

During 2019, the Company continued to comply with the Remuneration Policy applicable to the Company's Directors and employees as approved by the Company's shareholders' resolutions from 21 April 2017. Neither the Board of Directors nor the Remuneration Committee agreed for or implemented deviating rules or practices. In accordance with the new rules under the Dutch Civil Code implementing the Revised European Shareholders' Rights Directive, at the Annual General Meeting 2020 will be asked to approve a revised Remuneration Policy. The most important changes of the revised Remuneration Policy are amendments made according to the implementation of the EU Shareholders Rights Directive indicating the mission of the Company and the objective of the Policy, detailing the remuneration package of the Company's directors by categories of fixed and variable remuneration, as well as presenting the performance criteria and pay out levels of the variable remuneration. Going forward, the Remuneration Policy will need approval from the General Meeting every 4 years.

With the due oversight and confirmation from the Remuneration Committee, and in accordance with the resolutions of the Company's shareholder's resolutions from 21 April 2017 and the Company's Share Option Plan from 20 April 2017, the Board of Directors resolved in December 2017 upon implementing a stock option plan covering the Romanian employees of the Group and subsequently in May 2018 on the implementation of a stock option plan covering the Spanish employees of the Group, as well as of a stock option plan covering a limited number of Senior Managers of RCS&RDS (for more details regarding the stock option plans, see for reference section *Stock Option Plans* from this report). Part of these programs are ongoing and others are terminated.

The members of the Remuneration Committee adopted a remuneration report from the rest of the Board of Directors in March 2020 when undertaking an analysis and preparing an overview on the remuneration standards, ratios and employment related regulatory requirements and conditions applicable at the level of the Company's subsidiaries in Romanian, Hungary, Spain and Italy, which has been reported to the Board of Directors.

With effect as per 1 December 2019, the Revised European Shareholders' Rights Directive was implemented under Dutch law. The Board of Directors has, through its Remuneration Committee, prepared a remuneration report for 2019 in line with the new legal disclosure requirements

Capital, shares and voting rights

As at December 31, 2019, the authorized share capital of the Company amounts to €11,000,000 (the "**Authorized Share Capital**") and is divided into:

- 100,000,000 Class A Shares with a nominal value of €0.10 each in the share capital of the Company; and
- 100,000,000 Class B Shares with a nominal value of €0.01 each in the share capital of the Company.

Class A Shares have not been admitted to trading on the Bucharest Stock Exchange. Only Class B Shares are listed and haven been admitted to trading on the Bucharest Stock Exchange.

The Shares are subject to and have been created under the laws of the Netherlands. All Class B Shares and all Class A Shares are registered shares and not in certificated form. No share certificates (*aandeelbewijzen*) are or may be issued.

As at December 31, 2019, the issued share capital of the Company amounted 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.

General Meeting

Annual General Meetings

An annual General Meeting must be held within six months from the end of the preceding financial year of the Company. The purpose of the annual General Meeting is to discuss, amongst other things, the Directors' report, the remuneration policy and remuneration report, the adoption of the annual accounts, allocation of profits (including the proposal to distribute dividends), release of the Executive Directors from liability for their management and the Non-executive Directors from liability for their supervision thereon, filling of any vacancies and other proposals brought up for discussion by the Board of Directors.

Extraordinary General Meetings

Extraordinary General Meetings may be held as often as the Board of Directors deems such necessary or when the Class A Meeting makes use of any of its rights under the Articles to make a proposal to the General Meeting. In addition, Shareholders representing alone or in aggregate at least 10% of the issued and outstanding share capital of the Company may request the Board of Directors that a General Meeting be convened, the request setting out in detail matters to be considered. If no General Meeting has been held within 8 weeks of the Shareholder(s) making such request, that/those Shareholder(s) may request in summary proceedings a Dutch District Court to be authorized to convene a General Meeting. In any event, a General Meeting will be held to discuss any requisite measures within three months of it becoming apparent to the Board of Directors that the shareholders' equity of the Company has decreased to an amount equal to or lower than one-half of the issued and paid-up part of the capital.

Place of General Meetings

General Meetings of the Company will be held in Amsterdam or at Schiphol Airport, municipality of Haarlemmermeer, the Netherlands.

Convocation notice and agenda

General Meetings can be convened by the Board of Directors by a notice which must be published through an announcement on the website of the Company. The notice must specify the subjects to be discussed, the place and the time of the meeting, the record date, the manner in which persons entitled to attend the General Meeting may register and exercise their rights, the time on which registration for the meeting must have occurred ultimately, as well as the place where the meeting documents may be obtained. The notice must be given by at least 42 days prior to the day of the General Meeting. All convocations, announcements, notifications and communications to Shareholders are made in accordance with the relevant provisions of Dutch law. If a proposal is made to amend the Articles, the convening notice will note this and a copy of the proposed amendment must be deposited at the office of the Company for inspection by the Shareholders until the end of the meeting.

The agenda for the annual General Meeting must contain certain subjects, including, among other things, the discussion of the directors' report, the discussion of the applied remuneration, the discussion and adoption of the Company's annual accounts and dividend proposal (if applicable), insofar as this is at the disposal of the General Meeting. In addition, the agenda shall include such items as have been included therein by the Board of Directors or Shareholders (with due observance of the laws of the Netherlands as described below). If the agenda of the General Meeting contains the item of granting discharge to the Directors concerning the performance of their duties in the financial year in question, the matter of the discharge shall be mentioned on the agenda as separate items for the Executive Directors and the Non-executive Directors, respectively.

One or more Shareholders representing solely or jointly at least 3% of the Company's issued and outstanding share capital in value and the Class A Meeting are entitled to request the Board of Directors to include items on the agenda of the General Meeting. The Board of Directors must agree to such requests, provided that (a) the request was made in writing and (b) was received no later than the 60th calendar day before the date of the General

Meeting. No resolutions will be adopted on items other than those which have been included in the agenda unless the resolution is adopted unanimously during a meeting where the entire issued capital of the Company is present or represented.

Admission and registration

The General Meeting is chaired by the President or the Vice-President. All Directors may attend a General Meeting. In these General Meetings, they have an advisory vote. The chairperson of the General Meeting may decide at his or her discretion to admit other persons to the General Meeting. Minutes of the meetings shall be prepared.

All Shareholders, and each usufructuary and pledgee to whom the right to vote on shares in the capital of the Company accrues, are entitled, in person or represented by a proxy authorized in writing, to attend and address the General Meeting and exercise voting rights pro rata to their shareholding. Shareholders may exercise their rights if they are the holders of shares in the Company on the record date as required by Dutch law, which is currently the 28th day before the day of the General Meeting, and they or their proxy have notified the Company of their intention to attend the General Meeting in writing or by any other electronic means that can be reproduced on paper ultimately at a date set for that purpose by the Board of Directors which date may not be earlier than the seventh day prior to the General Meeting, specifying such person's name and the number of shares for which such person may exercise the voting rights and/or meeting rights at such General Meeting. The convocation notice shall state the record date and the manner in which the persons entitled to attend the General Meeting may register and exercise their rights.

Voting rights

The Shares are denominated in euro. Each Share confers the right to cast one vote for each eurocent of nominal value. The Class B Shares have a nominal value of €0.01 and as such each Class B Share confers the right to cast 1 vote. The Class A Shares have a nominal value of €0.10 and as such each Class A Share confers the right to cast 10 votes. Under the Articles, blank and invalid votes shall not be counted as votes cast. Further, Shares in respect of which a blank or invalid vote has been cast and Shares in respect of which the person with meeting rights who is present or represented at the meeting has abstained from voting are counted when determining the part of the issued share capital that is present or represented at a General Meeting (for the avoidance of doubt, Shares held by the Company in its own share capital will not be counted when determining the part of the issued share capital that is present or represented at a General Meeting). The chairperson of the General Meeting shall determine the manner of voting and whether voting may take place by acclamation, subject to certain restrictions under the Articles. Shares in respect of which the law determines that no votes may be cast shall be disregarded for the purposes of determining the part of the issued share capital that is present or represented at a General Meeting. Pursuant to Dutch law, no votes may be cast at a General Meeting in respect of shares in the Company which are held by the Company.

Valid resolutions of the General Meeting can only be adopted at a General Meeting for which notice is given, a quorum of 50% of the issued and outstanding share capital (excluding any Shares held by the Company in its own share capital) plus 1 Share is present or represented and which is held in accordance with the relevant provisions of the law and the Articles. There will not be the possibility to hold a meeting without the quorum of 50% of the issued and outstanding share capital plus 1 share being present or represented. Therefore, no resolutions can be taken in the General Meeting if the Principal Shareholder is not present or represented. Resolutions are passed by a simple majority of the votes cast, unless Dutch law or the Articles prescribe a larger majority. The determination made by the chairperson of the General Meeting with regard to the results of a vote at a General Meeting shall be decisive. However, where the accuracy of the chairperson's determination is contested immediately after it has been made, a new vote shall take place if the majority of the General Meeting so requires or, where the original vote did not take place by response to a roll call or in writing, if any party with voting rights present at the General Meeting so requires.

The Board of Directors will keep a record of the resolutions passed at each General Meeting. The record shall be available at the offices of the Company for inspection by any person entitled to attend General Meetings and upon request a copy of or extract from the record will be provided to such person at no more than the cost price.

Dividend and distributions

The Shares are entitled to dividends and other distributions, if and when declared. Any such distributions will be made to each Share equally, irrespective of the class and nominal value. All Shares rank equally in all respects and will be eligible for any dividend distribution, if and when declared, in the future. Tax impact upon dividend distributions should be carefully considered.

Principal shareholder

The Company is controlled by Mr. Zoltán Teszári, our President. He holds a direct stake of 2,280,122 Class A Shares, representing approximately 3.6% of the voting rights in the Company. In addition, Mr. Teszári holds a stake of approximately 87.1% of the voting rights in RCS Management S.A., which in turn holds a direct stake of 57,866,545 Class A Shares, representing approximately 91.2% of the voting rights in the Company. Mr. Teszári's direct holding represents approximately 3% of the economic interest in the Company and RCS Management S.A.'s holding represents approximately 62% of the economic interest in the Company.

The Company has implemented various corporate governance measures as described in section *"Conflict of interest"* from this report, to help avoid any potential conflicts of interest involving the Principal Shareholder as President of the Company.

On April 26, 2017, the Company, RCS Management and the Principal Shareholder entered into an agreement which will, conditional upon Admission, regulate the ongoing relationship between them (the "**Relationship Agreement**"). The principal purpose of the Relationship Agreement is to help ensure that the Company and its subsidiaries are capable of carrying on their business independently of RCS Management S.A. and/ or the Principal Shareholder, that transactions and relationships with RCS Management S.A. and/or the Principal Shareholder (including any transactions and relationships with any member of the Group) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Company are maintained. The Relationship Agreement will continue for so long as (a) the Company is listed on the Regulated Spot Market of the Bucharest Stock Exchange and (b) RCS Management S.A. and/or the Principal Shareholder together with their associates are entitled to exercise or to control the exercise of 30% or more of the votes able to be cast on all or substantially all matters at General Meetings of the Company.

The Directors believe that the terms of the Relationship Agreement will help enable the Group to carry on its business independently of RCS Management S.A. and the Principal Shareholder and help ensure that all transactions and relationships between the Company and/or the members of the Group (on the one hand) and RCS Management S.A. and/or the Principal Shareholder and/or their associates (on the other) are, and will be, on arm's length terms and on a normal commercial basis.

Conflict of interest

During the financial year 2019 there were no (potential) conflicts of interest between any duties owed by the Directors or Senior Management to the Company and their private interests or other duties. Any potentially conflictual situation or incident will be solved by the non-conflicted members of the Audit Committee or by the non-conflicted independent Non-executive Directors in accordance with the corporate governance rules of the Company.

Risk management, risks and internal control systems

Risk management

The Company's formal enterprise risk management system established starting July 2018, represents an ongoing process that is constantly expended and improved. The system is designed to manage a variety of risks such as operational, financial, reputational and compliance risks by taking in the following activities:

- Risks Identification: The Company's exposure to business-related risks associated with the Company's and Group's daily operations and business activities is identified and aggregated in the Company's Risk and Control Evaluation Matrix. The risks are identified by managing business performance from a risk-return perspective.
- Risks Evaluation / Measurement: This process aims to evaluate and prioritize the risks. In this respect, risk evaluation is the combination of the probability of occurrence and its impact in relation to the achievement of the business' objectives, and there are identified actions to be taken. The evaluation additionally includes qualitative factors that could be important for Company's strategic positioning and reputation.
- Monitoring and Controlling the risks: The Company developed internal policies and procedures for the supervision and approval of decision for the major operational processes.
- Although there is no Risk Management Department in the Company, the enterprise risk assessment process is performed by Company's Internal Audit function with the support of process owners of major operational processes. The enterprise risk assessment system serves also at optimizing operational business process in terms of effectiveness and efficiency, assuring that critical Group assets are protected and monitoring activities in accordance with the applicable laws, regulation and corporate governance guidance and giving reasonable assurance on the reliability of the financial reporting.

The enterprise risk assessment process conducts to continuous improvement and the process will continue to hold attention of the Company's management and will be subject to regular discussion within the Internal Audit Department, the Audit Committee and the Board of Directors.

This report states and summarizes in the table below those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of this report, and aims to provide reasonably sufficient insight into the most significant failings in the effectiveness of the relevant internal risk management and control systems that the Company has put in place or that need to be further implemented.

Internal audit

The internal audit function for the Company and the Group's business activities is ensured by a team of professionals across local markets that ensures local knowledge and experience. The function is composed by a team of members with different and appropriate professional qualifications and a wide range of relevant experience. Additionally, there are designed and implemented relevant training programs for constantly increasing the team's skills and knowledge.

The internal audit function reports to the Company's Audit Committee, and administratively to the Group Chief Executive Officer.

The internal control framework of the Company is structured on three lines of defense, respectively the functions that present and manage risks (operational units), compliance function and the internal audit function that provides both the risk management and independent assurance. Thus, the first level is performed by the operational units which are responsible to ensure that at the level of each process/activity is created a control and prevention environment for the risk, as part of the daily operations, the second level is ensured by compliance function that monitors various specific risks such as noncompliance with laws, regulations and business ethical culture and the third level is performed through internal audit function.

The second and third line of defense are independent and reports directly to Audit Committee. The two levels have a cohesive, coordinated approach and work together to help the Company mange the risks, strengthen corporate governance framework and improve the operational processes.

The internal audit function provides the objective examination of the Company's overall activities, for the purpose of an independent evaluation of the internal control system, of the management and execution processes, in order to support the achievement of day-to-day operational and business objectives. It also issues recommendation for the improvement of operational processes and strengthening the internal control system.

The Audit Committee has a permanent agenda to cover Internal Audit related topics. For the year 2019 the Audit Committee reviewed and approved the annual audit plan and reviewed the operational initiatives for the continuous improvement of the internal audit function's effectiveness. The Audit Committee constantly reviews the progress against the approved audit plan and the results of internal audit activities, with strong focus on high risks identified and improvement areas that require attention. Audit results analyzed by risks identified and affected processes, to highlight the improvements in the internal control environment.

The general objective of the 2019 for internal audit function was to continue to update and enhance the formal enterprise risk assessment system put in place starting July 2018 and to suggest improvement paths for the major issues identified in connection with the activity of the Company. This process involved ongoing assessment of the overall Company's internal control system, covering the entire range of risks. The operational processes addressed were assessed for risk based on a combination of two criteria: their importance to the Company and the likelihood of a material error occurring in the respective process, as well as from the respective of the risk levels (high, moderate, low).

The assessment of the internal control system was performed based on the internal audit methodology through a risk-based approach, one of the main objectives being the assurance of operational and financial information reliability and integrity, as a result of an independent and objective evaluation of the internal control system.

The internal audit function was also committed to the execution of the approved annual audit plan in parallel with the process of updating and enhancing the formal enterprise risk assessment system.

During the year, Internal Audit coverage focused on principal risks, which include procurement and supply chain management, investments and capitalization process, health and safety risks and car fleet management.

Based on the work performed by Internal Audit function there was prepared a watchlist of the main risks and issues identified that is reviewed on regular basis by internal audit, senior management and Audit Committee to monitor the changes.

The findings of internal audit missions are reported to the Audit Committee by including each relevant risk owner's position and response on how addressing each respective risk, which allows the Audit Committee to have an integrated view on the way the risks are managed. Follow-up missions are performed regularly by Internal Audit to monitor implementation stage of agreed action plans.

Management is responsible for ensuring that the issues and the risks identified by Internal Audit are addressed and mitigated within agreed terms and the compliance with the respective terms is monitored through follow-up missions performed by Internal Audit function.

The Internal Audit is responsible for conforming, by means of appropriate evidence, the adequate functioning of internal control system and detecting the possible inefficiencies or non-compliance with the controls points embedded in the Company's processes. This manner, Internal audit function becomes an area independent form the Company's management that supports the Audit Committee in its competence on assurance, risk management and internal control system. The audit missions are carried in accordance with the International Standards for the Professional Practice of Internal Auditing.

Assurance was also provided in relation to key areas of the Company core processes such as Billing, Revenue Assurance, Rent and Utilities for mobile base stations and Cash Management.

Risks

In Annex 4 — Risk Factors from this report, as well as in the share and notes risk factors related Prospectuses issued by the Company during 2017 - 2019, the Company summarizes the potential overall risk exposure that could prevent the Company and the Group from achieving their objectives. Through its assessment process so far, the Board of Directors has identified up to 59 primary risk drivers systematized into 5 overall risk categories. The risk drivers refer to significant topics, such as regulatory compliance, legal and litigation risks, business operations or competitive factors.

The framework for establishing the formalized enterprise risk assessment system started in July 2018, allows the Company to identify, measure and monitor strategic and operational risks across all major processes within the Company. It provides management with a clear line of sight over risk to enable the decision-making process.

Defining the Company's principal risks is based on interviews with senior leaders of major process to gather their insights. The results are aggregated, and considered through the lens of strategic objectives and Company's risk appetite, to identify the main risks.

The Company is developing and updating a formalized internal control environment to protect the business from the major risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over operational processes and financial reporting and the internal audit function has the responsibility for ensuring the effectiveness of these controls.

The assessment and the list of the risks are constantly updated to reflect the developments in the Company's strategic objectives and priorities as well as progress made in managing the risks.

A selective summary of main risks applicable for the year 2019 (and until the date of this report) is referenced below (however, for a complete and in-depth analysis with respect to the Company's risks and operational exposure, we kindly invite our investors and the market to read Annex 4 — Risk Factors from this report, as well as in the share and notes risk factors related Prospectuses issued by the Company during 2017 – 2019 and by RCS&RDS, the Romanian subsidiary of the Company in 2020). The risk appetite of the Company is aligned with its strategy and priorities. Some of the risks and uncertainties the Company faces are outside its control, others may be influenced or mitigated. The Company has, with regards to certain of these risks, implemented or started implementing risk management procedures and protocols. This process is to a large extent ongoing and not finalized. The mentioning of these mitigating actions may not in any way be viewed as an implied or express guarantee that such mitigation will in practice be effective in limiting the risk exposure and/or the potential damage to the Company from any such risk materializing.

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
Preliminary note applicable to all risks mentioned below: The Company is not reasonably able to give clear or exact estimations on the likelihood of occurrence of any of the below risks. However, if materialized, each of the below are medium to high risks from the perspective of the potential (either relatively important or highly significant) impact on the Group's business and operations.		
Risk relating to our business and industry, and related to the countries where we operate	Strategic risks may affect the Company's strategic business plan performance targets and operational and development objectives. The strategic risks to which our operations are continuously exposed relate to, amongst others:	The Company aims to have a (reasonably) responsible appetite concerning strategic and operational risks. By reference to the complexity, unpredictability of such risks and the inability for the Company to prevent the occurrence or ensure complete or successful reaction, for the future, the Company will continue to aim for a reasonably responsible appetite.
	Competition pressure and changes in the client demand, client churn, technological changes, average revenue per unit (ARPU) decrease, opportunistic growth, intensive capital needs, risks exposures for our energy supply business;	From a strategic and management perspective, the Group has so far proven to be relatively efficient in managing its growth and development expectations. However, we cannot guarantee that the significant competition that we face in all our markets and business lines will not encourage the movement of customers to our competitors and thereby adversely affect our revenue and profitability. We cannot benefit from same competitive advantages that our principal competitors in our core Romanian and Hungarian markets enjoy, such as greater economies of scale, easier access to financing and more comprehensive product offerings in certain business lines. From a technological and development perspective, we invest significant amounts to implementing investments to upgrade our network offerings, adopt new technologies and increase the network coverage. However, there is no assurance that customers will accept these developments to the extent required to generate a rate of return that is acceptable to us. Additionally, our working capital needs have substantially increased in recent years and we may be required to limit our operations and expansion plans if, for

[5] *This table does not describe the particular risks relating to the Shares and the Notes or other particular tax risks that are explained in detail in the Annex 4 — Risk Factors of this report, as well as well as in the share and notes risk factors related Prospectuses issued by the Company during 2017 - 2019. This table particularly focuses on the below referenced main operational, strategic, financial, regulatory and legal risk categories.*

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
		any reason, we are unable to obtain adequate funding to meet these requirements. Our success is closely tied to general economic developments in Romania and Hungary and any negative developments may not be offset by positive trends in other markets, potentially jeopardizing our growth targets and adversely affecting our business, prospects, results of operations and financial condition. We did not put in place a mitigation system in this respect.
	Rapid speed of disruptive innovations and/or new technologies within the industry may outpace the Company's ability to compete and/or manage the risk appropriately, without making significant changes to the business model. Failure to prioritize technology initiatives and effectively allocate resources in order to achieve the strategic Company's goals and objectives. The migration to new technologies is not sufficiently analyzed and documented in order to identify the compatibility with existing network elements. Thus, there may be a risk of network malfunctions and / or additional costs generated to fix the incompatibility. The rollout of 5G will require major investments in the future when the spectrum auction will take place.	The innovation, exploring the possibility to introduce new technologies and digitalization are front-and-center priorities of the Company. However, the capital constraints may adversely affect the Company's ability to innovate and reduce the pace of introducing new technologies. The Company implemented internal flows for analyzing and testing the proposals for new network development technologies to ensure compatibility with existing network elements. The Company has a competitive advantage as the percentage of core fiber coverage is high and it will not require material investments.
	Delays in organizing the spectrum auction in our main markets (Romania and Hungary) may limit our ability to increase the network capacity and coverage.	The Company constantly implements new strategies for efficient use of available spectrum and increase the network coverage and service quality.
	the general internal, European and international economic, political and social context, instability of the credit markets, currency risks, our credit rating, general tax matters;	Given its business profiles and presence on a reduced number of countries (Romania, Hungary Spain and Italy), the Company's

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
		exposure to these country, market and industry risks cannot be at all times reasonably anticipated or mitigated.
	system failure / shutdown, termination of main supplier agreements, failure to get sufficient / appropriate managerial resources, insufficient insurance coverage, failure of billing, credit control and other operational systems, health risks affecting the mobile site architecture and development, personal data leakage, logistics, quality control, labor relations, information technology, force majeure.	Customary contractual agreements are put in place to protect the Group. The Company aims to look for alternative supplies and partnership options. However, in some cases, the Company might not be able to have access to sufficient or substitute alternatives. The Group is actively recruiting talent and is actively making use of experienced middle-management. However, given the high specialization of the industry and know-how of skilled professionals, replacing or increasing several functions might not be a timely or successful process.

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
	IT risks relating to malfunction or disruption in the operational and accounting systems, or cyber-security breaches, could adversely impact the Company's ability to compete in a very active market. The risk of cyber-attacks will continue to trend as one of high to medium operational risks for the Company given the dependence on IT systems and technologies. Also, the cyber risk is constantly evolving in line with technological advances such as 5G lunch. Failure to protect customer data and ensure service availability could have an adverse impact on customer experience and may lead to financial, reputational and regulatory risks.	The Company invests heavily in IT infrastructure and is actively recruiting highly specialized IT professionals. The majority of software applications were developed internally, this offering the possibility to rapidly react to environment changes which ensure a competitive advantage. Additionally, lower prevalence of external business software and applications ensure control over application source and increased security. The Company constantly implements appropriate technical and organizational measures for ensuring a strong level of security to address the current cybersecurity threats. One of the main objectives is to ensure ongoing integrity, availability and resilience of data processing systems. The Company has a specialized Information Security Department responsible for regularly testing the efficiency of the IT systems. The Company monitors the security incidents and security control effectiveness. An incident response procedure was designed and implemented. Nevertheless, we draw attention that such systems cannot provide absolute assurance considering the complex environment of cyber security threats and knowing that cyber fraudster continuously working to develop new and unusual ways to siphon money from Companies.
	Adoption of new software-based technologies and continuous digitalization of Company's process may involve increased cost in transformational projects. There may be encountered difficulties in attracting and retaining skilled software developers.	The majority of software applications are internally developed, this offering the possibility to rapidly react to environment changes which ensure a competitive advantage. The software department is composed of a team of experts in different programming languages and with wide relevant experience.
	Loss of mobile base stations, fixed stations, data center and other technologies used in providing services to customers could result in a material adverse impact on customers, revenues and reputation. Our resilience programme also	The Company implemented resilience and redundancy levels for the technologies used in providing services to customers. Ongoing monitoring systems are implemented for the entire network structure (backbone, fixed fiber optic, mobile and other

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
	extend to wider service platform, including television, online services, energy. Our mobile base stations are subject to possible complaints from other residents from the area which may lead to possible fines from local authorities and the risk of being compelled to move the mobile base station to other location resulting in additional costs and possible adverse impact on service coverage. There should be considered the stringent environmental regulations to reduce radiation from base station may impede with infrastructure development.	technologies) in order to increase the resilience levels and to identify improvements opportunities based on lessons learned from past incidents. Back-up solution are implemented and updated. There are designed internal procedures and controls to ensure that all agreements required by the laws and regulations are obtain before mobile base station construction. Nevertheless, there may be situations when the Company will face complaints from other residents or instances when not being in full compliance with all applicable laws and regulations considering the complexity and diversity of legal framework.
	Reliance on suppliers for sourcing equipment, network devices, and other components and materials needed for infrastructure development may increase the concentration of risk and conduct to delays in rolling out plans and increased costs. Additionally, poor supply chain management and inefficiencies in managing the suppliers' financing may adversely impact the relations with critical suppliers. Changes to national and European regulation regarding security threats could result in increased operating costs determined by changing the sourcing of our main equipment for network development. Also, there may be the risk of being compelled to change part of our existing network that may need additional investments.	The Company negotiates agreements with alternative suppliers for reducing the reliance on a single supplier for critical equipment. The cash flow management is closely monitored. Nevertheless. There may be instances when the payment terms are not fully observed. Our subject matters experts closely monitor the changes in national and European regulations regarding security threats and the political situation around our key suppliers. There are developed alternative plans for each scenario aiming to cost optimization.
Risk relating to legal and regulatory matters and litigation	Compliance risks cover unanticipated failures to comply with applicable laws, regulations, policies and procedures. The telecommunications and media sectors are under constant scrutiny by national competition regulators in the	The Company has an adverse risk appetite with respect to legal and compliance risks and requires full compliance. The Company will continue to keep the same (and work to enhance the) adverse risk appetite with respect to these risks.

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
	countries in which we operate and by the European Commission. We have been in the past, and may continue to be, the subject of competition investigations and claims in relation to our behavior in the markets of the jurisdictions where we operate. Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as ongoing compliance with, among other things, telecommunications, audiovisual, environmental, health and safety, labor, building and urban planning, personal data protection and consumer protection laws, regulations and standards. Any increase in governmental regulation of our operations could increase our costs and could have a material adverse impact on our business, prospects, results of operations and financial condition. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operation. Additionally, we are not in full compliance, and from time to time may not be in full compliance, with applicable laws and regulations regarding permitting the construction of various components of our network. We have experienced, and may continue to experience, difficulties in obtaining some of these approvals and permits. Certain agreements we have entered into for the purposes of developing our networks, including some of the agreements entered into with electricity distribution companies and public authorities for the lease of the majority of the poles that support our above-ground fixed fiber optic networks, have been entered into with persons whose title to the leased assets or authority and capacity to enter into such agreements were not fully verifiable or clear at the time they	The Company aims to take appropriate measures in the event of a breach of applicable laws or the Company's corporate governance regulations. The Group endeavors to stay abreast of changes to legislation and to ensure compliance. The legal in-house teams at the level of all Group companies and the collaborations with independent legal counsels have been constantly increasing for the past years. The Group pursues to strengthen its legal and regulatory team, and to increase in-house and partner education on applicable compliance expectations.

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
	entered into the agreement. Additionally, certain agreements for the lease of poles from third parties are and continue to be arranged on an undocumented basis, creating a risk that they could be discontinued in the future. Termination or cancellation of the agreements may result in additional costs for re-execution of such agreements or for the implementation of an alternative solution or, in the worst case, in a loss of business. The telecommunications industry in the markets in which we operate is characterized by the existence of a large number of patents and trademarks. Objections to the registration of new trademarks by third parties and claims based on allegations of patent and/or trademark infringement or other violations of intellectual property rights are common. We may also be subject to claims for defamation, negligence, copyright or other legal claims relating to the programming content or information that we broadcast through our network or publish on our websites.	
	The Company is subject to insider trading risks and potential violations of financial supervision laws due to unauthorized sharing of price sensitive information. In the event that any person involved with the Group (whether internal or external) is (alleged of being) involved in insider trading, this might cause significant reputational damage to the Group.	The Group has implemented an insider trading policy and has concluded trainings for the handling of price sensitive information. The Company endeavors to increase awareness of applicable insider trading prohibitions through dedicated non-disclosure agreement and acknowledgement correspondence. Awareness programs are periodically updated for the target groups.
	The Group's employees or any other independent partners or consultants may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could have a material adverse effect on the Group's business. If any actions for violation of regulatory standards are instituted against the Group, and the Group is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of	The Company and the Group subsidiaries is in process of redesigning and extending the compliance framework during 2018 – 2020 by working on the new Anti-bribery and Anti-corruption, Anti-Money Laundering and Conflict of Interest policies and procedures. The Company conducted training and awareness campaign for its employees from critical functions in “Code of Conduct”, “Conflict of Interest, Anti-Corruption and Anti-Money Laundering”; the training programs help in setting the ethical

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
	significant fines or other sanctions, and its reputation. If allegations of fraudulent conduct are made against the Group this may significantly impact the Group's reputation.	culture across the Company and ensures employees understand their role in ensuring compliance. The Company constantly worked in improving the ethical culture across the organization.
	Inadequate information classification standards may lead to security, privacy and data protection issues and failure to comply with GDPR requirements and to adhere to customer permission requirements.	The Company enhanced the internal framework for classifying, processing the personal data in order to ensure that the data is collected, processed and stored in line with applicable laws and regulations.
Risk relating to our financial position	Financial risks include uncertainty of financial return and the potential for financial loss due to capital structure imbalances, inadequate cash flows, asset impairments and the volatility of financial instruments related to foreign exchange and interest rate exposure. Main risk financial risk drivers relate to: our substantial leverage and debt servicing obligations, applicable restrictive debt covenants, impairment of the ability to draw funds under the existing facilities agreements, ability to generate sufficient cash to service our debt, (in)ability to refinance maturing debt on favorable terms, exposure from derivative transactions.	The Company has a prudent risk appetite with respect to financial risks. The Company's desire is to keep the prudent risk appetite. The management aims to constantly monitor leverage ratios according to the covenants of the Group's facilities commitments and the Notes / Indenture documentation. The risk management systems described herein provide reasonable assurance that the financial reporting does not contain any material inaccuracies. Based on the current state of affairs, it is justified that the financial reporting is prepared on an ongoing concern basis. The management aims to constantly monitor the optimal financing alternatives for its business plans. The Company has started implementing periodical cash management controls and reconciliations in order to ensure an efficient utilization for daily business needs. The management aims to constantly monitor the efficiency of the derivative instrument and the associated risks. The Company's financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Company's financial reporting includes those policies that pertain to the maintenance of records that, in reasonable detail, accurately

Risk type / category[5]	Description of main risk drivers	Risk appetite. Available mitigations, if any
		and fairly reflect the transactions and dispositions of the assets of the Company, provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with management's approval or oversight. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Code of Conduct

The Company adopted on 14 May 2017 its code of conduct in accordance with section 2.5.2 of the Dutch Corporate Governance Code (the "**Code of Conduct**"). The Code of Conduct summarizes the principles and standards that must guide the Group's actions. The Group shall conduct its business with fairness, honesty, integrity and respect for the interests of its stakeholders in a wide variety of social, political and economic environments. The Code of Conduct includes internal rules regarding the management of confidential information, the public disclosure of data, financial and accounting information, general rules on insider trading, fair competition, the management of conflict of interest, compliance with the laws and regulations, the working environment, health and safety, ethics at work, relevant environmental matters, etc. The Company and its Group subsidiaries are currently working to put in place extended tools to enhance compliance with the Code of Conduct (more details with respect to compliance efforts regarding key topics regarded by the Code of Conduct are comprised in the Corporate Governance section herein). A copy of this Code of Conduct is published on the Company's website. This Code of Conduct may be amended by a resolution of the Board of Directors. Any amendments will be published on the Company's website.

Insider trading policy

The Board of Directors adopted in May 2017 its insider trading policy (the "**Insider Trading Policy**"). The Insider Trading Policy is intended to ensure that all employees comply with rules on insider dealing and do not abuse nor place themselves under suspicion of abusing inside information that they may be thought to have, including in periods leading up to an announcement of the Company's results. The Insider Trading Policy aims to promote compliance with the relevant obligations and restrictions under applicable securities laws, and beyond those imposed by law.

Corporate and Social Responsibility (Non-Financial Reporting Section)

The Company is a holding entity, with no effective operational activities. Therefore, any relevant environment and social responsibility efforts rather apply to the relevant Company's Group subsidiaries. In conducting our business, we are committed to supply to our customers high standard services sustained by our high-quality network and quality end-user equipment and technology. Although our operations do not raise significant environmental challenges, we have set appropriate internal rules to prevent incidents from occurring and to enhance environment friendly behavior for both our employees and customers. We are aware that the quality of our services and the continuous development of our operations are highly dependent upon the professional and individual skills of our employees. One of the pivotal means to enhance the overall efficiency of our labor productivity is by offering our employees proper working conditions in a favorable and safe labor environment, where correct and lawful behavior are continuously entertained.

Neither the Company nor any of its subsidiaries have put in place separate rules regarding the treatment and protection of human rights. However, in the implementation of the general internal procedures and rules, in relation with its employees and customers, the Company and its Group aims to ensure compliance with the applicable local and international regulations on the protection of human rights.

We summarize below the main focus efforts that the Group subsidiaries have undertaken during 2019 and until the date of this report with respect to main corporate and social responsibility areas:

Environmental matters

We are subject to a number of environmental laws and regulations, but we do not believe that our activities generally have a significant environmental impact. These laws and regulations govern, among other things, the management and disposal of hazardous materials and waste, air emissions and water discharge, the cleanup of contaminated sites and health and safety matters.

We have worked to put in place effective general internal environment policies and procedures targeting compliance with local regulations and, where necessary, EU regulations, as follows:

- *Procedure on the identification of the environmental aspects and the associated impacts* that mainly focuses on exhaustively identifying the environment aspects that are related to the ongoing activities of operations, on collecting data about any relevant environmental aspect, setting up proper documentation and mechanism to enhance compliance and conducting internal investigations to verify compliance. RCS & RDS has drawn up and adopted an Environmental Management Program under which were established objectives regarding the reduction of the impact of the company's activity on the environment. Based on this program the company is monitoring the environmental aspects. During 2019, the Board did not identify any significant environmental aspects;
- *Procedure on the Emergency Situations and the Capacity to Respond to Emergency Situations* that *identifies* the critical points that are able to generate harmful impact over the environment, by reference to the

environmental challenges identified through the Procedure on the identification of the environmental aspects and the associated impacts;

- *Procedure on waste management and removal* that mainly focuses on identifying significant waste that connects to our activities and instructing our employees to follow the approved Plan for the waste management. Based on this procedure, equipment that are no longer in use and returned by our customers are gathered and handed over for recycling. RCS & RDS also notifies on a monthly basis the National Environmental Fund Administration in Romania the quantity of equipment that we market, as well as the several notifiable categories of ancillary packaging.

The above-mentioned internal procedures follow the SR EN ISO 14001:2015 recognized management system. We have worked to update and enrich such procedures starting from the beginning of 2018. RCS&RDS, our main Group company, has an internal department particularly dedicated to preparing due environmental procedures and putting into effect compliance activities.

In what regards the Company's main operating markets, Romania and Hungary, given the continuous changes in the legal background and the frequent discrepancies between the national and EU regulations, as well as the contradictions between the legal requirements and the market and operational realities, the environmental regulations applicable to our activities are not always clear or easy to implement, thus causing our dedicated departments to not keep always pace with these laws.

We are required to obtain environmental permits, licenses and/or authorizations or provide prior notification to the appropriate authorities when building parts of our network, importing electronic equipment or opening new shops. Some of our sites also store small amounts of diesel fuel for back-up power generator use and/or have a history of previous commercial operations.

Other relevant environmental considerations arising from our operations also include the potential for electromagnetic pollution. We use various network infrastructure strategies in order to achieve radiation emission ranges that are lower than the maximum levels permitted by applicable Romanian regulations. Where requested under the relevant planning certificates, we have also obtained or are in the process of obtaining certificates from the public health authorities of each county where we install mobile telecommunication base stations that we are complying with accepted electromagnetic radiation standards in our mobile telecommunication activity. As a result of these activities or operations at our sites, we could in the future incur costs or additional liability. See "Annex 4 —Risk Factors—Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions or court judgments."

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

Employee statistics and diversity. Health and safety at work

As at December 31, 2019, we had 16,912 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

Country	2019	2018
Romania	12,945	13,731
Hungary	2,771	2,715
Spain	1126	395
Italy	70	77
Total	**16,912**	**16,918**

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

Department	2019	2018
Customer Service	2,377	2,857
Administrative, Purchasing, Logistics	1,509	1,899
Technical	8,735	7,862
Sales and marketing	3,448	3,057
TV	843	1,243
Total	**16,912**	16,918

Employee diversity and professional development

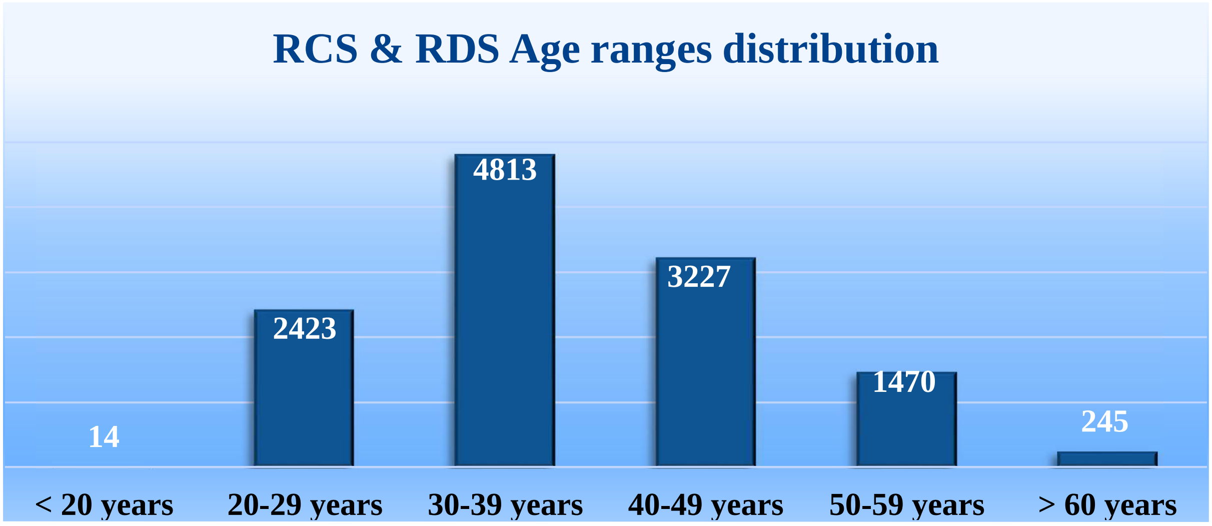
For the Company, equal opportunity and diversity mean respect for and appreciation of any kind of differences: in ethnicity, national origin, gender, age, disability, sexual orientation, education or religion. We reinforce our commitment to recognizing and respecting differences between people while valuing the contribution everyone can make to our business.

Considering the technical profile of our business, our objective is to ensure an appropriate workforce distribution based on gender, thus women now represent about 33.3 % of the total number of employees. There are functions dominated by male employees like the technical ones, but also areas where the female employees are majoritarian, like customer care function.

Encouraging the diversity, we can mention other employees' nationalities in our companies like: Italian, Spanish, Moldavian, which is worth noticed for any company with local roots.

We have been growing diversity in our early entrant programs like annual internship program – for which we offer the students from any University the opportunity to learn from our senior specialists, most of the time this process ending by hiring those people. During 2019, we had about 50 students involved in internship programs in Bucharest and other big cities of Romania, out of which 15 for Media and the rest of them in Technical area.

In terms of age distribution of our employees, for RCS&RDS – the Company's largest subsidiary, we are nearly on a Gauss curve:



Regarding people with disabilities, we currently have 8 (with five more than in the previous reported year) employees in this situation – which although not being a significant number, we consider a positive signal that 8% of them were hired during 2019, and we continue to focus on this. In terms of inclusion, we always look for the proper workplace for each of our employees who face different kind of difficulties, so that the rate of dismissal for medical or other type of issues to be reduced to its maximum. More to this, during 2019 we have undergone several internal campaigns to support some of our employees who had to manage critical personal problems.

On November 2019, our colleagues from Internal Communication Department, managed to sign *Diversity Charter* by which Digi | RCS & RDS is committed:

(i) To develop an organizational culture based on mutual respect, trust, recognition and exploitation of individual differences and aptitudes;
(ii) To apply the principles of non-discrimination and equal opportunities in decision-making processes and in the management of human resources with a special focus on the recruitment, training, remuneration and professional promotion of employees;
(iii) To reflect the diversity of the Romanian society in all its forms in the processes of management and human resources;
(iv) To carry out a program of awareness / awareness and training of the management team and of the employees in relation to the benefits of diversity;
(v) To communicate its commitment to non-discrimination and diversity and to inform its employees and interested groups about the practical results of this commitment;
(vi) To monitor annually the progress made in achieving the objectives of the Diversity Charter;
(vii) To present in other reports and publications the organization's commitment to non-discrimination and diversity, mentioning concrete actions, practices and results.

There is more to do – but the success of our work on diversity and inclusion is enhanced by our belief of making the best use of people's talent and capabilities and providing real opportunities for their development.

While recruiting, the main criteria used within the Company are exclusively professional: experience, performance and specialization. We never consider information about sexual orientation, religion, ethnic origin or other non-work-related features of our employees' private life. These rules are mandatory and they are clearly mentioned in our Internal Set of Rules.

In terms of opportunities to grow internally, during 2019 655 open positions were occupied by internal employees as a result of internal recruitment processes. This is one of the most valuable characteristics of our employer brand - the multiple and various internal opportunities. We also focused on the flexibility of internal application conditions and more visibility so we built and implemented the structure of the HR page on the new Intranet during the first quarter of 2019. Using this internal communication tool, the employees have an easier access to the information regarding specific benefits and different engagement programs.

During the entire financial year, we ran 6 "in class" training modules, with internal resources. That meant 54 training sessions, involving more than 700 employees.

We do not have any trade union in our Group. Based on the legal requirements on this topic, we offer the employees, on a yearly basis, the chances to gather in order to start the collective negotiations. Until now, our employees did not express such interest.

Health and safety

RCS & RDS and Digi Kft. routinely carry out the following work activities either by direct employees or contactors in the course of their operations: ground disturbance / excavation / trenching, working with or in close proximity to live electrical conductors, entering and / or working inside substantially enclosed areas / confined spaces, movement of mobile work equipment and work vehicles, accessing areas or working at height greater than 1m from ground level, carrying out mechanical lifting operations with loads.

During 2017, the relevant Group companies have worked to update the safety and health procedures at work. The implementation of the new health and safety procedures (following the SR OH SAS 18001:2008 recognized management system on healthy and occupational) is ongoing during 2018 as well.

In the course of 2019, RCS & RDS continued the process of improving SSO and environmental protection procedures (following the SR OHSAS 18001: 2008 recognized management system on healthy and occupational and SR ISO 14001: 2008 in environmental management). Risk assessment is a continuous process that is the basis for preventing work accidents and occupational diseases. These permanent reassessments help us to identify both the most exposed employees to the physical factors at the workplace (ex. high or low temperatures, working at height, working in the vicinity of the electric current, etc.), as well as to develop adapted risk mitigation plans for the protection of employees.

The department, that coordinates the occupational safety and health activity, supports in this way, the best quality occupational medicine clinic exam for the Romanian subsidiary of the Group, to identify the necessity of occupational medicine examinations for all employees and for granting the individual protective equipment according to the risks identified for each workplace.

The approach of the Group regarding the prevention of accidents is also based on the processes of identification and management of the risks that are found in carrying out training on employment, on the workplace, periodically, additionally (after the occurrence of an event in the organization) and on the occasion of the mandatory internal authorizations specific to the electrotechnical fields and the use of machines. These trainings are intended to prevent incidents, to empower and encourage employees to perform their activity in a safety way. Thus, we train our employees and we invest in technology programs and processes, to guarantee the safety of our facilities and operations, for employees, external stakeholders and the environment.

We pay special attention to monitoring labour incidents and closely analyse their causes. As a result of the employee awareness measures, we managed to keep at a low level the severity of the effects of the accidents that occurred during 2019, so that the number of days of temporary incapacity for work remained at half of the level reached during 2018.

Based on existing internal procedures, we have worked to prevent labour incidents by closely monitoring the management of exposed operations and activities such as fixed and mobile network development and servicing departments. For the past years, the number of severe labour incidents has been lower, while the detected incidents have not resulted in significant liability for our Group companies. There have been three fatalities until 2017. As reported in the annual report of the Company for the year ended 31 December 2017, all these situations have been solved with no fault for the regarded Group company. There were no fatalities or other substantial incidents, such as material injuries, fires, property damage or other type of substantial occupation diseases during 2018.During 2019 was registered one fatality of one employee of the Romanian subsidiary of the Company and the first conclusion is that the fatality intervened from natural causes. The investigation is ongoing but is very likely that will be solved with no fault for the regarded Group company.

During 2019, RCS & RDS started to implement the emergency and crisis management system that requires the clear definition of people, workflows, call flows and responsibilities through emergency plans. The Romanian subsidiary of the Group started the preparation for the simulations, for testing the alarm systems and the training of the first intervention teams, the evaluation of the capacity of the auxiliary services cooperation, the organization of the crises management team and its good functioning and the communication lines.

The Group is constantly improving its procedures for managing occupational safety and health, to mitigate the risks and improve their management.

Business Compliance Matters

Compliance framework

In May 2017, we put in place a compliance framework (the "**Compliance Framework**"), which consists of the following:

- the Code of Conduct adopted in May 2017 (the "**Code of Conduct**"), which sets out the principles and standards for any of the Group's activities;
- the Terms of Reference of the Audit Committee of the Issuer's Board of Directors adopted in May 2017 (the "Terms of Reference"), which set out the guidance for the Audit Committee's considerations of any related matters;
- the Whistleblowing Policy adopted in May 2017 (the "**Whistleblowing Policy**"), which sets out the framework under which an employee or other stakeholder can report concerns or complaints about any activity of a general, operational or financial nature, which in his opinion (i) is in violation of applicable law, regulation or any generally accepted Group practice; and (ii) may have significant negative impact on the operations of the Group;
- the Directors' Conflict of Interest Policy adopted in May 2017 (the Board of directors "**Conflict of Interest Policy**"), which sets out principles regarding conflict of interest between the Group and any member of the Board of Directors and follows both the Bucharest Stock Exchange Corporate Governance Code dated 4 January 2016 (the BSE Code) and the Netherlands Corporate Governance Code dated 8 December 2016 (the Dutch Code).

We have a long-standing practice of including anti-corruption and anti-money laundering undertakings in employment and services agreements we enter into with our employees, directors and individual subcontractors.

In order to promote compliance by every Group employee, director or individual subcontractor with our Compliance Framework, we, among other things:

(i) have established a designated global compliance function, comprised of individual representatives from the Group's Legal Department, Internal Audit Department and the Group's Compliance Officer. The global compliance function is responsible for: implementing and monitoring compliance with the Compliance Framework; providing advice to employees, directors and contractors in respect of their conduct, including how to comply with the Compliance Framework; investigating potential violations of the Compliance Framework and, where violations are substantiated recommending appropriate remediation steps; and periodically reviewing the Compliance Framework and making revisions where necessary. All employees, directors and contractors, together with the Group Internal Audit Department are required to report any suspected violation of the Compliance Framework to the global compliance function. Where appropriate, the global compliance function shall report a substantiated violation of the Compliance Framework to the Group's Board of Directors;

(ii) have established a centralized electronic procurement system, providing for prior approvals of any procurement activities by the Group's legal, accounting and internal control functions, as well as top management review and approval of major transactions and arrangements;

(iii) by the same electronic centralized procurement system, the Group seeks to carefully account for, and monitor, any incoming and outgoing payments (including seeking to ensure that all such payments are properly documented); and

(iv) require that any interactions with government officials be conducted in compliance with applicable law.

In addition to our global compliance function, every Group department, business unit and employee is tasked with identifying potential risks of violation of the Compliance Framework and preventing those if possible. Managers of those departments and business units periodically report on relevant issues to our global compliance function. Should any serious irregularity be identified, it is required to be elevated to the Group's top management in a prompt manner.

In 2018, employees from several key procurement departments within the Group received training designed to ensure that they understand the requirements of, and comply with, our Compliance Framework. In 2019 our global compliance function conducted a series of awareness campaign regarding insider trading, Code of Conduct principles and anti-corruption rules. All these concepts were presented to the Group's employees and officers in various events as management meetings or the annual technical meeting. In addition, during 2019, employees and officers of the Romanian subsidiary of the Company acting in departments considered to have a high compliance and integrity risk due to job responsibilities signed an integrity declaration confirming their adherence to the Compliance Framework. Our aim is to further extend the Compliance Framework and also the compliance activity, consisting in awareness campaigns, trainings and controls within the Group.

Further development of our Compliance Framework

- We continue to refine our Compliance Framework and aspire to constantly strengthen our compliance efforts. In 2019, we commenced a full redesign of our Compliance Framework with the assistance of a highly reputable international counsel.
- The following key documents were adopted in early 2020:
- **The Anti-corruption and Business Ethics Policy**, which is setting the standards for prevention of corruption and business ethics, require compliance with all applicable anti-corruption laws and regulations, ban bribery and corruption in any shape or form and permit engagement only with business partners with high integrity standards. Key business ethics principles as: (a) the prohibition of the offer, payment, solicitation or acceptance of bribes (whether directly or indirectly) to public officials, business partners and any third parties; (b) prohibition of the offer or acceptance of gifts or hospitality to or from public officials and the allowance of only reasonable and proportionate offers or acceptance of gifts and hospitality from other third parties in the normal course of business; and (c) prohibition of political contributions and inappropriate corporate social responsibility contributions made on behalf of the Group. Prior to any engagement with a business partner, the Group will be required to take certain steps to address issues, which have a potential of leading to a conflict of interest or unethical behaviour. These will include: (1) comprehensive "know your partner" checks and, where appropriate, risk-based due diligence procedures; (2) making the potential business partner aware of the Group's anti-corruption and business ethics principles and existing reporting channel for concerns about corruption or business ethics; (3) ensuring that the potential business partner adopts the Group's anti-corruption and business ethics principles or equivalent rules and procedures; and (4) ensuring that a set of anti-corruption, anti-money laundering and conflict of interest provisions is included in the relevant agreements (these provisions are already being put into new arrangements by the Group as a pilot project ahead of the policy's formal implementation). The Anti-Corruption and Business Ethics Policy requires any individual within the Group to report any suspected violations thereof to the Group's compliance function. Even before this policy was approved and implemented, Digi deployed during 2019 a pilot project under which were transmitted to business partners Digi's anticorruption and business ethics provisions and written notices containing the Group's anti-corruption principles.
- **Anti-Money Laundering Policy** requires compliance with all applicable laws and regulations regarding anti-money laundering and terrorism financing. The policy prohibits money laundering and terrorism financing in any shape or form and provides for a set of rules and procedures to be followed, which includes those relating to: (a) reporting cash transactions, where necessary, to the Group's compliance function; (b)

appropriate, risk-based due diligence procedures applicable to customers and business partners; and (c) reporting any suspicious activity involving the Group, a customer or a business partner to the Group's compliance function. For the purposes of this policy, terrorism financing includes conducting any business relationship with individuals or entities who: (i) appear on the sanctions list published by the Financial Action Task Force (FATF); (ii) are identified as sanctioned or terrorist individuals or entities in any publication of the European Parliament or Council; and/or (iii) are located in countries subject to the European Union's international sanctions regime.

- **The Conflict of Interest Policy** prescribes the conduct expected from the Group's officers, directors, employees and contractors to ensure that all reasonable steps are taken to avoid and/or manage any actual, potential or perceived conflict of interest related to personal financial interest, family members interest or previous, current or potential involvement in any external activity that might be in conflict with the Group interests.

The above-mentioned policies are applicable to all entities within the Group and mandatory for all our employees, officers and directors and we also plan to strongly recommend our business partners to adhere to their principles. These Policies are followed by detailed internal procedures and where appropriate, the procedures will be followed by subsequent documents approved at the level of the Company"s subsidiaries in order to incorporate the requirements of local law provisions.

Any suspected or potential breaches of the above policies can be reported by the Group's officers, directors, employees and contractors by e-mail at *grup.conformitate@digi-communications.ro*. Furthermore, the Group encourages all of its business partners to report any concerns about business ethics by emailing to *grup.conformitate@digi-communications.ro.* In this respect, reports should be as detailed as possible in order to facilitate an appropriate decision about next steps, which may include further internal investigation and/or reporting of the matter to relevant external authorities.

Potential violations of these policies will be investigated as appropriate by DIGI Compliance Group (comprised of representatives from legal, compliance and internal audit departments) and substantiated violations will result in remedial action. Where appropriate, the Group may also report potential violations to relevant law enforcement and/or regulatory authorities.

Our Actions on the Sustainable Development and Social Responsibility. The mission of Digi | RCS & RDS, a responsible company, #connected unlimited to the Needs of Society

Digi | RCS & RDS aims to connect each business decision to strategic social responsibility goals that improve the wellbeing of employees, customers, and communities. Being the leader of internet, pay-tv and converged services market in Romania and owner of the largest state of art fiber optic network in the region, our company has the connections and the means to drive significant changes for the greater good.

We are present in some of the most vulnerable communities of Romania, as well as high tech urban hubs, and we are fully aware of the development gap and the common responsibility social actors share towards giving back to those in need.

We aim to connect people not only to our networks and the quality information provided by our media division, but more importantly to each other, sharing resources and abilities. We aim to create meaningful connections that impact the society and create benefits for all those involved.

Digital solutions and technology are especially important for young people and the "Z generation" shows the highest interest in corporate social responsibility, according to the study released by Reveal Market Research in February 2019. Up to 96% of them are able to name at least one company actively involved in solving social problems in Romania, compared to respondents aged 35+ who were unable to name companies or projects related to corporate social responsibility. Environment protection projects are number 1 among the campaigns mentioned, followed by education projects, and third, campaigns that aim to help children.

Education, health, and vulnerable groups and communities are among the main themes of our company's CSR strategy. Our values, leadership, flexibility, innovation and team spirit are the tools to design projects that respond to our customers and stakeholder's expectations. The public perception of our CSR activities is mainly positive (52% of the respondents to the survey "Responsible company – what does it mean to you?"[6] think that Digi is definitely a responsible or rather a responsible company in Romania).

[6] *Online survey "Responsible company – what does it mean to you?", 540 respondents from Romania, implemented from 6 to 14 November, 2019.*

Ongoing strategic axes of DIGI | RCS & RDS Social Responsibility Program:

Education #DigiEdu – In 2018, the school drop-out of rate in Romania was among the highest in EU, although it has been on a decreasing trend for several years, according to Eurostat data released in April 2019. Also, Romania has the lowest share in EU of people aged 30 **-** 34 with higher education. According to a survey conducted by our company in November 2019, education is the second area a company should be responsibly involved (13%). The majority of the respondents (60%) believe that companies have to involve in CSR projects related to all the sensitive areas in a society (education, health, environment, culture and arts, sports). The third area that is considered vulnerable is the health domain (12%), followed by environment (11%).

This is why we are working closely with globally recognized NGOs whose mission is to help children stay in school and close to their families. Save the Children Romania (Salvați Copiii România), World Vision Romania, Hope and Hopes for Children Romania and SOS Satele copiilor are the main organizations with whom we are currently developing projects aimed to help vulnerable children and disadvantaged communities. Together with our non-profit partners we are focusing on reducing illiteracy and school drop-out in the rural areas to balance the gap between the urban environment and the countryside. Partner organizations and vulnerable schools in remote villages are provided by our Group with free or discounted mobile telephony and internet services.

Campaigns on raising awareness for equal rights in education and fundraising campaigns for children living in state institutions benefit of free media coverage on our radio and TV Channels. Digi24, Digi Sport, Digi FM and Pro FM news anchors and shows hosts also endorse these campaigns and are actively involved in public events designed to raise social responsibility.

We are proud to have gained the trust of the general public by constantly including high quality, informative and educational programs in our broadcasts. For the second consecutive year, Digi24 has been nominated by the public as one of the two most reliable information sources in Romania (source: Digital News Report by Reuters and Oxford University).

Our radio and TV channels constantly contribute to the education and information of our audience tby providing rich and diverse content that includes original and local productions who tackle important social problems like education and health. In 2019 only, we produced and broadcasted documentaries focusing on people with disabilities and seniors and an original production on longevity.

Digitization to Increase the Quality of Life and Social Inclusion #DigiActiv – there is a computer in 65.5% of the households in Romania. 75.9% of urban households have a computer, while in the rural areas the rate is only of 51.9%. 61% of the Romanian citizens regularly use the Internet compared to EU where the average is of 81%. For the 1.7 million children enrolled in the Primary and Secondary Education, there are 136,365 computers, around 83,000 being in the country schools, which means that 12 children, on average, "are fighting" for a seat in front of a computer.

Digitization is among the most important means to reduce the gap between developing and developed communities our Group works with, therefore it is as well one of our strategic axes of social responsability. Our important contribution to Romania being among the countries with highest broadband internet speed is and will be used further to increase access to information and development for vulnerable people.

We wish for all children of Romania regardless of their place of birth to have the opportunities to learn and grow as their European peers and one of the main instruments to provide them freely and immediately with computers and services.

Our most important project on digitization is organized in partnership with World Vision Romania, the only NGO in Romania caring for children living in rural areas. This fall, three schools located in isolated and poor villages from Dolj and Vaslui counties have been equipped with computers, modems and free internet services (for two years). Vulnerable children in Parpanița, Cioatele (Vaslui) and Cleanov (Dolj) will have the opportunity to gain digital skills, be informed and aware just like children growing in urban areas.

Several other schools and NGO's in Romania also benefit of our digital solidarity actions and are provided with free internet services for one or two years. Ciugud Gymnasium, one of the first smart schools in rural Romania also benefits of our help in this regard. We constantly support educational and charity initiatives, fairs and other events with pro bono services as well as media coverage.

Encouragement of Volunteering and the Spirit of Initiative #DigiBenefit – 7 out of 10 Romanians believe that citizens share a mutual responsibility towards society, but only 3 out of 10 actually involve in voluntary activities, according to the research paper published released by Cult Market. 20% of the respondents of the survey" Responsible company – what does it mean to you?" answered that a responsible company has to be involved in the community, while 12 % considered that the corporate responsibility equals to care about the employees. The general perception about a responsible company is based on the fact that the company itself is simultaneously involved in the community, careful with the employees, sensitive to health issues and pollution, and uses technology to the benefit of the society (54% of answers). According to the same study, 47% of the respondents believe that the social responsibility is taught in family, 35% - in many places and processes (in family, but also in school, from social interaction in community, from media or social media), 13% - in school, 2% - from the media.

We encourage our employees and partners to get involved and volunteer for the benefit of those in need. We believe that a better world can only be founded on our common effort to care about other and our environment.

“Digi donates life” (Digi donează viață), the blood donation campaign organized for the first time this year with the support of Bucharest and local transfusions centers has gathered around this cause over 700 of our employees around the country, 558 of which turned out viable donors. Their generosity has helped around 1700 pacients in urgent need of blood transfusions overcome critical health situations.

We are aware of the responsibility we share in regard of the resources we use in our activity and we try to reduce, as much as possible, their impact on the environment and society, as a whole.

Our work on this axis means both stimulating our employees to volunteer and supporting them to come up with project ideas in which they are willing to invest time and energy. One of the example of such projects is the initiative of our county staff in Constanța to donate and support the renovation of “Casa Speranței” center in Constanța town. The NGO running the project with the authorization of The Ministry of Health is hosting and providing medical and development support to children living with HIV or AIDS.

Health and Well-Being #DigiWell – The main cause of mortality in Romania is cardiovascular diseases with 60% of Romanians dying annually because of hearth related illnesses. Anxiety and depression affect over 2 million locals and 2 of 10 of Romanians suffer from mental disorders. According to the statistics released by the National Institute of Public Health in 2018, compared to 2017, over 2,000 more Romanian are diagnosed with cancer.

We aim to inform and encourage people to see a doctor and by doing so to support the prevention of diseases. We want to help improve the lives of Romanians and we encourage our employees to participate in sports activities related to important causes such as prevention of critical diseases, and therefore raising society’s awareness on important health issues.

Bucharest Marathon 2019 was the main sport event in 2019 held in Bucharest that involved many of our colleagues, including TV anchors and radio hosts. They ran this year for Hope and Homes for Children Romania, an NGO whose mission is to provide a family and a home for each Romanian child that is still living in state institution.

One of the projects that also benefited of our employees’ full engagement in the last few years is Casiopeea, the Pink Race, an annual march for women suffering from breast cancer. The funds donated by the company, were used to provide breast prostheses for women undergoing mastectomy. At the same time, by enrolling our employees in the Corporate Games, we ensure that they maintain their good health.

Original weekly programs broadcasted by our news station Digi 24 are also keen on providing the public with the most important information and news about health, as well as reporting the situation with the healthcare system, its challenges and the patients’ perspective.

Digi | RCS&RDS has always supported critical situations in the lives of their employees and their families by making donations. We organize well-being conferences where our employees receive information from specialists and counselling to enjoy a healthy life and get involved in helping other people. The Company has been involved in the development of a Medical Imaging and Health Centre to provide free services in the county of Bihor. The company has sustained Man Foundation from Oradea to set up "Maria" Medical Health and Medical Imaging Centre and donated state-of-the-art imaging and medical imaging equipment.

Another health project supported by Digi is “Daruieste viata” – We build a hospital – an initiative aiming to help children affected by cancer. This will be the first pediatric oncology and radiotherapy hospital in Romania, financed by public and private companies, not by the state.

The Company invests continuously in technological advancement and in people. In over 26 years of activity, our growth is supported by the confidence of our customers and our goal to always be at the forefront of the electronic communications technology. We are an open, transparent and responsible company and a credible partner for customers, suppliers, partners, community, and industry as a whole.

Share Capital Structure and Shares

SHARE CAPITAL STRUCTURE AND SHARES

The issued and paid-up capital as at 31 December 2019 in amount of EUR 6,918,042.52, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (€ 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (€ 0.01) each).

On January 14, 2019, we 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.

For details, please see section *Corporate Governance-Capital, Shares and Voting Rights*, included in this Annual report.

Class B Shares are listed on the Romanian Stock Exchange ("BVB") starting from 16 May 2017.

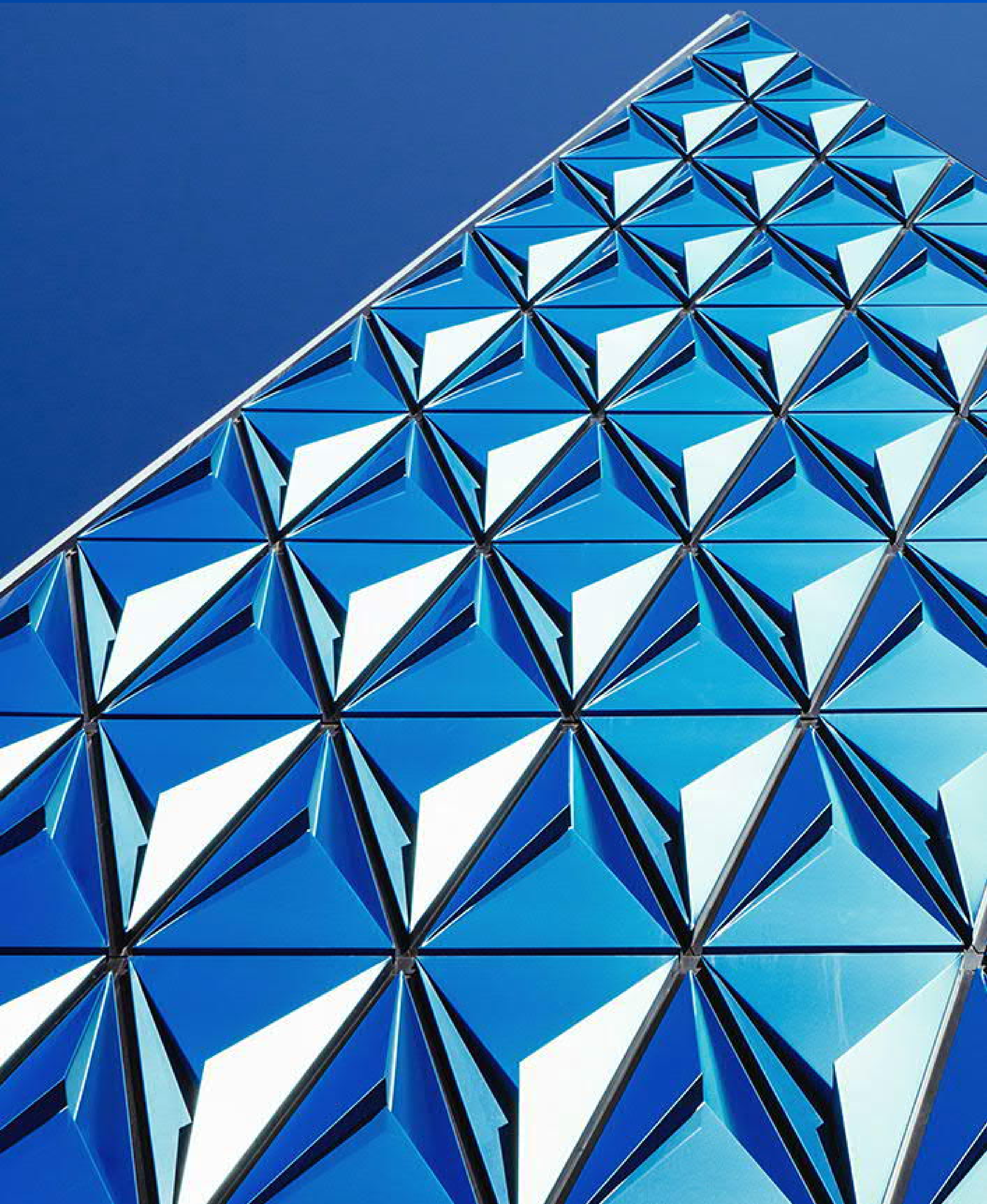
	31 December 2019	31 December 2018
Class A:		
Ordinary Shares – Issued and Paid (No.)	64,556,028	65,756,028
Ordinary Shares – Unissued (No.)	35,443,972	34,243,972
Nominal Value	0.10 EUR per share	0.10 EUR per share
Class B:		
Ordinary Shares – Issued and Paid (No.)	35,443,972	34,243,972
Ordinary Shares – Unissued (No.)	64,556,028	65,756,028
Nominal Value	0.01 EUR per share	0.01 EUR per share
Share Capital Value (EUR) thousand	6,810,042	6,918,042

At 31 December 2019, the shareholders of DIGI are as follows:

	31 December 2019		31 December 2018	
Shareholder name	**No. of shares**	**%**	**No. of shares**	**%**
Class A:				
RCS Management S.A.	57,866,545	57.87%	57,866,545	57.87%
Zoltan Teszari	2,280,122	2.28%	2,280,122	2.28%
DIGI-treasury shares	4,409,361	4.41%	5,609,361	5.61%
Total class A	**64,556,028**		**65,756,028**	
Class B:				
Shares listed on BVB	34,116,833	34.12%	33,339,354	33.34%
DIGI - treasury shares	1,327,139	1.33%	904,618	0.90%
Total class B	**35,443,972**		**34,243,972**	
TOTAL	**100,000,000**		**100,000,000**	

The ultimate beneficial shareholder of the Group is Mr. Zoltan Teszari. Mr. Zoltan Teszari is the controlling shareholder of the Group, being the controlling shareholder of RCSM (the controlling parent of DIGI) and minority shareholder of DIGI and RCS&RDS.

Dividend Policy



DIVIDEND POLICY

The Company intends to retain earnings and reinvest cashflows to capitalize on growth opportunities in its core markets.

The Company's ability and intention to return capital to shareholders in the future will depend on the Company's available investment opportunities, financial condition, results of operation, undertakings to creditors and other factors that the Board may deem relevant. Returns of capital to shareholders may be performed, at the discretion of the Company, through dividends.

At the Annual General Meeting of Shareholders, to be held on 30 April 2020, a gross dividend of RON 0.65 per share (EUR 0.14 equivalent) will be proposed in respect of 2019. For the calculation of dividends, treasury shares of the Company were not treated as outstanding ordinary shares and were excluded from the number of issued ordinary shares.

For details regarding profits distribution, please see excerpt from the Articles of Association in Chapter *Other information* included in the Annual report.

Group Overview

BUSINESS

Overview

Introduction

We are a European leader in geographically-focused telecommunication solutions, based on the number of RGUs (*Source: Group and peer reporting*). We are a leading provider of telecommunication services in our core Romanian and Hungarian markets, have significant operations in Spain and are also present in Italy.

- Romania. Our offerings in Romania include cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH. As at December 31, 2019, our technologically-advanced fixed network in the country covered 69.8% of all dwellings (based on the number of homes passed that we served out of total dwellings as most recently reported by ANCOM). We also operate a technologically-advanced mobile network, which shares the backbone of our fixed infrastructure. In addition, Romania is entirely within the footprint of our DTH signal.
- Hungary. We provide cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH services in Hungary. As at December 31, 2019, our technologically-advanced fixed network in the country covered 47.0% of all dwellings (based on the number of homes passed that we served out of total dwellings as most recently reported by the Hungarian Central Statistical Office). In May 2019, we launched a mobile telecommunication services offering in Hungary. The service is still in the testing phase and is currently only available to our existing customers in Hungary. Like Romania, Hungary is entirely within the footprint of our DTH signal.
- Spain. We provide mobile telecommunication services as an MVNO through the mobile network of Telefónica. We also offer fixed internet and data and fixed-line telephony services through Telefónica's fixed network and through our own GPON FTTH network.
- Italy. We provide mobile telecommunication services as an MVNO through the mobile network of TIM. Our service offerings in Italy primarily target the large local Romanian community.

For the year ended December 31, 2019, our four geographies accounted for the following portions of our total revenue: Romania for €753.4 million, or 63.5%; Hungary for €217.0 million, or 18.3%; Spain for €193.2 million, or 16.3%; and Italy for €22.4 million, or 1.9%.

As at December 31, 2019, we had a total of 16.1 million RGUs, of which approximately 4.3 million were cable TV RGUs, approximately 3.6 million were fixed internet and data RGUs, approximately 5.7 million were mobile telecommunication services RGUs, approximately 1.8 million were fixed-line telephony RGUs and approximately 0.8 million were DTH RGUs.

We have historically generated strong revenue streams. Our total revenue amounted to €1,186.0 million for the year ended December 31, 2019. We have reported Adjusted EBITDA and Adjusted EBITDA margins for continuing operations of €446.3 million and 37.6%, respectively, for the year ended December 31, 2019.

We offer five principal types of services:

- **Cable TV** is our original line of business. As at December 31, 2019, we had approximately 3.6 million Romanian and approximately 694,000 Hungarian RGUs for cable TV services. Cable TV services accounted for 23.9% of our total revenue for the year ended December 31, 2019.
- We offer **fixed internet and data** services through our technologically-advanced fixed networks in Romania and Hungary and, since September 2018, in Spain through Telefónica's fixed line network and through our own GPON FTTH network. As at December 31, 2019, we had approximately 2.8 million, 750,000 and 81,000 fixed internet and data RGUs in Romania, Hungary and Spain, respectively. Fixed internet and data services accounted for 23.8% of our total revenue for the year ended December 31, 2019.

- We provide **mobile telecommunication services** using our own 3G (2G+4G in certain areas) and 4G networks in Romania, our own 2G and 4G network in Hungary (which was launched in May 2019 and is still in the testing phase) and as an MVNO in Spain and Italy. In addition, in June 2019, we launched 5G mobile telecommunication services in certain Romanian cities based on our existing 3,700 MHz license. As at December 31, 2019, we had approximately 3.4 million, 99,000, 1.9 million and 242,000 mobile telecommunication services RGUs in Romania, Hungary, Spain and Italy, respectively. Mobile telecommunication services accounted for 33.8% of our total revenue for the year ended December 31, 2019.
- We offer **fixed-line telephony** services through our technologically-advanced fixed networks in Romania and Hungary and, since September 2018, in Spain through Telefónica’s fixed line network and through our own GPON FTTH network. As at December 31, 2019, we had approximately 1.1 million, 681,000 and 31,000 fixed-line telephony RGUs in Romania, Hungary and Spain, respectively. Fixed-line telephony services accounted for 3.5% of our total revenue for the year ended December 31, 2019.
- Our **DTH satellite television** services are offered in Romania and Hungary. As at December 31, 2019, we had approximately 507,000 DTH RGUs in Romania and approximately 265,000 DTH RGUs in Hungary. DTH services accounted for 5.1% of our total revenue for the year ended December 31, 2019.

Key Strengths

We consider our key strengths to include the following:

- ***Attractive local markets with stable structural growth.*** We focus our telecommunication offerings primarily on two core geographic segments, Romania and Hungary. Both economies have been experiencing strong positive developments in recent years, outperforming the EU’s overall GDP growth rate, and their respective telecommunication services markets have been growing steadily. Our operations in Romania and Hungary accounted for approximately 63.5% and 18.3%, respectively, of our consolidated revenue for the year ended December 31, 2019.
- ***Market leadership in core business lines and robust RGU growth.*** We are the leading provider of pay TV services in Romania and second largest in Hungary, in each case, by number of RGUs. We also lead Romania’s fixed internet and data market, while being second in Hungary as at December 31, 2019. In addition, we are the second-largest provider of fixed-line telephony services in Romania and are second in Hungary as at December 31, 2019. Finally, we are the second-largest provider of post-paid mobile telecommunication services in Romania as at December 31, 2019. We are focused on increasing market penetration in our existing markets by further expansion and cross-selling multiple service offerings to our current and prospective subscribers. Capitalizing on our high-quality technical infrastructure, competitive pricing and attractive content, we have achieved substantial, mainly organic growth; which led to a total number of RGUs across all business lines to approximately 16.1 million as at December 31, 2019.
- ***Advanced fixed and mobile infrastructure in Romania and Hungary.*** Our fixed networks in Romania and Hungary are technologically advanced and, as at December 31, 2019, covered 69.8% and 47.0% of dwellings in those countries, respectively (*Sources: Group reporting; ANCOM and Hungarian Central Statistical Office*). We have upgraded more than 90% of our Romanian and Hungarian fixed networks to GPON or comparable technology (excluding certain parts of Invitel’s network, which we are currently upgrading to fiber) and are currently able to offer transmission speeds of up to 1,000 Mbps for internet and data services, the fastest available to residential users in those markets. As at December 31, 2019, our 3G (2G+4G in certain areas) and 4G mobile telecommunication services in Romania covered (outdoor voice coverage) approximately 99.5% and 87.2% of the country’s population, respectively, and were provided via approximately 5,000 base stations (approximately 4,350 of which were used to provide 4G connectivity). In June 2019, we launched 5G mobile telecommunication services in certain Romanian cities based on our existing 3,700 MHz license. We have been offering mobile telecommunication services in Hungary through our own network since May 2019. As at December 31, 2019, our 2G and 4G offerings in the country covered (outdoor voice coverage) approximately 78.0% of Hungary’s population and were provided via approximately 1,700 base stations. However, our mobile telecommunication services in Hungary are still in the testing phase and currently only available to our existing customers in the country.
- ***Leading commercial proposition for customers.*** Our technical capabilities, wide network coverage and multiple service offerings enable us to provide customers with a wide range of services at competitive prices. Our ability to offer multiple services is a central element of our strategy and allows us to attract new customers

who wish to benefit from our varied product offerings, to expand the uptake of our service offerings within our existing customer base and increase customer loyalty by offering multiple services at cost-effective prices. For example, we have a flexible customer proposition in Romania, which include a comprehensive cable TV offering (including analog and digital packages with optional add-ons for HBO, MAXPAK, Adult, Film NOW and DIGI 4K), superfast fixed internet and data (at speeds of 300 Mbps, 500 Mbps or 1,000 Mbps), fixed-line telephony and mobile packages (with solutions offering various call minutes allowances and generous mobile traffic of up to 50 GB per month at 4G speeds or up to 80 GB per month at 5G speeds).

- ***Robust financial performance and a prudent approach to capital expenditure.*** Our business has consistently generated strong revenue streams. For the years ended December 31, 2018 and 2019 our total revenue was €1,038.1 million and €1,186.0 million, respectively. We have historically had robust Adjusted EBITDA and a prudent approach to capital expenditure. Our Adjusted EBITDA was €324.6 million and €446.3 million for the years ended December 31, 2018 and 2019, respectively. Our total capital expenditure (excluding the cost of Invitel’s acquisition) was €279 million and €318 million for the years ended December 31, 2018 and 2019, respectively. This represented 26.9% and 26.8% of our total revenue for the years ended December 31, 2018 and 2019, respectively. In addition, we have historically maintained prudent capital and liquidity structures with a leverage ratio of 2.8x and 2.6x for the years ended December 31, 2018 and 2019, respectively, and an interest coverage ratio of 6.9x and 7.4x, respectively, for the same periods.
- ***Highly experienced management team***. Our senior management team is made up of professionals who have, on average, more than 20 years of experience in the telecommunication industry and the Group. Our controlling shareholder, Mr. Zoltán Teszári, has been, and continues to be, involved in all key management decisions in relation to the Group since its foundation in 1992. Our Chief Executive Officer, Mr. Serghei Bulgac, joined the Group in 2003 as its Chief Financial Officer and became the Chief Executive Officer in 2015. The majority of our experienced management team members have been with us for more than 10 years and made significant contributions to our transformation from a small cable TV business to a leading provider of telecommunication services in our core markets. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable them to continue a successful execution of our strategy.

Areas of Operations

We operate in Romania, Hungary, Spain and Italy. The scope of our services varies from country to country.

The table below sets out our current business lines available in each of our geographies:

	Cable TV	Fixed Internet and Data	Mobile Telecommunication services	Fixed-line Telephony	DTH
Romania	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓	✓
Spain		✓(1)	✓(2)	✓(1)	
Italy			✓(2)		

(1) Through Telefónica's network and through our own GPON FTTH network.
(2) As an MVNO through Telefónica's network in Spain and TIM's network in Italy.

Our core geographic segments are Romania and Hungary.

Products and Services

Business Lines

We offer five principal types of service: three fixed-line products, mobile telecommunication services and DTH.

To customers in Romania and Hungary whose homes or businesses are covered by our fixed network, we offer our branded cable TV, fixed internet and data and fixed-line telephony products (and in Hungary, we also offer certain Invitel-branded products), either individually or in combination. Since September 2018, we offer fixed internet and data and fixed-line telephony services in Spain through Telefónica's network and through our own GPON FTTH network.

We offer mobile telecommunication services in Romania and Hungary through our own networks, which share the backbone of fixed infrastructure we have in those countries. We also offer mobile telecommunication services in Spain and Italy as an MVNO.

Finally, we offer DTH services to customers in Romania and Hungary.

The table below sets out the number of RGUs per business line and per geographic segment as at December 31, 2019:

	Romania	Hungary	Spain	Italy	Total RGUs per service
					(thousands)
Cable TV	3,590	694	—	—	**4,284**
Fixed Internet and Data	2,775	750	81(1)	—	**3,606**
Mobile Telecommunication Services	3,442	99	1,894(2)	242(2)	**5,677**
Fixed-line Telephony	1,091	681	31(1)	—	**1,803**
DTH	507	265	—	—	**772**
Total RGUs per country	**11,405**	**2,489**	**2,006**	**242**	**16,142**

(1) Through Telefónica's network and through our own GPON FTTH network.
(2) As an MVNO through Telefónica's network in Spain and TIM's network in Italy.

Cable TV Services

Our cable TV services consist of distributing local and international programming content through our cable TV networks. We offer cable TV services in Romania and Hungary, where we are the largest and the second largest pay TV operator, respectively, by number of RGUs (*Source: Group and peer reporting, ANCOM, NMHH*).

As at December 31, 2019, we had approximately 3.6 million and 694,000 cable TV RGUs in Romania and Hungary, respectively, and served approximately 8.4 million homes passed in the two countries.

Since 2009, we have been expanding our services into areas that were already covered by cable TV networks of our competitors or were not covered by cable TV or internet and data networks at all. This has generated most of our growth in this period as our competitive prices, our multiple-service offerings, the quality of our services provided through technologically advanced networks and our ability to offer premium programming content have proved to be attractive to customers.

Our cable TV services have historically generated stable revenue, have low maintenance and other operational costs due to our recent investment in the fixed network and provide a stable and growing base of customers. For the year ended December 31, 2019, cable TV services generated revenue of €283.3 million, representing 23.9% of total revenue.

Cable TV product packages

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

In Romania, we offer two main packages—an analog package and a digital package. Each package has two further versions: a standard version, which is addressed to all customers, and a reduced version, which is addressed to customers in rural areas. As at December 31, 2019, approximately 56.0% of our cable TV customers were subscribed to the analog package and approximately 44.0% of our cable TV customers were subscribed to the digital package. We believe that our standard packages are attractive to customers in terms of content offered for the price and as they provide access to our own channels (other than Film NOW and DIGI 4K, our premium pay TV channels) for no additional fee. In combination with the standard version of the digital package, we offer premium movie channels such as Film NOW, HBO and MAXPAK at competitive prices. This product structure is available in all of our cable TV markets in Romania, with certain local variations regarding the number and composition of channels included in each package.

In Hungary, we offer three packages of cable TV services, each for a monthly fee. Firstly, due to local “must carry” regulations, we offer a limited package, including all the channels we are required to carry under the “must carry” regulations, with a minimum of four national channels, plus local channels of public interest. Secondly, we offer a “**Mini**” package consisting of up to 20-25 channels. Thirdly, we offer the basic package “**DIGITV**,” which is made up of over 100 local and international solely digital channels. We believe that our “DIGITV” package is attractive to customers in terms of content offered for the price and as it provides access to our own 3 DIGI Sport channels for no additional fee. In combination with the “DIGITV” package, we offer premium movie channels such as Film NOW, HBO and MAXPAK at competitive prices. This product structure is available in all of our cable TV markets in Hungary, with certain local variations regarding the number and composition of channels included in each package.

Fixed Internet and Data

We provide fixed internet and data services through our fixed network in Romania and Hungary to both corporate and residential users in a variety of packages. We offer fixed internet and data access by subscription to all customers as part of our multiple service offerings in Romania and Hungary, as well as on a standalone basis. Since late September 2018, we also offer fixed internet and data services in Spain through Telefónica's local network and through our own GPON FTTH network.

As at December 31, 2019, we had approximately 2.8 million (business and residential), 750,000 and 81,000 fixed internet and data RGUs in Romania, Hungary and Spain, respectively. Business subscribers represent an important part of our fixed internet and data business in Romania, as they generate a significant part of our revenue, although they are much fewer in number than residential subscribers. As at December 31, 2019, we had approximately 180,000 business internet and data RGUs in Romania.

We consider our fixed internet and data offering to be a premium service and a potential major growth driver for our overall business. For the year ended December 31, 2019, fixed internet and data services generated revenue of €282.3 million, representing 23.8% of total revenue.

Fixed internet and data product packages

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

We offer the following packages to residential customers:

- "**Fiberlink 300**," "**Fiberlink 500**" and "**Fiberlink 1,000**" are our main residential fixed internet and data offerings in Romania. "Fiberlink 300" allows unlimited traffic at speeds of up to 300 Mbps. "Fiberlink 500" and "Fiberlink 1,000" allow unlimited traffic at speeds of up to 500 Mbps and 1,000 Mbps, respectively, the fastest internet service currently offered to residential users in Romania. We also offer the "**Fiberlink Popular**" package to certain of our rural customers. It allows unlimited traffic at speeds of up to 300 Mbps.
- "**DIGINet 100**" and "**DIGINet 500**" are our main residential fixed internet and data offerings in Hungary. "DIGINet 100" allows unlimited traffic at speeds of up to 100 Mbps, "DIGINet 500" allows unlimited traffic at speeds of up to 500 Mbps. In addition, we offer "**DIGINet 1,000**" (our fastest internet service in Hungary) which allows unlimited traffic at speeds of up to 1,000 Mbps.
- We offer fixed internet and data in Spain under "**Digi Net 50 MB**" and "**Digi Net 500 MB**" packages. "Digi Net 50 MB" allows unlimited traffic at speeds of up to 50 Mbps, while "Digi Net 500 MB" allows unlimited traffic at speeds of up to 500 Mbps.

In addition, we offer certain custom premium fixed internet and data communication services to our business users in Romania.

Mobile Telecommunication Services

As at December 31, 2019, we were one of four licensed providers of mobile services in Romania and one of four licensed providers of mobile services in Hungary. We provide mobile telecommunication services, which include both voice and data services, using our own 3G (2G+4G in certain areas) and 4G networks in Romania and our own 2G and 4G networks in Hungary. Prior to May 2019, we provided certain limited mobile telecommunication services in Hungary as a reseller through Telenor's local network. Such arrangement was terminated on July 1, 2019. In addition, we provide mobile telecommunication services as an MVNO in Spain and Italy.

As at December 31, 2019, our 3G (2G+4G in certain areas) and 4G networks' coverage (outdoor voice coverage) in

Romania extended to approximately 99.5% and 87.2% of the country's population, respectively. We have frequency blocks in the bandwidths of 900 MHz; 2,100 MHz; 2,600 MHz and 3,700 MHz in Romania. We are the leader in inbound number porting in mobile, with approximately 2.1 million numbers ported between 2008 and December 31, 2019. In 2019, there were approximately 338,000 mobile numbers were ported to us, the largest share of approximately 895,000 mobile telephony numbers ported in Romania during this period (Source: ANCOM). As at December 31, 2019, our 2G and 4G networks' coverage (outdoor voice coverage) in Hungary extended to approximately 78.0% of the country's population. We have frequency blocks in the bandwidths of 1,800 MHz and 3,800 MHz in Hungary. We have been offering mobile telecommunication services in Hungary since May 2019 and they are currently still in the testing phase and are currently only available to our existing customers in the country.

As at December 31, 2019, we had approximately 3.4 million, 99,000, 1.9 million and 242,000 mobile telecommunication services RGUs in Romania, Hungary, Spain and Italy, respectively.

We intend to continue increasing the coverage of our mobile telecommunication service and achieve growth in subscriber numbers and revenue. For the year ended December 31, 2019, mobile telecommunication services generated revenue of €400.7 million, representing 33.8% of total revenue.

Mobile telecommunications product packages in Romania and Hungary

In Romania, we offer mobile telecommunications product packages in the form of service plans structured to meet the needs of our subscribers. These service plans provide for flat rates allowing either generous or unlimited number of minutes of voice communications across the main networks, as well as mobile internet traffic up to 50 GB per month at 4G speeds and up to 80 GB per month at 5G speeds (5G service is currently available in several Romanian cities). We have also implemented 2G+4G solutions instead of 3G in rural areas to improve indoor coverage.

In Romania, we offer three main types of packages, with several variations:

- "**Digi Mobil Optim**" offers a range of packages that target customers who wish to have unlimited minutes inside and/or outside of the network and a generous monthly mobile data allowance of up to 10 GB mobile internet data traffic at 3G speeds, up to 50 GB mobile internet data traffic at 4G speeds and up to 80 GB mobile internet data traffic at 5G speeds.
- "**Digi Mobil Avantaj**" offers three types of subscriptions together with a handset. The subscriptions include from 200 to 500 minutes with national and selected international networks and up to 5 GB mobile internet data traffic at 3G speeds, up to 50 GB mobile internet data traffic at 4G speeds and up to 80 GB mobile internet data traffic at 5G speeds.
- "**Digi Mobil Pre-paid**" offers include unlimited free minutes and SMS within our network, plus national minutes ranging from 150 to 450 and up to 6 GB of mobile internet data traffic. The options have a validity period of up to three months.

We also offer mobile internet and data services on a stand-alone basis in two different price plans with data traffic from 10 to 20 GB monthly.

Mobile telecommunications product packages in Hungary

As we are still testing our mobile network in Hungary, our current mobile telecommunication services offering in country consists of a promotion with unlimited call and data traffic within our network and a very competitive pricing for third-party traffic. We also offer a mobile data service with a 50 GB package.

Mobile telecommunications product packages in Spain and Italy

We offer voice and data mobile services in Spain under the brand name "**Digi**" using Telefónica's network. We offer prepaid and post-paid tariff packages for voice, SMS and mobile data. In October 2019, we introduced improved customer propositions, which include unlimited voice traffic bundles, higher data volumes and very competitive prices. These products have been very well received by the market.

We offer MVNO voice and data mobile service in Italy under the brand name "**Digi Mobil**" using TIM's network. The service is primarily targeted at the large local Romanian community. We offer prepaid packages for voice, SMS and data in Italy, which are distinguished by varying mixes of predefined options on top of our standard tariffs.

Fixed-line telephony

As at December 31, 2019, we were the second largest fixed-line telephony operator in Romania and the second largest operator in Hungary, in each case, by total number of RGUs (*Sources: Group and peer reporting; ANCOM; NMHH*). Since late September 2018, we also offer fixed-line telephony services in Spain through Telefónica's local network and through our own GPON FTTH network.

As at December 31, 2019, we had approximately 1.1 million (business and residential), 681,000 and 31,000 fixed-line telephony RGUs in Romania, Hungary and Spain, respectively.

For the year ended December 31, 2019, fixed-line telephony services generated revenue of €41.3 million, representing 3.5% of total revenue.

Fixed-line telephony product packages

We offer fixed-line telephony services in Romania, Hungary and Spain in the form of service plans structured to meet the needs of our subscribers. We believe that our fixed-line telephony service offering helps increase customer retention on our networks in those countries.

We offer two main types of packages for residential customers in Romania:

- "**Digi Tel Family**" is our basic package that targets customers who prefer a lower monthly fee. It includes unlimited free minutes for calls with our other fixed-line and mobile telecommunication subscribers and 100 minutes for calls to other national fixed networks.
- "**Digi Tel National**" is a package that includes a fixed-line telephony subscription and unlimited free minutes for calls with our other fixed-line and mobile telecommunication subscribers, as well as other national fixed-line telephony networks and 100 minutes for calls to other national mobile operators.

In addition to these residential packages, we offer a wide range of services and tariff plans for our business users in Romania, including optional, value-added services to all our fixed-line telephony customers, over POTS lines but also over PRI E1s, which include extended numbering, preferred numbers, short numbering, CLIP/ CLIR, call barring, call forward and call-on-hold services.

In Hungary, our primary offering is "**Digitel 250**," which is a package available to customers that also subscribe to cable TV and fixed internet and data and includes unlimited free minutes for calls within our own network in Hungary and our fixed network in Romania.

In Spain, we offer "**Digi Tel**" and "**Digi Tel 500 min**" packages to our fixed internet and data customers. We originally launched the service to customers from the Community of Madrid in September 2018 but thereafter expanded it to cities from 16 additional provinces of Spain. We expect this expansion to continue in the future. Additionally, in several cities of Madrid metropolitan area, we offer the same fixed-line telephony services through our own built GPON FTTH network.

DTH

Our DTH services consist of distributing programming content via satellite transmission primarily to rural or small town residential subscribers who receive our services through satellite dish receivers and set-top boxes installed in their homes. To provide this service in Romania and Hungary, we lease from Intelsat Global Sales & Marketing Ltd ("**Intelsat**") certain transponders installed on satellites operated by Intelsat and Telenor. Our current leases will be in effect at least until 2022.

As at December 31, 2019, we had approximately 507,000 and 265,000 DTH RGUs in Romania and Hungary, respectively.

We are a leading DTH operator in Romania and Hungary and both countries are entirely within the footprint of our signal.

For the year ended December 31, 2019, DTH services generated revenue of €60.3 million, representing 5.1% of total revenue.

DTH product packages

We offer "**Popular**" and "**Basic**" packages in Romania and "Digimini" and "DigiTV" packages in Hungary. In addition to these packages, we offer premium movie channels such as Film NOW, HBO, MAXPAK, an Adult option, as well as an option for Hungarian channels in Romania. Our offers in each country have certain local, country-specific variations regarding the number and composition of channels included in each package. These variations are mainly driven by local demand and competition.

Content

Own TV channels

We offer our proprietary TV channels through our cable TV and DTH packages.

Our first such channel was the premium content sports channel, "**DIGI Sport**." Our own channel offerings now include sports channels "**DIGI Sport 1**," "**DIGI Sport 2**," "**DIGI Sport 3**" and "**DIGI Sport 4**" (each in Romania) and "**DIGI Sport 1**," "**DIGI Sport 2**" and "**DIGI Sport 3**" (each in Hungary)), a pay TV movie channel "**Film NOW**," a news channel "**DIGI 24**," documentary channels "**DIGI World**," "**DIGI Life**" and "**DIGI Animal World**," music channels "**U Televiziune Interactiva**," "**Music Channel**", "**H!T Music Channel**" and "**Hora TV**" and the first ultra-HD channel in Romania "**DIGI 4K**," which we have been offering since December 2018.

All our own channels are broadcast in standard definition and HD (except "Music Channel" and "Hora TV," which are only broadcast in standard definition and "DIGI 4K," which is only broadcast in Ultra HD). Our premium sports channels own exclusive TV rights to broadcast the Women's Tennis Association's ("**WTA**") tournaments in Romania and Hungary. We also have exclusive TV rights to broadcast the Italian Serie A, the French Ligue 1 and certain UEFA Europa League matches in Hungary. In addition, we have non-exclusive rights to broadcast the following major competitions in Romania: the UEFA Champions League, the UEFA Super Cup, the UEFA Europa League, the Romanian Football Leagues 1 and 2, the Romanian Cup and Super Cup, the Spanish La Liga, the German Bundesliga, the Italian Serie A, the French Ligue 1, the European Handball Federation ("**EHF**") Champions League, World and European Handball Championships and the Romanian Basketball League.

The table below sets out the main broadcasting rights we have through our premium TV sport channels:

Sport	Competition	Romania	Hungary	Period
Football	Romanian League 1	✓		2019 – 2024
Football	Romanian League 2	✓		2018 – 2021
Football	Romanian Cup	✓		2018 – 2021
Football	Romanian Super Cup	✓		2018 – 2021
Football	UEFA Champions League	✓	✓	2018 – 2021
Football	UEFA Super Cup	✓		2018 – 2021
Football	UEFA Europa League	✓	✓	2018 – 2021
Football	Spanish La Liga	✓		2018 – 2021
Football	Italian Serie A	✓	✓	2018 – 2021
Football	French Ligue 1	✓	✓	2018 – 2021

Football	English League Cup	✓	✓	2017 – 2022
Football	Premier League		✓	2017 – 2019
Football	German Bundesliga	✓		2018 – 2021
Handball	EHF Champions League	✓		2018 – 2020
Handball	European Handballs Championships	✓		2018 – 2020
Tennis	WTA	✓	✓	2019 – 2021
Basketball	Romanian Basketball League	✓		2018 – 2020

The aggregate value of the licensing fees under these agreements was €120.2 million as at December 31, 2019. In addition to licensing fees, some of these agreements require us to bear certain technical costs, such as costs related to up-and down-linking.

We also plan to acquire additional broadcasting rights in the future in order to renew or further upgrade our content offering. In addition to broadcasting them through our Pay TV platforms, we offer our own TV channels to certain other cable TV operators in Romania for a fee. At the end of 2015, we introduced advertising on our own channels to allow for additional monetization of our channel portfolio.

Own radio channels

We also operate the following radio stations in Romania: "**Pro FM**," "**Chill FM**," "**Dance FM**" and "**Digi FM**."

Third-party content

Separately from the channels that we own, we acquire the rights to distribute TV channels from local and international programming content providers. In the case of all international and most local providers, we down-link and retransmit these channels as originally packaged (or with subtitles or dubbed), while with certain local providers we receive the channel via terrestrial fiber transmission. As at December 31, 2019, we had distribution agreements in place with 49 content providers. In Romania and Hungary, we were entitled to retransmit 300 pass-through channels. Our pass-through channel providers assume full responsibility for programming content and ensuring compliance with applicable rules, including those on the protection of minors. The programming content generally consists of films, sports, general entertainment, documentaries, children's programs, news and music.

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

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

Our most important pass-through channels in Romania are: "**Pro TV**," "**Antena**," "**Kanal D**," "**HBO**," "**Discovery**," "**Eurosport**," "**Disney**" and "**NGC**." Our most important pass-through channels in Hungary are: "**TV2**," "**RTL**," "**Sport 1**," "**Hir TV**," "**ATV**," "**VIASAT 3**," "**VIASAT 6**" and "**HBO**."

Multiple Offerings

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

As the geographical coverage of our mobile network has increased in recent years, so has the number of customers who subscribe to multiple services. In Romania, the average number of services per one residential network customer was 2.2 and the percentage of network customers using more than one service was approximately 73.0% of all our base subscribers in the country, in each case, as at December 31, 2019. In Hungary, the average number of services per one network customer was 2.3 and the percentage of network customers using more than one service was approximately 79.0% of all our base subscribers in the country, as at the same date (this excludes mobile telecommunication customers, as the service is still in the testing phase).

The table below sets out the percentage of network customers that subscribe to multiple services in Romania and Hungary, as a percentage of our base subscribers as at December 31, 2019:

	Romania	**Hungary(1)**
Single-play	27.0 %	21.0 %
2 or more	73.0 %	79.0 %
Of which 3 or more	35.0 %	53.0 %
Of which quad-play	10.0 %	—

(1) Excluding mobile telecommunication customers, as the service is still in the testing phase.

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

Electricity generation and supply

Since 2012, we have acquired several developmental stage solar energy projects as a means to reduce or partially offset our costs for electricity. As at December 31, 2019, these projects have an aggregate installed capacity of 15.72 MW, all of them being fully operational.

Under incentives promulgated by the Romanian government, producers of electricity from renewable sources (e.g., solar) that are accredited by the Romanian energy regulator are entitled to receive green certificates that can be subsequently sold to suppliers and other entities that have a legal obligation to acquire them. As at December 31, 2019, we accumulated €5.9 million of green certificates generated by our solar energy production activities. We intend to sell those green certificates when they become tradable.

In 2015, we started operating an electricity supply business, initially targeting business customers. In 2016, it was extended to residential customers. Our electricity supply business consists of us buying electricity on centralized wholesale trading platforms (in line with applicable legal provisions which forbid "over the counter" agreements) and selling it to our customers. In general, our customer contracts are fixed price for up to one year and have no limits on the amount of electricity the customer can require us to supply. In the years ended December 31, 2018 and 2019, we purchased electricity on both forward electricity market, as well as spot market, respectively. Electricity supply is not a core activity for us. By the end of 2016, we decided to significantly reduce our exposure to business customers in this business, so that we are less dependent on seasonality and factors, such as unexpected weather conditions, which have significantly affected these operations in the past. To that end, starting from 2017, we have been decreasing volumes traded with our business customers.

Operations

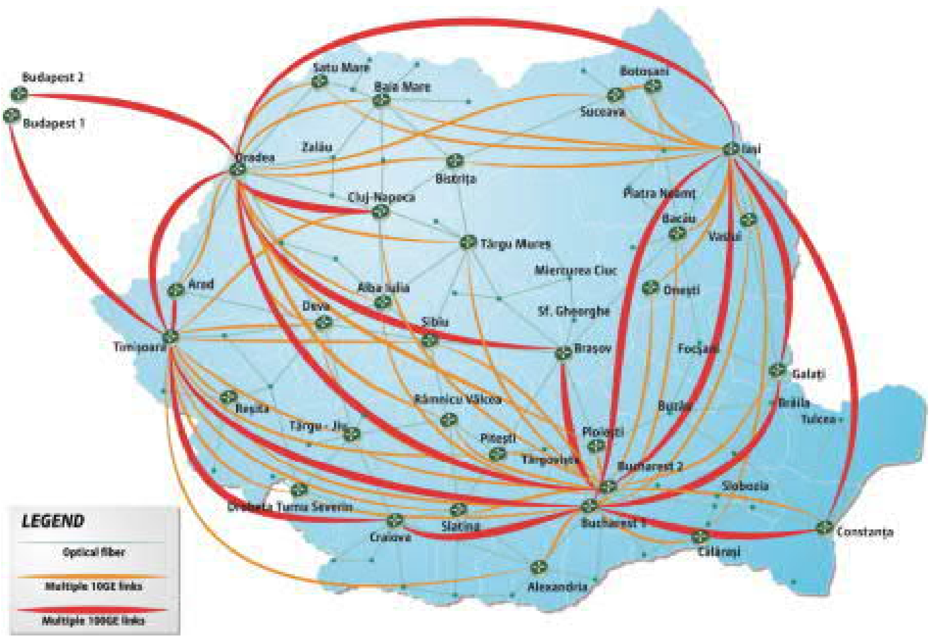
Fixed Fiber Networks

Romania

In Romania, we own and operate an advanced, fully digitalized and two-way capable fixed network. The network architecture provides approximately 93.0% FTTB/FTTH coverage based on GPON or comparable technology, with the rest (located in rural areas composed primarily of single family homes) being hybrid fiber-coaxial networks, giving us the highest fiber share among similar cable operators in Europe.

We have an intercity fixed backbone network of approximately 32,500 kilometers. Our backbone network covers, in addition to the capital city of Bucharest, all 41 county capital cities and numerous smaller cities and towns. Our fixed network in Romania passed a total of approximately 6.3 million homes as at December 31, 2019. In addition to residential customers, we service business customers in all counties and major cities of Romania. As at December 31, 2019, approximately 73.0% of this network was aerial, with the remaining approximately 27.0% underground. Most of our intercity aerial network is built along the power lines of the national electricity distribution and public transportation companies on the basis of leases. For our metropolitan networks we lease poles or underground rights of way from private or state-owned transportation companies (such as Metrorex Bucuresti S.A., the Bucharest underground operator, and certain overground municipal transportation operators in various locations of the country). Starting from 2011 (and earlier in certain towns and cities), Romanian authorities had implemented a series of regulatory measures, which led to a virtual prohibition on building aerial networks in certain cities on public property (in particular, in urban areas) and imposed pressure to relocate our existing aerial networks there. Although in recent years urban regulations were partially relaxed to allow above-ground infrastructure building in rural areas, this regulatory trend is continuing and may lead to forced change in network building practices, as well as to obligations to change existing network locations.

The map below sets out our fixed backbone network in Romania as at December 31, 2019:



Hungary

In Hungary, our FTTB/FTTH network has similar technical capabilities to our Romanian network. Our Hungarian fixed network passes approximately 2.1 million homes. We use approximately 10,600 km of backbone fixed network, approximately 48.0% of which is owned by us, approximately 29.0% is subject to long-term leases and the remaining approximately 23.0% is subject to regular lease contracts.

The map below sets out our fixed backbone in Hungary as at December 31, 2019:

The table below sets out the number of homes passed and percentages of dwellings covered, by jurisdiction, as at the dates indicated:

	As at December, 31	
	2018	**2019**
Romania		
Number of homes passed (millions)	5.7	6.3
Percentage of dwellings covered(1)	63%	70%
Hungary		
Number of homes passed (millions)	2.1(2)	2.1(2)
Percentage of dwellings covered(1)	47%(2)	47%(2)

(1) Calculated based on data by ANCOM for Romania and by the Hungarian Central Statistical Office for Hungary.
(2) Includes homes covered by Invitel's network.

In Romania and Hungary, we continue to pursue technological improvements of our network, as well as expansion of our coverage. We believe that our network provides the opportunity to market attractive fixed internet and data and fixed-line telephony services, offering significant growth opportunities in terms of subscribers and revenue with limited additional investment. Nevertheless, we plan to continue to expand our FTTB/FTTH network to areas not covered by our cable TV operations and to upgrade all of Invitel's network to fiber, as well as to upgrade smaller networks in Romania to FTTB/FTTH standard using GPON technology to allow higher penetration of fixed internet and data and fixed-line telephony services.

Spain

We offer fixed broadband services in 17 provinces in Spain based on a wholesale indirect access NEBA agreement with Telefónica. Additionally, in several cities of Madrid metropolitan area, we offer the same fixed services through our own built GPON FTTH network.

Mobile Telecommunication Services Networks

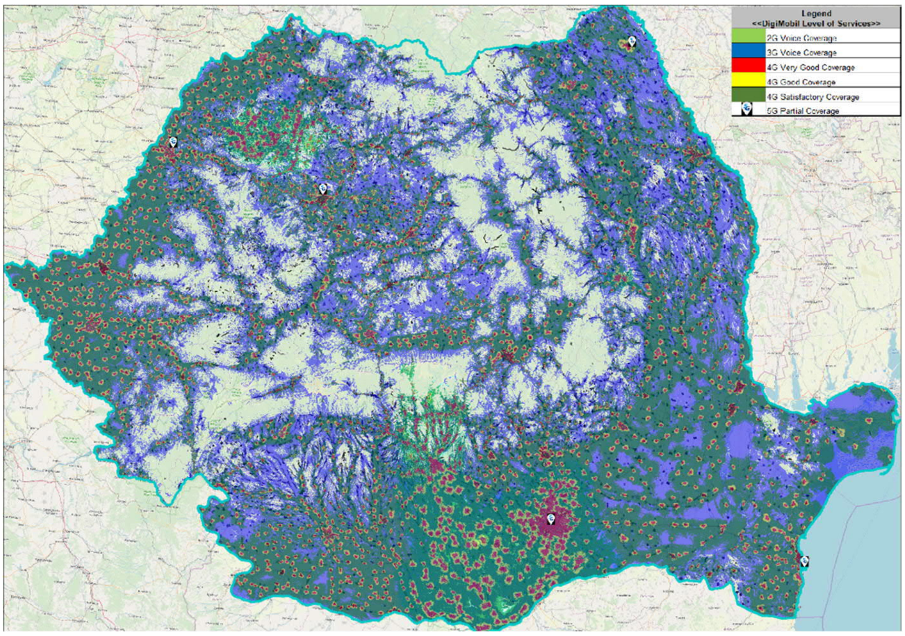
Romania

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

As at December 31, 2019, our 3G (2G+4G in certain areas) and 4G mobile telecommunication services covered (outdoor voice coverage) approximately 99.5% and 87.2% of Romania's population, respectively. As at the same date, our mobile telecommunication services were provided through approximately 5,000 base stations (approximately 4,350 of which were used to provide 4G connectivity).

The mobile telecommunication network is integrated at the transmission level with our fixed backbone to take advantage of the high available capacity. We have teams of employees that undertake the high-level radio design, set-up, operation, maintenance, network optimization and drive-test of the combined network.

The map below sets out the territorial coverage of our own 3G (2G+4G in certain areas) and 4G mobile telecommunication network in Romania as at December 31, 2019:



In June 2019, we launched 5G mobile telecommunication services in certain Romanian cities based on our existing 3,700 MHz license. We are waiting for the Romanian authorities to launch a tender for additional frequency blocks/bandwidth that would enable further development of the service.

In order to minimize the potential for a system failure in our mobile telecommunication network, we have agreements in place with certain of our suppliers for technical support to help ensure continuous operation of the network.

In November 2016, we entered into a frame agreement to acquire an IP Multimedia System ("**IMS**") which enabled Voice over LTE ("**VoLTE**")/4G, Voice over WiFi ("**VoWiFi**") and Voice over broadband ("**VoBB**") on our 4G networks. The service was launched in 2017 and as at December 31, 2019, we had approximately 500,000 VoLTE users and approximately 115,000 VoWiFi users.

Hungary

We launched our own mobile telecommunication network in Hungary in May 2019. The service remains in the testing phase and is currently only available to our existing customers in the country. As at December 31, 2019, our 2G and 4G networks' coverage (outdoor voice coverage) in Hungary extended to approximately 78.0% of the country's population. We lease technical premises and antenna supports from many land and premises owners, primarily, based on long-term leases. In addition, we have acquired ownership rights over numerous small plots of land in order to build the necessary communication towers for the deployment of our mobile network.

In August, 2019, we submitted a bid in Hungary for certain additional frequency bands. However, on September 13, 2019 the NMHH rejected our participation in the tender. We believe this decision to lack any legal ground and have been challenging it in Hungarian courts. See "*—Litigation and Legal Proceedings.*"

MVNO operations in Spain and Italy

We offer mobile telecommunication services in Spain using Telefónica's network based on the Spanish MVNO Agreement.

We offer mobile telecommunication services in Italy using TIM's network based on the Italian MVNO Agreement.

Fixed-line Telephony

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

In order to minimize the potential for a system failure, we maintain a system of back-up generators and spare batteries in the event of a blackout or disruption in the power lines. In addition, our redundant network operates with reserve, or back-up channels, to ensure that voice and data traffic continue to flow uninterrupted if one or more channels fail to function properly.

Our new IMS will enable us to migrate the fixed-line services to a new state of the art technology, allowing us to develop new and innovative services and integrations with the mobile or internet fixed services.

We offer fixed-line telephony services in Spain based on a wholesale indirect access NEBA agreement with Telefónica and through our own GPON FTTH network.

DTH Operations

We manage our DTH satellite retransmission operation using the up-link infrastructure we own. International turnaround channels are received via our dishes, digitized and sent to the single turnaround center. Channels from some local terrestrial broadcasters are received via fiber cables and re-broadcast without modification. In the turnaround center channels are then compressed, encrypted and multiplexed (thus combining few channels in a single signal). The equipment required to carry out this process is collectively called the "head end." We operate two head ends in Bucharest and one in Budapest.

From these locations, the broadcast feed is transmitted to the geostationary satellite operated by Intelsat, which is located 35,800 km above the equator at 1 degree West longitude and to the geostationary satellite operated by Telenor on a neighboring orbital position at 0.8 degrees West. We have six large-diameter satellite dishes for up-linking signals (and an additional two redundant antennas). All up-linking to the satellites is at 13,777 MHz and 13,893 MHz frequencies. From those satellites, the feed is transmitted back down to individual subscribers across Romania and Hungary. All down-linking from the satellites is at 12,527 MHz and 12,643 MHz frequencies. A dish mounted externally at subscribers' premises receives the signal. The dish is connected to a set-top box that decodes the signal and converts it into video, sound and data information.

Most of our subscriber management activities, including call centers and services activation and deactivation, are done in-house.

Satellites and transponders

As at December 31, 2019, we use nine high-powered transponders: two on the Intelsat satellite and six on the Telenor satellite to transmit our DTH signal; and one additional transponder on the Intelsat satellite to transmit non-DTH signals. The lease agreement with Intelsat (which covers all transponders that we use) is currently valid until 2022. The number of television channels that can be broadcast to subscribers is dictated by the amount of transponder space available. Currently, we are using nearly all our available transponder capacity. We also use simulcrypt agreements.

The eight satellite transponders used for DTH signal transmission receive video, audio and data signals transmitted from our up-link facilities, convert the frequency of those signals, amplify them and retransmit them back to Earth in a manner that allows individual subscribers to receive the signals using a small satellite dish.

If, for any reason, the satellites that we currently use become unavailable for further service, we estimate that alternatives are available in the same orbital position, and more could become available later.

Disaster recovery facilities

We operate three redundant teleport stations with six large antennas (and an additional two redundant antennas) at different locations allowing up-link of our DTH signal to the satellites. The three teleport facilities are interconnected via our fiber network and have access to all programs which are distributed via satellites.

Set-top boxes and encryption

We use an encryption solution and smart-cards for our DTH operations supplied by Nagravision, which is a leading supplier of security solutions for the television industry. We believe the quality of the encryption technology we use is consistent with market standards.

DISTRIBUTION AND SALES

We employ four primary sales channels: (i) our own retail network; (ii) agents providing door-to-door sales; (iii) retail sales partners; and (iv) inbound and outbound telesales. These channels use our own, as well as external, sales force.

As at December 31, 2019, we had 428 sales and collection points and a sales force of 3,102 individuals in Romania; 79 sales and collection points and a sales force of 119 individuals in Hungary; approximately 5,200 external sales and collection points in Spain and approximately 2,800 external and collection sales points in Italy.

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

CUSTOMER SERVICE AND RETENTION

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

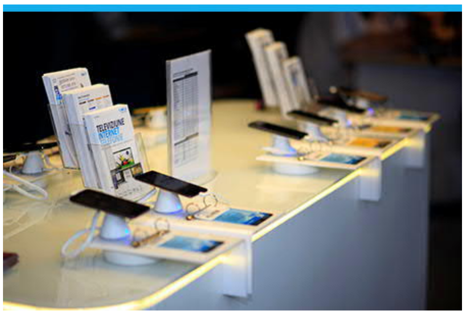
As at December 31, 2019, our customer service department in Romania consisted of 1,326 employees spread across our physical service centers and six call centers (servicing our Romanian, Spanish and Italian clients). As at the same date, our customer service department in Hungary consisted of 726 employees spread across our physical service centers and six call centers. In Spain, our customer service department consisted of 325 employees and one call center.

As at December 31, 2019, our customer service department had 1,376 call center employees, of whom 824 were based in Romania, 253 in Hungary and 299 in Spain.

We also have after-sale and service teams dedicated to our various services. Our mobile telecommunication business line is serviced directly at our retail locations. We generally aim for a targeted service, and we provide different contact numbers for each type of customers. Our business customers are granted special attention and they each have designated account managers.

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

MARKETING



We believe that we enjoy strong recognition among consumers in our traditional markets of Romania and Hungary. We generally market our services under the brand "**DIGI**," with variations depending on the type of service, including the following: "**DIGI TV**" for cable TV and DTH, "**DIGI Tel**" for fixed-line telephony, "**DIGI Net**" for our fixed internet and data services, "**DIGI Mobil**" for our mobile telecommunication services, "**DIGI Animal World**," "**DIGI Life**," "**DIGI Sport**," "**Film NOW**," "**DIGI World**," "**DIGI 24**" and "**DIGI 4K**" for our TV channels, "**DIGI FM**" for our radio channels and "**DIGI Online**" for our online platform.

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

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

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

BILLING

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

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

In addition to maintaining financial information for each customer, our billing software keeps detailed, non-financial customer and contract related information. This information is used by our customer service representatives to address various issues and needs of our customers.

We believe our billing and collection systems are appropriate for our business needs, and we constantly seek to improve them. We are also aiming to improve our physical presence by increasing the number of sales/collection points and bringing them closer to clients, including in rural areas (the so called "**DIGI Boxes**"). Additionally, we send notifications (via SMS, dedicated website, internet pop-up messages and TV messages for our DTH subscribers) to our customers alerting them of overdue invoices.

EQUIPMENT SUPPLIERS

In our cable TV business line, our principal supplier for video receivers and modulators is Kaon. Nagravision supplies the encryption and subscriber management system. For fixed internet and data services, our main suppliers are Cisco, Juniper and Huawei for high end routers and ECI for DWDM transmissions. Our GPON infrastructure relies on equipment provided by Huawei and ZTE.

In our fixed-line telephony business line, our main supplier is Nokia (we also use switches supplied by Alcatel, which is currently part of Nokia).

The equipment for our mobile telecommunication services is provided by Nokia, Huawei and Ericsson. We focus on Android-based smartphones, due to better affordability for our customers. The main producers for mobile handsets are Samsung, Huawei, Lenovo and Xiaomi.

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

SERVICE SUPPLIERS

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

Our main suppliers for global internet interconnection and IP transit services are the leading industry operators Telia Carrier and NTT Europe. Starting from February 1, 2020 our main suppliers for global internet interconnection and IP transit services are expected to be Telia Carrier and GTT Europe.

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

Our supplier of DTH satellite services is Intelsat.

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

INTELLECTUAL PROPERTY

We own a relatively large number of trademarks including verbal trademarks (protecting words) and combined trademarks (protecting both words and image), including: "RCS & RDS," "DIGI," "DIGI TV," "Film NOW," "DIGI SPORT," "DIGI MOBIL," "DIGI LINK," "DIGI TEL," "DIGI NET," "DIGI 24 HD," "DIGI 4K," "DIGI LIFE," "DIGI WORLD," "UTV," "DIGI Oriunde," "DIGI Online," "DIGI PLAY," "DIGI Energy," "Pro FM," "DIGI FM," "DANCE FM," "CHILL FM," "DIGI COMMUNICATIONS N.V.," "ROMANIA FURATA" and "DIGI One Voice." These trademarks are registered for the territories, in which they are used, and certain trademarks are also registered for additional territories or on a national or European basis.

In all the above cases, the protection offered by the registration of the trademarks lasts for ten years and can be extended for another ten years based on a specific request. We regularly renew our trademarks and register new trademarks (most of the later relate to our TV and radio broadcast activities).

We are generally do not license our trademarks. As an exception, we provided certain licenses for the use of our trademarks by third parties as a post-closing covenant at the disposal of our subsidiaries in Croatia, Slovakia and the Czech Republic. Each such temporary arrangement was limited to the relevant territory(ies), with no impact on our business in the countries where we have continued to operate. The license agreement applicable to the trademarks used in the Czech Republic is in force until April 2020, while the Croatian trademark agreement has expired. In addition, in Slovakia, we entered into a new trademark license agreement in 2016, which was subsequently extended until December 2020.

PROPERTIES

We lease most of the principal properties upon which we operate. We own a part of our original headquarters in Romania, as well as the premises we use as production studios for certain of our own channels. Outside Romania, we lease our principal premises.

The following table sets out our key properties:

Country	Location	ID	Primary Function	Owned/leased	Size (sqm)
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	owned	4,538
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	lease-back	4,493
Romania	Bucharest	Oltenitei	Administrative, Call Center	leased	2,726
Romania	Bucharest		Administrative, Warehouse	leased	3,257
Romania	Bucharest	Panduri	TV Studios	owned	2,244
Romania	Bucharest	Panduri	TV Studios	leased	7,532
Romania	Timisoara		Administrative, Head End, NOC, TV Studios	owned	470
Romania	Craiova		Administrative, HeadEnd, NOC, Call Center, TV Studios	owned	3,551
Romania	Arad		Administrative, Head End, NOC, Call Center	owned	804
Romania	Iasi		Administrative, Head End, TV Studios	owned	850
Romania	Iasi		Administrative, Head End, NOC, Call Center	owned	438
Romania	Constanta		Administrative, Head End, NOC, TV Studios	owned	1,156
Romania	Oradea		Administrative, NOC, Call Center, TV Studios	owned	3,806
Romania	Oradea		Administrative, Head End	owned	200
Romania	Brasov		Administrative, Head End, NOC, Call Center, TV Studios	owned	2,078
Romania	Brasov		Administrative	owned	588
Romania	Targu Mures		Administrative, Head End, Noc	owned	325

Country	Location	ID	Primary Function	Owned/leased	Size (sqm)
Romania	Galati		Administrative, Head End, NOC, TV Studios	owned	1,601
Romania	Resita		Administrative, Head End, Warehouse	owned	1,041
Romania	Slatina		Administrative, Head End	owned	743
Romania	Dr. Turnu Severin		Administrative, Head End	owned	850
Romania	Pitesti		Administrative, HeadEnd, NOC, Call Center	owned	1,308
Romania	Cluj-Napoca		TV Studios	leased	831
Romania	Cluj-Napoca		Administrative, Call Center	leased	791
Romania	Cluj-Napoca		Administrative	owned	2,164
Romania	Baia-Mare		Administrative	owned	1,415
Romania	Ramnicu Valcea		Administrative	owned	930
Romania	Timisoara		Administrative	owned	4,489
Romania	Arad		Administrative	owned	1,016
Romania	Bucharest		Administrative	owned	4,829
Hungary	Budapest		Headquarter	leased	4,480
Hungary	Budapest		Administrative	leased	779
Hungary	Budapest		Land	owned	1,955
Hungary	Budapest		Data center	owned	600
Hungary	Budapest		Land	owned	1,379
Hungary	Budapest		Administrative	owned	1,381
Hungary	Budapest		Land	owned	2,828
Hungary	Budapest		Administrative	owned	850
Hungary	Budapest		Land	owned	4,645
Hungary	Budapest		Administrative	owned	1,549
Hungary	Nagytarcsa		Warehouse	owned	2,000
Hungary	Nagytarcsa		Land	owned	10,146
Hungary	Veszprém		Land	owned	3,222
Hungary	Veszprém		Administrative	owned	1,395
Hungary	Veszprém		Administrative	owned	981
Spain	Madrid		Administrative	leased	4,128
Spain	Madrid		Administrative	leased	2,895
Spain	Madrid		Warehouse	leased	2,177
Spain	Madrid		Warehouse	leased	1,045
Spain	Madrid		Warehouse	leased	985
Spain	Madrid		Warehouse	leased	477
Spain	Valencia		Warehouse	leased	653
Italy	Milan		Administrative, Sales, Warehouse	leased	498
Italy	Milan		Warehouse	leased	410

EMPLOYEES

For details regarding the Group's employees, please see *Corporate Goverance* section.

ENVIRONMENTAL MATTERS

For details regarding please see *Corporate Goverance* section.

LITIGATIONS AND LEGAL PROCEDURES

For details please see note Note 28 from the *Consolidated Financial Statements as at 31 December 2019.*

Financial Results

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 consolidated financial statements of the Group as of December 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 European leader in geographically-focused telecommunication solutions, based on the number of RGUs (*Source: Group and peer reporting*). We are a leading provider of telecommunication services in our core Romanian and Hungarian markets, have significant operations in Spain and are also present in Italy.

- Romania. Our offerings in Romania include cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH.
- Hungary. We provide cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH services in Hungary.
- Spain. We provide mobile telecommunication services as an MVNO through the mobile network of Telefónica. Starting with September 2018, we also offer fixed internet and data and fixed-line telephony services through Telefónica's fixed network and through our own GPON FTTH network.
- Italy. We provide mobile telecommunication services as an MVNO through the mobile network of TIM. Our service offerings in Italy primarily target the large local Romanian community.

For more details please see section *Business* section.

For the year ended December 31, 2019, we had revenue (excluding intersegment revenue and other income) of €1,186.0 million, net profit of €40.6 million and Adjusted EBITDA of €446.3 million.

Recent Developments

COVID-19 outbreak

In December 2019, a novel strain of coronavirus (SARS-CoV-2) and the respiratory disease (COVID-19) it causes was reported in Wuhan, China and starting with late February 2020 the outbreak spread rapidly outside China and throughout Europe (with the biggest outbreak outside Asia occurring in Italy). On March 11, 2020, the World Health Organization declared COVID-19 a pandemic.

We have taken additional steps to ensure the health and safety of customers, employees and partners and the reliable delivery of services during the COVID-19 outbreak, more specifically:

- → we have developed and upgraded our business continuity plans to respond promptly and efficiently to any disruptive incidents during the COVID-19 outbreak, while safeguarding the health of our employees and minimizing the impact on the delivery of services.
- → all employees have been asked to work remotely as much as possible, and wherever possible;
- → employees who must be on site are applying social distancing and hygiene protocols based on guidance from health authorities;
- → customers are encouraged to apply social distancing protocols, avoid use of cash and use our online or other remote services and resources for payment of their invoices and for placing their orders;
- → specific disinfection protocols have been put in place in all our locations (offices, shops, cashier offices, call centers etc.);
- → split-team shift work, staff segregation and flexible working hours procedures have been initiated to mitigate the risk of an entire team becoming infected and to ensure the continuity of all our services (i.e., fixed internet and data, mobile telephony and data, fixed telephony, cable TV, DTH and online platforms);
- → all employee travel to countries where there is an increased risk of infection has been cancelled or postponed
- → we continuously monitor the developments and may scale down our investment projects to allow business continuity.

At present the spread and consequences of the outbreak are difficult to predict. A protracted uncertainty and lack of containment of COVID-19 could have several negative consequences for the Group, including:

- public authority responses to the pandemic, which may lead to outages and disruptions of the Group's operations;
- economic downturn and widespread recession, diminished business and consumer confidence, inflation and market volatility;
- increasing levels of unemployment, which may have a direct negative impact on the spending patterns of retail customers, both in terms of subscribed services and usage levels, as well as potentially lead to a higher number of non-paying customers or generally result in service disconnections;
- cashflow disruptions (at the level of the Group, as well as at the level of the global and regional economies);
- currency exchange rate fluctuations;
- reduced availability of credit and increases of interest rates or application of more onerous debt covenants;
- workforce disruptions due to illness or employee refusal to work on-site due to perceived risk of contagion;
- supply chain disruptions; and
- difficulty in obtaining required licenses and permits due to the limited activity of certain public authorities during the COVID-19 outbreak.

For details please see Annex 4 "Risk Factors".

Financial arrangements

On 5 February 2020 RCS & RDS SA issued Senior Secured Notes in total amount of EUR 850.0 million, in two tranches: (i) €450.0 million 2.50% senior secured notes due 2025 and (ii) €400.0 million 3.25% senior secured notes due 2028 (collectively, the "Notes").

The gross proceeds of the Offering were used (a) to redeem the entire aggregate principal amount outstanding of €550.0 million 5.0% senior secured notes due 2023 issued by the Company and pay €22.3 million of redemption premium and accrued, but unpaid, interest to holders thereof; (b) to prepay or repay partially the outstanding amounts under 2016 Senior Facilty Agreement; (c) to prepay the entire aggregate principal amount 2018 Senior Facility Agreement; (d) to repay (without cancelling) certain overdraft facilities; (e) to pay costs, expenses and fees in connection with the Refinancing; and (f) for general corporate purposes (which may include acquisitions).

For details please see *"Financial Obligations"* from this chapter.

Litigations and other proceedings

For details regarding our current litigations please see *Note 28 from the Consolidated Financial Statements as at December 31, 2019*.

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 continuing operations are further broken down into the following geographic segments: Romania, Hungary, Spain and Other.

The revenue for each of our geographic segments (excluding intersegment revenue, other income and gain from sale of discontinued operations) for the years ended December 31, 2018 and 2019 was as follows:

	For the year ended December 31,	
	2018	**2019**
		(€ millions)
Romania	697.8	753.4
Hungary	190.9	217.0
Spain	126.6	193.2
Other(1)	22.8	22.4
Total revenue	**1,038.1**	**1,186.0**

(1) *Includes revenue from operations in Italy.*

The operating expenses for each of our geographic segments (excluding intersegment operating expenses, but including depreciation, amortization and impairment) for the years ended December 31, 2018 and 2019 were as follows:

	For the year ended December 31,	
	2018	2019
		(€ millions)
Romania	440.4	409.5
Hungary	151.9	156.1
Spain	94.9	149.8
Other(1)	26.4	24.3
Depreciation, amortization and impairment of tangible and intangible assets and rights of use assets	211.5	298.9(2)
Total operating expenses	**925.0**	**1,038.5**

(1) Includes operating expenses of operations in Italy and operating expenses of the Company.
(2) Includes total of €65.9 million depreciation of right of use assets, out of which €63.9 million amortization resulting from the previous operational leases which are now recognized as right of use asset, following the adoption of IFRS 16. See "--Adoption of IFRS 16."

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.

Revenue and Expenses structure of our principal lines of business

In general, for each of our five principal lines of business, we earn revenue from flat-rate subscription fees received from our customers and incur expenses that include licensing, programming and content fees, customer service, as well as network operation and maintenance. However, the structure of our revenue and expenses differs in each of our principal lines of business. See "*Business*."

Cable TV

The revenue we receive for cable TV services in Romania and Hungary consists principally of flat-rate monthly subscription fees. The level of subscription fees depends on the programming package chosen by the particular customer.

The expenses we record for cable TV services consist principally of fees that we pay to providers of third-party TV channels, license fees that we pay for content on our own TV channels and personnel expenses (consisting in large part of the salaries we pay to personnel that operate and maintain our network, personnel used to operate our own channels and our sales personnel). We also incur expenses for copyright payments to the national bodies representing collective artists' rights under relevant local laws, rights of way for our cables (which we record as "network rents"), maintenance and repair of our network, transportation and fuel expenses of our cable TV staff, collection and other miscellaneous expenses. We capitalize the expenses related to installing and upgrading our fixed network (except for maintenance and repairs). We also capitalize the expenses related to acquiring third-party programming for our own channels and amortize those assets over the period they relate to on a straight-line basis. Such third-party programming expenses are accounted for as a capital expenditure because the underlying rights are generally either exclusive or shared with one other party and we acquire them to attract and retain customers. We expense the cost of acquiring third-party channels and other content not used in the production of our own channels. Third-party programming costs that are accounted for as operating expenses generally vary directly with our number of RGUs, as a significant part of our programming agreements for third-party channels link programming fees paid to content owners to the number of our subscribers in the relevant territory.

Fixed internet and data

The revenue we receive for fixed internet and data services in Romania, Hungary and Spain consists principally of flat-rate monthly subscription fees. We service both residential and business customers. The market for business customers is more competitive, and, as a result, ARPU for our business customers can vary significantly over time.

The expenses recorded for fixed internet and data services consist principally of personnel expenses and related expenses of our service and maintenance staff, as well as interconnection and transmission fees. We also incur expenses for maintenance and repair of the network and rights of way for the network, energy expenses related to the operation of the network and collection expenses. Our treatment of expenses related to installing and upgrading our fixed network is the same across all business lines offering services via such network. See "*—Cable TV*" above.

Mobile telecommunication services

The revenue that we receive for mobile telephony services in Romania consists of flat-rate monthly subscription fees, per-minute telephone charges and, to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers, as well as charges for text and video messages to, or from, third-party numbers. We do not charge for calls or messages to, or from, other customers within our own fixed-line and mobile telephony networks. The revenue that we receive for mobile internet and data services in Romania consists principally of flat-rate monthly subscription fees.

Our mobile telecommunications offering in Hungary is still in the testing phase and is currently only available to our existing customers in the country. Therefore, the revenue that we receive for mobile telephony and mobile internet and data services in Hungary consists of payments that such customers make for voice and data traffic actually used.

In Spain and Italy, we generate revenue from mobile telephony services and mobile internet and data primarily via sale of pre-paid packages as an MVNO. Such revenue consists of pre-paid telephone, text and video charges and, to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers.

The expenses incurred in connection with our mobile telecommunication services consist principally of interconnection fees paid to other network operators whose customers are called by our customers. Mobile telephony interconnection fees charged by operators during the periods under review by geographic segment are set out in the table below:

Mobile telephony interconnection fees	**For the year ended December 31,**	
	2018	**2019**
		(eurocents/minute)
Romania	0.84	0.84(1)
Hungary	0.005	0.005
Spain	0.70	0.67(2)
Italy	0.98	0.90(3)

(1) Starting from January 2020, the interconnection fees in Romania decreased to 0.76 eurocents/minute
(2) Starting from January 2020, the interconnection fees in Spain decreased to 0.64 eurocents/minute.
(3) Starting from January 2020, the interconnection fees in Italy decreased to 0.76 eurocents/minute.

Our expenses also include rental of sites necessary for the operation of our mobile network in Romania and Hungary (prior to IFRS 16 adoption), energy consumed by the network, personnel expenses and related expenses of our maintenance and customer service staff, radio spectrum fees payable to communications authorities in Romania and Hungary and service carry fees that we pay to Telefónica in Spain and to TIM in Italy.

We also generate revenue and incur expenses in relation to sales of third-party manufactured handsets and accessories.

Fixed-line telephony

The revenue we receive for fixed-line telephony services Romania, Hungary and Spain consists principally of flat-rate monthly subscription fees and per-minute telephone charges. We also derive revenue from interconnection fees that we receive from other service providers whose customers call our customers. We do not charge for calls to other telephone numbers within our fixed-line and mobile telephony networks in the same country.

The expenses incurred in relation to fixed-line telephony services consist principally of interconnection fees paid to other service providers whose customers are called by our customers. We also incur personnel expenses related to sales, installation and customer support services. Our treatment of expenses related to installing and upgrading our fixed network is the same across all business lines offering services via such network. See "*—Cable TV*" above.

DTH

The revenue we receive from our DTH services in Romania and Hungary consists principally of flat-rate monthly subscription fees from customers and, to a lesser extent, activation and other fees. The level of subscription fees depends on the programming package chosen by the particular customer.

The expenses incurred in connection with our DTH services consist principally of the cost of the programming content offered to our subscribers, rental expenses payable to Intelsat relating to transmission capacity on the Intelsat and Telenor satellites, license fees paid to the holders of transmission/retransmission rights for sporting events that are broadcasted on our sports channels and the expense of operating customer care call centers. Our treatment of expenses related to third-party programming is the same as in our cable TV business line. See "*—Cable TV*" above.

Other operations

We also generated revenue and incurred expenses in relation to sales of third-party manufactured mobile handsets and cable TV and DTH accessories (such as satellite signal receivers and decoders in Romania and Hungary), which are sold directly to our customers. Those sales were generally conducted at a low margin, or no margin at all, as part of new customer acquisition or as an incentive for existing customers to renew or upgrade their subscriptions. The cost of equipment that we provide to customers is capitalized as CPE.

In addition to our principal revenue generation streams, in Romania and Hungary we sell advertising time on all our own TV channels and we operate four local radio stations in Romania (which we acquired in 2015 to boost our advertising capabilities and consumer recognition).

These operations are relatively small and are not reported as separate business lines.

Trends and Other Key Factors Impacting Our Results of Operations

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

General economic environment in our key markets

The markets in which we operate were materially and adversely impacted by global crisis and recent sovereign debt crisis in Europe. However, after a few years of recovery, they have shown significant economic growth. In particular, Romania, which accounted for 63.5% and 67.2% of our total revenue for the year ended December 31, 2019 and the December 31, 2018, respectively, had one of the highest real GDP growth rates in Europe (*Source: Eurostat*).

The general economic environment in our key markets may be materially adversely impacted by the novel coronavirus (SARS-CoV-2) and the respiratory disease (COVID-19) may result in disruption of market conditions globally and in the markets in which we operate. See "*Risk Factors— We may be adversely affected by unfavorable conditions in the global economy or volatile equity and credit markets, in particular due to the uncertainty caused by the COVID-19 pandemic, as well as the persistent uncertainty around the United Kingdom's decision to leave the European Union*"

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

Competition

Our results of operations are affected by competition, as we operate in intensely competitive industries and compete with a growing number of companies that provide a broad range of communications products and services and entertainment, news and information content to consumers.

We believe that our principal focus on Romania and Hungary, as well as synergies generated by our convergent fixed and mobile offerings and our advanced infrastructure, currently allow us to compete efficiently in our core markets. However, intense competition creates pressure to maintain low prices on our service and product offerings thus affecting our revenue growth potential.

Regulation

Mobile telecommunication licenses in Romania and Hungary

We can only develop our mobile telecommunication offerings in Romania and Hungary if we have appropriate licenses and bandwidth. For a list of our current mobile telecommunications licenses, see "*Business*." If we are unsuccessful in obtaining such licenses, the growth of our business may be curtailed, as we may be unable to generate new RGUs or increase our ARPU.

License acquisition is a complex process, which is subject to extensive regulation in both countries. Licenses are granted at public auctions and relevant licensing authorities establish criteria that participants therein need to satisfy. If we are unable to meet those criteria, or otherwise unable to compete for such licenses, our results of operations could be significantly and materially affected.

In addition, in order to participate in auctions for mobile telecommunications licenses, we may be required to provide significant third party guarantees (which, in accordance with IFRS, will not be recorded on our consolidated statement of financial position) of our ability to pay corresponding license fees should the license sought be granted to us. If we are successful in our bids, we may need to attract additional financing to ensure that we have sufficient funds to pay those license fees. If we do, that will increase our balance sheet liabilities and finance expenses recorded on our statement of profit or loss.

Taxation

In order to curtail the economic turmoil caused by the recent Eurozone debt crisis (see "*—General economic environment in our key markets*") and compensate for the decrease in revenue to state budgets, in recent years the Romanian and Hungarian Governments introduced a series of special taxes applicable to the telecommunications industry.

In Romania, such taxes were introduced in 2014 and have now been discontinued.

In Hungary, special infrastructure, financial transactions and certain other taxes applicable to us were introduced in 2012. Those taxes led to a significant increase in our expenses in the country, and, in contrast with Romania, broadly remain in effect amounting to approximately 1.6% and 1.3% of our revenue in Hungary for the years ended December 31, 2018 and 2019.

The ongoing COVID-19 pandemic and an economic downturn or recession caused by it may lead to an increase in tax rates and exceptional one-off taxes to compensate for decreasing budget revenues. See "*Risk Factors— The ongoing COVID-19 pandemic may materially adversely affect our business and ability to comply with obligations under the Notes and the Guarantees*" and "*Risk Factors— We may be adversely affected by unfavorable conditions in the global economy or volatile equity and credit markets, in particular due to the uncertainty caused by the COVID-19 pandemic, as well as the persistent uncertainty around the United Kingdom's decision to leave the European Union*"

Growth in business, RGUs and ARPU

Our revenue is most directly a function of the number of our RGUs and ARPU. Neither of these terms is a measure of financial performance under IFRS, nor have these measures been reviewed by an outside auditor, consultant or expert. Each of these measures is derived from management estimates. As defined by our management, these terms may not be comparable to similar terms used by other companies. We use RGU to designate a subscriber account of a customer in relation to one of our services. RGUs are measured at the end of the relevant period. As our definition of RGU is different for our different business lines, you should use caution when trying to compare RGUs and ARPU between our business lines. We calculate ARPU 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 relevant 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. ARPU is a measure we use to evaluate how effectively we are realising potential revenues from customers.

Our total RGU base has grown from 14.9 million RGUs as at December 31, 2018 to 16.1 million RGUs as at December 31, 2019, representing an increase of 8%.

The following table shows our RGUs and monthly ARPU by geographic segment and business line as at and for the years ended December 31, 2018 and 2019:

	As at and for the three months ended December 31,		As at and for the year ended December 31,	
	2018	**2019**	**2018**	**2019**
	(RGUs: thousands; ARPU: €/period)		**(RGUs: thousands; ARPU: €/period)**	
RGUs/ARPU				
Group				
RGUs	14,926	16,142	14,926	16,142
ARPU	5.5	5.8	5.4	5.7
Romania				
Cable TV				
RGUs	3,305	3,590	3,305	3,590
ARPU	4.9	5.2	5.0	5.2
Fixed internet and data				
RGUs				
Residential	2,370	2,595	2,370	2,595
Business	158	180	158	180
ARPU				
Residential	4.7	4.8	4.8	4.8
Business	27.0	25.1	28.0	25.8
Mobile telecommunication services(1)				
RGUs	3,406	3,442	3,406	3,442
ARPU	4.7	4.9	4.4	4.8
Fixed-line telephony				
RGUs				
Residential	1,055	959	1,055	959
Business	133	132	133	132
ARPU				
Residential	1.3	1.3	1.3	1.3
Business	3.4	3.3	3.3	3.3
DTH				
RGUs	529	507	529	507
ARPU	4.8	5.0	4.8	5.0
Hungary				
Cable TV				
RGUs	689	694	689	694
ARPU	8.4	7.7	8.3	7.9
Fixed internet and data				
RGUs	747	750	747	750
ARPU	7.8	8.5	7.6	8.5
Mobile telecommunication services(2)				
RGUs	15	99	15	99
ARPU	5.3	n.m	5.9	n.m
Fixed-line telephony				
RGUs	694	681	694	681
ARPU	2.8	2.4	2.4	2.4
DTH				
RGUs	276	265	276	265
ARPU	9.0	9.0	9.1	8.9
Spain				

	As at and for the three months ended December 31,		As at and for the year ended December 31,	
	2018	2019	2018	2019
	(RGUs: thousands; ARPU: €/period)		(RGUs: thousands; ARPU: €/period)	
Fixed internet and data				
RGUs	8	81	8	81
ARPU	20.8	25.8	20.8	24.5
Mobile telecommunication services[(1) (3)]				
RGUs	1,343	1,894	1,343	1,894
ARPU	9.5	9.3	9.4	9.3
Fixed-line telephony				
RGUs	3	31	3	31
ARPU	4.2	2.7	4.2	3.1
Other[(4)]				
Mobile telecommunication services[(1) (3)]				
RGUs	195	242	195	242
ARPU	9.4	8.5	9.6	8.7

(1) Includes mobile telephony and mobile internet and data RGUs

(2) Includes mobile voice and internet and data RGUs and ARPUs. In Hungary, we generated such RGUs and ARPUs: (a) prior to May 2019, as a reseller through Telenor's network; (b) between May 2019 and July 2019, as a reseller through Telenor's network and through our own mobile network in the country; and (c) since July 2019, through our own mobile network in the country only.

(3) As an MVNO through Telefónica's network in Spain and TIM's network in Italy

(4) Includes Italy.

Our revenue may not always grow in direct proportion with the increase in our RGUs. In part, these variations reflect the fact that ARPU differs from business line to business line. We try to increase profitability in each business line by careful management of expenses through negotiation of content fees, interconnection costs and similar expenses, use of newer technologies for improved results of operations and, where possible, by conducting certain operations and investment related activities in-house to achieve cost efficiencies. In all our business lines we have focused, and continue to focus, on increasing the number of RGUs by acquiring new customers and by cross-selling more services to our existing customers while maintaining our Adjusted EBITDA Margin. Our approach reflects the relatively wide range of our business and our ability to offer multiple services to our customer base. For example, as at December 31, 2019, each of our residential customers in Romania (excluding DTH customers) subscribed to an average of 2.2 services (as compared with an average of 2.3 as at December 31, 2018). Currently, there is a trend towards subscribers discontinuing fixed-telephony services altogether, which has an impact on the average number of services per subscriber.

The following table shows the evolution of our total RGUs by business line for 2018 and 2019:

	As at December 31,	
	2018	2019
	(thousands)	
Cable TV	3,994	4,284
Fixed internet and data	3,283	3,606
Mobile telecommunication services	4,959	5,677
Fixed-line telephony	1,885	1,803
DTH	805	772
Total	**14,926**	**16,142**

Technical capabilities and limitations of our networks

Fixed offerings

We offer cable TV, fixed internet and data and fixed-line telephony through our fixed networks in Romania and Hungary, which, as at December 31, 2019, covered 69.8% and 47.0% of dwellings in those countries, respectively (*Sources: Group reporting; ANCOM and Hungarian Central Statistical Office*). Our ability to expand our reach, attract new customers and migrate existing customers to higher levels of service depends on the capabilities and limitations of these networks. In the periods under review, we have continued to pursue a network expansion strategy and have also focused on upgrading our networks in principal coverage areas to GPON or comparable technology. As at the date of this report, we have completed an upgrade of more than 90.0% of our networks (excluding parts of Invitel's network) and are currently able to offer transmission speeds of up to 1,000 Mbps for internet and data services, the fastest available to residential users in those markets. As a result of those upgrades, we anticipate that our own fixed network in both countries (excluding parts of Invitel's network, which we are still upgrading to fiber) will require relatively low maintenance capital expenditure over the near and medium term. We believe that growth from cable TV, fixed internet and data and fixed-line telephony services will principally come from increasing penetration in the areas that we already cover, expanding our fixed networks to areas not currently covered, cross-selling services to existing customers and migrating our existing customers to higher levels of service.

In addition to our fixed line operations in the core markets of Romania and Hungary, in September 2018, we launched fixed internet and data and fixed-line telephony services in Spain as a reseller on the basis of a NEBA agreement with Telefónica through their local FTTH GPON network. We have since commenced the development of our own FTTH GPON network in the country. We originally launched the service in the Community of Madrid but have thereafter expanded to 16 other Spanish provinces and expect that expansion to continue in the future increasing our RGU numbers in Spain.

Mobile offerings

Romania

We currently hold spectrum licenses in 2,100 MHz, 900 MHz, 2,600 MHz and 3,700 MHz bandwidth. As at December 31, 2019, we had approximately 5,000 mobile network base stations covering approximately 99.5% (outdoor voice coverage) of the country's population to provide our 3G service (2G+4G in certain areas). 4G coverage is available through our existing mobile network in the country's most populous cities and along major roads to satisfy our customers who use the latest mobile devices. 4G is offered in parallel with our 3G coverage. As at December 31, 2019, out of our approximately 5,000 mobile network base stations approximately 4,350 supported our 4G service and our 4G offering covered approximately 87.2% of the country's population. In June 2019, we launched 5G mobile telecommunication services in certain Romanian cities based on our existing 3,700 MHz license and intend to continue the roll-out of our mobile networks in the country.

Hungary

We currently hold a 1,800 MHz mobile telephony license and a 3,800 MHz mobile telephony license in Hungary. In May 2019, we launched a mobile telecommunication services offering in Hungary. The service is still in the testing phase and is currently only available to our existing customers in Hungary. As at December 31, 2019, we had approximately 1,700 mobile network base stations covering approximately 78.0% of the country's population. In August 2019, we submitted a bid in Hungary for certain additional frequency bands. However, on September 13, 2019 the NMHH rejected our participation in the tender. We believe this decision to lack any legal ground and have challenged it in court. See "*Business—Litigation and legal proceedings*"

Spain and Italy

Our MVNO businesses currently rely on Telefónica's network in Spain and TIM's in Italy. Our current full MVNO agreement with Telefónica is effective until March 31, 2023. Our current full MVNO agreement with TIM is effective until December 31, 2020.

DTH

Our DTH satellite television services are not geographically constrained, as the footprint of our existing satellite coverage encompasses the entire territories of Romania and Hungary. Only in rare circumstances are customers unable to install the equipment necessary to receive our satellite signal, typically where no alternative position for the antenna facing south-west can be found.

Adoption of IFRS 16

Under IFRS 16, the Group was required to change the way it accounted for leases previously classified as operating lease under IAS 17, which were off-balance-sheet. The Group adopted IFRS 16 from January 1, 2019 using the modified retrospective approach and has not restated figures previously reported as at and for the year ended December 31, 2018 or any other prior periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

The impact of IFRS 16 adoption on our consolidated financial statements as at December 31, 2019 was:

- Lease liability in total amount of €198.3 million, out of which €186.7 million represents liabilities in respect of previous operational leases;

- Right of use assets carrying value in total amount of €197.9 million, out of which €183.0 million represents assets from previous rent expenses qualifying for IFRS 16 ;
- An increase in Adjusted EBITDA of €66.2 million for the year ended December 31, 2019;
- Depreciation of right of use asset in total amount of 65.9 million, out of which €63.9 million represents depreciation relating to previously operational leases recognized now as right of use asset;
- An increase in interest expense of €7.7 million for the year ended December 31, 2019.

Rapid development of our mobile business line and impact on our Adjusted EBITDA and Adjusted EBITDA Margin

EBITDA is a widely recognized benchmark for measuring profitability and cashflows in the telecommunication industry. Therefore, our Board of Directors closely monitors the Group's EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin as key measures of its financial performance.

We calculate EBITDA by adding back to our consolidated operating profit or loss charges for depreciation, amortization and impairment of assets. Our Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, and until December 31, 2018 as well as mark-to-market results (unrealised) from the fair value assessment of energy supply contracts. Finally, our Adjusted EBITDA Margin is the ratio of Adjusted EBITDA to our total revenue.

None of these are measures of financial performance under IFRS; they are solely derived from our management's accounts and estimates and as such may not be comparable to similarly titled measures used by other companies. Therefore you should not consider our reported EBITDA, Adjusted EBITDA or Adjusted EBITDA Margin as substitutes for operating profit or cash flows from operating activities reported in the Financial Statements.

Our EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin for the years ended December 31, 2018 and 2019:

	For the year ended December 31,	
	2018	**2019**
	(€ millions, unless otherwise stated)	
Revenue(1)	**1,038.1**	**1,186.0**
Operating profit	102.0	145.0
Depreciation, amortization and impairment	211.5	298.9
EBITDA(2)	**313.5**	**443.9**
Other income(3)	(8.9)	-
Other expenses	20.0(4)	2.5(5)
Adjusted EBITDA	**324.6**	**446.3**
Adjusted EBITDA Margin (%)	**31.3%**	**37.6%**

(1) Excludes intersegment revenue.

(2) EBITDA is consolidated operating profit or loss plus 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. EBITDA and Adjusted EBITDA under our definition may not be comparable to similar measures presented by other companies and labeled "EBITDA." We believe that EBITDA and Adjusted EBITDA are useful analytical tools for presenting a normalized measure of cash flows that disregards temporary fluctuations in working capital, including due to fluctuations in inventory levels and due to timing of payments received or payments made. Since operating profit and actual cash flows for a given period can differ significantly from this normalized measure, we urge you to consider these figures for any period together with our data for cash flows from operations and other cash flow data and our operating profit. You should not consider EBITDA or Adjusted EBITDA a substitute for operating profit or cash flows from operating activities.

(3) Represents mark-to-market unrealized gain from fair value assessment of energy supply contracts.

(4) Includes (i) €12.7 million non-cash expenses related to the Stock Option Plans; (ii) €2.5 million costs related to the acquisition of Invitel; and (iii) €4.7 million provisions related to ongoing litigations and arbitrations. See "Business—Litigation and Legal Proceedings."

(5) Includes (i) €1.6 million non-cash expenses related to the Stock Option Plans; (ii) €0.9 million costs represents mark-to-market unrealized loss from fair value assessment of energy supply contracts

The change in our Adjusted EBITDA and Adjusted EBITDA Margin from €324.6 million and 31.3%, respectively, for the year ended December 31, 2018 to €446.3 million and 37.6% respectively, for the year ended December 31, 2019 was primarily due to the steady growth of the fixed services, development of our mobile business line in Romania, the consolidation of full year Invitel's results in Hungary, as well as the adoption of IFRS 16, which lead to a positive impact in Adjusted EBITDA of €66.2 million.

The operational performance was reflected in the increase in our operating profit from €102.0 million for the year ended December 31, 2018 to €145.0 million for the year ended December 31, 2019.

Exchange rates

Conversion into euros for presentation in the Financial Statements

Our operating subsidiaries in Romania and Hungary generate revenue and record their financial results in the Romanian leu and the Hungarian forint, respectively. However, our consolidated financial results are reported in euros. See *"—Basis of Financial Presentation—Functional Currencies and Presentation Currency."* Therefore, a significant depreciation of one of our functional currencies in relation to the euro could significantly reduce our financial results as reported in euros and could have a significant negative impact on our financial position and cash flows.

Liabilities denominated in the euro and the U.S. Dollar

In addition, we have significant exposure to the euro as a significant portion of our outstanding financial debt is denominated in that currency, and we also have certain limited exposure to the U.S. dollar, in which we purchase certain content for our cable TV and DTH businesses and certain CPE. As at December 31, 2019, we had €748.8 million of obligations denominated in euros and US$74.4 million of obligations denominated in U.S. dollars, (2018: €489.9 million and US$68.1 million). See *"—Liquidity and Capital Resources—Financial Obligations."* Our euro exposure is partially mitigated by euro-denominated revenue from our MVNO operations in Spain and Italy, which, together with revenue collected in local functional currencies, but denominated in euros, accounted for 39.7% of our total revenue for the year ended December 31, 2019. However, we still pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenue generated in our principal functional currencies.

Historic performance of our functional currencies against the euro and the U.S. Dollar

In the periods under review the Romanian leu and the Hungarian forint have declined compared to the euro, with approximately 2.0% each. Our obligations denominated in U.S. dollars are significantly smaller, so the appreciation of the U.S. dollar did not have a major effect on the Group. See *"—Quantitative and Qualitative Disclosures About Market Risks—Currency Risk."*

The following table sets out, where applicable, the period end and average exchange rates for the years ended December 31, 2018 and 2019 of the euro against each of our principal functional currencies and the U.S. dollar:

Value of one euro in the relevant currency	**As at and for the year ended December 31,**	
	2018	**2019**
Romanian leu (RON)(1)		
Period end rate	4.66	4.78
Average rate	4.65	4.74
Hungarian forint (HUF)(2)		
Period end rate	321.5	330.52
Average rate	318.8	325.35
U.S. dollar (USD)(1)		
Period end rate	1.15	1.12
Average rate	1.18	1.12

(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 year ended December 31, 2019, we had a net foreign exchange loss of €18.2 million (year ended December 31, 2018: net loss of €4.7 million). In each of those periods, our net foreign exchange loss was primarily due to the depreciation of the leu against the euro and the U.S. dollar. See ***"—Liquidity and Capital Resources—Financial Obligations."*** Borrowings in foreign currencies are recorded in the functional currency of the relevant entity at the rate of exchange prevailing on the date of the transaction and re-evaluated to reflect changes in the exchange rate each month.

Depreciation, amortization and impairment of assets

As we have invested, and continue to invest, significantly in the development of our fixed and mobile networks and customer acquisition through investment in CPE, our expenses relating to depreciation, amortization and impairment of tangible and intangible assets have remained consistently high during the periods under review.

The following table shows the evolution of our depreciation, amortization and impairment of assets expenses for the years ended December 31, 2018 and 2019:

	For the year ended December 31,	
	2018	**2019**
		(€ millions)
Depreciation of property, plant and equipment	125.0	135.7
Amortization of non-current intangible assets	43.1	52.3
Amortization of programme assets	40.7	42.0
Depreciation of right of use asset(1)	-	65.9
Impairment of property, plant and equipment and non-current intangible assets	2.6	3.0
Total	**211.5**	**298.9**

(1) See "—Adoption of IFRS 16."

Churn

Loss of our customers (an effect known as "churn") is a factor which could negatively affect our growth in RGUs and revenue. The pay TV, fixed internet and fixed-line and mobile telecommunication services industries encounter churn as a result of high levels of competition. In addition to competitive alternatives, churn levels may be affected by changes in our or our competitors' prices, our level of customer satisfaction relocation of subscribers and any reduction of expenses by our customers in the context of a potential economic downturn. Increases in churn may lead to increased costs and reduced revenue. We believe that the following factors help to reduce our level of churn:

- *Cross-selling.* We believe that customers who subscribe to multiple services are less likely to leave our services. In Romania, our average number of services per residential customer was 2.2 (excluding DTH) and the percentage of customers using more than one service was approximately 73% as at December 31, 2019. In Hungary, our average number of services per network customer was 2.3 (excluding DTH) and the percentage of customers using more than one service was approximately 79% as at the same date.
- *Quality of offerings and pricing.* Our attractive pricing and relatively advanced technology compared to our competitors in Romania and Hungary and our premium content offerings often make it unattractive to replace our services with those offered by our competitors.

Although churn may have a negative effect on our business, we focus on growth in total number of RGUs, ARPU, revenue, Adjusted EBITDA and Adjusted EBITDA Margin as key indicators rather than churn. We believe that our churn levels are in line with those of our principal competitors in our core markets.

Capital expenditure

Historically, we have pursued an ambitious growth strategy that required us to undertake substantial capital expenditure. The primary focus of our investment spending over the periods under review has been (i) the upgrade and expansion of our fixed network in Romania and Hungary; (ii) the expansion of our 3G and 4G mobile networks, and the development of our 5G mobile network, in Romania and the building of a 2G and 4G mobile networks in Hungary; (iii) the creation and development of our own television channels; (iv) the creation and expansion of our MVNO services in Spain and Italy; (v) the launch of fixed line services offered in Spain; and (v) subscriber acquisition costs in all our business lines.

Consequently, our capital expenditures have been significant. In the year ended December 31, 2019, we had capital expenditure of €318.7 million, which was lower than our Adjusted EBITDA including IFRS 16 impact by €127.6 million (and it was lower than our Adjusted EBITDA excluding IFRS 16 impact by €61.4 million) and represented 26.9% of our revenue for this period. In the year ended December 31, 2018, we had capital expenditure of €279 million, which was lower than our Adjusted EBITDA by €45.3 million and represented 26.9% of our revenue for this period.

Going forward we expect our capital expenditure to consist principally of amounts paid for:

- further expansion of our fixed networks in Romania and Hungary;
- further expansion and development of our mobile network in Romania and Hungary, as permitted by our existing licenses;
- payments for the acquisition of television content rights;
- payments for the acquisition of new telecommunication licenses or renewal of existing telecommunication licenses;
- expansion of our fixed internet and data and fixed telephony business in Spain;
- the acquisition of CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE by other members of our industry), and other equipment, such as set-top boxes, mobile data devices and fixed-line telephone handsets, satellite dishes, satellite receivers and smartcards; and
- potential acquisitions.

The majority of these capital expenditures (with the exception of certain obligations under content agreements that we have already entered into) are discretionary, and we will revise these plans as required to ensure the best possible alignment with our business strategies and opportunities. We believe that our ability to finance our capital expenditures largely from internal resources has strongly improved as our investment plan for the short to medium term is largely discretionary, thus giving us significant flexibility to adjust our capital expenditure plan.

Payments to third-party service and content providers

In all of our business lines, a key cost item is payments to service and content providers. In the case of television services (both cable TV and DTH), this includes fees paid to third-party providers of channels that we carry. In the case of our own channels, we pay license fees to the holders of transmission/retransmission rights for sporting events, films and certain other programming. In the case of DTH services, these fees also include fees paid to the providers of satellite transmission services. In the case of internet and data, fixed-line telephony and mobile services, fees consist principally of interconnection fees paid to other network operators and, in the case of internet and data, international connectivity fees.

We carry both our own channels and channels produced by third parties over our DTH and cable TV services. Fees paid for channels produced by third parties are accounted for as operating expenses. Fees paid for content carried on our own channels is accounted for as capital expenditure and consist primarily of flat fees for the right to broadcast the relevant content.

Television programming fees, television license fees and internet and data connectivity fees are not determined by regulators and are subject to commercial negotiations. Our backbone networks in Romania and Hungary (both for national communications and for our internet connection with the global internet network) allow us to realize significant cost savings, as we only have to pay limited lease or transit fees for the use of other networks. Moreover, we benefit from competition among leading providers of global internet interconnection services, which tends to keep prices low.

Our current contract with Intelsat (which covers both satellites used to transmit our DTH signal) is effective until November 30, 2022. As at December 31, 2019, under this agreement we leased eight transponders to transmit our DTH signal and one transponder to transmit non-DTH signals. The contract allows us to reduce the number of dedicated transponders.

Telephone interconnection charges are regulated by national authorities and the European Union, and are capped at certain amounts, which have decreased over the past few years. In all our markets we pay fees to third-party service providers, such as banks, to help us collect revenue from customers, but also use our own network of collection points in Romania and Hungary.

Our operations require us to purchase significant amounts of electricity from utility companies in Romania and Hungary. In an effort to manage our future energy costs, in 2012 we started to invest in renewable energy by acquiring several companies developing solar energy projects. These projects are currently fully operational and have a combined installed capacity of 15.72 MW.

Acquisitions and disposals

Our historical growth has been due in part to our acquisitions of cable and/or internet operations. On May 30, 2018, we acquired Invitel from Ilford Holding Kft for the total consideration of €135.4 million. The acquisition was primarily financed with funds drawn under the 2018 Senior Facilities Agreement. See "—*Liquidity and Capital Resources—Financial obligations—2018 Senior Facilities Agreement.*" Invitel's results are consolidated into the results of the Group from June 1, 2018. After initially withdrawing its original approval of our acquisitions of Invitel on November 14, 2018, the GVH re-issued its approval on March 18, 2020 subject to fulfilment of certain remedial measures we proposed. See "*Business—Litigation and Legal Proceedings—Further investigation by the GVH of our acquisition of Invitel.*"

On March 8, 2019 we acquired from ATTP Telecommunications S.R.L. networks servicing approximately 53,000 cable TV, fixed internet and fixed telephony RGUs in Romania for an aggregate consideration of €8.5 million. During the periods under review we also acquired a number of other small telecommunication operators in Romania and Hungary. See "*—Liquidity and Capital Resources—Historical cash flows—Cash flows used in investing activities.*"

As part of our strategy, we may undertake additional acquisitions in the future in our existing business lines or complementary to them as, and if, appropriate opportunities become available. We regularly monitor potential acquisition targets, while assessing their attractiveness relative to other strategic alternatives available to us. We believe that acquisition opportunities in Romania could be significant, including in the near term, in light of recent publicly reported developments in the local competitive landscape and the resulting potential for further market consolidation or new entrants. We also may acquire smaller businesses on an opportunistic basis. However, a decision to proceed with any such acquisition will be subject to a number of conditions that may or may not materialize, including regulatory support and availability of third-party financing. See "*—Capital expenditure*".

Historical Results of Operations

Results of operations for the years ended December 31, 2018 and 2019.

Revenue

Our revenue (excluding intersegment revenue and other income) for the year ended December 31, 2019 was €1,186.0 million, compared with €1,038.1 million for the year ended December 31, 2018, an increase of 14.2%.

The following table shows the distribution of revenue by geographic segment and business line for the years ended December 31, 2018 and 2019:

	For the year ended December 31,		% change
	2018	2019	2018 v 2019
	(€ millions)		
Romania			
Cable TV	189.9	217.0	14.3%
Fixed internet and data	179.7	194.7	8.3%
Mobile telecommunication services(2)	180.2	195.9	8.7%
Fixed-line telephony	21.9	20.9	-4.6%
DTH.	32.6	31.0	-4.9%
Other revenue(1)	93.5	93.9	0.4%
Total	**697.8**	**753.4**	**8.0%**
Hungary			
Cable TV	60.5	66.3	9.6%
Fixed internet and data	57.5	77.0	33.9%
Mobile telecommunication services(3)	1.0	0.8	-20.0%
Fixed-line telephony	16.7	19.8	18.6%
DTH	31.7	29.3	-7.6%
Other revenue(1)	23.5	23.7	0.9%
Total	**190.9**	**217.0**	**13.7%**
Spain			
Fixed internet and data	0.3	10.5	3400.0%
Mobile telecommunication services(2)(4)	126.1	181.7	44.1%
Fixed-line telephony	0.0	0.5	100.0%
Other revenue(1)	0.1	0.5	400.0%
Total	**126.6**	**193.2**	**52.6%**
Other(5)			
Mobile telecommunication services(2)(4)	22.7	22.4	-1.3%
Other revenue(1)	0.1	0.0	-100.0%
Total	**22.8**	**22.4**	**-1.8%**
Total revenue	**1,038.1**	**1,186.0**	**14.2%**

(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.
(2) Includes voice and mobile internet and data revenue.
(3) Represents mobile internet and data revenue generated: (a) prior to May 2019, as a reseller through Telenor's network; (b) between May 2019 and July 2019, as a reseller through Telenor's network and through our own mobile network in the country; and (c) since July 2019, through our own mobile network in the country only.
(4) Represents mobile telephony and internet and data revenue from our MVNO operations.
(5) Includes revenue from operations in Italy.

Revenue in Romania for the year ended December 31, 2019 was €753.4 million, compared with €697.8 million for the year ended December 31, 2018, an increase of 8.0%. Revenue growth in Romania was primarily driven by increases in our cable TV RGUs and fixed internet and data and an increase in prices charged for all our services in early 2019. Our cable TV RGUs increased from approximately 3.59 million as at December 31, 2019 to approximately 3.31 million as at December 31, 2018, an increase of approximately 8.6%, and our fixed internet and data RGUs increased from approximately 2.53 million as at December 31, 2018 to approximately 2.78 million as at December 31, 2019, an increase of approximately 9.8%. These increases were primarily due to extension and further development of our fixed networks and our attractive fixed internet and data packages, as well as new customer acquisitions. Mobile telecommunication services RGUs increased slightly from approximately 3.41 million as at December 31, 2018 to approximately 3.44 million as at December 31, 2019, an increase of approximately 1.1%, mainly driven by our attractive offerings, which was largely offset by decreases in sales of mobile internet sticks. ARPU from mobile telecommunication services also increased in the year ended December 31, 2019 to an average €4.8/month from an average €4.4/month in the year ended December 31, 2018, an increase of 9.1%, primarily as a result of increases in prices, as well as growth in voice 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 revenue 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 approximately 529,000 as at December 31, 2018 to approximately 507,000 as at December 31, 2019, a decrease of approximately 4.2%. 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 1.06 million as at December 31, 2018 to approximately 0.96 million as at December 31, 2019, a decrease of approximately 9.1%, as a result of the general trend away from fixed-line telephony and towards mobile telecommunication services.

Revenue in Hungary for the year ended December 31, 2019 was €217.0 million, compared with €190.9 million for the year ended December 31, 2018, an increase of 13.7%. This increase was primarily due to the fact that Invitel’s revenue was consolidated into our results for the full year (rather than seven months in the prior comparable period), an increase in prices charged for all our services in early 2019 and a slight increase in our cable TV and fixed internet and data RGUs. Our cable TV RGUs increased from approximately 689,000 as at December 31, 2018 to approximately 694,000 as at December 31, 2019, an increase of approximately 0.7%. Our fixed internet and data RGUs increased from approximately 747,000 as at December 31, 2018 to approximately 750,000 as at December 31, 2019, an increase of approximately 0.4%. These RGU increases were driven by the overall attractiveness of our offerings and investments in the development and extension of our networks in the country. Our fixed-line telephony RGUs decreased from approximately 694,000 as at December 31, 2018 to approximately 681,000 as at December 31, 2019, a decrease of approximately 1.9%. Our DTH RGUs decreased from approximately 276,000 as at December 31, 2018 to approximately 265,000 as at December 31, 2019, a decrease of approximately 4.0% due to DTH subscribers who terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services.

Revenue in Spain for the year ended December 31, 2019 was €193.2 million, compared with €126.6 million for the year ended December 31, 2018, an increase of 52.6%. The increase in revenue was principally due to an increase in the number of our mobile telecommunication services RGUs from approximately 1.34 million as at December 31, 2018 to approximately 1.89 million as at December 31, 2019, an increase of 41.0%. 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, on Telefónica’s network and are currently offered through such network and through our own FTTH GPON network, and generated revenue of €11.0 million for the period ended December 31, 2019.

Revenue in Other represented revenue from our operations in Italy and for the year ended December 31, 2019 and was €22.4 million, compared with €22.8 million for the year ended December 31, 2018, a slight variation of 1.8%. The decrease in our revenue in Italy was primarily due to decrease in ARPU driven by significant increases of mobile data allowances included in our packages with little additional cost to customers. Although our revenues decreased, we had an increase of RGUs from approximately 195,000 as at December 31, 2018 to approximately 242,000 as at December 31, 2019, an increase of 24.1%.

Total operating expenses

Our total operating expenses (excluding intersegment expenses and other expenses, but including depreciation, amortization and impairment) for the year ended December 31, 2019 were €1,038.5 million, compared with €925.0 million for the year ended December 31, 2018, an increase of 12.3%.

Operating expenses

The table below sets out our expenses (excluding intersegment expenses, other expenses and depreciation, amortization and impairment) per geographic segment for the years ended December 31, 2018 and 2019.

	For the year ended December 31,			
	2018		2019	
	(€ millions)	(% of revenue)	(€ millions)	(% of revenue)
Romania	440.4	63.1%	409.5	54.4%
Hungary	151.9	79.5%	156.1	71.9%
Spain	94.9	75.0%	149.8	77.5%
Other(1)	26.4	116.0%	24.3	108.5%
Total	**713.6**	**68.7%**	**739.7(2)**	**62.4%**

(1) Includes operating expenses of operations in Italy and operating expenses of the Company.
(2) Reflects a reduction by €66.2 million due to the adoption of IFRS 16. See "—Adoption of IFRS 16."

Operating expenses in Romania for the year ended December 31, 2019 were €409.5 million, compared with €440.4 million for the year ended December 31, 2018, a decrease of 7.0%. This was primarily due to a decrease in rental expenses as a result of the adoption of IFRS 16 (see "*—Adoption of IFRS 16*"), which more than offset increases in salaries, network and programming expenses, as a result of increased RGUs.

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

Operating expenses in Hungary for the year ended December 31, 2019 were €156.1 million, compared with €151.9 million for the year ended December 31, 2018, an increase of 2.8%. The increase is primarily due to the fact that Invitel's expenses were consolidated into our results for the full year (rather than seven months in the prior comparable period), the development of our mobile network, as well as general increases in salaries and network and programming expenses as a result of increased RGUs and content fee increases, which were partially offset by a decrease in rental expenses as a result of the adoption of IFRS 16. See "*—Adoption of IFRS 16*."

In general increases of operating expenses are in line with the development of the business and the building stage of the mobile network.

Operating expenses in Spain for the year ended December 31, 2019 were €149.8 million, compared with €94.9 million for the year ended December 31, 2018, an increase of 57.9%. This significant increase was primarily due to fixed telephony, internet and data and mobile interconnection expenses due to increased mobile and fixed RGUs and roll-out of our fixed line services. Salary expenses increased significantly due to a larger employee base.

Operating expenses in Other represented expenses of our operations in Italy and expenses of the Company and for the year ended December 31, 2019 were €24.3 million, compared with €26.4 million for the year ended December 31, 2018, a decrease of 8.0%. This decrease was primarily due to the fact that the principal Stock Option Plans vested in 2019 and corresponding expenses (accruals) were lower, as compared with the same period in 2018.

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 years ended December 31, 2018 and 2019.

	For the year ended December 31,	
	2018	2019
	(€ millions)	
Depreciation of property, plant and equipment	125.0	135.7
Amortization of non-current intangible assets	43.1	52.3
Amortization of program assets	40.7	42.0
Depreciation of right of use asset(1)	-	65.9
Impairment of property, plant and equipment	2.6	3.0
Total	**211.5**	**298.9**

(1) See "—Adoption of IFRS 16"

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment was €135.7 million for the year ended December 31, 2019, compared with €125.0 million for the year ended December 31, 2018, an increase of 8.6%. This increase was primarily due to the continued development of our networks and the fact that Invitel's depreciation of property, plant and equipment was consolidated into our results for the full year (rather than seven months in the prior comparable period).

Amortization of non-current intangible assets

Amortization of non-current intangible assets was €52.3 million for the year ended December 31, 2019, compared with €43.1 million for the year ended December 31, 2018, an increase of 21.3%, his increase was primarily due to an increase in subscriber acquisition costs and mobile licenses as part of the mobile network development in Hungary and Romania.

Amortization of program assets

Amortization of program assets was €42.0 million for the year ended December 31, 2019, compared with €40.7 million for the year ended December 31, 2018, a slight increase of 3.2%. This increase was primarily due to the start of amortization for several broadcasting rights to sports competitions in the third quarter of 2019.

Depreciation of right of use asset was €65.9 million for the year ended December 31, 2019 and was reported due to the adoption of IFRS 16. See "*—Adoption of IFRS 16*."

Other income/expense

We recorded €2.5 million of other expenses in the year ended December 31, 2019, compared to €19.9 million in the year ended December 31, 2018.

For the year ended December 31, 2019 Other expenses include accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events and the impact from the derecognition of the fair value assessment of energy trading contracts.

For the year ended December 31, 2018, Other expense represent accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events, litigation provision and Invitel's acquisition related costs.

For the year ended December 31, 2018 Other income of €8.9 million represented mark to market gain from fair value assessment of the energy trading contracts.

Operating profit

For the reasons set forth above, our operating profit was €145.0 million for the year ended December 31, 2019, compared with €102.0 million for the year ended December 31, 2018.

Net finance income/(expense)

We recognized net finance expense of €83.9 million in the year ended December 31, 2019, compared with net finance expense of €63.1 million in the year ended December 31, 2018, an increase of 32.9%.

The main variation comes from increase in foreign exchange losses as well as higher interest expenses due to the Additional Notes from February 2019 and additional interest expense from the adoption of IFRS 16, partially offset by increase in fair value of the embedded derivative assets compared to previous period.

Profit/(Loss) before taxation

For the reasons set forth above, our profit before taxation was €61.1 million for the year ended December 31, 2019, compared with a profit of €38.8 million for the year ended December 31, 2018.

Income tax credit/(expense)

An income tax expense of €20.5 million was recognized in the year ended December 31, 2019 compared to a tax expense of €20.8 million recognized in the year ended December 31, 2018.

Profit/(loss) for the year

For the reasons set forth above, our net profit for the year ended December 31, 2019 was €40.6 million, compared with a profit of €18.0 million for the year ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows, as well as debt financing. 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 and fixed networks, acquiring new and renewing existing content rights, procuring CPE which we provide to our customers and exploring other investment opportunities 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.

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

Historical cash flows

The following table sets forth, for the years ended December 31, 2018 and 2019, our consolidated cash flows from operating activities, cash flows used in investing activities and cash flows from (used in) financing activities.

	For the year ended December 31,	
	2018	**2019**
		(€ millions)
Cash flows from operations before working capital changes	**325.7**	**446.2**
Cash flows from changes in working capital (1)	2.5	(51.5)
Cash flows from operations	**328.2**	**394.7**
Interest paid	(43.6)	(51.1)
Income tax paid	(6.3)	(9.2)
Net cash flows from operating activities	**278.4**	**334.4**
Net cash flows used in investing activities	**(411.1)**	**(318.5)**
Net cash flows from (used in) financing activities	**130.5**	**(18.7)**
Net increase/(decrease) in cash and cash equivalents	(2.2)	(2.8)
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	**13.8**	**11.0**

(1) Cash flows from changes in working capital includes the sum of the (Increase)/decrease in trade receivables and other assets, (Increase)/decrease in inventories, Increase/(decrease) in trade payables and other current liabilities, Increase/(decrease) in deferred revenue.

Cash flows from operations before working capital changes were €446.2 million in the year ended December 31, 2019 and €325.7 million in the year ended December 31, 2018. The increase from 2018 to 2019 were due to the reasons discussed in "*—Historical Results of Operations—Results of operations for the years ended December 31, 2018 and 2019.*"

The following table shows changes in our working capital:

	For the year ended December 31,	
	2018	**2019**
	(€ millions)	
Decrease/(increase) in trade receivables,other and contract assets	(49.1)	(44.1)
Increase in inventories	(7.2)	0.4
(Decrease)/Increase in trade payables and other current liabilities	48.2	(12.2)
(Decrease) in deferred revenue/contract liabilities	10.5	4.5
Total	**2.5**	**(51.5)**

We had a negative working capital of €51.5 million in the year ended December 31, 2019. The negative working capital is due to the increase in trade receivables due to normal level of activity and the variation in trade and other payables balance, which is caused mainly because of non-cash movements related to acquisition of share from minority shareholders which were not yet paid.

Cash flows from operating activities were €394.7 million in the year ended December 31, 2019 and €278.4 million in the year ended December 31, 2018. Included in these amounts are deductions for interest paid and income tax paid, which were €63.6 million in the year ended December 31, 2019 and €49.8 million in the year ended December 31, 2018. Interest paid was €54.3 million in the year ended December 31, 2018, compared with €43.6 million in the year ended December 31, 2018, mainly due to the increase in the value of the total Senior Notes following the Additional Notes issuance from 2019, as well as the adoption of IFRS 16 which lead to additional interest expense of €7.7 million, according to which additional interest related to lease liabilities are presented on this line. Income tax paid was €9.2 million in the year ended December 31, 2019, compared with €6.3 million in the year ended December 31, 2018 mainly as a result of payments made by our subsidieries in Spain and Hungary. The increase in cash flows from operating activities in the year ended December 31, 2019, as compared to the year ended December 31, 2018, was due to an increase in our subscribers base and the improved performance of certain business lines.

Cash flows used in investing activities were €318.5 million in the year ended December 31, 2019, €411.1 million in the year ended December 31, 2018 (including the net cash payment for Invitel acquisition).

The following table shows our capital expenditures by category for the years ended December 31, 2018 and 2019:

	For the year ended December 31,	
	2018	**2019**
		(€ millions)
Network and equipment[1]	174.5	216.4
Customer Premises Equipment (CPE)[2]	40.5	41.9
Program assets—content for our own channels[3]	39.9	38.6
License and software[4]	13.8	26.3
Customer relationships[5]	4.0	18.2
Other additions to tangible assets[6]	26.9	29.1
Other additions to intangible assets[7]	28.8	36.3
Total additions to tangible and intangible assets	**328.4**	**406.8**
Differences between capital expenditures for tangible and intangible assets and additions to tangible and intangible assets[8]	(49.4)	(88.2)
Capital expenditures for the acquisition of tangible and intangible assets	**279.0**	**318.5**
Acquisitions of shares[9]	132.4[10]	0.2
Total	**411.4**	**318.7**

(1) Composed primarily of costs incurred for additions of materials and equipment to expand and upgrade our fiber optic networks; costs incurred for our personnel and subcontractors related to the expansion and upgrade of our fiber optic and mobile networks; costs incurred for materials and equipment to expand and maintain our mobile networks; costs incurred for equipment needed to operate our own channels; costs for acquisitions through business combinations, and allocated costs of construction in progress.

(2) Composed of costs incurred for additions to CPE, including certain network equipment such as GPON terminals (which may not generally be treated as CPE-related costs by other members of our industry), and other equipment such as set-top boxes, mobile data devices, fixed-line telephone handsets, satellite dishes and satellite receivers and smartcards, and allocated costs of construction in progress.

(3) Composed of costs incurred for additions of content for our own channels.

(4) Composed primarily of mobile network software licenses acquired in Romania and Hungary.

(5) Composed primarily of costs incurred when acquiring customer contracts from other companies directly by purchasing the assets of those companies.

(6) Composed primarily of costs incurred for additions to our land, buildings, vehicles and furniture, and allocated costs of construction in progress.

(7) Composed primarily of subscriber acquisition costs incurred to aqcuire new subscribers in Romania, Hungary, Spain and Italy.

(8) This is primarily composed of changes in trade payables owed to fixed asset suppliers. Changes in trade payables owed to fixed asset suppliers is composed of payments for additions to tangible and intangible assets recognized in prior periods, advance payments for additions to tangible and intangible assets which we expect will be recognized in future periods and accruals for additions to tangible and intangible assets for which we are obligated to make payments in future periods.

(9) Composed of cash spent to acquire controlling and non-controlling interests in subsidiaries and associates and to make payments for shares acquired in current or prior periods.

(10) Includes net payment for Invitel acquisition from May 2018.

During the year ended December 31, 2019, we acquired tangible and intangible assets for €406.8 million. We had €216.4 million in additions to our network and equipment, primarily to expand and upgrade our fixed fiber optic and mobile networks in Romania, Hungary and Spain. We had €38.6 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions for contracts entered into in this and prior years. We had €26.3 million in additions to our intangible assets, primarily to recognize software licenses for equipment for our mobile networks in Romania and Hungary. We had additions of €41.9 million to acquire CPE, primarily set-top boxes and GPON terminals and for our cable TV customers. We also had additions to customer relationships of €18.2 million, reflecting amounts incurred for the acquisition of customers from other cable and internet providers in Romania. Capital expenditures for the acquisition of tangible and intangible assets were €88.2 million lower than additions to tangible and intangible assets in the year ended December 31, 2019. This was primarily due to longer payment terms, especially for part of the network, as well as equipment and CPE additions. Payments made for acquisition of shares in amount of €0.2 million were insignificant.

Cash flows used in financing activities were a €18.7 million outflow for the year ended December 31, 2019. During 2019 we have issued Additional Senior Notes in amount of €200 million, which were used to repay or prepay some of the outstanding balances of the existing facilities (SFA 2016 & SFA 2018). During the year there were additional financing facilities drawn such as short term facilities from Romania, Spain and Hungary, as well as export facility from Romania. Payment of leases were in amount of €66 million, which included the impact of formar rental payments into lease liabilities payments in amount of €58.5 million, according to IFRS 16.

Planned Cash Requirements and Capital Expenditure Plan

We anticipate that our cash requirements in the near to medium term will consist principally of expenditures to service our debt, to upgrade and build expansions to our fixed and mobile networks, to further develop our mobile telecommunication services business, to purchase further broadcasting rights for our premium TV channels and finance acquisitions. We evaluate acquisition opportunities in line with, or complementary to, our current business as and when they become available. We believe that such opportunities may be significant in Romania and Hungary in the near-to medium term perspective, while we may also acquire smaller businesses in Spain and Italy. The following discussion sets out our principal cash needs based, among other things, on our existing capital expenditure plan, our outstanding bank loans and other contractual commitments.

Beyond our contractually committed capital expenditures (relating to broadcasting rights) and our expected network-related capital expenditures (relating to maintenance capital expenditures), our investment plan for the near to medium term is largely discretionary. These expenditures could include:

- expansion of our fixed network;
- expansion and further development of our mobile network;
- acquisition of additional television content rights and licenses;
- costs associated with CPE and the acquisition of new customers;
- payments for the acquisition of new telecommunication licenses or renewal of existing telecommunication licenses; and
- potential acquisitions.

As at December 31, 2019, our commitments to incur additional capital expenditures (consisting primarily of payments for content rights, and commitments to purchase of equipment and CPE) amounted to approximately €126.0 million.

Contractual obligations

Our principal contractual obligations consist of our obligations in respect of financial indebtedness that is owed under the 2023 Notes, our credit facilities, rent for network pillars, the annual radio spectrum fees for our mobile telecommunication licenses in Romania and Hungary, payments for broadcasting rights and lease arrangements.

The table below sets out the maturities of our financial liabilities and other major contractual commitments, including estimated payments and excluding the impact of netting agreements as at December 31, 2019, based on the agreements in place as at that date. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in the table below.

	Carrying amount as at December 31, 2019	Contractual cash flows as at December 31, 2019	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
				(€ millions)			
Non-derivative financial liabilities							
Interest bearing loans and borrowings, including bonds(1)	942.0	1,072.3	120.6	51.9	219.0	680.7	-
Lease liabilities(2)	198.3	219.9	33.5	31.1	52.4	56.8	46.1
Trade and other payables and other liabilities	500.6	501.1	412.1	48.6	31.4	8.9	-
Capital expenditure and operating expenditure contractual commitments(3)	224.5	224.5	45.8	45.8	76.3	40.2	16.4
Derivative financial liabilities(4)	**0.8**	0.8	0.8	-	-	-	-
Total	**1,866.1**	**2,018.5**	**612.7**	**177.4**	**379.2**	**786.5**	**62.5**

(1) Includes interest, which was estimated by using 3-month ROBOR or a fixed rate as at December 31, 2019 for all future periods. The estimated interest on the 2023 Notes does not include grossing-up of the Romanian withholding tax applicable because of the Tax Redomiciliation of the Parent to Romania for tax purposes in 2017 (approximately €5.2 million per year following the issuance of the 2023 Additional Notes), which is treated as finance expense).

(2) Reflects the impact of the adoption of IFRS 16. See "—Adoption of IFRS 16."
(3) Includes committed capital expenditures and committed operating expenditures.
(4) Derivative financial liabilities represent interest rate swaps arrangements for the entire term loan facility and accordion term loan facility under the 2015 Senior Facilities Agreement, through which the Company hedged against the volatility of cash flows on its floating rate borrowings due to fluctuation of market interest rates. In 2016, the principal amounts outstanding under the 2015 Senior Facilities Agreement were rolled into the 2016 Senior Facilities Agreement and therefore the interest rate swaps remained valid until the original maturity in April 2020.

Financial obligations

2023 Notes

On October 26, 2016, the Company issued €350.0 million in aggregate principal amount of 2023 Original Notes. On February 12, 2019, it issued €200.0 million in aggregate principal amount of 2023 Additional Notes.

The 2023 Notes beared the interest at the rate of 5.0% per annum, which was payable semi-annually, and matured on October 15, 2023.

The 2023 Notes were guaranteed by the RCS & RDS, DIGI Hungary and Invitel and were secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The 2023 Notes were fully redeemed on February 5, 2020, using the proceeds of the new Senior Secured offering due 2025 and 2028. See "*Recent up-dates*".

2019 Bridge Facilities Agreement

On July 31, 2019, the RCS & RDS, as borrower and original guarantor, DIGI Hungary as borrower and original guarantor, the Company, as borrower and original guarantor, and Invitel, as original guarantor, entered into an up to €150.0 million equivalent 2019 Bridge Facilities Agreement with a syndicate of banks (Citibank, N.A., London Branch, ING Bank N.V. and Unicredit Bank S.A.).

The 2019 Bridge Facilities Agreement provides for Facilities A1 and A2, which can be drawn either in RON, HUF or euro. The commitments under those facilities can be utilized either as term loans or letters of credit or guarantee to finance acquisitions of mobile telecommunication licenses in Romania and Hungary and will terminate within 12 months after the date of the 2019 Bridge Facilities Agreement, with an option for us, subject to certain conditions, to extend them for another six or 12 months. The aggregate commitments under the 2019 Bridge Facilities Agreement can be increased at our request up to €250.0 million (or its equivalent in other currencies) subject to certain conditions. We entered into the 2019 Bridge Facilities Agreement to finance acquisitions of mobile telecommunication licenses in Romania and Hungary. Although no funds have been drawn thereunder, as at December 31, 2019, we utilized a portion of available commitments as letters of guarantee to support our bids for such licenses.

Any amounts drawn under the 2019 Bridge Facilities Agreement will be subject to interest rate equal to an aggregate of a margin per annum (which is variable by period) plus ROBOR, BUBOR or EURIBOR, as applicable.

The 2019 Bridge Facilities Agreement is guaranteed by RCS & RDS, the Company, DIGI Hungary, Invitel and Digi Spain, which become Additional Guarantor in February 2020, and is secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

2018 Senior Facilities Agreement

On February 1, 2018, RCS & RDS and DIGI Hungary, as borrowers, and the Company, as guarantor, entered into the 2018 Senior Facilities Agreement.

The 2018 Senior Facilities Agreement originally provided for the following facilities: (i) HUF26,299,850,000 Facility A1; (ii) RON153,884,000 Facility B1; and (iii) €45,000,000 Facility B2. On March 9, 2018, DIGI Hungary exercised this option to increase the commitment under Facility A1 to HUF31,299,850,000. All facilities were fully drawn in May and October 2018 to finance the acquisition of Invitel and for general corporate purposes.

On February 12, 2019, the following principal amounts were prepaid under the 2018 Senior Facilities Agreement using the proceeds of the 2023 Additional Notes: (a) HUF17,834,709,112 under Facility A1; (b) RON87,683,372 under Facility B1; and (c) €25,641,078 under Facility B2. As a result, as at December 31, 2019, the following principal amounts were outstanding under the 2018 Senior Facilities Agreement HUF13,465,140,888 under Facility A1, RON66,200,628 under Facility B1 and €19,358,922 under Facility B2.

The interest rate under the 2018 Senior Facilities Agreement is composed of a margin of 2.65% per annum plus BUBOR, ROBOR or EURIBOR, as applicable.

The entire aggregate principal amount outstanding under 2018 Senior Facilities Agreement was fully prepaid on February 5, 2020 using the proceeds of the new Senior Secured Notes offering due 2025 and 2028. See "*Recent up-dates*".

2016 Senior Facilities Agreement

On October 7, 2016, the Company, as original guarantor, and RCS & RDS, as borrower, entered into the 2016 Senior Facilities Agreement.

The 2016 Senior Facilities Agreement originally provided for the following facilities: (i) RON930,000,000 Facility A1 (term loan facility); (ii) RON600,000,000 Facility A2 (term loan facility); and (iii) RON157,000,000 Facility B (revolving facility).

On February 12, 2019, the following principal amounts were prepaid under the 2016 Senior Facilities Agreement using the proceeds of the 2023 Additional Notes: (a) RON151,960,784 under Facility A1; (b) RON98,039,216 under Facility A2; and (c) RON120,000,000 under Facility B.

On October 4, 2019, the remaining RON50,000,000 were drawn under revolving Facility B. On October 30, 2019, we repaid RON10,789,216 under the Facility A1 and RON6,960,784 under the Facility A2, as per repayment schedule.. Therefore, as at 31 December 2019, all facilities under the 2016 Senior Facilities Agreement were fully drawn.

As a result, as at December 31, 2019, the following principal amounts were outstanding under the 2016 Senior Facilities Agreement: (i) RON581,250,000 under Facility A1; (ii) RON375,000,000 under Facility A2; and (iii) RON157,000,000 under Facility B.

The interest rate under the 2016 Senior Facilities Agreement is composed of a margin of 2.65% per annum plus ROBOR.

The final maturity date for all amounts drawn under the 2016 Senior Facilities Agreement is October 7, 2021. The table below sets out the repayment schedule for outstanding balances:

Reimbursement date	Repayment installment A1	Repayment installment A2
	RON	RON
Apr-20[1]	81,375,000	52,500,000
Oct-20[1]	81,375,000	52,500,000
Apr-21	81,375,000	52,500,000
Oct-21	337,125,000	217,500,000
Total	**581,250,000**	**375,000,000**

(1) Amounts prepaid on February 5, 2020.

The 2016 Senior Facilities Agreement is guaranteed by the Company, DIGI Hungary, Invitel and Digi Spain, which become Additional Guarantor in February 2020, and is secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

On February 5, 2020 we prepaied or repaied outstanding balances under the 2016 Senior Facilities Agreement in the principal aggregate amount of RON424,750,000 (equivalent to approximately €88.9 million), so that after such prepayment or repayment, the following balances remain outstanding under the term loan facilities: (a) RON418,500,000 under Facility A1; and (b) RON270,000,000 under Facility A2, and no outstanding balances remain under the revolving Facility B (without commitments under Facility B being cancelled). See "*Recent developments*".

ING Facilities Agreement

On November 4, 2013, the RCS & RDS entered into the ING Facilities Agreement in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The ING Facilities Agreement was amended on January 23, 2017 and August 20, 2019.

The ING Facilities Agreement provides for: (i) an up to €20.0 million or equivalent multicurrency uncommitted overdraft facility; and (ii) (a) an up to €20.0 million or equivalent multicurrency uncommitted Facility 1 for letters of guarantee; and (b) an up to €20.0 million or equivalent multicurrency uncommitted Facility 2 for letters of credit (the total outstanding amount under the ING Facilities Agreement cannot exceed €20.0 million or equivalent at any time)

As at December 31, 2019, we had the following outstanding balances under the ING Facilities Agreement: (i) €3.4 million or equivalent under the overdraft facility; (ii) letters of credit in amount of €5.2 million equivalent and (iii) letters of guarantee issued under Facility 1 in the amount of €55,032, RON9.2 million and USD1.4 million.

The ING Facilities Agreement is guaranteed by the Company and is secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

Citi Facilities Agreement

On October 25, 2013, the RCS & RDS entered into the Citi Facilities Agreement to consolidate the Group's existing uncommitted credit facilities with Citibank Europe Plc, Dublin – Romania Branch into a single uncommitted facility for working capital purposes. The Citi Facilities Agreement provides for: (i) an up to RON159.0 million or equivalent multicurrency uncommitted overdraft, letters of bank guarantees and letters of credit facilities; and (ii) an up to €13.0 million uncommitted letters of guarantee facility.

As at December 31, 2019, we had the following outstanding balances under the Citi Facilities Agreement: (i) €24.2 million or equivalent under the overdraft facility; and (ii) letters of guarantee issued under the letters of guarantee facility in the amount of €8.3 million, US$0.7 million and RON0.7 million.

The Citi Facilities Agreement is guaranteed by the Company and is secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

BRD Agreements

On September 20, 2017, RCS & RDS entered into the BRD Letters of Credit Facility Agreement. As at December 31, 2019, we had letters of credit issued by BRD in the aggregate amount of €13.5 million equivalent.

On May 23, 2018, RCS & RDS entered into the BRD Credit Facility Agreement for the aggregate amount of RON35.0 million repayable in 24 months for the purpose of (i) financing the acquisition of certain real estate property in Bucharest; and (ii) refinancing the acquisition of certain real estate property in Bucharest. As at December 31, 2019, an aggregate principal amount of €1.7 million equivalent was outstanding under the BRD Credit Facility Agreement.

The BRD Agreements are secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

2019 UniCredit Equipment Financing Agreement

On December 17, 2019, RCS & RDS, as borrower and the Company, as guarantor, entered into the 2019 UniCredit Equipment Financing Agreement for the acquisition of equipment from Nokia. On January 24, 2020, DIGI Hungary and Invitel guaranteed the 2019 UniCredit Equipment Financing Agreement by operation of an amendment and restatement of such facility agreement. The 2019 UniCredit Equipment Financing Agreement provides for: (a) Tranche 1 in an aggregate principal amount not exceeding €0.4 million; and (b) Tranche 2 in an aggregate principal amount not exceeding €12.8 million and is guaranteed by Finnvera plc., a Finnish export credit agency. All amounts drawn under the 2019 UniCredit Equipment Financing Agreement are subject to an interest rate of 0.85% per annum plus EURIBOR and interest is payable every six months.

The 2019 UniCredit Equipment Financing Agreement is guaranteed by the Company, DIGI Hungary, Invitel and Digi Spain, which become an Aditional Guarantor in February 2020 and is secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The outstanding balance as at December 31, 2019 is €10.8 million.

UniCredit Overdraft Facility Agreement

On December 15, 2015, RCS & RDS entered into the up to €2.0 million UniCredit Overdraft Facility Agreement. As at December 31, 2019, the outstanding amount was €2.0 million.

Libra Loan Agreement

On February 25, 2016, RCS & RDS entered into the Libra Loan Agreement for the aggregate amount of RON32.0 million repayable in five years to acquire certain real property in Bucharest, which has been mortgaged in favor of Libra Bank as security. As at December 31, 2019, €1.8 million equivalent was outstanding under the Libra Loan Agreement.

DIGI Hungary financings

In December 2016, DIGI Hungary entered into the HUF1.3 billion OTP Loan Agreement. In 2019, the maturity of the loan was extended until December 16, 2019. On December 16, 2019, DIGI Hungary repaid all amounts outstanding under this short-term loan.

On August 5, 2019, DIGI Hungary entered into the Sberbank Facility Agreement in the aggregate principal amount of HUF640.0 million. DIGI Hungary's obligations under the Sberbank Facility Agreement are guaranteed by the RCS & RDS and are secured by pledges of certain real estate. On December 10, 2019, available commitments under the Sberbank Facility Agreement were increased to HUF1.8 billion and fully drawn.

The outstanding amount as at December 31, 2019 was €5.6 million equivalent.

DIGI Spain financings

DIGI Spain is party to several credit facilities with Banco Santander, Caixabank and BBVA. As at December 31, 2019, the aggregate principal amount outstanding under these facilities was €12.6 million.

RCS Management Loan

On May 12, 2017, RCS & RDS entered into a short-term loan with RCS Management, for a principal amount of €5.0 million. The loan bears a 5.5% per annum interest rate and the repayment date was extended until May 9, 2020. As at September 30, 2019, the outstanding amount was €0.1 million. On December 31, 2019, RCS & RDS repaid all amounts outstanding under the RCS Management Loan in full.

Lease liabilities

As at December 31, 2019, we had lease liabilities in place for a total outstanding aggregate amount of €198.3 million. See "*—Adoption of IFRS 16*".

Contingent obligations

Apart from the commitments described under the section "*—Contractual Obligations*" we have no material contingent obligations. See also *Note 28 from the Consolidated Financial Statements as at December 31, 2019*.

OFF-BALANCE SHEET ARRANGEMENTS

Other than commitments described under the caption "*—Contractual Obligations*" (including letters of guarantees in the aggregate amount of €93.5 million), we did not have any material off-balance sheet arrangements as at December 31, 2019. See also *Note 28 from the Consolidated Financial Statements as at December 31, 2019*.

Main variations of assets and liabilities as at DECEMBER 31, 2019

Main variations for the consolidated financial position captions as at December 31, 2019 are presented below (for details, please see *Consolidated Financial Statements for the year ended 31 December 2019* included in this Annual report):

ASSETS

Financial assets at fair value through OCI

The available for sale financial assets at fair value through OCI of €39.6 million as at December 31, 2019 (December 31, 2018: €32.1 million) comprise of shares in RCSM obtained as result of the Share swap contracts between the Company and minority shareholders which were enforced during the reported period. In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment at year end was made based on the quoted price/share as of the valuation date, which is a relevant method of estimating the market value of a minority ownership in its equity.

For details, please see *Note 25 from the Consolidated Financial Statements as at December 31, 2019.*

Inventories

As at December 31, 2019 inventories were €15.6 million (December 31, 2018: €16.6 million), comparable to previous period.

Trade and other receivables and contract assets

As at December 31, 2019 trade and other receivables were €69.7 million and contract assets were €50.7 (December 31, 2018: trade and other receivables €60.0 million; contract assets were €44.0), increase due to normal business development.

Other assets

As at December 31, 2019 other assets were €11.9 million (December 31, 2018: €12.4 million).

Derivative financial assets

As at December 31, 2019 derivative assets included embedded derivative assets for the 2016 Senior Notes measured at fair value, in amount of €40.1 million (December 31, 2018: €31.1 million) For details, please see *Note 27 from the Consolidated Financial Statements for year ended December 31, 2019.*

LIABILITIES

Interest bearing loans and borrowings

As at December 31, 2019 the non-current portion of the interest bearing loans and borrowings were in amount of €811.4 million (December 31, 2018: €716.2 million) and the current portion was in amount of €130.7 million (December 31, 2018: €168.6 million) including the effect of borrowing costs. The total increase in non-current and current portion of interest bearing loans and borrowings is due to the Additional Notes from February 2019, the drawings under Facility B (RCF) from Senior Facility Agreement 2016 made during the year and new facilities, such as Unicredit Austria Export Facility and the Digi Spain financing agreements, as well as variations in overdrafts and short term facilities. For details, please see caption "Financial obligations" from above.

FINANCIAL INDICATORS

Below are presented consolidated financial indicators for the year ended 31 December 2019:

Financial Indicator	**As at 31 December 2018**	**As at 31 December 2019**
Current ratio		
Current assets/Current liabilities	0.31	0.31
Debt to equity ratio		
Long term debt/Equity x 100 (where Long term debt = Borrowings over 1 year)	490%	502%
Long term debt/Capital employed x 100 (where Capital employed = Long term debt+ Equity)	83%	83%
Trade receivables turnover		
Average receivables/Revenues	32.35 days	34.07 days
Non-current assets turnover		
(Revenues/Non-current assets)	0.73	0.69

BOARD OF DIRECTORS' STATEMENTS

The Board of Directors is responsible for preparing the annual accounts and management board report, in accordance with Dutch law and International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union ("EU-IFRS").

In accordance with Section 5:25c, paragraph 2 of the Dutch Financial Supervision Act, the Board of Directors states that, to the best of its knowledge, the annual accounts prepared in accordance with applicable accounting standards provide a true and fair view of the assets, liabilities, financial position and profit or loss for the year for the Company and its subsidiaries and that the board report provides a true and a fair view of the performance of the business during the financial year and the position at balance sheet date of the Company and its subsidiaries, together with a description of the principal risks and uncertainties that the Company and its group face.

In accordance with the Dutch Decree Implementing Article 10 EU-Directive on Takeovers (Besluit artikel 10 overnamerichtlijn) the Company makes the following disclosures:

a. for information on the capital structure of the Company, the composition of the issued share capital and the existence of the two classes of shares, please refer to Corporate Governance in this annual report. For information on the rights attached to the Class A Shares, please refer to the Articles which can be found on the Company's website. For information on the rights attached to the Class B Shares, please refer to the Articles which can be found on the Company's website. As at 31 December 2019, the issued share capital of the Company amounted to €6,810,042.52 divided into 64,556,028 Class A Shares representing 64.56% of the total issued share capital and 35,443,972 Class B Shares representing 35.44% of the total issued share capital.
b. except for the restriction imposed on RCS Management S.A. and Mr. Zoltan Teszari in the Relationship Agreement (whereby any such shareholder can only convert any of the Class A shares into Class B shares prior to, or concurrently with, their delivery to the counterparty where such transfer: (i) does not trigger a mandatory tender offer; and (ii) is not in connection with a joint venture, share swap, merger, acquisition or similar strategic transaction), the Company has imposed no limitations on the transfer of Class A Shares and Class B Shares. The Company is not aware of any depository receipts having been issued for shares in its capital.
c. for information on participations in the Company's capital in respect of which pursuant to Sections 5:34, 5:35 and 5:43 of the Dutch Financial Supervision Acts (Wet op het financieel toezicht) notification requirements apply, please refer to Corporate Governance of this annual report. There you will also find a list of shareholders who are known to the Company to have holdings of 3% or more.
d. Mr. Zoltán Teszári directly and indirectly, exercises control over 100% of the Company's Class A Shares. Mr. Zoltán Teszári owns 2.4% of the Class A Shares directly and controls the rest of the Class A Shares through his 87.1% share ownership of RCS Management S.A. The Class A Shares have special rights in the Company. For information on the special rights attached to the Class A Shares, please refer to the Articles which can be found on the Company's website. To summarize, each Class A Share confers the right to cast 10 votes, members of the Board of Directors are appointed and dismissed on nomination of the meeting of holders of Class A Shares, the meeting of holders of Class A Shares holds the right to make proposals to the general meeting of shareholders for remuneration of members of the Board of Directors in the form of shares, certain decisions of the Board of Directors concerning disposal or encumbrance of assets requires the approval from the meeting of holders of Class A Shares and amendment of the Articles of association of the Company which affect the rights of the Class A Shares, require the prior approval of the meeting of holders of Class A Shares.
e. current equity incentive plans adopted by the Company are administered by the Remuneration Committee.
f. no restrictions apply to voting rights attached to shares in the capital of the Company, nor are there any deadlines for exercising voting rights. The Articles do not allow the Company to cooperate with the issue of depository receipts for shares.
g. except for the Relationship Agreement referred to at letter b) from above, the Company is not aware of the existence of any agreements with shareholders which may result in restrictions on the transfer of shares or limitation of voting rights.
h. the rules governing the appointment and dismissal of members of the Board of Directors of the Company are stated in the Articles of the Company. All members of the Board of Directors are appointed by the general meeting of shareholders upon a binding nomination by the meeting of holders of Class A Shares. The general meeting of shareholders has the power to dismiss any member of the Board of Directors at any time. The rules governing an amendment of the Articles are stated in the Articles and require a resolution of the general meeting of shareholders which can only be passed pursuant to a prior proposal

of the Board of Directors of the Company. Any amendment of the Articles which affect the rights of the Class A Shares, requires the prior approval of the meeting of holders of Class A Shares.

i. the general powers of the Board of Directors are stated in the Articles of the Company which can be found on the Company's website. The Board of Directors does not hold the authority to resolve upon the issuance of shares. The Board of Directors is authorized to acquire shares in the capital of the Company for no consideration. Further rules governing the acquisition of shares by the Company in its own share capital are set out in article 5 of the Articles.

j. the Company is not a party to any significant agreements which will take effect, will be altered or will be terminated upon a change of control of the Company as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Act (Wet op het financieel toezicht), provided that certain financing and bonds agreements entered into by the Company do contain provisions that, as is customary for such documentation, may require early repayment or termination in the event of a change of control of the Company which in fact would mean that Mr. Zoltán Teszári would cease to control the Company Class A Shares. The Company's subsidiaries are also parties to a number of agreements concluded in the ordinary course of business that contain customary change of control clauses able to lead to the termination of the respective agreements.

k. the Company is not a party to any agreement with a Director or employee providing for payments upon termination of directorship or employment as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Act (Wet op het financieel toezicht)

In accordance with best practices 1.4.3 from the DCGC, with due consideration of the aforementioned inherent limitations and scope for improvement, the Board of Directors is of the opinion that:

- the management board report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis;
- the report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report.

REMUNERATION REPORT

Introduction

The objective of the current remuneration policy adopted by the general meeting (the ***General Meeting***) on 20 April 2017 (the ***Remuneration Policy 2017***) for the board of directors of the Company (the ***Board of Directors***) is to provide remuneration in a manner that qualified and expert directors can be recruited and retained in order to create long term value for the Group. The Group Directors are rewarded in consistency with the Company's performance, without however encouraging directors to act in their own interest or to take risks that are not in line with the Company's strategy and its risk appetite. The Remuneration Policy 2017 takes into account the internal pay ratios within the Group and applies to both the executive and the non-executive members of the Board of Directors (***Executive Directors*** and ***Non-executive Directors*** respectively, and together the ***Directors***).

Annually, the Remuneration Committee prepares the remuneration report on the application of the Remuneration Policy 2017. This remuneration report was prepared as much as possible in line with the new requirements stemming from the implementation of the Shareholder Rights Directive in Dutch law, noting however that it refers to the Remuneration Policy 2017, which was not yet adapted to this new legislation. This report will be submitted to the General Meeting for a non-binding, advisory vote.

The activity of the Remuneration Committee during 2019

During 2019, the Remuneration Committee assisted and supervised the Executive Directors with the implementation of the Remuneration Policy 2017 applicable to the Directors.
During 2019, the Company continued to comply with the applicable Remuneration Policy 2017 and no deviating rules or practices were proposed by the Remuneration Committee. The Remuneration Committee confirms that for the reported year there has been no change with respect to the fixed monthly remuneration granted to the Directors or to the Remuneration Policy 2017 or in its application comparing with the preceding reported financial year and no events occurred in the Group's business environment directly affecting the remuneration of the Directors.

Remuneration of Directors

Composition of Board of Directors

The composition of the Board of Directors changed in 2019 as a consequence of the resignation of Mr. Sambor Ryszka, Non-executive Director, with effect from 1 May 2019. Mr. Emil Jugaru was appointed by the General Meeting on 30 April, 2019, as Non-executive Director for a mandate of 1 year.

Remuneration of Board of Directors in 2019

The current remuneration of the Directors has been determined by the Remuneration Committee according to the Remuneration Policy 2017 and taking into consideration the stock option plans approved by the General Meeting on 2 May 2018.

Total remuneration of Directors received from the Group during the reported financial year (all in EUROs equivalent(1))

The table includes remuneration from all the Group companies where the Directors perform a role.

Name of director, position	Fixed remuneration						Variable Remuneration		Extraordinary items	Pension expense	Total remuneration	Proportion of fixed remuneration	Proportion of variable remuneration
		Base salary (net)	Base salary (gross)	Fixed Fees (net)	Fixed Fees (gross)	Fringe benefits	One-year variable(2)	Multi-year variable					
Mr. S. Bulgac CEO	**2019**	161,761	276,477	-	-	18,453	884,306	-	-	-	1,179,236	25%	75%
	2018	154,168	263,496	-	-	5,680	1,564,447	-	-	-	1,833,622	15%	85%
Mr. V. Popoviciu Executive Director	**2019**	155,213	265,283	-	-	3,111	468,000	-	-	-	736,394	36%	64%
	2018	138,681	237,021	-	-	1,939	426,667	-	-	-	665,626	36%	64%
Mr. Z. Teszári President	**2019**	11,331	20,202	100,000	170,900	7,186	306	-	-	-	198,594	100%	0%
	2018	10,750	19,096	100,000	170,900	5,059	312	-	-	-	195,367	100%	0%
Mr. M. Varzaru Non-executive Director	**2019**	129,459	231,600	100,000	111,100	7,388	481,740	-	-	-	831,828	42%	58%
	2018	131,217	231,600	100,000	111,100	7,357	410,400	-	-	-	760,457	46%	54%
Mr. B. Ciobotaru Non-executive Director	**2019**	37,933	42,148	100,000	111,100	-	0		-		153,248	100%	0%
	2018	38,681	42,979	100,000	111,100	-	0		-		154,079	100%	0%
Mr. P. Rymaszweski Non-executive Director	**2019**	-	-	100,000	111,100	-	0	-	-	-	111,100	100%	0%
	2018	-	-	100,000	111,100	-	0	-	-	-	111,100	100%	0%
Mr. E. Jugaru Non-executive Director	**2019**	50,721	87,118	66,650	113,933	13,033	306	-	-	-	214,390	100%	0%
	2018	51,621	88,240	-	-	11,598	312	-	-	-	100,151	100%	0%
Mr. Sambor Ryszka Non-executive Director **until 1 May 2019*	**2019**	16,272	24,470	33,332	37,036	-	0	-	118,429	-	179,935	34%	66%
	2018	78,141	117,506	100,000	111,100	2,862	1,415	-	-	-	232,883	99%	1%
TOTAL	**2019**	**562,691**	**947,298**	**499,982**	**655,169**	**49,171**	**1,834,659**	-	**118,429**	-	**3,604,726**	-	-
	2018	**603,259**	**999,938**	**500,000**	**615,300**	**34,495**	**2,403,553**	-	**-**	-	**4,053,285**	-	-

(1) The remuneration received in other currencies than Euro from the Company's subsidiaries were converted to Euro by using foreign exchange rates as at year end December 31, 2019, respectively December 31, 2018, for RON and HUF relative to Euro.

(2) Share options vested during the year valuated at share price from vesting date.

The remuneration package as provided by the Remuneration Policy and as proposed and approved during the General Meetings was designated to reward the Directors in a manner that motivates performance, taking into consideration that the variable remuneration component of the Executive Directors is relatively high in relation to the fixed remuneration component.

In addition to their position within the Company, the Executive Directors and most of the Non-executive Directors also perform positions at group companies, such as board memberships or management positions. Based on the activity performed by the Directors within the Company's subsidiaries, they receive a fixed salary and, where relevant, variable remuneration. The remuneration granted by each subsidiary of the Company is in line with the management agreements concluded by the relevant individual with each subsidiary, the remuneration policy of the relevant subsidiary and, where no remuneration committee is established at the subsidiary level, based on the major shareholder decision.

The total remuneration of the Directors contributes to the long term performance of the Company as it allows the Company to attract and retain qualified and expert directors who are motivated to achieve the Company's targets, implement its strategic goals and create long-term value for all stakeholders by receiving a remuneration package that is appropriate with the dimension and the structure of the Group, as well as to the nature, business sector and complexity of the business.

Fixed remuneration of Executives and Non-executive Directors for the year 2019

The fixed net annual salary of Executive and Non-executive Directors of the Company for the year 2019 was was 100,000 Euro,, in line with the Remuneration Policy and management agreements concluded with the Company and in force during the reported year.

Variable remuneration of Executives and Non-executives Directors for the year 2019 - in the form of cash bonuses

No variable remuneration in the form of cash bonuses was paid by the Company to the Directors during the reported financial year. Nevertheless, certain Directors received variable remuneration in the form of cash bonuses from Group companies in relation to the positions they held within those companies and based on the agreements and performance criteria established by the relevant subsidiary, and in line with the provisions of the local law (see table above - *Total remuneration of Board Directors received from the Group during the reported financial year (all in EUROs equivalent)*).

Variable remuneration of Executive and Non-executive Directors for the year 2019 - in the form of stock options. Overview on the stock option plans approved by the Company under shareholder's resolutions and the Board of Directors resolutions until present, with the oversight by the Remuneration Committee

During 2019, no stock option plan was approved and no awards were made. The below table sets out the status of option grants made to Directors in 2017 and 2018.

Shares transferred during 2019 to Directors and employees of the Group under the Share Options approved during 2017 and 2018

Name of Director, position	The main conditions of share option plans							Information regarding the reported financial year					
								Opening balance	During the year		Closing balance		
	1 Specification of plan	2 Performance period	3 Award date	4 Vesting Date	5 End of holding period	6 Exercise Period	7 Strike price of shares (EUR)	8 Share options held at the beginning of the year	9 Share options awarded	10 Share options vested	11 Share options subject to performance condition	12 Share option awarded and unvested at the year end	13 Share options subject to a holding period
Mr. S. Bulgac CEO	SOP3	1 year	14 May 2018	15 May 2019	-	15 May 2019	-	170,000	-	170,000	-	-	-
	SOP3	1 year	15 April 2019	16 April 2020	-	16 April 2020	-	-	170,000	-	170,000	170,000	-
Mr. V. Popoviciu Executive Director	SOP 3	1 year	14 May 2018	15 May 2019	-	15 May 2019	-	90,000		90,000	-	-	-

	SOP 3	1 year	15 April 2019	16 April 2020	-	16 April 2020	-	-	90,000	-	90,000	90,000	-
Mr. Z. Teszári President	-	-	-	-	-	-	-	-	-	-	-	-
Mr. M. Varzaru Non-executive Director	SOP3	1 year	14 May 2018	No sooner than 15 May 2019 and no later than 15 May 2020, under the condition of being a director or employee of the Group at the vesting date	-	No sooner than 15 May 2019 and no later than 15 May 2020	-	50,000	-	-	50,000	50,000	-
Mr. B. Ciobotaru Non-executive Director	SOP3	1 year	14 May 2018	No sooner than 15 May 2019 and no later than 15 May 2020, under the condition of being a director or employee of the Group at	-	No sooner than 15 May 2019 and no later than 15 May 2020	375,000 EUR[1]	116,090	-	-	116,090	116,090	-

[1] Representing the total price of the 116,090 share options

				the vesting date									
Mr. P. Rymaszweski Non-executive Director	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr. E. Jugaru Non-executive Director **since 1 May 2019*	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr. Sambor Ryszka Non-executive Director **until 1 May 2019*	-	-	-	-	-	-	-	-	-	-	-	-	-

Share options vested during 2019 were awarded for no consideration, except for share vested for Mr. Ciobotaru (please see above in the table).

Overview on the stock option plans approved by the Company under shareholder's resolutions and the Board of Directors resolutions until present, with the oversight by the Remuneration Committee

SOP 1

- On April 21, 2017, the General Meeting approved the grant of certain stock options to the Executive Directors (the ***SOP 1***). In total, 280,000 Class B Shares (which were held by the Company as treasury shares), representing 0.28% of the Company' s issued share capital, were allocated to the Executive Directors. These stock options vested in 2018. SOP 1 was finalized in 2018.

SOP 2

- On December 27, 2017, the Board of Directors decided to grant certain stock options to a number of directors (excluding Directors) and employees of the Group's companies in Romania (the ***SOP 2***). Up to 1.6 million Class B Shares were designated for the purposes of the SOP 2, representing up to 1.6 % of the Company's issued share capital. SOP 2 vested during 2018-2019.
- Considering the high number of employees that needed to be evaluated for this purpose and the fact that RCS&RDS contains different and heterogeneous structures, the performance criteria applied at the level of the Romanian operations were not the same, but they were fully objective and comparable. Among such performance criteria, besides the professional results and the contribution to the activity of the Romanian operations until the grant date, that were decided by the relevant department head, other criteria connected to the profile of the eligible employee were taken into account, such as the behaviour, the reaction to several conditions at work and the fidelity to the Group translated into a minimum of 3 (three) years of employment.

- At 31 December 2019 a number of 1,355,700 Class B Shares representing 1.3% of the issued share capital were transferred to approximately 2,580 eligible employees. The rest of the employees who have been granted rights under the SOP 2 either did not meet the applicable performance or vesting conditions or did not exercise their options or their rights are not yet exercisable.

SOP 3

- On May 2, 2018, the General Meeting approved the grant of certain stock options to the Directors (the ***SOP 3***). 686,090 Class B Shares were designated for the purposes of the SOP 3, representing 0.686% of the Company's issued share capital. The SOP 3 vested partially in 2019 and will vest partially 2020, in line with the vesting schedule established by the General Meeting.
- During 2019, a number of 170,000 Class B Shares, representing 0.170% of the Company's issued share capital, vested for Mr. Serghei Bulgac, and a number of 90,000 Class B Shares, representing 0.090% of the Company's issued share capital, for Mr. Valentin Popoviciu. These shares were granted for no consideration, vested at the vesting date and by complying with the performance conditions approved by the General Meeting on May 2, 2018, namely: being a director or employee of the Company or its subsidiaries on the vesting date; EBITDA of the Company as determined on the basis of IFRS financial statements for the year 2018 being at least 5% higher than EBITDA of the Company as determined on the basis of the IFRS financial statements for the year 2017; Number of RGUs of the Group, as defined and set out in the Annual Report of the Company for the year 2018, having increased by at least 300,000 when compared with number of NGUs of the Group, as defined and set out in the Annual Report of the Company for the year 2017; Leverage ratio for the Group (calculated as consolidated total net financial indebtedness to EBITDA on the basis of IFRS group accounts for the year 2018) to be less than 3.25:1.
- In respect of the remaining difference of 426,090 class B shares, representing 0.426% of the Company's issued share capital: 260,000 class B shares, representing 0.260% of the Company's issued share capital, granted to Mr. Bulgac and Mr. Popoviciu may vest on April 16, 2020, if the performance conditions set by the General Meeting on May 2, 2018 for the 2019 financial year are met; 50,000 class B shares, representing 0.050% of the Company's issued share capital, granted to Mr. Varzaru, for no consideration may vest ultimately on May 15, 2020, also in compliance with the performance conditions established by the General Meeting on May 2, 2018, i.e. being a director or employee of the Company or its subsidiaries on the vesting date, and a number of 116,090 class B shares, representing 0.116% of the Company's issued share capital, granted to Mr. Ciobotaru, may vest ultimately on 15 May 2020, in exchange for EUR 375,000 and provided he meets the requirement of being a director or employee bof the Company or its subsidiaries on the vesting date.

SOP 4

- On May 21, 2018, the Board of Directors decided to grant certain stock options to a limited number of key employees of RCS & RDS S.A. (the ***SOP 4***). 250,000 Class B Shares were designated for the purposes of the SOP 4, representing 0.25% of the Company's issued share capital. SOP 4 vested in 2019. 100,000 Class B Shares, granted to Mr. Mihai Dinei, Non-executive Director of RCS&RDS S.A. for no consideration, vested at the vesting date by complying with the performance conditions approved by the Board of Directors, representing 0.100% of the Company's issued share capital. The remaining number of 150,000 of Class B Shares, representing 0.150% of the Company's issued share capital, granted to Mr. Florin Ungureanu (i.e. 50,000 Class B Shares), former key employee of RCS&RDS S.A. and Mr. Ioan Bendei (i.e. 100,000 of Class B Shares), former Executive Director of RCS&RDS S.A. did not vest since the performance and vesting conditions were not fulfilled.

SOP 5

- On May 21, 2018, the Board of Directors decided to grant stock options to certain employees of DIGI Spain (the ***SOP 5***). 35,000 Class B Shares were designated for the purposes of the SOP 5, representing 0.035% of the Company's issued share capital. SOP 5 vested in 2019. 33,500 Class B Shares, granted to 47 Digi Spain employees, representing 0.033% of the Company's issued share capital, vested following achievement of the approved performance conditions. The remaining 1,500 class B shares, representing 0.015% of the Company's issued share capital, did not vest since the performance and vesting conditions were not fulfilled.

Stock-options typically vest not earlier than one year from their grant date and will be exercisable immediately thereafter, but not later than three months after the vesting date. The Company acknowledges that this deviates from best practice provision 3.1.2 under (vii) of the Dutch Corporate Governance Code (***DCGC***), noting that the reason for deviation is due to class A shareholders proposal and is implemented according the majority shareholders vote exercised by the General Meeting in which the stock-option plans were approved.

Stock options granted to Directors of the Company were subject to post-grant date performance criteria indicated in the Remuneration Policy 2017, such as: (i) duration of employment with the Group, and (ii) growth in EBITDA and in RGUs. For further details on the applicable performance criteria, we refer to the following table:

Performance Criteria applicable to variable remuneration granted to Directors in the reported financial year

Name of Director, position	**1** **Description of the performance criteria and type of applicable remuneration**	**2** **Relative weighting of the performance criteria**	**3 Information on Performance Targets**		**4** **a) Measured performance and** **b) actual award outcome**
			a) minimum target/threshold performance and b) corresponding award	**a)maximum/target performance and b) corresponding award**	
Mr. S. Bulgac CEO of Digi Communications N.V.	**Criterion A** referring to SOP 3 for the year 2018 - being a director or employee by the Company or its subsidiaries on the vesting date	-	All the criteria must be fulfilled 100% in order to allow pay out	All the criteria were fulfilled	Criterion A: Mr. S. Bulgac was the executive director and CEO of the Company at the vesting date; Criterion B: 2018 EBITDA 12.8% higher than 2017 EBITDA; Criterion C: RGU increase with 1,653,000 units; Criterion D: Leverage ratio of the Group for 2018 was 2.8
	Criterion B referring to SOP 3 for the year 2018 - EBITDA of the Company as determined on the basis of IFRS financial statements for the year 2018 being at least 5% higher than EBITDA of the Company as determined on the basis of the IFRS financial statements for the year 2017				
	Criterion C referring to SOP 3 for the year 2018 - Number of RGUs of the Group, as defined and set out in the Annual Report of the Company for the year 2018, having increased by at least 300,000 when compared with number of NGUs				

	of the Group, as defined and set out in the Annual Report of the Company for the year 2017				
	Criterion D referring to SOP 3 for the year 2018 - Leverage ratio for the Group (calculated as consolidated total net financial indebtedness to EBITDA on the basis of IFRS group accounts for the year 2018) to be less than 3.25:1				
Mr. V. Popoviciu Executive Director of Digi Communications N.V.	**Criterion A** referring to SOP 3 for the year 2018 - being a director or employee by the Company or its subsidiaries on the vesting date	-	All the criteria must be fulfilled 100% to allow pay out	All the criteria were fulfilled	Criterion A: Mr. V. Popoviciu was the executive director of the Company at the vesting date; Criterion B: 2018 EBITDA 12.8% higher than 2017 EBITDA; Criterion C: RGU increase with 1,653,000 units; Criterion D: Leverage ratio of the Group for 2018 was 2.8
	Criterion B referring to SOP 3 for the year 2018 - EBITDA of the Company as determined on the basis of IFRS financial statements for the year 2018 being at least 5% higher than EBITDA of the Company as determined on the basis of the IFRS financial statements for the year 2017				
	Criterion C referring to SOP 3 for the year 2018 - Number of RGUs of the Group, as defined and set out in the Annual Report of the Company for the year 2018, having increased by at least 300,000 when compared with number of NGUs of the Group, as defined and set out in the Annual Report of the Company for the year 2018				
	Criterion D referring to SOP 3 for the year 2018 - Leverage ratio for the Group (calculated as consolidated total net financial indebtedness to EBITDA on the basis of IFRS group accounts for the year 2018) to be less than 3.25:1				
Mr. M. Varzaru Non-executive Director of Digi Communcations N.V.	**Criterion A** referring to SOP 3 for the year 2018-2019 - being a director or employee by the Company or its subsidiaries on the vesting date	-	The criterion must be fulfilled 100% to allow pay out	-	Criterion A: Mr. M. Varzaru is currently the Vice President and non-executive director of the Company. Until present the option was not exercised.

Mr. B. Ciobotaru Non-executive Director of Digi Communications N.V.	**Criterion A** referring to SOP 3 for the year 2018-2019 - being a director or employee by the Company or its subsidiaries on the vesting date	-	The criterion must be fulfilled 100% to allow pay out	-	Criterion A: Mr. B. Ciobotaru is currently non-executive director of the Company. Until present the option was not exercised.

Other benefits

Other benefits received by the Board Directors during 2019 are the use of company cars. No pension benefits are paid to Directors. Furthermore, no loans, prepayments or guarantees have been made to any of the Directors.

Severance arrangements

The Company is compliant with the best practice provisions on severance payments as laid down in 3.2.3 of the DCGC, stating that the remuneration in the event of dismissal should not exceed one year's salary (the 'fixed' remuneration component). Severance pay will not be awarded if the agreement is terminated early at the initiative of the Executive Director, or in the event of seriously culpable or negligent behavior on the part of the Executive Director. These conditions are provided in the management agreements concluded by the Company with each Director. During 2019, no severance payments were granted to the Directors.

Other operations - Share buy-back. Share conversion:

Since 23 May 2019 until the date of this report, the Company purchased the aggregate of 937,768 Class B shares of the Company on the open market, representing 0.9% of its issued share capital as at the date hereof.

In addition, on January 14, 2019, the Company converted 1.2 million of its Class A shares that were held as treasury shares into the equal number of Class B shares. These converted Class B shares represent 1.2 % of the Company's issued share capital.

Information on how the remuneration complies with the Remuneration Policy and how the performance criteria were applied

The remuneration received by the Board of Directors from the Company during 2019 is in accordance with the provisions of the Remuneration Policy 2017 as presented below.

Based on the Remuneration Policy 2017, the remuneration of Executives Directors of the Company is comprised of a net fixed based salary of 100,000 Euro per year, a variable remuneration linked to performance, consisting of an incentive component in the form of stock options or in the form of a cash bonus, fringe benefits (use of company cars or allowances in respect of health and nursery insurance) and severance arrangements (in case of a dismissal, executive directors shall, subject to mandatory law, not be entitled to any severance payment in excess of three month's base salary, unless the Board of Directors decides otherwise based on a recommendation of the Remuneration Committee, but will not exceed one year's salary (the fixed base salary) in the preceding financial year. Severance pay will not be awarded if the agreement is terminated at the initiative of the executive director or in the event of seriously culpable or negligent behavior on the part of the relevant executive director).

During 2019 the remuneration granted to Executive Directors was entirely in compliance with the provisions of the Remuneration Policy 2017, i.e. the Executive Directors received from the Company a net fixed based salary of 100,000 Euro per year, a variable remuneration consisting of stock options based on the performance criteria established by the General Meeting on May 2, 2018, that were in line with the financial and non-financial criteria provided by the Remuneration Policy 2017 (see the performance criteria presented in the table above - *Performance of Directors in the reported financial year* and in respect to the components of the total remuneration the table above - *Total remuneration of Board Directors received from the Group during the reported financial year (all in EUROs equivalent)*).

The remuneration of the Non-Executive Directors, according to the Remuneration Policy 2017 provisions comprises of a net fixed annual compensation of 100,000 Euro. The Non-Executive Directors of the Company can receive also a variable remuneration consisting of stock options or variable cash remuneration, taking into consideration their positions occupied within the Company's subsidiaries.

During 2019 no severance payments, pensions, loans or guarantees were granted by the Company to Executive and Non-executive Directors. Additionally, no claw back rights were exercised in relation to remuneration granted to the Directors.

From the review of the materials prepared by the specialized HR departments of the relevant Group subsidiaries, the Remuneration Committee is able to conclude that the market features are different from one country to another, that the regulatory environments and the social security requirements are particular to each territory and constantly changing. Also, none of the Group subsidiaries seem to depart to a significant extent from the market trends and conditions.

Based on the figures provided by the specialized HR departments of the relevant Group subsidiaries during 2019, there has been no significant variation in the remuneration of the employees of the Group.

Comparative information on the change of remuneration and Group performance

Annual change	**2019 vs 2018[2]**	**2018 vs 2017**
Director's remuneration variation		
Mr. Bulgac, ***CEO***	-36%	601%
Mr. Popoviciu, ***Executive Director***	11%	174%
Mr. Teszári, ***President***	2%	1%
Mr Varzaru, ***Non-executive Director***	9%	63%
Mr. Ciobotaru, ***Non-executive Director***	-1%	-33%
Mr. Rymaszewski, ***Non-executive Director***	0%	0%
Mr. Sambor Ryszka, ***Non-executive Director*** **until 1 May 2019*	-23%	-11%
Mr. Jugaru, ***Non-executive Director*** **from 1 May 2019*	114%	N/A

[2] The variation of the Director's remuneration is due to the variation of the variable component of the remuneration granted to Directors under the stock option plans approved

Company performance		
Revenues mil EUR	14%	13%
EBITDA (incl. IFRS 16) mil EUR	38%	13%
RGU (thousand)	8%	12%
Average remuneration(1)		
Total Group	-1%[3]	15%%
Pay-ratio	**2019**	**2018**
	38.9	43.1

(1) Computed as total Group salaries expenses divided to the average number of Group employees.

The Company's shares were listed on the Bucharest Stock Exchange starting from May 2017. The information presented in the table above include data for the Directors after the Company become public (2017 onwards).

The Remuneration Committee's plan for 2020

The Remuneration Committee plans to focus in 2020 on cooperating with the Executive Directors and with the senior management of the Company and its subsidiaries on the further proper implementation of the approved ongoing and further Stock Option Plans, on further supervising of the buy-back programs at the level of the Company, on the implementation of the new remuneration policy (once approved by the General Meeting) and the implementation of Shareholders Directive provisions, as well as on advising and guiding the Company's subsidiaries in optimizing their remuneration policies and procedures.

3 The variation of the average remuneration of Group's employees is due to personnel fluctuation within the departments of the Group's companies – see section *Management Structure. Corporate Governance - Employee statistics and diversity. Health and safety at work*

Consolidated Financial Statements for the year ended 31 December 2019

communications n.v.

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

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

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,188,394	1,138,992
Right of use assets	6	197,930	-
Intangible assets	7	268,928	245,852
Financial assets at fair value through OCI	8	39,592	32,058
Investment in associates		969	970
Long term receivables		2,642	5,584
Other non-current assets		5,943	4,629
Deferred tax assets	22	2,620	2,659
Total non-current assets		**1,707,018**	**1,430,744**
Current assets			
Inventories	10	15,560	16,586
Programme assets	7	17,557	21,379
Trade and other receivables	11	69,680	60,002
Contract assets	19,11	50,715	44,076
Income tax receivable		9	547
Other assets	12	11,884	12,419
Derivative financial assets	27	40,095	33,287
Cash and cash equivalents	13	10,998	13,832
Total current assets		**216,498**	**202,128**
Total assets		**1,923,516**	**1,632,872**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	6,810	6,918
Share premium		3,406	3,406
Treasury shares		(16,806)	(14,527)
Reserves		(18,536)	(18,583)
Retained earnings		188,679	168,825
Equity attributable to equity holders of the parent		**163,553**	**146,039**
Non-controlling interest		6,224	7,306
Total equity		**169,777**	**153,345**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings, including bonds	15	811,363	716,193
Lease liabilities	16	133,537	-
Deferred tax liabilities	22	69,746	60,652
Decommissioning provision		7,180	6,082
Other long term liabilities	17.2	40,312	34,600
Total non-current liabilities		**1,062,138**	**817,527**
Current liabilities			
Trade and other payables	17.1	460,294	461,463
Interest-bearing loans and borrowings	15	130,667	168,625
Lease liabilities	16	64,721	-
Income tax payable		1,498	543
Derivative financial liabilities	27	785	1,106
Provisions		6,118	7,225
Contract liabilities	19	27,518	23,038
Total current liabilities		**691,601**	**662,000**
Total liabilities		**1,753,739**	**1,479,527**
Total equity and liabilities		**1,923,516**	**1,632,872**

The financial statements were authorized for issue by the Board of Directors on 19 March 2020 and were signed on its behalf by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Emil Jugaru,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-executive Director*	*Executive Director*	*Independent Non-executive Director*	*Non-executive Director*	*Non-executive Director*	*President*

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

		2019	2018		
	Notes		**Continuing Operations**	**Discontinued Operations**	**Total**
Revenues	19	1,186,026	1,038,121	-	1,038,121
Other income	30	-	8,873	-	8,873
Operating expenses	20	(1,038,530)	(925,032)	-	(925,032)
Other expenses	30	(2,496)	(18,917)	(1,070)	(19,987)
Operating profit		**145,000**	**103,045**	**(1,070)**	**101,975**
Finance income	21	9,984	357	-	357
Finance expenses	21	(93,867)	(63,495)	-	(63,495)
Net finance costs		**(83,883)**	**(63,138)**	**-**	**(63,138)**
Profit / (loss) before taxation		**61,117**	**39,907**	**(1,070)**	**38,837**
Income tax	22	(20,533)	(20,815)	-	(20,815)
Net profit / (loss) for the year		**40,584**	**19,092**	**(1,070)**	**18,022**
Other comprehensive income					
Items that are or may be reclassified to profit or loss, net of income tax					
Foreign operations – foreign currency translation differences		(2,648)	(4,547)	-	(4,547)
Cash Flow hedge reserves		(93)	366	-	366
Items that will not be reclassified to profit or loss					
Revaluation of equity instruments measured at fair value through OCI	8	7,535	(10,088)	-	(10,088)
Other comprehensive income for the year, net of income tax		**4,794**	**(14,269)**	**-**	**(14,269)**
Total comprehensive income for the year		**45,378**	**4,823**	**(1,070)**	**3,753**

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

	Notes	2019	2018 Continuing Operations	2018 Discontinued Operations	2018 Total
Profit / (Loss) attributable to:					
Equity holders of the parent		38,125	17,601	(1,001)	16,600
Non-controlling interest		2,459	1,491	(69)	1,422
Net profit / (loss) for the year		**40,584**	**19,092**	**(1,070)**	**18,022**
Total comprehensive income attributable to:					
Equity holders of the parent		43,107	3,570	(1,001)	2,569
Non-controlling interests		2,271	1,253	(69)	1,184
Total comprehensive income for the year		**45,378**	**4,823**	**(1,070)**	**3,753**
Earnings per share (in EUR) attributable to equity holders	8				
Net profit/(loss)		**38,125**	**17,601**	**(1,001)**	**16,600**
Basic earnings/(loss) per share (EUR/share)		**0.406**	**0.188**	**(0.012)**	**0.178**
Diluted earnings/(loss) per share (EUR/share)		**0.404**	**0.185**	**(0.012)**	**0.175**

The financial statements were authorized for issue by the Board of Directors on 19 March 2020 and were signed on its behalf by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Emil Jugaru,	Marius Catalin Varzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executive Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
________	____________	__________	____________	_________	_____________	________

	Notes	2019	2018
Cash flows from operating activities			
Profit before taxation		**61,117**	**38,837**
Adjustments for:			
Depreciation, amortization and impairment	5, 6, 7	298,850	211,480
Interest expense	21	62,478	46,993
Interest revenue		(3,240)	-
Impairment of trade and other receivables	20	10,397	11,538
Losses/(gains) on derivative financial instruments	27	(5,621)	(6,023)
Equity settled share-based payments expense	26	2,382	15,970
Unrealised foreign exchange loss/(gain)		19,688	2,338
Gain on sale of assets		126	(117)
Provisions		-	4,729
Cash flows from operations before working capital changes		**446,117**	**325,745**
Changes in:			
Decrease/(increase) in trade receivables, other assets and contract assets		(44,104)	(49,070)
Decrease/(increase) in inventories		366	(7,157)
(Decrease)/increase in trade payables and other current liabilities		(12,192)	48,217
(Decrease)/increase in contract liabilities		4,480	10,510
Cash flows from operations		**394,727**	**328,245**
Interest paid		(54,320)	(43,577)
Interest received		3,240	
Income tax paid		(9,246)	(6,252)
Net cash flows from operating activities		**334,401**	**278,416**
Cash flow used in investing activities			
Purchases of property, plant and equipment(2)	5,16	(208,315)	(206,073)
Purchases of intangibles	6,14	(110,045)	(72,948)
Acquisition of subsidiaries, net of cash and acquisition of NCI	24	(340)	(132,371)(1)
Proceeds from sale of property, plant and equipment		208	269
Net cash flows used in investing activities		**(318,492)**	**(411,123)**
Cash flows from financing activities			
Dividends paid to shareholders		(4,517)	(3,122)
Cash outflows from acquisition of treasury shares		(6,194)	(1,195)
Proceeds from borrowings	15	267,332	203,456
Repayment of borrowings	15	(202,345)	(60,476)
Repayment of borrowings from related parties	18	(1,089)	-
Financing costs paid	15	(5,967)	(2,673)
Settlement of derivatives		-	(970)
Payment of lease obligations		(65,967)	(4,560)
Net cash flows (used in)/from financing activities		**(18,747)**	**130,460**
Net increase/(decrease) in cash and cash equivalents		**(2,838)**	**(2,247)**
Cash and cash equivalents at the beginning of the year	13	**13,832**	**16,074**
Effect of exchange rate fluctuations of cash and cash equivalents held		4	5
Cash and cash equivalents at the end of the year	13	**10,998**	**13,832**

(1) Included is the consideration paid for the acquisition of Invitel in the amount of EUR 135.4 million paid by Digi Kft. for the completion of transaction on 30 May 2018. For details, please see Note 24 Subsidiaries and non-controlling interest.

(2) Includes letters of credit issued for several purchases of equipments.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
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	-	-	-	-	-	-	-	38,125	**38,125**	2,459	**40,584**
Foreign currency translation differences	-	-	-	(2,466)	-	-	-	-	**(2,466)**	(182)	**(2,649)**
Revaluation of equity instruments measured at fair value through OCI (Note 8)	-	-	-	-	-	7,535	-	-	**7,535**	-	**7,535**
Cash Flow hedge reserves(1)	-	-	-	-	-	-	(87)	-	**(87)**	(6)	**(93)**
Transfer of revaluation reserve (depreciation)	-	-	-	-	(4,935)	-	-	4,935	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**(2,466)**	**(4,935)**	**7,535**	**(87)**	**43,060**	**43,107**	**2,271**	**45,378**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Conversion of class A shares to class B shares (Note 14)	(108)	-	-	-	-	-	-	108	-	-	-
Purchase of treasury shares (Note 14)	-	-	(6,194)	-	-	-	-	-	**(6,194)**	-	**(6,194)**
Equity-settled share-based payment transactions (Note 26)	-	-	3,915	-	-	-	-	(1,635)	**2,280**	102	**2,382**
Dividends distributed (Note 14)	-	-	-	-	-	-	-	(9,959)	**(9,959)**	(675)	**(10,634)**
Total contributions by and distributions to owners	**(108)**	**-**	**(2,279)**	**-**	**-**	**-**	**-**	**(11,486)**	**(13,873)**	**(573)**	**(14,446)**
Changes in ownership interests in subsidiaries											
Changes in ownership interests in subsidiaries (Note 24)	-	-	-	-	-	-	-	(11,719)	(11,719)	(2,780)	(14,499)
Total changes in ownership interests in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,719)**	**(11,719)**	**(2,780)**	**(14,499)**
Total transactions with owners	***(108)***	**-**	***(2,279)***	**-**	**-**	**-**	**-**	***(23,205)***	**(25,592)**	**(3,353)**	**(28,945)**
Balance at 31 December 2019	***6,810***	***3,406***	***(16,806)***	***(36,708)***	***24,385***	***(6,220)***	***7***	***188,679***	**163,553**	**6,224**	**169,777**

The amount presented on Cash Flow Hedge reserves is included in Reserves in Statement of financial position

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

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
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	-	-	-	-	-	-	-	16,600	**16,600**	1,422	**18,022**
Foreign currency translation differences	-	-	-	(4,285)	-	-	-	-	**(4,285)**	(262)	**(4,547)**
Revaluation of equity instruments measured at fair value through OCI (Note 8)	-	-	-	-	-	(10,088)	-	-	**(10,088)**	-	**(10,088)**
Cash flow hedge reserves	-	-	-	-	-	-	342	-	**342**	24	**366**
Transfer of revaluation reserve (depreciation)	-	-	-	-	(5,800)	-	-	5,800	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**(4,285)**	**(5,800)**	**(10,088)**	**342**	**22,400**	**2,569**	**1,184**	**3,753**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Purchase of treasury shares (Note 14)	-	-	(1,195)	-	-	-	-	-	**(1,195)**	-	**(1,195)**
Equity-settled share-based payment transactions (Note 26)	-	-	590	-	-	-	-	14,593	**15,183**	787	**15,970**
Dividends distributed (Note 14)	-	-	-	-	-	-	-	(7,037)	(7,037)	(694)	(7,731)
Total contributions by and distributions to owners	**-**	**-**	**(605)**	**-**	**-**	**-**	**-**	**7,556**	**6,951**	**93**	**7,044**
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	***(605)***	**-**	**-**	**-**	**-**	***7,556***	**6,951**	**93**	**7,044**
Balance at 31 December 2018	***6,918***	***3,406***	***(14,527)***	***(34,242)***	***29,320***	***(13,755)***	***94***	***168,825***	**146,039**	**7,306**	**153,345**

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. At the end of 2019, DIGI Group had a 16,912 total of employees (2018: 16,918 employees).

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.

The consolidated financial statements were authorized for issue by the Board of Directors of DIGI on 19 March 2020.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and Part 9 of book 2 of the Dutch civil code.

(b) Consolidated financial statements

These financial statements (consolidate and stand-alone) are the legal financial statements of DIGI, to be filed with the The Dutch Authority for the Financial Markets ("AFM") and serve as a basis for determining distributions to shareholders.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for buildings, land, network, 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 as described in the accounting policies under Note 2.2 below.

(d) Going concern assumption

Management believes that the Group will continue as a going concern for the foreseeable future. In recent years the Group operated in an environment of exchange rate volatility whereby the functional currencies (RON, HUF, etc.) fluctuated against the EUR and USD. The unfavourable evolution of the exchange rates has impacted the financial result. However, it did not affect the operations of the Group.

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.

Please refer to Note 25 for a discussion of how management addresses liquidity risks.

(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), or in which the main economic transactions are undertaken.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The consolidated financial statements are presented in Euro ("EUR") and all values are rounded to the nearest thousand EUR except when otherwise indicated. The Group uses the EUR as a presentation currency of the consolidated financial statements 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;
- Senior Notes are denominated in EUR.

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

(f) Significant estimates and judgments

In the process of applying the Group's accounting policies, management has made the following significant judgements and estimates, including assumptions that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised, if the estimates affect that period only, and future periods, if the change affects both

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Notes 2.2 (d): recognition and classification of programme assets;
- Notes 2.2 (c) and 5: recognition of customer premises equipment;

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 7: key assumptions used in discounted cash flow projections in relation to goodwill impairment testing;
- Note 2.2 (c) and Note 5: significant judgement in determining the lease term of contracts with or without explicit renewal options (IFRS 16); assessment of useful lives of property, plant and equipment;
- Notes 3a and 5: revaluation of buildings, network, equipment and devices and customer premises equipment;
- Note 25 i): assessment of allowance for expected credit losses;
- Notes 3 and 25 iv): determination of fair value of financial instruments, in particular financial assets at fair value through OCI (Note 3f and Note 8);
- Note 28: contingencies;
- Note 15 and 25 iv): determination of fair value of bonds embedded derivatives;
- Note 22: recognition and measurement of deferred tax assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Parent has prepared the consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances for all Group entities.

New pronouncements

The accounting policies used are consistent with those of the previous financial year except for the following new and amended IFRSs which have been adopted by the Group as of 1 January 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

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 months or less). At the commencement date of a lease, a lessee recognises 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 are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are 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 generally recognises 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 accounting under IAS 17. Lessors continues 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 transitioned to IFRS 16 in accordance with the modified retrospective approach, therefore the prior-year figures are not adjusted.

The application of IFRS 16 has a material effect on components of the consolidated statements and the presentation of the financial position and results of operations.

As at 1 January 2019, the first-time application of IFRS 16 resulted in:

→ Right -of -use assets with the gross book value of EUR 217,744 were recognised. This includes the lease assets recognised previously under finance leases with the gross book value of EUR 23,317 that were reclassified from Property, plant and equipment;

→ Prepayments of EUR 697 related to previous operating leases were reclassified to right of use assets;

→ Additional lease liability was recognized at that date in amount of EUR 201,753, out of which EUR 7,967 related to the leases that previously were recognized as financial leases. For leases previously classified as finance leases, the Group recognized the carrying amount of the lease asset and lease liability before transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application;

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- At transition date, no deferred tax impact was recognized, given that the right-of-use assets were recognized based on the amount approximately equal to the lease liabilities. Any adjustments from related prepaid lease payments previously recognized were not material.

In the statement of financial position, the right-of-use assets and lease liabilities are shown in separate lines, specifically right of use assets and within current and non-current liabilities.

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

For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability is 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 is generally measured at the amount of the lease liability plus initial direct costs. Advance payments and liabilities from the previous financial year are also accounted for. The adoption had, as a result, a significant increase in lease liabilities and total assets. The Group's equity ratio declined and the Net debt rose accordingly, due to the material increase in lease liabilities.

Statement of comprehensive income: In contrast to the previous presentation of operating lease expenses, depreciation charges on right of use assets and the interest expense from the unwinding of the discount on the lease liabilities is recognized. These changes improved the profit from operating activities (EBIT). 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.

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

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

To account for the impact of the application of IFRS 16, the Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. To assess whether a contract is or contains a lease, the Group analyzed 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;
- The Group has the right to direct the use of the asset.

The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, 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 also applied the available practical expedients wherein it:
• used a single discount rate to a portfolio of leases with reasonably similar characteristics;
• relied on its assessment of whether leases are onerous immediately before the date of initial application;
• excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
• used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating leases commitments reconciliation	**EUR '000**
Operating leases commitments as at 31 December 2018	**254,293**
Less: Operating leases that did not meet recognition criteria under IFRS 16*	**(130,835)**
Add: Other additional contracts in scope	51,902
Operating lease commitments in scope of IFRS 16 as at 31 December 2018	**175,360**
Weighted average incremental borrowing rate (IBR) as at 1 January 2019	3.25%**
Discounted operating lease commitments at 1 January 2019	**160,516**
Add:	
Impact of assumptions regarding ROU useful life	33,270
Reclassification of financial leases liabilities	7,967
Lease liabilities as at 1 January 2019	**201,753**

**This amount includes contracts that are not in IFRS 16 scope, such as commitments under license agreements, satellite capacity rent for DTH business, commitments for insurance contracts.*

*** Average incremental borrowing rate for the group was 3.25% but varies per country, per term and object of the underlying lease. For the population of contracts, incremental borrowing rates vary from 1.2% to 5.8%.*

Other additional contracts in scope represent rent contracts mainly from Hungary which were included in IFRS 16 computation, because they met the standard's definition.

The commitments generated by liabilities from former operating leasing contracts presented as at 31 December 2018 were discoutned using the Group's WACC. For IFRS 16 purpose, liabilities, generated by former operating leasing contracts which met IFRS 16 definition, were discounted using the incremental borrowing rates. The difference between the two discounted values had an impact on the opening balance of EUR 10,422.

The liabilities/assets from contracts presented as committments as at 31 December 2018 included the liability/assets until the end of the rent contract. For the useful lives of the Right of use assets there were made different assumptions which are presented In Note 2, at *Significant judgement in determining the lease term of contracts with or without explicit renewal options.* The impact for the opening balance was in amount of EUR 33,270.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Significant judgement in determining the lease term of contracts with or without explicit renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms that range from 1 month up to 30 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. For these specific cases, the Group took into consideration the characteristics of the leased assets as well as the Group's estimations included in the Group's business plans. For leases where we consider it reasonably certain that the extension option will be exercised, we considered the extended the lease term for the purpose of the computation of lease liabilities (on top of the non-cancellable period) with a period in the range of one to five years.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset. The incremental borrowing rate were assessed by an external valuator.

Additionally, the Group has adopted the following amended standards with a date of initial application of January 1, 2019:

- ***IFRS 9: Prepayment features with negative compensation (Amendment)***

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management has assessed there is no impact at the Group level.

- ***IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)***

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. Management has assessed there is no impact at Group level.

- ***IFRIC** interpretation **23: Uncertainty over Income Tax Treatments***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed there is no impact at Group level.

- ***IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)***

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management has assessed there is no impact at Group level.

- ***The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. Management has assessed there is no impact at Group level.***
  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of DIGI and its subsidiaries and the Group's interest in associates as at 31 December 2019. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using consistent accounting policies. Upon consolidation adjustments are recorded in order to align the few inconsistent accounting policies.

Business combinations

The Group accounts for business combinations using the acquisition method. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. If the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity, unless it can be clearly demonstrated that the Group lacks the ability to exercise such influence over its investee.

Investments in associates are accounted for using the equity method (equity-accounted investees). Under the equity method, the investment in an associate is initially recognised at cost. The cost of the investment includes transaction costs. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

b) Foreign currency

Foreign currency - Transactions and balances

Transactions in foreign currencies have been recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been retranslated into the functional currency at the rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising from the translation of the following items are recognised in OCI:

- financial assets at fair value through OCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective and
- qualifying cash flow hedges to the extent that the hedges are effective.

Foreign operations - Translation to presentation currency

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

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

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

Currency	2019			2018		
	Jan – 1	Average for the year	Dec – 31	Jan – 1	Average for the year	Dec – 31
RON per 1EUR	4.6639	4.7452	4.7793	4.6597	4.6535	4.6639
HUF per 1EUR	321.51	325.35	330.52	310.14	318.83	321.51
USD per 1EUR	1.1450	1.1196	1.1234	1.1993	1.1815	1.1450

c) Property, plant and equipment

Property, plant and equipment is carried:

- using the cost model, at purchase or construction cost less accumulated depreciation and accumulated impairment losses: vehicles, furniture and office equipment; or
- using the revaluation model, at a revalued amount, which is the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses: land, buildings, network, equipment and devices and customer premises equipment ("CPE").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Each year, the management assesses whether revaluation is necessary as per IAS 16.

Land is not depreciated.

Property, plant and equipment is measured at cost upon initial recognition.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to their present location and condition necessary for their intended use, and capitalised borrowing costs, when applicable.

The costs of internally developed networks include direct material and labour costs, as well as costs relating to subcontracting the development services.

Cost includes the cost of replacing part of the plant or equipment when that cost meets the recognition criteria. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred.

Property, plant and equipment includes customer premises equipment, such as direct to home (“DTH”), cable, Internet and mobile radio equipment in custody with customer, when the Group retains control over such assets.

The carrying values of property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying amount of customer premises equipment in custody of customers with suspended services as at the reporting date is fully impaired.

The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

Depreciation is calculated on a straight-line basis to write off recorded cost of the assets over their estimated useful lives.

The estimated useful lives applied are as follows:

	Useful life
Buildings	40-50 years
Fixed Network	up to 25 years
Mobile Radio Network (sites)	20 years
Equipment and devices	3-10 years
Customer premises equipment	5-10 years
Vehicles	5 years
Furniture and office equipment	3-9 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year when the asset is derecognized.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the assets’ estimated useful life and the lease term.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Revaluation

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in the profit or loss. A revaluation deficit is recognized in profit or loss, except where a deficit is directly offsetting a previous surplus on the same asset in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve is transferred to retained earnings as the assets are depreciated or upon disposal.

Decommissioning

The present value of the expected cost for the decommissioning of the mobile radio network sites after their use, is included in the cost of the respective assets if the recognition criteria for a provision are met.

d) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortized over the useful economic life on a straight line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss.

Customer relationships

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies. Customer relationships acquired directly from other companies are recognized at the cost of acquisition, which is the fair value of the consideration paid. Customer relationships obtained by acquiring control of certain companies are recognized at their fair value at the date of the acquisition and are presented separately from any goodwill resulting in the acquisition.

Management determines the useful life used for the amortization of customer relationships based on management analysis and past experience. The useful life used for amortizing customer relationships is of 7 years (straight line method is used).

Cost to obtain a contract

Cost to obtain a contract (previously “Subscriber acquisition costs”) represent the costs for acquiring and connecting new subscribers of the Group companies, consisting of commissions paid to third parties for contracting a new subscriber at the point at which the contract is signed with the customer. The Company capitalises as intangible assets the subscriber acquisition costs as they meet the requirements of IAS 38 for capitalization.

These are amortized over the related contract period, being a two-year period, as in average a contract has a lock-up period of two years.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.2 (a). Goodwill is subsequently measured at cost less accumulated impairment losses, being tested at least annually for impairment.

Where goodwill forms part of cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the

investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

Programme assets

The Group is concluding multi-annual contracts for the acquisition of broadcasting rights for national and international sports competitions (“sports rights”), as well as contracts for the acquisition of film and television broadcasting rights. When entering into such contracts, the rights acquired are classified as contractual commitments. They are recognised in the statement of financial position and classified as current intangible assets (programme assets) as follows:

- Sports broadcasting rights for the current season are recognized at their acquisition cost, at the opening of the broadcasting period of the related sports season. Sports rights are amortized over the broadcasting period on a straight line basis. Any rights not expected to be utilized are written off;
- Film and television broadcasting rights are recognised at their acquisition cost, when the programme is available for screening, and are amortised over their broadcasting period.

Advance payments for sports rights related to future seasons and for film and television rights are also presented as current intangible assets (programme assets).

The Group classifies the cash outflows for the purchase of programme assets as cash flows used in investing activities in the Consolidated Statement of Cash Flows, based on the long-term nature of the contribution of these assets to the subscriber acquisition, subscriber retention and consequent revenue generation, based on the comprehensive strategy of the Group.

Other intangible assets

Other intangible assets that are acquired by the Group (the 2100 MHz the 900 MHz, the 2600 MHz and the 3700 MH mobile telephony licenses in Romania, the 1800 MHz and 3800 MHz mobile telephony license in Hungary, software and other intangible assets) have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization of the mobile telephony licences is charged on a straight line basis over the period of each license.

Estimated useful lives for mobile telephony licenses are between 15-25 years.

Software licenses (including software related to telecommunication equipment) are amortized on a straight line over their estimated useful life which is generally 3 to 8 years. Other contractual intangible assets are amortized over their underlying contract period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.l) Revenues.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Classification

The Group classifies non-derivative financial assets into the following categories: cash and cash equivalents, financial assets at amortised cost, financial assets designated at fair value through OCI (equity instruments) and financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits at banks.

Cash and cash equivalents in the consolidated statement of cash flows comprise cash at bank and in hand and short-term deposits at banks with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes, mainly, trade receivables which are classified and measured as Debt instruments at amortised cost.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group elected to classify irrevocably its unquoted equity investments as equity instruments designated at fair value through OCI. This category only includes equity instruments which the Group intends to hold for the foreseeable future. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Gains and losses on these financial assets are never recycled to profit or loss. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as interest-bearing loans and borrowings, payables, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings, payables and other financial liabilities net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, issued bonds and derivative financial instruments.

Subsequent measurement

After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, please refer to Note 15.

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.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, more specifically, interest rate swaps to hedge its interest rate risks. The Group applied the policy choice of continuing with hedge accounting requirements of IAS 39 and all the existing hedging relationships were eligible to be treated as continuing hedging relationships. On initial designation of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Transactions with the Company's A shares between shareholders are considered completed at the date when the transfer of ownership has been agreed upon by the parties in a written contract. Transactions with B shares are trading on the stock exchange and are considered completed at the transaction date.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium, except for transactions with non-controlling interest, for which the resulting surplus or deficit on the transaction is credited or debited to retained earnings. When treasury shares are cancelled the excess of cost above nominal value is debited to retained earnings.

Share and repurchase agreements related to treasury shares do not result in derecognition of the respective treasury shares and do not affect their cost.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Earnings per share

The Group discloses both basic earnings per share and diluted earnings per share for continuing operations and discontinued operations:

- basic earnings per share are calculated by dividing net profit/(loss) for the year attributable to the equity holders of the Group, by the weighted average number of ordinary shares outstanding during the period;
- diluted earnings per share are calculated based on the net profit/(loss), adjusted by the dilutive effect of employee stock-options, net of the related tax effect.

Earnings per share are adjusted retrospectively for increases in the number of shares resulting from capitalisation, bonus issues or share splits, as well as for decreases resulting from reverse share splits, including when such changes occur subsequent to the reporting period but before the financial statements are authorized for issue.

f) Impairment

i) Non-financial assets

Property, plant and equipment and intangible assets other than goodwill

The carrying amount of the Group's property, plant and equipment and intangible assets other than goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An asset's or cash generating unit's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss, except for property, plant and equipment previously revalued where the revaluation was recognised in other comprehensive income. In this case the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless that asset is carried at revalued amount, in which case the reversal in excess of previous impairment loss recognised in profit or loss is treated as a revaluation increase.

After recording impairment losses or reversals the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

Goodwill is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lower level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit or loss.

Impairment losses recognized for goodwill cannot be subsequently reversed.

For impairment related disclosures, please see Note 7.

ii) Financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established two provision matrices that comprise of the grouping of customers, in accordance with similar loss patterns (by geography, type of service and type of customer, namely residential and business clients). The provision rates are initially based on the Group's observed historical credit loss experience and default rates, adjusted for forward-looking factors specific to the debtors and the economic environment. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed, if the case. Specifically, for the purpose of determining the credit losses, the Group computes the forward-looking percentages of default based on the ratio of the monthly receivables in balance to the monthly amounts invoiced to clients, during the current year. Trade receivables overdue by more than 6 months are written off. The Group considers a financial asset in default when contractual payments are 60 days past due.

However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Trade and other receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a future write-off is later recovered, the recovery is recognized in profit or loss.

g) Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost is determined on a first-in first-out basis, and it comprises all costs of purchase, costs of conversion and other costs in bringing the inventories to their current location and condition.

Net realizable value of the equipment sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

h) Employee benefits

Short-term employee benefits

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses as services are rendered.

Pensions and other post-employment benefits

Under the regulatory regimes applicable in the countries where it operates, the Group is required to make payments to national social security funds for the benefit of its employees (defined contribution plans financed on a pay-as-you go basis). The Group has no legal or constructive obligation to pay future contributions if the state managed funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Its only obligation is to pay the contributions as they fall due and if it ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years.

Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The Group does not operate any other pension schemes or post employment benefit plans.

Share based payment transactions

Refer to paragraph q) below.

i) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as a finance cost.

Decommissioning provision

The Company records a provision for decommissioning costs of its telecom sites. Decommissioning costs are provided for at the present value of expected costs of dismantling using estimated cash flows and are recognized as part of the cost of the relevant asset. The cash flows are discounted at the risk-free rate. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the site and the expected timing of those costs

The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

j) Leases

The Group as a lessee

The Group transitioned to IFRS 16 in accordance with the modified retrospective approach as ta 1 January 2019.

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of- use assets are subject to impairment.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment, following the same principle as the property, plant and equipment. Refer to the accounting policies in section 2.2 (c) Property, plant and equipment.

At inception date, the Group determines whether a contract includes a lease. The analysis is made based on the fact that the lease term is for the major part of the economic life of the underlying asset (ROU) even if title is not transferred;

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating a lease, if the lease term reflects the group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs in calculating the present value of lease payments, the group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment to purchase the underlying asset.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset. The incremental borrowing rate were assessed by an external valuator.

The ranges used as incremental borrowing depend on type of assets rented and country:

- Romania: range between 1.5%-2.9%
- Hungary: range between 2.1%-2.6%

As the incremental borrowing rates take into account a 10-year maturity, an adjustment of the discount rates was considered in order to align them with contracts maturities using the yield spread for sovereign bonds. The incremental borrowing rates used by the Group also include inflation rate for each currency in which contracts are denominated.

The Group as a lessor

The Group currently has no material arrangements as a lessor.

k) Contingencies

Management applies its judgment to the fact patterns and advice it receives from its attorney, advocates and other advisors in assessing if an obligation is probable or not or remote. This judgment application is used to determine if the obligation is recognized as a liability or disclosed as a contingent liability.

Contingent liabilities are not recognized in the accompanying consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the accompanying consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

l) Revenue and other income

Revenue is measured based on the consideration specified in a contract with a customer. Revenue from contracts with customers is recognised when control of goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Below section summarize how and when revenue is recognized for each category of revenue.

Revenue from services

The Group's main sources of revenue from contracts with customers are:

- revenue from the provision of video, cable TV ("CATV") and direct-to-home ("DTH") TV, subscription services;
- revenue from the provision of internet and data communication subscription services (fixed and mobile);
- revenue from the provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

- ***Subscription fees and voice traffic services***

Video services subscriptions, pay TV fees, internet and data subscriptions, telephony subscriptions and voice minutes consumption revenues are recognised over time, based on the period when the services are provided. These revenues are collected through subscription fees that arise from the monthly billing of subscribers for these services and monthly billing of voice traffic. Revenue is recognized in the month the service is rendered. Voice traffic revenue is recognized in the profit or loss at a point in time, when the call is made. Revenue from interconnect fees is recognised at a point in time, when the services are performed.

- ***Prepaid services***

Revenue from sale of prepaid cards, net of discounts allowed, included in the Group's prepaid services packages is recognised over time based on usage. Prepaid revenue is deferred until the customer uses the traffic or the card expires.

- ***Customer loyalty programme***

Starting with 2016, the Group operates a loyalty programme in Romania which allows customers to receive vouchers on signing new or renewed contracts. The fair value of the consideration is deducted from the future subscription values and recognized as revenue when it is redeemed, or at expiration.

- ***Variable consideration***

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Equipment sales

Revenue is recognized at a point in time, when the Group performs under the contract and the control of goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

Sales of mobile, CTV and DTH devices

The group recognizes revenue when a customer takes possession of the device. This usually occurs when the customer signs the contract. For devices sold separately (not in a bundled package), customers pay in full at the point of sale. For mobile devices sold in bundled packages, customers usually pay monthly in equal instalments, over a period of 12 months or 24 months.

Bundled services

Certain packaged offers comprise of the subscription service and the device. For bundled services, the Group accounts for individual products or services separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list price at which the Group sells the devices and the telecommunication, CATV, DTH services.

Where a promotional offer includes a period of free service, the respective discount is allocated proportionally to each distinct performance obligation. Payment terms are, usually, up to 30 days since the invoice is issued.

Rental income

Rental income comprising of the fair value of the consideration received or receivable arising from leases of assets is accounted over the lease term (unless another systematic basis is more representative of the pattern in which the usage benefit derived from the leased asset is diminished). Payment terms are, usually, up to 30 days since the invoice is issued.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Advertising

Revenues obtained from publicity sales on our broadcasting channels (TV & radio) are recognized at a point in time, when the relating advertising is performed. Payment terms are, usually, up to 30 days since the invoice is issued.

Supply of electricity

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In 2018 realized results from trading of electricity are reported in the consolidated statement of profit or loss account on a net basis as part of Other income/ (Other expense). Mark-to-market results (unrealised) from fair value assessment of energy trading contracts are reported as Other income/ (Other expense) in the consolidated statement of profit or loss.

Revenues from electricity production are recognized in the period when these have been delivered into the Romanian national electric grid and / or to customers. Payment terms are, usually, up to 30 days since the invoice is issued.

Starting 2019, the Group applies the "own use" exemption and does no longer account for the fair valuation of term electricity sale and acquisition contracts at the reporting date.

Revenue from sale of green certificates granted under Romania's renewable energy support scheme is recognized at a point in time, when control is transferred to the customers. Deferred green certificates are recognized at fair value, which includes for the green certificates for which trading is deferred, the assessment of the related under-absorption risk.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Costs of obtaining the contract and/or costs to fulfil a contract

We recognise incremental costs of obtaining the contract and costs to fulfil, as contract assets, and we disclose these in the notes to the financial statements, as follows:

- **Costs to obtain a contract** are represented by the incremental costs, such as sales commissions, incurred to obtain a contract with a customer which would not have been incurred if the contract had not been obtained. The subscriber acquisition costs ("SAC") already met the criteria described in the new standard and continue to be accounted in accordance with IAS 38. These are presented as a separate class of intangible assets in the notes to the financial statements. The amortization period was also analysed and found to be compliant with IFRS 15 requirements, therefore no change was necessary following the implementation of the new standard. For details, please see Note 2 d) Intangible assets.
- **Costs to fulfil a contract** are considered to be direct costs which are mandatory for providing the service to customers, such as direct labour costs with the installation of equipment at customer premises, materials for CPEs installation, direct fuel expenses for CPE installation. These are capitalized, part of Property, plant and equipment category of assets and amortized over a period of up to 25 years. Costs to fulfil a contract are presented within the Networks category, in the notes to the financial statements. For details, please see Note 5. Property, plant and equipment.

Principal versus agent

Under IFRS 15, the principal versus agent assessment is based on whether the Group controls the specific goods or services before transferring to the customer, rather than whether it has exposure to significant risks and rewards associated with the sale of the goods or services. The Group has concluded that it is the principal in the majority of its revenue arrangements, because it controls the goods or services before transferring them to the customer.

Sales of electricity are often subject to fees or tariffs for facilitating the transfer of goods and services. When the Group does not control the services related to such fees and tariffs, before these are transferred to the customer, and when it is not involved in the rendering of the service nor does it control the pricing, the Group is only an agent in providing these services (e.g. electricity transport tariffs).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

m) Finance income and finance expense

Finance income comprises interest income on funds invested, dividend income, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on derivative financial instruments that are recognised in profit or loss and reclassifications of net gains in hedging instruments previously recognised in other comprehensive income.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on derivative financial instruments that are recognised in profit or loss and reclassifications of net losses on hedging instruments previously recognised in other comprehensive income. Unamortised borrowing fees are expensed upon termination of related borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

n) Related parties

Parties are considered related when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties include individuals that are principal owners, management and members of the Board of Directors and members of their families, or any company that is related party to Group's entities.

o) Income tax

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or are recognized when their utilisation has become probable.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

and may involve series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made.

p) Dividends

Dividends are recognized as distributions within equity in the period in which they are declared to shareholders (at the date of the approval by the shareholders). Dividends for the year are declared after the reporting date.

q) Share-based payment transactions

Certain members of the management team and certain employees of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ('equity- settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date on which they are granted, as evidenced by their market price.

The cost of equity-settled transactions is recognized as "Salaries and related taxes" expense, together with a corresponding increase in retained earnings, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting period'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit to profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed by the Group as best estimate of the number of equity instruments that will ultimately vest. Performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also also service / performance conditions.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided that the original terms of the award are met. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately through profit or loss. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

r) Discontinued operations

A discontinued operation is a component of the Group's business, operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

s) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

t) Subsequent events

Post period-end events that provide additional information about the Group's position at the reporting date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes, when material.

u) Segment reporting

The information by operating segment is based on internal reporting to the Board of Directors, identified as "Chief Operating Decision-Maker", as defined by IFRS 8 *Operating Segments*. The Board of Directors reviews segment information on revenue and non-current assets on a monthly basis and segment EBITDA (earnings before interest, taxes, depreciation and amortization) on a quarterly basis.

The Group considers EBITDA, a non-IFRS measure, to be the key operating performance measure of its operating segments. The method used in calculating EBITDA and its reconciliation to the line items in the statement of comprehensive income is disclosed in Note 30. All other information included in the disclosure per segment is prepared under IFRSs as adopted by EU applicable to the consolidated financial statements.

The Chief Operating Decision-Maker has chosen to review geographical operating segments because the Group's risks and rates of return are affected predominantly by the fact that it operates in different countries.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

- ***Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed there is no impact at Group level.

- ***Conceptual Framework in IFRS standards***

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. Management has assessed there is no impact at Group level.

- ***IFRS 3: Business Combinations (Amendments)***

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has assessed the impact of these amendments on the Group's operations and considers these will have no impact.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

- ***IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)***

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards.Management has assessed the impact of these amendments on the Group's operations and considers these will have no impact.

- ***Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)***

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management has assessed there is no impact at Group level.

- ***IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)***

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed there is no impact at Group level.

3. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods when applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination and of property, plant and equipment carried under the revaluation model is the estimated amount for which property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, on the date of acquisition and respectively on the revaluation date. The fair value of items of property, plant and equipment is based on the market approach and, where market approach cannot be used given the high degree of specialization of the asset being valued, cost approach. Market approach relies on quoted market prices for similar items when available, or on valuation models that use inputs observable or unobservable on the market (such as the income approach for certain buildings). The cost approach relies on the determination of the depreciated replacement cost. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

b) Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. Main assumptions used are the churn rate, EBITDA %, the discount rate.

c) Derivatives

The fair value of the derivative financial instruments is based on generally accepted valuation techniques. It reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Please refer to Notes 25 and 27 for additional disclosures regarding fair values of derivatives.

d) Non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

Please refer to Note 25 for additional disclosures regarding fair values of non-derivative financial instruments.

3. DETERMINATION OF FAIR VALUES (CONTINUED)

e) Equity-settled share-based payment transactions

The fair value of the options granted to employees is measured using a generally accepted valuation technique, in which the main input is the market price of shares at the grant date (please refer to Note 26 for additional details). Given the short life of the options and the low volatility in the market value of the Group's shares, management estimates that the time value of the share options is not significant.

Please refer to Note 26 for additional disclosures regarding share-based payments.

f) Financial assets at fair value through OCI

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment of the available for sale shares held in RCSM at subsequent year ends was performed based on the quoted price/share of the shares of the Company as of the valuation date, adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

Please refer to Note 25 for additional disclosures regarding the fair valuation of financial assets at fair value through OCI.

(all amounts in EUR ‘000, unless specified otherwise)

4. SEGMENT REPORTING

31 December 2019	**Romania**	**Hungary**	**Spain**	**Other**	**Eliminations**	**Reconciling item**	**Group**
Segment revenue	753,427	217,001	193,204	22,394	-	-	**1,186,026**
Inter-segment revenues	3,220	-	690	559	(4,469)	-	-
Segment operating expenses	(410,743)	(156,116)	(152,142)	(25,148)	4,469	-	**(739,680)**
Adjusted EBITDA (Note 30)	**345,904**	**60,885**	**41,752**	**(2,195)**	**-**	**-**	**446,346**
Depreciation, amortization and impairment of tangible and intangible assets						(298,850)	**(298,850)**
Other income (Note 30)	-	-	-	-	-	-	-
Other expenses (Note 30)	(2,496)	-	-	-	-	-	**(2,496)**
Operating profit							**145,000**
Additions to tangible and intangible non-current assets	246,767	56,457	59,887	5,039	-	-	**368,151**
Carrying amount of:							
Non-current assets	1,160,446	427,104	65,081	2,621	-	-	**1,655,252**
Investments in associates and financial assets at fair value through OCI	969	-	-	39,592	-	-	**40,561**

The types of products and services from which each segment derives its revenues are disclosed in Note 19.

(all amounts in EUR '000, unless specified otherwise)

4. SEGMENT REPORTING (CONTINUED)

31 December 2018	Romania	Hungary[1]	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue	697,840	190,904	126,588	22,789	-	-	**1,038,121**
Inter-segment revenues	3,336	-	793	604	(4,733)	-	-
Segment operating expenses	(441,754)	(151,876)	(97,225)	(27,430)	4,733	-	**(713,552)**
Adjusted EBITDA (Note 30)	**259,422**	**39,028**	**30,156**	**(4,037)**	**-**	**-**	**324,569**
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(211,480)	**(211,480)**
Other income (Note 30)	8,873	-	-	-	-	-	**8,873**
Other expenses (Note 30)	(17,468)	(2,519)	-	-	-	-	**(19,987)**
Operating profit							**101,975**
Additions to non-current assets	205,525	223,109	19,418	1,874	-	-	**449,926**
Carrying amount of:							
Property, plant and equipment	827,118	302,724	8,900	250	-	-	**1,138,992**
Non-current intangible assets	177,831	53,750	12,116	2,155	-	-	**245,852**
Investments in associates and financial assets at fair value through OCI	970	-	-	32,058	-	-	**33,028**

1 .As at 31 December 2018, Hungarian operations include the consolidated results of both Digi Hu and Invitel. For details, please see Note 24 Subsidiaries and non-controlling interest

The types of products and services from which each segment derives its revenues are disclosed in Note 19.

(all amounts in EUR '000, unless specified otherwise)

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At 31 December 2018	**26,084**	**106,780**	**802,477**	**153,514**	**145,942**	**376,917**	**50,042**	**29,663**	**1,691,419**
Transfer to Right of Use Asset(1)	(2,534)	(10,849)	-	-	(2,156)	(332)	(7,445)	-	**(23,317)**
Additions	58	719	21,100	197,128	327	4,635	190	636	**224,793**
Transfer back from Right of Use Asset (2)	-	10,588	-	-	-	181	3,768	-	**14,537**
Transfer from construction in progress ("CIP")/reallocation (assets taken into use)	275	3,681	102,420	(239,909)	32,339	97,076	2,282	1,834	-
Disposals	-	(36)	(6)	(223)	(920)	(935)	(1,186)	(90)	**(3,397)**
Effect of movements in exchange rates	(595)	(2,438)	(21,296)	(3,019)	(3,841)	(10,807)	(1,185)	(702)	**(43,881)**
At 31 December 2019	**23,288**	**108,444**	**904,694**	**107,492**	**171,690**	**466,735**	**46,468**	**31,341**	**1,860,152**
Depreciation and impairment									
At 31 December 2018	-	**16,952**	**245,728**	**124**	**38,185**	**196,883**	**32,444**	**22,111**	**552,427**
Transfer to Right of Use Asset (1)	-	(705)	-	-	(12)	(26)	(2,179)	-	**(2,922)**
Depreciation charge	-	5,818	65,411	-	20,455	35,908	5,119	2,995	**135,707**
Impairment	-	-	-	-	2,758	-	-	-	**2,758**
Transfer back from Right of Use Asset (2)	-	845	-	-	-	15	1,090	-	**1,950**
Disposals	-	(5)	-	-	(729)	(802)	(1,127)	(59)	**(2,721)**
Effect of movements in exchange rates	-	(520)	(7,002)	(232)	(924)	(5,235)	(485)	(1,043)	**(15,441)**
At 31 December 2019	-	**22,385**	**304,137**	**(108)**	**59,733**	**226,743**	**34,863**	**24,005**	**671,758**
Net book value									
At 31 December 2018	**26,084**	**89,828**	**556,749**	**153,390**	**107,757**	**180,034**	**17,598**	**7,552**	**1,138,992**
At 31 December 2019	**23,288**	**86,059**	**600,557**	**107,600**	**111,957**	**239,991**	**11,605**	**7,336**	**1,188,394**

(1) Represents cost and accumulated depreciation for assets held previously as financial leasing (as at 31 December 2018), and which as at 31 December 2019, are presented ar Right of use asset. Please see Note 6.

(2) Represents cost and accumulated depreciation for assets for which the term of the financial lease ended during 2019 and the ownership of the underlying asset was transferred to the Group .. Consequently, they are presented as property, plant and equipment, and not as right of use asset at year end. Please see Note 6.

(all amounts in EUR '000, unless specified otherwise)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At 31 December 2017	**21,763**	**86,716**	**644,460**	**85,417**	**104,825**	**318,706**	**41,529**	**27,198**	**1,330,614**
Additions	3,804	5,799	11,869	199,058	6,161	9,091	5,752	400	**241,934**
Acquired through business combinations (Note 24)	723	10,506	87,315	9,854	9,927	13,151	528	42	**132,046**
Transfer from construction in progress ("CIP")/reallocation (assets taken into use)	-	4,208	63,458	(138,919)	25,648	39,850	3,477	2,278	**0**
Disposals	-	(140)	-	(375)	(27)	(256)	(917)	(29)	**(1,744)**
Effect of movements in exchange rates	(206)	(309)	(4,625)	(1,521)	(592)	(3,625)	(327)	(226)	**(11,431)**
At 31 December 2018	**26,084**	**106,780**	**802,477**	**153,514**	**145,942**	**376,917**	**50,042**	**29,663**	**1,691,419**
Depreciation and impairment									
At 31 December 2017	-	**11,029**	**187,860**	**124**	**16,578**	**167,585**	**28,146**	**18,601**	**429,923**
Depreciation charge	-	6,044	58,351	-	20,049	31,427	5,412	3,685	**124,968**
Impairment	-	-	917	-	1,721	-	-	-	**2,638**
Disposals	-	(51)	-	-	(27)	(256)	(917)	(29)	**(1,280)**
Effect of movements in exchange rates	-	(70)	(1,400)	-	(136)	(1,873)	(197)	(146)	**(3,822)**
At 31 December 2018	-	**16,952**	**245,728**	**124**	**38,185**	**196,883**	**32,444**	**22,111**	**552,427**
Net book value									
At 31 December 2017	**21,763**	**75,687**	**456,600**	**85,293**	**88,247**	**151,121**	**13,383**	**8,597**	**900,691**
At 31 December 2018	**26,084**	**89,828**	**556,749**	**153,390**	**107,757**	**180,034**	**17,598**	**7,552**	**1,138,992**

(all amounts in EUR '000, unless specified otherwise)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment additions

Most of the additions in 2019 relate to the triple play network, as the Group has continued to invest in expanding to new areas but also has continued the upgrade of the existing network. Other additions relate to continued investment in the mobile radio network coverage in Romania and the set-up of the mobile radio network in Hungary, and the launch of fixed internet and data and fixed-line telephony services in Spain, and equipment investments. The most significant portion of increase in additions in 2018 relate to the additions of property, plant and equipment of Invitel, as a result of Invitel's consolidation.

For the transfers from and to Right of use assets, please see Note 6.

Revaluation of land and buildings

The Group revalued its land and buildings as of 31 December 2016. In terms of the buildings, only the owned buildings in Romania were subject to the fair value appraisal. Improvements to rented buildings from Romania and Hungary were excluded from the fair value appraisal.

The fair value was determined by reference to market-based evidence, using the market comparable method, the cost and income approach. The valuation techniques are selected by the independent appraiser, in accordance with International Valuation Standards. There were no changes in the valuation techniques compared to the previous revaluation.

If land was measured using the cost model, the carrying amounts would be as follows:

	31 December 2019	31 December 2018
Cost	**27,682**	**28,028**
Fair value	**25,762**((1))	**26,084**

(1) Included in the fair value amount are EUR 2,473, representing carrying amount of land in financial leasing which starting 1 January 2019 is disclosed as Right of use asset (please see Note 6 for further details).

If buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2019	31 December 2018
Cost	112,879	110,626
Accumulated depreciation	(30,193)	(24,461)
Net carrying amount	**82,686**	**86,165**
Fair value	**86,059**	**89,828**

As at 31 December 2019, management completed its annual review on the valuation of land and buildings and based on market circumstances concluded that no further revaluation is required.

(all amounts in EUR '000, unless specified otherwise)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation of network, equipment and devices and customer premises equipment

Network, equipment and devices, and customer premises equipment were revalued as of 31 December 2012 on the basis of their depreciated replacement cost calculated by the Group's personnel (fair value is classified as Level 3 in the fair value measurement hierarchy, since this valuation was performed using a non-observable input). Replacement cost was determined as follows:

- for materials and equipment, based on price quotations from suppliers and prices of the most recent acquisitions;
- for personnel costs, based on the historical salaries multiplied by the Group's salary growth rate;
- for subcontractor costs, based on historical fees multiplied by the consumer price indices for services.

As of 31 December 2016 management has assessed that the replacement cost of network, equipment and devices which are not fully amortized did not vary significantly from the 31 December 2012 revaluation and respectively their acquisition cost for additions during 2013-2016. Given the new technologies used by the Group no significant instances of technological obsolescence were identified.

Customer premises equipment were revalued as of 31 December 2016 on the basis of their depreciated replacement cost calculated by the Group's personnel (fair value is classified as Level 3 in the fair value measurement hierarchy, since this valuation was performed using non-observable inputs). Replacement cost was determined based on price quotations from suppliers and prices of the most recent acquisitions. Additionally, a ceiling was applied in the revaluation process by reference to the original acquisition prices (in RON equivalent at the applicable exchange rates as of 31 December 2016) and applying a yearly discount for the typical price decreases in telecommunications' industry. Given the new technologies used by the Group no significant instances of technological obsolescence were identified.

Network, equipment and devices, and customer premises equipment are part of cash generating units containing goodwill, which are tested annually for impairment (refer to Note 7).

If network, equipment and devices, and customer premises equipment were measured using the cost model, the carrying amounts would be as follows:

Network

	31 December 2019	31 December 2018
Cost	988,732	879,025
Accumulated depreciation	(406,576)	(343,679)
Net cost	**582,156**	**535,346**
Fair value	**600,557**	**556,749**

Equipment and devices

	31 December 2019	31 December 2018
Cost	585,627	489,501
Accumulated depreciation	(348,243)	(312,997)
Net cost	**237,384**	**176,504**
Fair value	**240,413[(1)]**	**180,034**

(1) Included in the fair value amount are EUR 422, representing carrying amount of equipment and devices in financial leasing which starting 1 January 2019 is disclosed as Right of use asset (please see Note 6 for further details).

(all amounts in EUR '000, unless specified otherwise)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Customer premises equipment

	31 December 2019	31 December 2018
Cost	621,368	590,085
Accumulated depreciation	(515,369)	(494,513)
Net cost	**105,999**	**95,572**
Fair value	**115,886**(1)	**107,757**

(1) Included in the fair value amount are EUR 3,929, representing carrying amount of customer premises equipment in financial leasing which starting 1 January 2019 is disclosed as Right of use asset (please see Note 6 for further details).

As at 31 December 2019, management completed its annual review on the valuation of network, equipment and devices and customer premises equipments and based on market circumstances concluded that no further revaluation is required.

Costs to fulfil the performance obligations

Costs to fulfil the performance obligations under the contracts with customers in amount of EUR 7,373 were capitalized during the year ended at 31 December 2019 (31 December 2018: EUR 943) in relation to fixed services offered by Digi Spain.

Collateral

For details on the pledges placed on the Group assets refer to Note 15 (xv).

Impairment

In addition to the compulsory impairment test for the CGUs which include goodwill, an assessment of impairment indicators has been made for the CGUs which do not include goodwill (such as the renewable energy production), as well as for specific assets (such as abandoned construction-in-progress).

Commitments for property, plant and equipment

For details regardging commitments for property, plant and equipment please see Note 28.

(all amounts in EUR '000, unless specified otherwise)

6. RIGHT OF USE ASSETS

The Group has lease contracts for various items of land, commercial spaces, network, vehicles, equipment, etc. used in its operations.

The carrying amounts of right-of-use assets recognised and the movements during the period are presented below:

	Land	Buildings	Network	Customer premises equipment	Equipment and devices	Vehicles	Total
Cost							
As at 1 January 2019	-	34,335	156,534	-	-	3,558	194,427
Reclassification from previous financial leases[1]	2,534	10,849	-	2,156	332	7,445	23,317
Total as at 1 January 2019	**2,534**	**45,185**	**156,534**	**2,156**	**332**	**11,003**	**217,744**
Additions	-	12,064	40,956	2,086	332	7,132	62,569
Transfer to Property, Plant and Equipment (Note 5)	-	(10,588)	-	-	(181)	(3,768)	(14,537)
Disposals	-	-	(550)	-	-	-	(550)
Effect of movement in exchange rates	(61)	(262)	-	-	(8)	(179)	(511)
At 31 December 2019	**2,473**	**46,399**	**196,940**	**4,242**	**476**	**14,187**	**264,717**
Depreciation							
As at 1 January 2019	-	-	-	-	-	-	-
Reclassification from previous financial leases[1]	-	705	-	12	26	2,179	2,922
Total as at 1 January 2019	-	**705**	-	**12**	**26**	**2,179**	**2,922**
Depreciation	-	13,770	49,746	302	43	2,578	66,439
Transfer to Property, Plant and Equipment Equipment (Note 5)	-	(845)	-	-	(15)	(1,090)	(1,950)
Disposals	-	-	(550)	-	-	-	(550)
Effect of movement in exchange rates	-	(17)	-	-	(1)	(58)	(75)
At 31 December 2019	**-**	**13,613**	**49,197**	**314**	**54**	**3,609**	**66,786**
Net Book Value							
At 31 December 2019	**2,473**	**32,785**	**147,743**	**3,929**	**422**	**10,578**	**197,930**

(1) In the year ended 31 December 2018, cost and amortization of finance leases previously recognized in accordance with IAS 17 were presented as Property, plant and equipment with NBV of EUR 20,395.

The implicit interest rate of borrowing used for discounting the variable lease payments as at December 31, 2019 does not include the option free price, which was included in the implicit interest rate of borrowing used as at September 30, 2019.

(all amounts in EUR '000, unless specified otherwise)

7. INTANGIBLE ASSETS

	Goodwill	Customer relationships	Trade marks	Costs to obtain a contract	Licences and software	Total non-current intangible assets
Cost						
At 31 December 2018	**82,903**	**91,043**	**8,503**	**127,427**	**206,219**	**516,095**
Additions	-	18,172	-	36,322	26,296	**80,790**
Disposals	-	-	-	-	(557)	**(557)**
Effect of movement in exchange rates	(2,059)	(2,021)	(54)	(2,370)	(5,033)	**(11,537)**
At 31 December 2019	**80,844**	**107,194**	**8,449**	**161,379**	**226,925**	**584,791**
Depreciation						
At 31 December 2018	**-**	**77,834**	**2,286**	**98,828**	**91,295**	**270,243**
Amortization	-	6,248	942	29,619	15,522	**52,331**
Impairment	-	-	-	212	-	**212**
Disposals	-	-	-	-	(479)	**(479)**
Effect of movement in exchange rates	-	(1,915)	(43)	(1,955)	(2,531)	**(6,444)**
At 31 December 2019	**-**	**82,167**	**3,185**	**126,704**	**103,807**	**315,863**
Net Book Value						
At 31 December 2018	**82,903**	**13,209**	**6,217**	**28,599**	**114,924**	**245,852**
At 31 December 2019	**80,844**	**25,027**	**5,264**	**34,675**	**123,118**	**268,928**

(all amounts in EUR '000, unless specified otherwise)

7. INTANGIBLE ASSETS (CONTINUED)

	Goodwill	Customer relationships	Trade marks	Costs to obtain a contract	Licences and software	Total non-current intangible assets
Cost						
At 31 December 2017	**76,089**	**77,148**	**2,816**	**97,616**	**190,122**	**443,791**
Additions	-	3,997	-	28,802	13,788	**46,587**
Additions from acquisitions of subsidiaries (Note 24)	7,613	10,269	5,689	1,939	3,849	**29,359**
Disposals	-	-	-	-	(28)	**(28)**
Effect of movement in exchange rates	(799)	(371)	(2)	(930)	(1,512)	**(3,614)**
At 31 December 2018	**82,903**	**91,043**	**8,503**	**127,427**	**206,219**	**516,095**
Depreciation						
At 31 December 2017	-	**71,831**	**1,687**	**78,578**	**76,447**	**228,543**
Amortization	-	6,265	601	21,042	15,220	**43,128**
Impairment	-	-	-	5	-	**5**
Disposals	-	-	-	-	-	-
Effect of movement in exchange rates	-	(262)	(2)	(797)	(372)	**(1,433)**
At 31 December 2018	-	**77,834**	**2,286**	**98,828**	**91,295**	**270,243**
Net Book Value						
At 31 December 2017	**76,089**	**5,317**	**1,129**	**19,038**	**113,675**	**215,248**
At 31 December 2018	**82,903**	**13,209**	**6,217**	**28,599**	**114,924**	**245,852**

(all amounts in EUR '000, unless specified otherwise)

7. INTANGIBLE ASSETS (CONTINUED)

i) Customer relationships

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies.

The main additions of Customer relationships in the period ended 31 December 2019 relate to the additions resulting from acquisition of customer contracts in Romania, mainly from ATTP Telecomunications (EUR 8,517), Canal S (EUR 3,492) and Westlink Communications (EUR 1,411).

ii) Impairment testing for cash-generating units containing goodwill

The Group defines cash-generating units (CGUs) based on three criteria:

- country;
- infrastructure used in providing the services; and
- bundling of services affecting independence of cash flows.

Since a significant percentage of customers buy bundled services of CBT (cable, broadband and telephony), in countries where the Group is providing CBT, mobile telephony services and DTH services, the Group identified separate CGUs for CBT, mobile telephony services and DTH respectively. Television production does not represent separate CGUs in Romania due to the RCS&RDS strategy, structure of subscribers and revenues generated. Mobile telephony in Hungary does not represent separate CGUs as Digi Hungary strategy's considers mainly cross selling services to the existing customer base. The analysis of the services performed by Invitel was made together with the CBFT CGU from Hungary as they operate a similar structure of services – fixed line services and operate in the same geographical segment – Hungary. For this analysis, mobile telephony in Spain is considered together with the fixed line services. They do not represent separate CGUs, as Digi Spain's strategy doesn't consider it separately.

In addition, solar electricity production companies are also considered distinct CGUs.

Goodwill acquired through business combinations has been allocated among cash generating units for the purposes of impairment testing as follows:

- CBT Romania;
- CBT Hungary;
- Mobile Spain.

Goodwill	31 December 2019	31 December 2018
CBT	**80,403**	**82,425**
Romania	53,199	54,458
Hungary	27,204	27,967
Mobile	**228**	**228**
Spain	228	228
DTH	**213**	**250**
Romania	213	250
Total	**80,844**	**82,903**

Recoverable amounts for the CGUs have been determined on the basis of value in use based on discounted cashflows using cash flow projections based on financial budgets approved by senior management covering a five-year period (level 3 on fair value hierarchy).

7. INTANGIBLE ASSETS (continued)

Key assumptions used in the calculations of the recoverable amounts

Key assumptions used in the calculation of the recoverable amounts are revenues, EBITDA margins, discount rate, terminal value growth rate and capital expenditure.

Discount rate (post –tax) pre IFRS 16

- for the Romanian territory 8.44% % p.a. (2018: 9.55%);
- for the Hungarian territory 7.92% p.a. (2018: 9.50%)
- for the Spanish territory 7.19% p.a.

Discount rate (pre –tax)

- for the Romanian territory 8.66% % p.a. (2018: 9.79%);
- for the Hungarian territory 8.04% p.a. (2018: 9.65%)
- for the Spanish territory 7.54% p.a.

The discount rate applied to the cash flows of each CGU is based in the Group's Weighted Average Cost of Capital (WACC). WACC is the average cost of sources of financing (debt and equity), each of which is weighted by its respective use in the market.

Key inputs to the WACC calculation are the risk free rate, beta (reflecting the risk of the Group relative to the market as a whole) as well as assumptions regarding the spread for credit risk and the market risk premium for the cost of equity. Group WACC is adjusted for risk relative to the country in which the CGU operates.

Terminal growth rates

- for Romanian CBT CGU 2% p.a. (2018: 2%);
- for Hungarian CBT CGU 2% p.a. (2018: 2%).
- for Spanish CGU 2% p.a.

The growth rate in perpetuity has been determined based on the long-term compounded annual growth rate in EBITDA estimated by management considering market maturity and market share in Romania and Hungary, being also in line with publicly available market expectations.

EBITDA margins

For the Romanian CBT CGU, budgeted EBITDA is based on past experience and incremental increase in future years generated from incremental increase in revenues from new subscribers to our cable Tv, internet and mobile telephony business; budgeted EBITDA for the Hungarian CBT CGU is based on past experience and growth expectation from tighter cost control and additional revenue from new subscribers connected to the fixed network.

Capital expenditure

Budgeted capital expenditure (tangible and intangible assets including programme assets) is based on past experience, forecasted growth of subscribers (new subscribers connected to the fixed network) and other business drivers.

Management believes that as of 31 December 2019 no reasonable possible change in the main assumptions could result in an impairment charge (31 December 2018: no reasonable change).

iii) Costs to obtain contracts with customers (Subscriber acquisition costs "SAC")

Cost to obtain the contracts with customers represents third party costs for acquiring and connecting customers of the Group. In 2019 SAC was generated in relation with contracting customers in Romania (EUR 14,614), Spain (EUR 18,928), Hungary (EUR 892) and Italy (EUR 1,888). In 2018 SAC was generated in relation with contracting customers in Romania (EUR 17,312), Spain (EUR 8,840), Hungary (EUR 2,843) and Italy (EUR 1,746).

7. INTANGIBLE ASSETS (CONTINUED)

iv) Licences and software

2100 MHz license (Romania)

In January 2007 the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") granted to RCS&RDS a *2100 MHz* license for a period of 15 years which may be extended at the request of the Company for another 10 years, for a total consideration of EUR 27,056 (equivalent of USD 35,000), entirely paid as of 31 December 2014. The cost of the *2100 MHz* license was EUR 23,110 and was determined at inception date by discounting the future payments using effective interest method at the date the license was granted to RCS&RDS The carrying amount of the *2100 MHz* license as of 31 December 2019 is EUR 4,986 (2018: EUR 5,532).

900 MHz license (Romania)

In September 2012 IGCTI granted to RCS&RDS 1 spectrum block in the 5 MHz broadband to be used starting with April 2014 for a period of 15 years, for a total consideration of EUR 40,000 out of which EUR 26,000 was paid in 2012. The remaining amount of EUR 14,000 was paid in June 2013. The carrying amount of the 900 MHz license as of 31 December 2019 is EUR 23,072 (2018: EUR 26,199).

The obligations assumed in relation to the 900 MHz license are: allow access to MVNOs (mobile virtual network operators), coverage of a number of small cities in Romania presently without coverage until 5 April 2016, coverage for voice services of 98% of the population until 5 April 2019, coverage for data services of 60% of population until 5 April 2021. We fulfilled our license obligations, as reviewed by ANCOM.

1800 MHz license (Hungary)

In September 2014 NMHH granted to Digi Hungary 1 spectrum block in the 5 MHz for a period of 15 years, for a total consideration of HUF 10 billion (EUR 32,600) which was fully paid in October 2014. The carrying amount of the 1800 MHz license as of 31 December 2019 is EUR 22,475 (2018: EUR 24,666). The license has no coverage obligations assumed.

2600 MHz license (Romania)

In August 2015 the purchase of a 2600 MHz license from 2K Telecom for a total consideration of EUR 6,600 was approved by the Romanian General Inspectorate for Communication and Information Technology ("IGCTI"). The carrying amount of the *2600 MHz* license as of 31 December 2019 is EUR 4,333 (2018: EUR 4,996).

3700 MHz license (Romania)

In October 2015 RCS&RDS has participated in an auction and acquired from the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") a 3700 MHz license for a total consideration of EUR 1,880. The license was granted and came into effect starting with December 2015 and its carrying amount as of 31 December 2019 is EUR 1,049 (2018: EUR 1,255).

3800 MHz license (Hungary)

The 3800 MHz license obtained for a total consideration of EUR 820 by Digi Hungary has a carrying amount as of 31 December 2019 of EUR 630 (2018: EUR 693).

FM Radio frequency licenses (Romania)

In 2015 RCS&RDS obtained the right of use of several audiovisual licences, through a transfer of licenses approved by the National Audiovisual Council of Romania. These licences are currently used to broadcast the Digi FM, Pro FM, Dance FM and Music FM radio stations.

(all amounts in EUR '000, unless specified otherwise)

7. INTANGIBLE ASSETS (CONTINUED)

Other

Included in "Licenses and software" category is also the software required for the operation and maintenance of communication equipment.

Collateral

For details on the pledges placed on the Group assets refer to Note 15 (xv).

Current intangible assets - programme assets

	31 December 2019	31 December 2018
Balance at 1 January	**21,379**	**22,250**
Additions	38,630	39,890
Amortization	(41,953)	(40,741)
Effect of movement in exchange rates	(499)	(20)
Balance at 31 December	**17,557**	**21,379**

Included in "Additions" is an amount of EUR 31,620 representing broadcasting rights for sports competitions for 2019/2020 season (2018: EUR 34,433 for 2018/2019 season) and related advance payments for future seasons, the difference representing movies and documentaries rights. Contractual obligations related to future seasons are presented as commitments in Note 28.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	31 December 2019	31 December 2018
Balance at 1 January	**32,058**	**42,146**
Fair value adjustment – OCI	7,534	(10,088)
Balance at 31 December	**39,592**	**32,058**

The above financial assets at fair value through OCI comprise shares in RCSM (which is the parent of the Company). As at 31 December 2019 the percentage of ownership of DIGI in RCSM is 10%, similar to previous period. For additional disclosures on the fair values of the financial assets at fair value through OCI refer to Note 25 (iv).

As of 31 December 2018 and 31 December 2019, the fair value of the RCSM shares was determined as detailed in Note 3f.

(all amounts in EUR '000, unless specified otherwise)

9. EARNINGS PER SHARE (EPS)

	2019	2018
Net profit/(loss) for the year	40,584	18,022
Non-controlling interests	(2,459)	(1,422)
Net profit/(loss) attributable to equity holders of the parent	**38,125**	**16,600**
Weighted average number of ordinary shares outstanding – basic*	**93,874,761**	**93,439,753**
Share option plan	**436,000**	**1,646,505**
Weighted average number of shares outstanding – diluted*	**94,310,761**	**95,086,258**
Earnings/(loss) per share (EUR/share) basic	**0.406**	**0.178**
Earnings/(loss) per share (EUR/share) diluted	**0.404**	**0.175**
Earnings/(loss) per share (EUR/share) basic (discontinued)	**-**	**(0.012)**
Earnings/(loss) per share (EUR/share) diluted (discountinued)	**-**	**(0.012)**

** The number of outstanding shares excludes treasury shares*

During 2018 and 2019, several share option plans have been implemented for management and employees. These share options have a dilutive effect on earnings. For details, please see Note 26.

(all amounts in EUR '000, unless specified otherwise)

10. INVENTORIES

	31 December 2019	31 December 2018
Merchandise and equipment	1,138	4,746
Materials and consumables	14,422	11,840
Total inventories	**15,560**	**16,586**

Merchandise and equipment

This category includes terminal equipment sold to the customers. Such equipment includes mostly mobile phones.

Materials and consumables

This category includes mainly inventory used in the development and maintenance of the telecommunications networks, such as fiber optic cables, nodes and amplifiers.

Collateral

For details on the pledges placed on the Group assets refer to Note 15 (xv).

11. TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

	31 December 2019	31 December 2018
Trade receivables	64,935	54,229
Contract assets (Note 19)	50,715	44,076
Receivable from related parties (refer to Note 18)	774	753
Other taxes receivable	1,756	813
Other receivables	2,215	4,207
Total trade and other receivables	**120,395**	**104,078**

For details in movement in Contract assets, please see Note 19.

For details regarding credit risk please refer to Note 25.

Collateral

For details on the pledges placed on the Group assets refer to Note 15 (xv).

12. OTHER ASSETS

	31 December 2019	31 December 2018
Advances to suppliers	6,990	6,659
Prepayments	4,894	5,760
Total other assets	**11,884**	**12,419**

For details regarding credit risk please refer to Note 25.

13. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Bank accounts	10,576	13,411
Petty cash	422	421
Total cash and cash equivalents	**10,998**	**13,832**

Cash and cash equivalents as at 31 December 2019 includes cash equivalents in amount of EUR 3,144 (31 December 2018: EUR 2,911).

Collateral

For details on the pledges placed on the Group assets and restricted cash please refer to Note 15 (xv).

(all amounts in EUR '000, unless specified otherwise)

14. EQUITY

The issued and paid-up capital as at 31 December 2018 was in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

On January 14, 2019, we 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. 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.

The issued and paid-up capital as at 31 December 2019 was in amount of EUR 6,810,042.52, divided into 100,000,000 shares (out of which (i) 64,556,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 35,443,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

Class B Shares are listed on the Romanian Stock Exchange ("BVB") starting from 16 May 2017.

	31 December 2019	31 December 2018
Class A:		
Ordinary Shares – Issued and Paid (No.)	64,556,028	65,756,028
Ordinary Shares – Unissued (No.)	35,443,972	34,243,972
Nominal Value	0.10 EUR per share	0.10 EUR per share
Class B:		
Ordinary Shares – Issued and Paid (No.)	35,443,972	34,243,972
Ordinary Shares – Unissued (No.)	64,556,028	65,756,028
Nominal Value	0.01 EUR per share	0.01 EUR per share
Share Capital Value (EUR) thousand	6,810	6,918

The rights attaching to the class B shares are uniform in all respects except for the voting rights to the class A shares.

At 31 December 2019, the shareholders of DIGI are as follows:

	31 December 2019		31 December 2018	
Shareholder name	**No. of shares**	**%**	**No. of shares**	**%**
Class A:				
RCS Management S.A.	57,866,545	57.87%	57,866,545	57.87%
Zoltan Teszari	2,280,122	2.28%	2,280,122	2.28%
DIGI-treasury shares	4,409,361	4.41%	5,609,361	5.61%
Total class A	**64,556,028**		**65,756,028**	
Class B:				
Shares listed on BVB	34,116,833	34.12%	33,339,354	33.34%
DIGI - treasury shares	1,327,139	1.33%	904,618	0.90%
Total class B	**35,443,972**		**34,243,972**	
TOTAL	**100,000,000**		**100,000,000**	

The ultimate beneficial shareholder of the Group is Mr. Zoltan Teszari. Mr. Zoltan Teszari is the controlling shareholder of the Group, being the controlling shareholder of RCSM (the controlling parent of DIGI) and minority shareholder of DIGI and RCS&RDS.

14. EQUITY (CONTINUED)

Treasury shares buy-back

In June 2018, the Board of Directors of the Company decided upon the initiation of the class B shares buy-back program in accordance with the resolutions of the general shareholders meeting of the Company from 2 May 2018 (the AGM), to be used for the purpose of the several stock option programs. During year ended 31 December 2019, a total of 971,721 class B shares were repurchased through the buy-back program. Please also see Note 26 for Stock Option Plan vested in 2018 and 2019.

Proposed appropriation of the result

The board of directors proposed to add the result for the year to retained earnings. This has been reflected in the statement of financial position. At the annual general meeting in 2020, the board of directors shall propose to pay-out from retained earnings a dividend per share of RON 0.65, totaling EUR 12,817 (using 31 December 2019 fx rate). This dividend payment shall only be reflected in the statement of financial position when it is approved by the annual general meeting.

Dividends

The profit available for distribution is the profit for the year and retained earnings recorded in the IFRS stand-alone statutory financial statements, which differs from the result in these financial statements.

The AGM from 30 April 2019 approved the distribution of a gross dividend of RON 0.50 per share (EUR 0.11 per share) for 2018. The dividend was distributed on 29 May 2019.

The AGM from 2 May 2018 approved the distribution of a gross dividend of RON 0.35 per share (EUR 0.075 per share) for 2017. The dividend was distributed on 30 May 2018.

Nature and purpose of reserves

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets designated at fair value through other comprehensive income.

Cash flow hedges

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument. For the amount that was reclassified in Profit or Loss, please see Note 24.

Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.

(all amounts in EUR '000, unless specified otherwise)

15. INTEREST BEARING LOANS AND BORROWINGS

Long term portion		**Nominal interest rate**	**31 December 2019**	**31 December 2018**
2016 Bonds	(i)	5% p.a.	552,433	349,490
2016 Senior Facilities Agreement[1]	(ii)	3M ROBOR + 2.65%p.a.	175,964	203,067
2018 Senior Facilities Agreement[1]	(iii)	3M ROBOR/EURIBOR/BUBOR + 2.65%p.a.	70,803	156,566
Obligations under finance leases[2]		Variable linked to LIBOR and EURIBOR+ respective margin	-[2]	3,579
Other	(iv,ix,x)		12,163	3,491
Total long term portion			**811,363**	**716,193**

Current portion		**Nominal interest rate**	**31 December 2019**	**31 December 2018**
2016 Senior Facilities Agreement[1]	(ii)	3M ROBOR + 2.65%p.a.	54,237	89,182
2018 Senior Facilities Agreement[1]	(iii)	3M ROBOR/EURIBOR/BUBOR + 2.65%p.a.	-	17,144
Overdrafts	(viii,xi-xiv)	Variable linked to EURIBOR/ROBOR/ LIBOR+ respective margin	53,874	33,067
Obligations under finance leases[2]		Variable linked to LIBOR and EURIBOR+ respective margin	-[2]	4,388
Other	(iv,v,ix,x)		22,556	24,844
Total current portion			**130,667**	**168,625**

(1)Both of SFA 2018 and SFA 2016 were fully drawn as at 31 December 2019.

(2)For lease liabilities as at 31 December 2019, please see Note 16.

(all amounts in EUR '000, unless specified otherwise)

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

For details regarding cash inflows and outflows for interest bearing borrowings please see the table below:

	Long term loans	Bonds	Short term loan	Interest	Total
Balance as at 1 January 2019	**475,705**	**349,490**	**44,241**	**7,417**	**876,853**
Proceeds from borrowings	48,823	200,000	24,512	-	**273,335**
Repayment of borrowings	(195,578)	-	(6,767)	-	**(202,345)**
Interest expense	-	-	-	49,564	**49,564**
Interest paid	-	-	-	(48,423)	**(48,423)**
New finance cost(1)	(3,071)	3, 482	-	-	**411**
Amortisation of deferred finance costs and inception value of embedded derivative	1,978	(540)	-	-	**1,438**
Effects of movements in exchange rates	(7,750)	-	(982)	(72)	**(8,803)**
Balance as at 31 December 2019	**320,107**	**552,433**	**61,005**	**8,486**	**942,031**

(1)New finance cost presented above in amount of EUR 411 includes additional borrowing cost during the period of EUR 6,329, bond premium from February 2019 of EUR 3,500 and fair value of the embedded derivative at inception date in February 2019 of EUR 3,240. In the Cashflow statements, the amount of EUR 5,967 represents finance cost paid in 2019 related to Groups's borrowings.

	Long term loans	Bonds	Short term loan	Interest	Total
Balance as at 1 January 2018	**337,675**	**349,384**	**32,394**	**6,387**	**725,840**
Proceeds from borrowings	189,839	-	13,618		**203,457**
Acquired through business combinations	-	-	9,295	-	**9,295**
Repayment of borrowings	(49,597)	-	(10,879)		**(60,476)**
Interest expense				41,310	**41,310**
Interest paid				(40,291)	**(40,291)**
New finance cost(1)	(1,926)	-			**(1,926)**
Amortisation of deferred finance costs and inception value of embedded derivative	1,413	106			**1,519**
Effects of movements in exchange rates	(1,699)	-	(187)	11	**(1,875)**
Balance as at 31 December 2018	**475,705**	**349,490**	**44,241**	**7,417**	**876,853**

(1)New finance cost presented above in amount of EUR 1,926 includes additional borrowing cost during the period. In the Cashflow statements, the amount of EUR 2,673 represents finance cost paid in 2018 related to Groups's borrowings.

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

i) 2016 Bonds

On 26 October 2016 the Company issued Bonds with a value of EUR 350,000 with a 5% coupon yield falling due in October 2023.

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023 (the "Additional Notes"). The Additional Notes have the benefit of the same guarantees and coupon as the initial issuance from 2016. The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) RON 250.0 million under the 2016 SFA Facility A1 and A2 (EUR 53,603 equivalent); (ii) RON 120.0 million under Facility B (EUR 25,730 equivalent); (iii) HUF 17,835 million (EUR 55,472 equivalent) for SFA 2018 A1; (iv) RON 87.7 million (EUR 18,800 equivalent) for SFA B1 and (v) EUR 25,641 for SFA 2018 B2.

Arrangement fees

The total cost of concluding the 2016 Bonds is amortised using the effective interest method over the life of the Bonds. The additional notes were issued with a premium of EUR 3,500 which was included in the carrying amount of the bond liability and is amortised over the term of the notes.

As of 31 December 2019 the unamortized balance of bond issuance related fees was EUR 6,555 (2018: EUR 6,207). During the year, there were net borrowing costs recognized as expenses in amount of positive EUR 3,482, representing costs of EUR 3,257 and increase in bond liability due to bond premium of EUR 3,500 and due to fair value adjustment at inception of EUR 3,240. (2018: EUR 1,926). For details, please see table above.

Drawing

As of 31 December 2019, the nominal balance is EUR 550,000 (EUR 552,433 presented net of borrowing fees and including bifurcation of fair value of embedded derivative at inception dates October 2016 and February 2019, and premium issuance of EUR 3,500. As the proceeds from bond tap in February 2019 were also used to partially prepay SFA 2018 A1, borrowing fees were also allocated to this facility and are presented below at point iii).

Pledges

Details on pledges are presented further in section (xv) of the Note 15.

Covenants

The Group has agreed to certain covenants with respect to the Bonds, including, among other things, limitations on its ability to: incur or guarantee additional indebtedness; make investments or other restricted payments; sell assets and subsidiary stock; enter into certain transactions with affiliates; create liens; consolidate, merge or sell all or substantially all of our assets; enter into agreements that restrict our restricted subsidiaries' ability to pay dividends; sell or issue capital stock of restricted subsidiaries; engage in any business other than a permitted business; and impair the security interests with respect to the Collateral. Each of these covenants is subject to certain exceptions and qualifications. Certain of these covenants may also be suspended in the event that the Bonds receive investment grade ratings from the relevant credit rating agencies.

In accordance with the terms of the Bonds, the Group is required to compute the Consolidated Leverage Ratio if certain events take place. The Consolidated Leverage Ratio means the ratio of (i) the aggregate amount of Consolidated Total Indebtedness outstanding on such date to (ii) the aggregate amount of EBITDA (computed in accordance with the terms of the Bonds, being adjusted with certain items such as share option plan expense and net fixed assets sale) for the most recent four full consecutive fiscal quarters for which internal consolidated financial statements of the Company are available at the time of such determination. The Consolidated Leverage Ratio should not exceed 3.75 to 1. Please see Note 25 (v).

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

On 8 August 2017, the 2016 Senior Secured Bonds, were admitted to trading on the Main Securities Market of the Irish Stock Exchange. In connection with this listing, DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (the Hungarian subsidiary of RCS & RDS S.A., the Company's subsidiary) acceded as an additional guarantor under to the Indenture and the Intercreditor Agreement dated 26 October 2016 relating to the Bonds, as well as under the Senior Facility Agreement dated 7 October 2016.

The Group is in compliance with all the covenants under the 2016 Bonds as at 31 December 2019.

On 5 February 2020, RCS & RDS S.A. issued a total of EUR 850,000 in two tranches of EUR 450,000 Senior Secured Notes due 2025 and EUR 400,000 Senior Secured Notes due 2028 and redeemed the entire aggregate principal amount of the 2016 Notes outstanding. The redemption price and unpaid but accrued interest was in amount of EUR 22.3 million.

The Covenants of the New Bonds issued on 5 February 2020 require a Consolidaed Leverage Ratio not exceeding 4.25 to 1. For details regarding the specific covenants, please see Offering Memorandum attached to the Company's website.

ii) 2016 Senior Facilities Agreement ("2016 SFA")

On 7 October 2016, RCS & RDS, as borrower, entered into the Senior Facilities Agreement with, among others, BRD-Groupe Société Générale S.A., Citibank, N.A., London Branch, ING Bank, and Unicredit Bank, as lead arrangers. The Senior Facilities Agreement consists of (i) the SFA Facility A1; (ii) the SFA Facility A2; and (iii) the SFA Facility B. The SFA Facility A1 was drawn for the purposes of funding the refinancing of the 2015 Senior Facilities Agreement and capital expenditure requirements of the Group. The SFA Facility A2 was drawn for the purpose of funding the refinancing of the 2013 Bonds. The SFA Facility B was drawn for the general corporate and working capital purposes of the Group. Facilities A1 and A2 mature in October 2021. Facility B maturity was also extended to October 2021.

Drawing

On 26 October 2016, the Company drew (a) RON 930.0 million under the SFA Facility A1 and repaid the 2015 Senior Facilities Agreement in full; and (b) RON 600.0 million under the SFA Facility A2. During 2017 Facility B was fully drawn for the general corporate and working capital purposes of the Group, amounting to RON 157 million.

As at 31 December 2019 the outstanding principal amounts for SFA A1 was RON 581.3 million (EUR 121,618 equivalent), for SFA A2 was RON 375 million (EUR 78,463 equivalent) and for SFA B was RON 157 million (EUR 32,850 equivalent). As at 31 December 2018 the outstanding principal amounts for SFA A1 was RON 744.0 million (EUR 159.5 million equivalent), for SFA A2 was RON 480.0 million (EUR 102.9 million equivalent) and for SFA B was RON 157.0 million (EUR 33.7 million equivalent).

The interest rate under the Senior Facilities Agreement is floating at a margin of 2.65% per annum plus ROBOR. Interest is payable every three months. The interest rate swaps concluded for the 2015 Senior Facilities Agreement remained valid and the hedging relationship continues to apply, up to 2020.

The interest rate under the 2015 Senior Facilities Agreement was floating at a margin of 2.5% per annum plus ROBOR. On May 22, 2015 RCS&RDS concluded an interest rate swap for the entire initial term loan facility through which interest is fixed at 5.75% until maturity date. The interest rate swap is secured by the Collateral pursuant to the terms of the Intercreditor Agreement.

The interest rate for the additional amount drawn in December 2015 (the "Accordion" agreement) is floating at a margin of 2.5% per annum plus ROBOR for the term loan facility portion (the interest rate was fixed at 5.50% until maturity date, through an interest rate swap concluded in January 2016) and floating ROBOR + 2.5% for the revolver credit portion).

(all amounts in EUR '000, unless specified otherwise)

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Maturities & repayments

The proceeds of the Additional Notes from February 2019 were partially used to prepay the aggregate principal amount of (i) RON 250.0 million under the 2016 SFA Facility A1 and A2 (EUR 53.6 million equivalent) and (ii) RON 120.0 million under Facility B (EUR 25.7 million equivalent). During 2019 additional drawings from Facility B were made, thus as at 31 December 2019 Facility B is fully drawn.

In October 2019 we paid the principal instalments of RON 10.8 million for Facility A1 and RON 7.0 million for Facility A2, as per the maturiries schedule.

On 5 February 2020, RCS & RDS S.A. issued a total of EUR 850,000 in two tranches of EUR 450,000 Senior Secured Notes due 2025 and EUR 400,000 Senior Secured Notes due 2028 and prepaid: (i) RON 162.8 million from Facility A1; (ii) RON 105 million from facility A2 and (iii) fully prepay Facility B without cancelling commitments under this Facility.

The repayment schedule for the outstanding principal amounts under the 2016 SFA Facility A1/A2, after the prepayment on 5 February 2020, for the next periods is as follows:

Repayment date	**Repayment instalment A1 – RON**	**Repayment instalment A1 – EUR Equivalent *)**	**Repayment instalment A2 - RON**	**Repayment instalment A2 - EUR Equivalent *)**
Apr-21	81,375,000	17,026,552	52,500,000	10,984,872
Oct-21	337,125,000	70,538,573	217,500,000	45,508,757
Total	**418,500,000**	**87,565,125**	**270,000,000**	**56,493,629**

**) at year end fx rate*

Arrangement fees

The total cost of concluding the loan is amortised using the effective interest method over the remaining term of the Senior Facilities Agreement. As of 31 December 2019 the unamortized balance of borrowings related fees incurred in 2019 was EUR 1,254 (31 December 2018: EUR 1,930).

The Senior Facilities Agreement concluded on October 2016 was accounted for as a modification of the previous 2015 Senior Facilities Agreement therefore the unamortized borrowing costs of the 2015 Senior Facilities Agreement in amount of EUR 737 (31 December 2018: EUR 1,167) as at 31 December 2019 will continue to be amortised over the life of the 2016 Senior Facility Agreement using the effective interest method.

Pledges

The Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with other outstanding facilities, pursuant to the terms of the Intercreditor Agreement.

Covenants

The Group has agreed under the Senior Facilities Agreement to comply with two financial ratio covenants regarding leverage ("total net debt to EBITDA ratio) and interest cover and certain qualitative covenants, mainly related to authorisations, compliance with corporate legislation in force, preservation of assets, negative pledge, limitations on disposals, mergers, acquisitions, arm's length transaction, change in nature of business, limitation on subsidiary indebtedness, events of default and others.

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

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

The Group is in compliance with all the covenants under the 2016 Senior Facility Agreement as at 31 December 2019.

iii) 2018 Senior Facilities Agreement ("2018 SFA")

On 1 February 2018, RCS & RDS S.A. (the Company's subsidiary in Romania – „RCS&RDS"), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.'s subsidiary in Hungary – „Digi Kft."), as the borrowers, the Company, as a guarantor, Citibank N.A., London Branch and ING Bank N.V. as the arrangers, ING Bank N.V. as the facility agent, and several other financial institutions as the lenders have concluded a syindicated loan providing for three facilities in HUF, RON and EURO currencies (the „2018 Syndicated Facility").

The 2018 Syndicated Facility was used partially for the financing of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt. The remainder was used for general corporate purposes and/or capital expenditures.

The 2018 Syndicated Facility has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

Drawing

An amount of EUR 159.9 million equivalent from the Facility was drawn in May 2018 and the remaing available amount of EUR 16.9 million equivalent was drawn in October 2018.

As at December 31, 2019 the outstanding principal amounts for SFA 2018 A1 was HUF 13,465 million (EUR 40,739 equivalent), for SFA 2018 B1 was RON 66.2 million (EUR 13,852 equivalent) and for SFA 2018 B2 was EUR 19,359.

Maturities and repayment schedule

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023. The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) HUF 17,835 million (EUR 55.5 million equivalent) for SFA 2018 A1; (ii) RON 87.7 million (EUR 18.8 million equivalent) for SFA B1 and EUR 25.6 million for SFA 2018 B2.

On 5 February 2020, RCS & RDS S.A. issued a total of EUR 850,000 in two tranches of EUR 450,000 Senior Secured Notes due 2025 and EUR 400,000 Senior Secured Notes due 2028 and prepaid all outstanding amounts under SFA 2018 and closed the Facility.

Arrangement fees

The total cost of concluding the loan is amortised using the effective interest method over the remaining term of the Senior Facilities Agreement. As of 31 December 2019 the unamortized balance of borrowings related fees incurred in 2019 was EUR 3,147 and includes EUR 1,933 arrangement fees related to the additional Notes issued in February 2019 that were partially used to prepay part of the Facility A1. (31 December 2018: 1,637).

Pledges

The 2018 Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with other outstanding facilities, pursuant to the terms of the Intercreditor Agreement.

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Covenants

The Group has agreed under the Senior Facilities Agreement to comply with two financial ratio covenants regarding leverage ("total

net debt to EBITDA ratio) and interest cover and certain qualitative covenants, mainly related to authorisations, compliance with corporate legislation in force, preservation of assets, negative pledge, limitations on disposals, mergers, acquisitions, arm's length transaction, change in nature of business, limitation on subsidiary indebtedness, events of default and others.

The financial ratio covenants included in Senior Facilities Agreement include maintaining: (i) on the last day of each Accounting Quarter which ends during the period from (and including) 1 July 2019, the ratio of Consolidated Total Net Indebtedness to EBITDA for the Testing Period ending on that day is not more than 3.25:1. (ii) Interest cover: the ratio of EBITDA to Net Total Interest for each Testing Period is not less than 4.25:1.

The Group is in compliance with all the covenants under the 2018 Senior Facility Agreement as at 31 December 2019.

iv) Libra Loan Agreement

On 25 February 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON 32,000 thousand repayable in 5 years with Libra Bank (the "Libra Loan Agreement"). RCS&RDS drew RON 31,555 thousand and used the funding to acquire certain real property in Bucharest, which has been mortgaged in favour of Libra Bank as security for the Libra Loan Agreement. As at 31 December 2019 RON 8.4 million (EUR 1,767 equivalent using exchange rate as at 31 December 2019) was outstanding under the Libra Loan Agreement (31 December 2018: EUR 3,220).

v) BRD Credit Facility

On 23 May 2018, RCS & RDS SA entered into the BRD Credit Facility for the aggregate amount of RON 35.0 million repayable in 24 months for the purpose of (i) financing the acquisition of certain real estate property in Bucharest; and (ii) refinancing the acquisition of certain real estate property in Bucharest. As at 31 December 2019, an aggregate principal amount of RON 8 million (EUR 1,668 equivalent using exchange rate as at 31 December 2019) was outstanding under the BRD Credit Facility (31 December 2018: EUR 5,812 equivalent)

The BRD Facility is secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

vi) 2019 Bridge Facility Agreement

On July 31, 2019, the RCS & RDS, as borrower and original guarantor, DIGI Hungary as borrower and original guarantor, the Company, as borrower and original guarantor, and Invitel, as original guarantor, entered into an up to EUR 150,000 equivalent 2019 Bridge Facilities Agreement.

The 2019 Bridge Facilities Agreement provides for Facilities A1 and A2, which can be drawn either in RON, HUF or euro. The commitments under those facilities can be utilized either as term loans or letters of credit or guarantee to finance acquisitions of mobile telecommunication licenses in Romania and Hungary and will terminate within 12 months after the date of the 2019 Bridge Facilities Agreement, with an option for us, subject to certain conditions, to extend them for another six or 12 months. The aggregate commitments under the 2019 Bridge Facilities Agreement can be increased at our request up to EUR 250,000 (or its equivalent in other currencies) subject to certain conditions and provided that such option to increase is established on an uncommitted basis and is subject to the willingness of lenders to provide additional commitments. We entered into the 2019 Bridge Facilities Agreement to finance acquisitions of mobile telecommunication licenses in Romania and Hungary. Although no funds have been drawn thereunder, as at December 31, 2019, we utilized a portion of available commitments as letters of guarantee to support our bids for such licenses.

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Any amounts drawn under the 2019 Bridge Facilities Agreement will be subject to interest rate equal to an aggregate of a margin per annum (which is variable by period) plus ROBOR, BUBOR or EURIBOR, as applicable.

The 2019 Bridge Facilities Agreement is guaranteed by the Company, together with other outastanding facilities and is secured by the Collateral on a pari passu basis pursuant to the terms of the Intercreditor Agreement.

vii) OTP Bank Hungary Loan Agreement

In December 2016, Digi Hungary has entered into a short term loan of HUF 1,300 million with OTP bank in Hungary. In 2019, the maturity of the loan was extended until December 16, 2019. The entire amount available under this agreement was drawn and outstanding. On December 16, 2019, DIGI Hungary repaid all amounts outstanding under this short term loan.

viii) Sberbank Facility Agreement

On August 5, 2019, DIGI Hungary entered into the Sberbank Facility Agreement in the aggregate principal amount of HUF 640.0 million. DIGI Hungary's obligations under the Sberbank Facility Agreement are guaranteed by the RCS & RDs and are secured by pledges of certain real estate. On December 10, 2019, available commitments under the Sberbank Facility Agreement were increased to HUF 1,841 million (EUR 5,569 equivalent using exchange rate as at 31 December 2019) and fully drawn.

ix) Digi Spain Facilites

As at 31 December 2019, Digi Spain concluded several credit facilities with Banco Santander, Caixa, BBVA, with maturity dates until the latest 2023. The current outstanding amount under these facilities agreements as at 31 December 2019 is EUR 12,617.

x) 2019 UniCredit Equipment Financing Agreement

On December 17, 2019, the RCS&RDS S.A., as borrower and the Parent, as guarantor, entered into the 2019 UniCredit Equipment Financing Agreement for the acquisition of equipment from Nokia. On January 24, 2020, DIGI Hungary and Invitel guaranteed the 2019 UniCredit Equipment Financing Agreement by operation of an amendment and restatement of such facility agreement. The 2019 UniCredit Equipment Financing Agreement provides for: (a) Tranche 1 in an aggregate principal amount not exceeding EUR 410; and (b) Tranche 2 in an aggregate principal amount not exceeding EUR 12,837 and is guaranteed by Finnvera plc., a Finnish export credit agency.

All amounts drawn under the 2019 UniCredit Equipment Financing Agreement are subject to an interest rate of 0.85% per annum plus EURIBOR and interest is payable every six months.

The 2019 UniCredit Equipment Financing Agreement contains certain financial covenants such as: (i) to maintain a total leverage ratio (as such term is defined herein) of 3.25 to 1 and (ii) to maintain a consolidated EBITDA to consolidated net total interest of 4.25 to 1 (as such terms are defined therein).

The 2019 UniCredit Equipment Financing Agreement is guaranteed by the Company together with other outastanding facilities and is secured by the Collateral on a pari passu basis pursuant to the terms of the Intercreditor Agreement.

As at 31 December 2019 the outstanding balance of the Financing Agreement was EUR 10,782.

The total cost of concluding the loan is amortised over the term of the agreement. As at 31 December 2019, the unamortized balance of borrowings related fees incurred in 2019 was EUR 583.

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED

xi) 2013 ING Facilities Agreement

On 1 November 2013, RCS&RDS entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the New Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter and were amended on 23 January 2017 and 20 August 2019. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of multipurpose facility to be used as overdraft and for issuance of letters of guarantee and letters of credit.

Drawings

As of 31 December 2019 the outstanding amount under the overdraft facility was EUR 3,406 and under letters of credit was EUR 5,213. (31 December 2018: EUR nill). In addition EUR 55; USD 1.4 million and RON 9.2 million Letters of Guarantee were issued under the letters of guarantee facility (31 December 2018: EUR 49 and RON 10.9 million).

xii) Citi Facilities Agreement

On 25 October 2013, RCS&RDS entered into the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes.

On 25 October 2013, the RCS&RDS entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group. The Citi Facilities Agreement share the Collateral, pursuant to the terms of the Intercreditor Agreement.

On 4 November 2013 RCS&RDS repaid the Citi Facilities Agreement using the proceeds from the Bond and the New Senior Facilities Agreement.

The Citi Facilities Agreement consists of uncommitted overdraft, bank guarantee and letters of guarantee facilities.

As of 31 December 2019, the overdraft was utilised in amount of EUR equivalent 24,168 (31 December 2018: EUR 22,658) and bank letters of guarantee were issued in amount of EUR 8,346, USD 0.7million and RON 0.7 million (31 December 2018: EUR 13,936, USD 0.7 million and RON 1.7 million).

xiii) Unicredit agreements

On 15 December 2015, RCS & RDS entered into an agreement with UniCredit Bank S.A. for an uncommitted overdraft/bank guarantee facility in amount of EUR 2,000. As at 31 December 2019 EUR 1,995 (31 December 2018: EUR 1,998) were drawn under the overdraft facility.

xiv) BRD Letters of Credit Facility Agreement

On 20 September 2017, RCS & RDS entered into the BRD Letters of Credit Facility. As at 31 December 2019, the outstanding amount for these facilities was EUR 13,522 equivalent (31 December 2018: EUR 8,411 equivalent).

The BRD Facilities are secured by the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

(all amounts in EUR '000, unless specified otherwise)

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

xv) Collateral for all facilities of RCS & RDS and DIGI

The obligations of the Group under the Bonds, as well as their obligations under the Senior Facilities Agreement, under the ING Facilities Agreement and the Citi Facilities Agreement on a pari passu basis pursuant to the terms of the Intercreditor Agreement dated 4 November 2013 and amended on 26 October 2016, are secured by a first-ranking security interest in certain assets of RCS&RDS and DIGI, namely:

(a) Certain Capital Stock that DIGI holds in RCS& RDS, which as at 31 December 2019 accounted for 95.58% of the issued Capital Stock of RCS&RDS, as per Trade Register;

(b) All bank accounts of DIGI, including any new bank accounts;

(c) Receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by DIGI to its subsidiary, RCS&RDS on 4 November 2013 amended and restated on 26 October 2016 and 12 February 2019 – EUR 553,500, which was all prepaid on 5 February 2020)

(d) 100% of the quota in DIGI T.S. Kft Hungary;

(e) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and

(f) All DIGI T.S Kft Hungary's shares owned currently in Invitel representing 99.998395%.

(g) subject to certain exclusions, all present and future movable assets of RCS&RDS including bank account monies, trade and other receivables, intragroup receivables, inventories, movable tangible property (including networks, machinery, equipment, vehicles, furniture and other similar assets), intangible assets, intellectual property rights, insurance and proceeds related to any of the foregoing as described in the General Movable Mortgage Agreement between RCS&RDS and Wilmington Trust (London) Limited.

In February 2020 Digi Spain became additional guarantor for the Collateral, pursuant to the terms of the Intercreditor Agreement.

As at 31 December 2019 the Group is in compliance with all covenants from all facilities presented above.

The table below presents the net leverage ratio and interest cover ratio, as computed based on data excerpted from the financial statements:

	31 December 2019	**31 December 2018**
Total Debt(1)	1,181,385	920,524
Cash and cash equivalents	10,998	13,832
Total Net Debt	**1,170,387**	**906,692**
Adjusted EBITDA	446,346	324,569
Total Net Debt to EBITDA:	**2.6**	**2.8**

(1) Includes Interest bearing loans and borrowings including Bonds, Lease Liabilities, Other long term liabilities, Derivative financial liabilities.

(all amounts in EUR '000, unless specified otherwise)

15. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

	31 December 2019	**31 December 2018**
Adjusted EBITDA	446,346	324,569
Total Net Interest[(1)]	59,137	47,389
EBITDA to Net Total Interest:	**7.5**	**6.8**

(1) Includes interest from banks, interest expense, interest lease liability and loss on derivative financial instruments.

The Consolidated net debt and Adjusted EBITDA used for the leverage ratio in accordance with the Senior Facilities Agreements and Senior Notes requirements, might varies according to the specific definitions included in the clauses of the respective contracts. Therefore, the current leverage ratio for the Senior Facilities Agreement is 2.8 (2018: 2.8) and the current leverage ratio for in accordance with the Senior Notes'requirements is 2.6 (2018:2.8).

(all amounts in EUR '000, unless specified otherwise)

16. LEASE LIABILITIES

The Group leases mainly network pillars, land, commercial spaces, cars and equipment. Set out below are the carrying amounts of lease liabilities and the movements during the period ended 31 December 2019. For period ended 31 December 2018, lease liabilities were included under interest-bearing loans and borrowings.

	31 December 2019
As at 1 January	**193,786**
Reclassification from previously finance lease liability	7,967
Additions	62,471
Interest expense	7,884
Interest paid	(7,884)
Payments of principal portion of lease liabilities	(65,967)
As at 31 December	**198,258**
Current	**64,721**
Non-current	**133,537**

The maturity analysis of lease liabilities are disclosed in Note 25.

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense of right-of-use assets	65,889
Interest expense on lease liabilities	7,754
Total amount recognised in profit or loss	**73,643**

For the rent contracts which include a renewal clause the lease liability computation was made based on the estimation that these clauses will be enforced up to a date which falls after the reporting date.

For details about the right of use asset, please see Note 6.

(all amounts in EUR '000, unless specified otherwise)

17. TRADE AND OTHER PAYABLES, OTHER LONG TERM LIABILITIES

17.1 TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Trade payables and payables to fixed assets suppliers	296,063	313,650
Accruals	78,798	83,653
Value added tax ("VAT")	15,614	11,781
Other payables related to investments	1,382	1,723
Salary and related taxes	28,767	29,415
Amounts payable to related parties (Note 18)	238	1,421
Dividends payable (Note 18)	10,881	5,062
Other	28, 551	14,758
Total trade and other payables	**460,294**	**461,463**

Included in payables to suppliers and accruals above is EUR 141,133 (31 December 2018: EUR 157,587) representing amounts due for property, plant and equipment and EUR 21,186 (31 December 2018: EUR 26,438) representing payment obligations for intangible assets.

Other payables related to investments refer mostly to scheduled payments for purchase of shares of d subsidiaries and non controlling interests.

Other include the value of RCS & RDS shares acquired by Digi from certain minority shareholders. For details, please see Note 24

(all amounts in EUR '000, unless specified otherwise)

17.2 OTHER LONG TERM LIABILITIES

	31 December 2019	31 December 2018
Other long term liabilities	40,312	34,600

Other long term liabilities include long term payables due to vendor financing agreements with our suppliers, according to which we have negotiated longer payment terms especially for network and equipment as well as customer premises equipment (CPE).
Our vendors obtain factoring financinag facilities from banks in order to be able to accommodate different commercial terms in relation with the Group. These do not represent financing liabilities for the Group. Therefore, they are classified as trade payable (current or long term liabilities, depending on the payment terms negoctated with the vendors which currently is maximum 3 years).

18. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of DIGI and its subsidiaries (the main subsidiaries are included in Note 24(a)); RCSM is the Group's ultimate holding company.

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

Receivables from related parties			
		31 December 2019	**31 December 2018**
Party			
Ager Imobiliare S.R.L.	(ii)	763	743
RCSM	(i)	1	1
Other		10	9
Total		**774**	**753**

Payables to related parties			
		31 December 2019	**31 December 2018**
Party			
RCSM	(i)	10,520	5,756
Mr. Zoltan Teszari	(iii)	242	8
Other		358	720
Total		**11,119**	**6,484**
Of which: dividends payable (Note 17.1)		*10,881*	*5,062*

(i) *Shareholder of DIGI*

(ii) *Entities affiliated to a shareholder of the parent*

(iii) *Ultimate beneficial shareholder*

Outstanding balances at the year-end are interest free. For details regarding the guarantees and pledges between Group's companies please refer to Note 15 (xv). For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2018: nil).

RCS Management loan

As at 31 December 2019, the loan entered into by RCS&RDS with RCSM Management on 12 May 2017, for a principal amount of EUR 5,000, was repaid and closed.

In May 2019, RCS & RDS declared dividends in amount of 50,000 RON, equivalent of EUR 10,508 from 2018 profit.

For dividends distributed by the Company, please refer to Note 14.

(all amounts in EUR '000, unless specified otherwise)

18. RELATED PARTY DISCLOSURES (CONTINUED)

Compensation of key management personnel of the Group

	2019	2018
Gross Salary expense	3,601	4,225
Social security expense	-	33
State Pension expense	-	17
Other taxes	122	73
Share-based payments	1,324	4,512

In 2018 and 2019 several share option plans were implemented for certain members of management and employees. Several shares option plans vested in 2018 and 2019. For details, please refer to Note 26.

Transactions of the Company with group entities	**2019**	**2018**
Revenues		
RCS&RDS SA – Dividend	9,833	10,122
RCS&RDS SA – Interest	28,323	19,617
RCS&RDS SA – WHT cost recovered	5,635	3,492
RCS&RDS SA – Tap Bond cost recovery	2,752	-
RCS&RDS SA – Services	15	-
Total	**46,558**	**33,231**

Transactions of the Company with group entities	**2019**	**2018**
Expenses		
RCS&RDS SA – Cost recovery	92	1
RCS&RDS SA – Services	9	69
Total	**101**	**70**

During 2018 and 2019, the Company distributed dividends to its shareholders. For details, please see Note 14.

(all amounts in EUR '000, unless specified otherwise)

19. REVENUES

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

	2019	2018
a) Revenues from contracts with costumers		
Cable TV		
Romania	217,049	189,907
Hungary	66,294	60,493
	283,343	**250,400**
Internet and data		
Romania	194,747	179,708
Hungary	77,041	57,456
Italy	-	-
Spain	10,520	321
	282,308	**237,485**
Telephony Revenues		
Romania	216,823	202,124
Hungary	20,643	17,727
Spain	182,184	126,172
Italy	22,370	22,709
	442,020	**368,732**
DTH Revenue		
Romania	30,955	32,562
Hungary	29,303	31,731
	60,258	**64,293**
Other revenues		
Romania	84,057	83,855
Hungary	23,718	23,496
Spain	500	94
Italy	26	82
	108,301	**107,527**
b) Other revenues		
Romania	9,796	9,684
Total revenues	**1,186,026**	**1,038,121**

Other revenues as at 31 December 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	2019	2018
Goods transferred at a point in time	37,805	45,292
Services transferred over time	1,148,211	992,829
Total revenues	**1,186,026**	**1,038,121**

(all amounts in EUR '000, unless specified otherwise)

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 are presented as revenues for each business line and geographical segment

Revenues recognised in the period ended 31 December 2019, which were included in contract liability at the beginning of the period (of EUR 23,038) amounted to EUR 22,549. The amounts in balance as at 31 December 2019 are to be recognised gradually as revenues until 2020.

We receive payments from customers based on a billing schedule, as established in our contracts. Contract asset relates to our conditional right to consideration for our completed performance under the contract. Accounts receivable are recognised when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as (or when) we perform under the contract.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 are, as follow:

	2019	**2018**
Unsatisfied performance obligations	14,595	9,430
Total	**14,595**	**9,430**

The remaining performance obligations arise from promotion campaigns. All remaining performance obligations are expected to be recognised within two years.

For details regarding expected credit losses from Contract assets, please see Note 25.

(all amounts in EUR '000, unless specified otherwise)

20. OPERATING EXPENSES

	2019	2018
Depreciation of property, plant and equipment (Note 5)	135,707	124,968
Depreciation of right of use asset (Note 6)	65,889	-
Amortization of programme assets (Note 7)	41,953	40,741
Amortisation of non-current intangible assets (Note 7)	52,331	43,128
Impairment of property, plant and equipment (Note 5)	2,758	2,638
Impairment of non-current intangible assets (Note 7)	212	5
Salaries and related taxes	199,307	185,473
Contribution to pension related fund	6,442	5,296
Programming expenses	102,789	94,274
Telephony expenses	206,986	170,126
Cost of goods sold	34,392	42,395
Invoicing and collection expenses	22,197	19,435
Taxes and penalties	11,992	11,912
Utilities	26,451	19,205
Copyrights	11,892	9,523
Internet connection and related services	12,656	4,449
Impairment of receivables and other assets, net of reversals	10,061	10,891
Taxes to authorities	9,609	9,527
Other materials and subcontractors	11,017	10,460
Other services	29,556	32,446
Rent and other operating expenses	44,333	88,140
Total operating expenses	**1,038,530**	**925,032**

2018 and 2019 share option plans expenses accrued in the period are included in the caption "Salaries and related taxes". For details, please see Note 26.

Salaries and related taxes capitalized for the development of network during the year ended 31 December 2019 amount to EUR 44,997 (2018: EUR 32,215).

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.

For the period ended 31 December 2018 rent expenses were presented on the "Rent and other expenses" line. For the period ended 31 December 2019, expenses from rent contracts which qualify for IFRS 16 are recognized in accordance with this standard's provisions and are not included in the Operating expenses anymore. For details of the impact of the adoption of IFRS 16, please see Note 2, Note 6 and Note 16.

(all amounts in EUR '000, unless specified otherwise)

21. NET FINANCE COSTS

	2019	2018
Finance income		
Interest from banks	3,361	289
Gain on derivative financial instruments and other financial revenue	6,623	68
	9,984	**357**
Finance expenses		
Interest expense	(54,593)	(46,993)
Interest Lease liability IFRS 16	(7,884)	-
Loss on derivative financial instruments	(21)	(685)
Other financial expenses	(13,128)	(11,100)
Foreign exchange differences (net)	(18,241)	(4,717)
	(93,867)	**(63,495)**
Net Finance Costs total	**(83,883)**	**(63,138)**

As at 31 December 2019, the fair value of the embedded derivative assets attached to our EUR 550,000 Senior Secured Notes is in amount of EUR 40,095. The fair value movement of EUR 6,587 was recognised in other finance income in the period. An amount of EUR 3,240 representing fair value at inception date of embedded derivative of bond tap, at February 2019, was recognized against the bond liability.

The fair value of the embedded derivative options attached to our EUR 350,000 Senior Secured Notes as at 31 December 2018 was in amount of EUR 31,115.

For details, please see Note 27.

22. INCOME TAX

Up to 21 April 2017 the Company was a Dutch Tax resident. In the context of the IPO concluded on 16 May 2017, the Company became a tax resident in Romania. As from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania. The Company is a Romanian tax resident having its place of effective management in Bucharest, Romania, where all the strategic and commercial decisions are made, as well as the day-to-day management is carried out.

The statutory tax rate applied to Romanian entities during 2019 was 16% (2018: 16%).

Other entities

The statutory tax rate applied in the Romanian entities during 2019 was 16% (2018: 16%).

The statutory tax rate applied in Hungary during 2019 was 9% (2018: 9%).

The statutory tax rate applied in Spain during 2019 was 25% (2018: 25%).

The statutory tax rate applied in Italy during 2018 was 24% (2018: 24%).

(all amounts in EUR '000, unless specified otherwise)

22. INCOME TAX (CONTINUED)

Components of income tax expense for the periods ended 31 December 2019 and 2018 respectively were:

	2019	2018
Current income tax charge	9,904	5,388
Deferred income tax relating to origination and reversal of temporary differences	10,629	15,427
Income tax expense/ (credit) recognised in profit or loss for continuing operations	**20,533**	**20,815**
Out of which income tax like expense	*3,340*	**-**

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate applicable to the net result before tax to the income tax expense at the Group's effective income tax rate for the financial years 2019 and 2018 is as follows:

	2019	2018
Net profit before income tax from continuing operations	**61,117**	**39,907**
At statutory income tax rate of the Company	9,779	6,385
Effect of difference in tax rates applicable for foreign subsidiaries	4,225	3,007
Non-deductible expenses	4,415	11,423
Tax credit for reinvested profit*	(1,225)	-
Effective tax expense / (credit) from continuing operations	**17,193**	**20,815**

* For the period ending 31 December 2019, RCS&RDS S.A benefited from tax credit for reinvested profit with a corresponding deduction in income tax of EUR 1,225.

Deferred taxes in the consolidated statement of financial position are**:**

	31 December 2019	31 December 2018
Deferred tax assets	2,620	2,659
Deferred tax liabilities	(69,746)	(60,652)
	(67,126)	**(57,993)**

Movement of deferred taxes:

	2019	2018
Deferred taxes recognized in the statement of financial position	**(67,126)**	**(57,994)**
Difference from prior year balance	9,133	15,305
Of which:		
Recognized in profit or loss	10,647	15,357
Deferred tax liability related to interest rate swaps, recognised in other comprehensive income	(17)	70
Effect of movement in exchange rates	(1,497)	(123)

(all amounts in EUR '000, unless specified otherwise)

22. INCOME TAX (CONTINUED)

The deferred tax (asset)/ liability for the financial year 2019 comprises the tax effect of temporary differences related to:

	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	Balance 31 December 2019
Property, plant and equipment	**56,238**	5,969	-	(1,600)	**60,607**
Intangibles	**9,529**	2,535	-	394	**12,458**
Accounts receivable	**4,232**	3,517	-	(741)	**7,009**
Accounts payable	**(2,006)**	2,089	-	-	**83**
Long term borrowings	**779**	1,010	-	-	**1,789**
Deferred tax liabilities	***68,772***	***15,121***	-	***(1,946)***	***81,946***
Intangibles	**(488)**	157	-	330	-
Accounts receivable	**(150)**	146	-	4	-
Accounts payable	**(182)**	(3,256)	-	5	**(3,433)**
Interest expense postponed for deduction	-	-	-	-	-
Inventory	**(2,683)**	(1,833)	-	69	**(4,446)**
Cash Flow hedge reserves	**17**	-	(17)	-	-
Fiscal losses	**(7,292)**	312	-	42	**(6,938)**
Deferred tax assets	***(10,778)***	***(4,474)***	***(17)***	***451***	***(14,818)***
Offsetting (refer to Note 2.2 o)	*(8,119)*	-	-	-	*(12,198)*
Recognition					
Deferred tax liabilities	**60,653**	-	-	-	**69,748**
Deferred tax assets	**(2,659)**	-	-	-	**(2,620)**
Net deferred tax liability	**57,994**	-	-	-	**67,128**

(all amounts in EUR '000, unless specified otherwise)

22. INCOME TAX (CONTINUED)

The deferred tax (asset)/ liability for the financial year 2018 comprises the tax effect of temporary differences related to:

	Balance 1 January 2018	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquired in business combinations(Note 24b))**	**Effect of movement in exchange rates**	**Balance 31 December 2018**
Property, plant and equipment	48,561	7,800	-		(123)	**56,238**
Intangibles	7,800	1,579	-		150	**9,529**
Accounts receivable	3,149	1,051	-		32	**4,232**
Accounts payable	(2,225)	219	-		-	**(2,006)**
Long term borrowings	881	(173)	-		71	**779**
Deferred tax liabilities	***58,166***	***10,476***	-		***130***	***68,772***
Intangibles	-	(163)	-	-	(325)	**(488)**
Accounts receivable	(127)	(27)	-	-	4	**(150)**
Accounts payable		(182)	-	-	-	**(182)**
Interest expense postponed for deduction	(10,321)	10,321	-	-	-	-
Inventory	(1,189)	(1,531)	-	-	37	**(2,683)**
Cash Flow hedge reserves	(53)	-	70	-	-	**17**
Fiscal losses	(3,787)	(3,537)	-	-	32	**(7,292)**
Deferred tax assets	***(15,477)***	***4,881***	***70***	-	***(252)***	***(10,778)***
Offsetting (refer to Note 2.2 o)	*(12,649)*					*(8,119)*
Recognition						
Deferred tax liabilities	**45,517**					**60,653**
Deferred tax assets	**(2,828)**					**(2,659)**
Net deferred tax liability	**42,689**					**57,994**

(all amounts in EUR '000, unless specified otherwise)

22. INCOME TAX (CONTINUED)

Deferred tax assets recognised for fiscal losses relate mainly to the Group's operations in Hungary. Such losses, in amount of EUR 41,670 at 31 December 2019 (31 December 2018: EUR 17,182), are not subject to preapproval by tax authorities and can be partialy carried forward until 2030.

Deferred tax asset in respect of the fiscal loss from Italy was recognised in amount of EUR 3,188, similar to previous year.

For statutory purposes, RCS&RDS has performed several revaluations of its property, plant and equipment. Should the statutory revaluation reserves of RCS&RDS be distributed to its shareholders they would be taxed, i.e. they would generate a tax liability of EUR 4,970 (2018: EUR 6,051), for which a deferred tax liability is recognised.

The Company did not recognise deferred tax liabilities on taxable temporary differences arising from investments in direct subsidiaries (mainly RCS&RDS) due to the fact that it enjoys a participation exemption status. Uncertainties associated with the fiscal and legal system are disclosed in Note 27.

23. DISCONTINUED OPERATIONS

In April 2015, the Czech subsidiary, Digi Czech Republic sro was sold, which resulted into classification of discontinued operations. In 2016 we have recorded an additional provision regarding the sale transaction of the Czech subsidiary in net amount of EUR 674. This provision was updated in 2018 following the claim Yolt Services s.r.o filed agains RCS&RDS (EUR 1,070).

During 2019, following the Award from VIAC (please see Note 28), RCS & RDS paid EUR 2.1 million. Consequently, the provision balance decreased accordingly. .

24. SUBSIDIARIES AND AND NON-CONTROLLING INTEREST

- ***Subsidiaries***

The consolidated financial statements incorporate the financial information of the following main subsidiaries in each of the countries:

As of 31 December 2019 DIGI owns shares in RCS&RDS 95.58% (2018: 93.58%).

On December 10, 2019, the Company purchased 7,718,832 shares in the share capital of RCS & RDS from certain minority shareholders, representing approximately 2.0% of RCS & RDS's outstanding share capital, for EUR 13,689. The share purchase agreement includes a call option for the sellers over those shares, which is exercisable within three years from the date of sale, at a premium compared to initial price. The fair value of the call option was assessed at EUR 770 and was recorded as derivative liability as at 31 December 2019. Therefore, the total consideration, including the option value, was EUR 14,459.

Please see note 25.

Below are the presented the main subsidiaries of RCS&RDS (excluding inactive subsidiaries):

Subsidiary	**Country of Incorporation**	**Field of activity**	**Legal Ownership**	
			2019	**2018**
Digi T.S. Kft	Hungary	CATV, Internet, DTH, Telephony	100.00%	100.00%
Invitel Távközlési Zrt	Hungary	CATV, Internet, DTH	99.99%	99.99%
DIGI SPAIN TELECOM S.L.U.	Spain	Telephony	100.00%	100.00%
DIGI ITALY SL	Italy	Telephony	100.00%	100.00%
ITV.	Hungary	CATV	100.00%	100.00%
CFO Integrator	Romania	Duct Rent	100.00%	100.00%
ENERGIAFOTO SRL	Romania	Solar energy	100.00%	100.00%
NOVITAS Electro	Romania	Solar energy	100.00%	100.00%
DELALINA S.R.L.	Romania	Solar energy	100.00%	100.00%

In December 2019, RCS & RDS loan to Digi Kft in amount of 39.5 mil EUR (13.1 billion HUF) was converted to the Digi Kft's equity.

24. SUBSIDIARIES AND NON-CONTROLLING INTEREST (CONTINUED)

- ***Business combination***

Acquisition of Invitel Távközlési Zrt ("Invitel")

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 99.99 of the share capital and voting rights of Invitel Távközlési Zrt ("Invitel").

The transaction was closed on 30 May 2018 for a total consideration of approximately 135.4 million EUR, after the Hungarian Competition Authority (Gazdasági Versenyhivatal – "GVH") approved the transaction (the "Initial Decision"), with certain conditions regarding divesting part of the Invitel business in certain areas that need to be fulfilled.

Control was transferred at the same date, in form of a share sale purchase agreement, which confirms that the ownership title over the shares is transferred at the respective date together with all rights and obligations resulting from such transfer. The related purchase price was paid by the buyer to the seller at the same date.

On 14 November 2018, the GVH formally withdrew the Initial Decision and it opened a new investigation ("New Procedure") for reassessing limited aspects and simultaneously decided 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. Digi HU's ownership and control over Invitel is not affected by the above-mentioned GVH's decisions. 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. For more details, please see Note 28.

The transaction allowed Digi Group to consolidate its position on the Hungarian telecommunications market, to expand its customer reach and experience, as well as to create better operational synergies.

In accordance with the requirements of IFRS 3 "Business Combinations", the Purchase Price Allocation ("PPA") analysis for the Invitel acquisition of shares started in view of consolidating the Invitel's assets, liabilities and results. The PPA is undertaken by an external independent evaluator. The purpose is to estimate the market value of the assets acquired and the liabilities assumed by Digi HU following the Transaction.

The allocation of the purchase price to the assets acquired and liabilities assumed was performed according to IFRS 3.

The 31 December 2018 year ended consolidated financial statements include the consolidated results of Invitel starting from June 1st, 2018 and the valuation of the fair value of identifiable assets and liabilities of Invitel as at the date of acquisition.

The 31 December 2019 year ended consolidated financial statements include the consolidated results of Invitel for the full 2019 year

25. 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.

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Credit risk

Credit risk exposure

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

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 maximum exposure to credit risk at the reporting date was:

Derivative and non-derivative financial assets by category – exposure to credit risk

	Note	31 December 2019	31 December 2018
Trade and other receivables	11	69,680	60,002
Contract assets	11	50,715	44,076
Other assets	12	11,884	12,419
Cash and cash equivalents	13	10,576	13,411
Derivative assets	27	40,095	33,287
Long term receivables		2,642	5,584
Total		**185,592**	**168,779**

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

- ***Cash & cash equivalents***

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2019	31 December 2018
Citibank	12	485
ING Bank	560	1,733
Banca Comerciala Romana	481	407
BRD Groupe Societe Generale	26	68
Unicredit Tiriac Bank	422	1,593
Other	9,075	9,125
Total	**10,576**	**13,411**

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.

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

- ***Trade and other receivables and contract assets***

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customers with similar loss patterns. The calculation reflects the reasonable and supportable information that is available at the reporting date about past events. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. At the end of the reporting date, for trade and other receivables and contract assets, given that these have a low credit risk, the Group assumed that no significant increases in credit risk have occurred.

The entity has determined that the trade receivables do not include a significant financing component and, hence, the time value of money component was considered immaterial.

The movement in allowance for expected credit losses in respect of trade receivables during the year was as follows:

	2019	2018
Balance at 1 January	57,022	48,420
Loss allowance recognized (Note 20)	9,770	10,891
Acquisition of a subsidiary	-	2,000
Amounts written off	(6,905)	(3,526)
Effect of movement in exchange rates	(226)	(763)
Balance at 31 December	**59,661**	**57,022**

There were no significant changes in the gross carrying amount of financial instruments during the year that contributed to changes in loss allowance. There were no changes in the estimation techniques or significant assumptions made during the reporting period.

The table below presents only trade and other receivables at year end:

2019	Gross carrying amount at default	Impairment losses
Romania	107,754	40,300
Hungary	38,040	10,166
Other	23,269	2,946
Total	**169,063**	**53,412**

2018	Gross carrying amount at default	Impairment losses
Romania	104,031	41,047
Hungary	29,640	7,665
Other	14,473	1,126
Total	**148,144**	**49,838**

As at 31 December 2019 impairment losses for Contract assets were EUR 894 (31 December 2018: EUR 986).

ii) Liquidity risk

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

The 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.

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following are the contractual maturities of financial liabilities, including estimated future interest payments and excluding the impact of netting agreements as at 31 December 2019:

	31 December 2019						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**942,030**	**1,072,251**	120,591	51,937	219,025	680,698	-
Lease liabilities	**198,258**	**219,914**	33,459	31,139	52,424	56,750	46,142
Trade and other payables and other liabilities	**500,606**	**501,059**	412,101	48,593	31,438	8,927	-
Derivative financial liabilities							
Interest rate swaps used for hedging	**15**	**15**	15	-	-	-	-
Redemption Options share contracts	**770**	**770**	770	-	-	-	-
Total	**1,641,678**	**1,794,008**	**566,935**	**131,669**	**302,887**	**746,376**	**46,142**

The following are the contractual maturities of financial liabilities, including estimated future interest payments and excluding the impact of netting agreements as at 31 December 2018:

	31 December 2018						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**876,851**	**1,010,862**	102,523	100,928	114,450	692,961	-
Finance lease liabilities	**7,967**	**8,336**	2,281	2,273	1,875	1,907	-
Trade and other payables and other liabilities	**480,118**	**480,743**	394,185	51,862	26,967	7,729	-
Derivative financial liabilities							
Interest rate swaps used for hedging	-	-	-	-	-	-	-
Energy trading acquisitions	**10,598**	**10,765**	6,011	4,754	-	-	-
Total	**1,375,534**	**1,510,706**	**505,000**	**159,817**	**143,292**	**702,597**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2019, the Group had net current liabilities of EUR 475,104 (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.

iii) 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.

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.

The Group's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2019		31 December 2018	
	USD	**EUR**	**USD**	**EUR**
Trade and other receivables	3,368	5,606	3,502	6,452
Cash and cash equivalents	16	23	10	51
Interest bearing loans and borrowings, including bonds		(580,141)	-	(398,695)
Bank overdraft	(19,492)	(5,354)	(12,595)	(4,250)
Lease liabilities	(1,798)	(95,852)		
Finance lease liabilities	-	-	-	(3,897)
Trade and other payables	(53,138)	(67,514)	(55,544)	(83,049)
Gross exposure	**(71,044)**	**(743,232)**	**(64,627)**	**(483,388)**

The following significant exchange rates applied for the year ended 31 December 2019:

	2019	2018
Romania		
USD	4.2608	4.0736
EUR	4.7793	4.6639
Hungary		
USD	294.74	280.94
EUR	330.52	321.51

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis for currency risk

A 10 percent strengthening of the currencies listed below against the functional currencies of the Parent and of the subsidiaries at 31 December would have decreased profit before tax/increased the loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Effect on profit before tax 2019	Effect on profit before tax 2018
EUR	74,323	48,339
USD	6,334	5,645
Total	**80,657**	**53,984**

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Parent and of the subsidiaries at 31 December would have had the equal but opposite effect on profit or loss, on the basis that all other variables remain constant.

The effect in equity is the effect in profit or loss before tax, net of tax (16%) (excluding translation effect into presentation currency).

Exposure to interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk (USD and EUR) through market fluctuations of interest rates. The interest rates of borrowings are disclosed in Note 15 and for lease liabilities see Note 2.

The Board of Directors performs from time to time ad-hoc analysis of exposure to variable rate borrowings and decides if it should change the structure of variable / fixed rate borrowings or whether to hedge through IRS.

At the reporting date the interest rate repricing profile of the variable rate interest-bearing financial instruments was:

	All reprice at 6 months or less	
	31 December 2019	**31 December 2018**
Interest bearing payables	61,099	66,440
Finance lease liabilities	-	7,967
Senior Facility Agreement	306,881	471,451
Interest rate swap	15	(120)
Redemption Options share contracts	770	-
Other	75,198	54,029
Total	**443,963**	**599,767**

The Group has entered into fixed for floating interest rate swaps for the 2015 SFA (this Facility was refinanced through the 2016 SFA, but the IRS agreements are still in force until 2020), as follows:

- In May 2015 RCS&RDS concluded an interest rate swap for the entire initial term loan facility through which interest is fixed at 5.75%, and
- The interest rate for the "Accordion" agreement was fixed at 5.50% through an interest rate swap concluded in January 2016.

Consequently the interest rate of the combined instrument (loan and swap) was fixed until maturity on 30 April 2020 – more details are included in Note 15 (ii).

The 2016 Senior Facilities Agreement and 2018 Senior Facilities Agreement bear variable interest rate. The interest rate swaps concluded by the Group for the 2015 Senior Facilities Agreement are still valid under the same terms (amounts, maturities, interest rates etc) and apply only for the 2016 Senior Facility Agreement.

Except for the ones presented in the table above there are no other major interest bearing financial instruments.

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates, after taking into consideration the effect of the IRS, at the reporting date would have increased (decreased) profit or loss before tax by:

	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2019		
Variable rate instruments, after IRS effect	(2,415)	2,415
	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2018		
Variable rate instruments, after IRS effect	(3,575)	3,575

The effect in equity is the effect in profit or loss before tax, net of tax (16%).

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 minimally 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.

Starting 2019, the Group applies the "own use" exemption and does not account for the fair valuation of term electricity sale and acquisition contracts at the reporting date.

iv) 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, electricity trading assets (term contracts) and electricity trading liabilities (term contracts)(in 2018).

Fair value hierarchy

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation techniques with all significant inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: valuation techniques using significant inputs that are not observable or based on observable market data (i.e. unobservable inputs).

The significance of a valuation input is assessed against the fair value measurement in its entirety.

(all amounts in EUR ‘000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Recurring fair value measurements

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements of financial instruments are categorised are as follows:

	Level 1	Level 2	Level 3	Total
31 December 2019				
Financial assets at fair value through OCI			39,592	**39,592**
Redemption Options share contracts			(770)	**(770)**
Interest rate swaps			(15)	**(15)**
Embedded derivatives			40,095	**40,095**
Total			**78,902**	**78,902**

	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial assets at fair value through OCI			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**

Financial assets at fair value through OCI

As at 31 December 2019, the fair value assessment of the financial assets at fair value through other comprehensive income shares held in RCSM was consequently performed based on the quoted price/share of the shares of the Company as of the valuation date of RON/share 32.70 (daily average) (31 December 2018: RON/share 25.75), adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

Sensitivity analysis for financial assets at fair value through OCI

A change in share price at the reporting date would have an impact as follows:

	Share price	
	10% increase	10% decrease
31-Dec-19		
Financial assets at fair value through OCI	3,959	(3,959)
31-Dec-18		
Financial assets at fair value through OCI	3,195	(3,195)

Embedded derivatives

- *Redemption Options Bonds*

As at 31 December 2018 the fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a “plain vanilla” bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds. The fair value was obtained from a third party financial institution. The management has determined that such prices were developed in accordance with the requirements of IFRS 13.

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2019, the yields used as input in the Option Adjusted Spread (OAS) model presented some anomalies. Therefore, alternatively, a discounted cash flow valuation technique was used in order to estimate the option-free value at this date. Main inputs were the callable bond market value, coupon, payment terms and maturity date. The fair value was obtained from an independent valuation specialist. The management has determined that such prices were developed in accordance with the requirements of IFRS 13.

- *Redemption Options share contracts*

On 10 December 2019, the Company acquired 7,781,832 shares in RCS & RDS SA from certain minority shareholders. There is a redemption option in the contracts regarding the right of these minorty shareholders to redeem these shares in a 3 year period, for an established price. This embedded option was accounted in Group's consolidated financial statements at fair value. The fair value was obtained from an independent valuation specialist. The management has determined that such fair value was developed in accordance with the requirements of IFRS 13.

Electricity trading assets and liabilities

Starting 2019, the Group applies the "own use" exemption and does no longer account for the fair valuation of term electricity sale and acquisition contracts at the reporting date.

In 2018, the Company used a discounted cash flow valuation technique to measure the fair value of the term electricity sale and acquisition contracts as these are not traded on active markets. The valuation model was based on the spot-forward parity formula and the significant inputs are represented by:

- the electricity spot price as estimated based on transaction on PZU market (OPCOM) around the valuation date. The spot price used for valuation as at 31 December 2018: RON/MWh 237.84, and
- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date (2018: 3.33%).

A change in electricity spot price or in the discount rate at 31 December 2018 would have had an impact as follows:

	spot price		discount rate	
	Average 10% Increase	**Average 10% decrease**	**0.5 percentage points increase**	**0.5 percentage points decrease**
31-Dec-18				
Electricity trading assets	1,264	(1,264)	26	(26)
Electricity trading liabilities	(478)	478	(6)	6

Interest rate swaps

The fair value of derivatives acquired for risk management purposes was obtained from the counterparty financial institutions. The management has determined that such prices were developed in accordance with the requirements of IFRS 13. However the management has not performed a due diligence to understand in detail how the prices were developed, consequently the fair value was categorised in Level 3 of the fair value hierarchy.

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2019 is as follows:

	Financial assets at fair value through OCI (Notes 8, 14)	**Embedded derivatives**	**Redemption Options share contracts**	**Interest rate swaps**	**Trading assets**	**Trading liabilities**
1 January 2019	**32,058**	**31,115**	**-**	**120**	**2,052**	**(1,106)**
Gains or (losses) recognised in profit or loss for the year	-	6,587	-	(21)	(2,052)	1,106
Gains or (losses) recognised in other comprehensive income	7,535		(770)	(72)	-	-
Purchases	-	3,240	-	-	-	-
Settlements	-	-	-	(41)	-	-
Effect of movements in exchange rates	-	(847)	-	(1)	-	-
31 December 2019	**39,592**	**40,095**	**(770)**	**(15)**	**-**	**-**

For electricity, the entire amount in balance at 2018 was realized in 2019. For the asset at FV through OCI and the embedded derivative, those are fully unrealized.

	Financial assets at fair value through OCI (Notes 8, 14)	**Embedded derivatives**	**Interest rate swaps**	**Trading assets**	**Trading liabilities**
1 January 2018	**42,146**	**33,264**	**(601)**	**1,619**	**(9,530)**
Gains or (losses) recognised in profit or loss for the year	-	(2,149)	(685)	433	8,424
Gains or (losses) recognised in other comprehensive income	(10,088)	-	436	-	-
Purchases	-	-		-	-
Settlements	-	-	970	-	-
31 December 2018	**32,058**	**31,115**	**120**	**2,052**	**(1,106)**

(all amounts in EUR '000, unless specified otherwise)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Assets and liabilities not measured at fair value but for which the fair value is disclosed

The fair value of long term loans and their corresponding carrying amount (excluding the interest accrued at 31 December 2019 and 2018) and fair value measurement hierarchy are presented in the table below:

			31 December 2019
	Carrying amount	Fair Value	Hierarchy
Loans (Note 15)	**874,563**	**892,468**	
Bonds*	552,433	566,885	Level 1
2016 Senior Facilities	230,201	230,089	Level 3
2018 Senior Facilities	70,803	73,795	Level 3
Other	21,126	21,698	

			31 December 2018
	Carrying amount	Fair Value	Hierarchy
Loans (Note 15)	**825,195**	**848,138**	
Bonds*	349,490	366,625	Level 1
2016 Senior Facilities	293,007	296,794	Level 3
2018 Senior Facilities	173,710	175,709	Level 3
Other	8,988	9,010	

** Fair value of bonds is disclosed at mid-market price, which includes the embedded derivative asset*

The fair value of bonds is calculated on the basis of the market price while the fair value of the loans is based on contractual cash flows discounted using a market rate prevailing at the reporting date (latest EURIBOR/ROBOR reset rate, after giving effect to interest rate swaps, plus the market credit spread received by the Group for financial liabilities with similar features).

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, other interest bearing loans and borrowings, other long term liabilities and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (or recognized recently carrying values for other long term liabilities) and low transaction costs of these instruments.

v) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. Management monitors "total net debt to EBITDA" ratio which is computed in accordance with the Senior Facilities Agreements'requirements and in accordance with the Senior Notes. For details, please se Note 15.

26. SHARE- BASED PAYMENTS

In February 2017, the Group implemented a share-based payment plan for certain members of the management team and key employees. The options vested if and when certain performance conditions, such as revenue, subscriber targets and other targets of the Group were met.

26.1

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. Stock options granted to Executive Directors were subject to performance criteria which, for the year 2017, included the (i) successful closing of the Offer and Admission, (ii) duration of employment with the Company and (iii) growth in EBITDA and in RGUs. Fair value at granting date was EUR 2,435.

At vesting date, on 15 May 2018, the plan was settled in shares, at no cost for the executive Board members. On 15 May 2018 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, which have vested in accordance with the provisions of the Company's stock option plan granted in 2017. The average price at the vesting date was RON 32.925. In accordance with this stock option plan, Mr. Serghei Bulgac was granted 220,000 shares, while Mr. Valentin Popoviciu was granted 60,000 shares.

26.2

In December 2017, the Board of Directors approved a stock option plan whereby a number of directors, officers and employees of certain subsidiaries of the Group in Romania were granted options to acquire for free class B shares of the Company, with up to 1.6% out from the total number of shares issued by the Company being allocated for this program. The beneficiaries will be able to exercise the stock option (the vesting) only after the lapse of one year from the grant date.

In 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. Fair value at granting date was EUR 12,387. The Plan vested at the end of 2018 and beginning of 2019 and was settled in shares.

26.3

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.

On 28 May 2019 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, which have vested in

(all amounts in EUR '000, unless specified otherwise)

26. SHARE- BASED PAYMENTS (CONTINUED)

accordance with the provisions of the Company's stock option plan. In accordance with this stock option plan, Mr. Serghei Bulgac was granted 170,000 shares, while Mr.Valentin Popoviciu was granted 90,000 shares.

The further vesting of all option shares granted will be conditional upon several performance criteria.

26.4

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 plan vested in May 2019.

26.5

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. This option plan vested in 2019.

Share options for the above share option plans, which vested during the year, were exercised at different dates. The average share price for 2019 was 28.48 RON/share.

As at 31 December 2019 the related share option expense of EUR 2,383 (31 December 2018: EUR 15,979), ouf of which EUR 818 is included in the Consolidated statement of profit or loss and other comprehensive income included in the line item Operating expenses, within salaries and related taxes (Note 20), and the amount of EUR 1,564 is excluded from EBITDA because the related share option plans are estimated to be one-time events.

For details regarding the outstanding shares options, vested, granted, exercisable at year end, please see Remuneration report included in the 2019 Annual Report.

27. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2019 the Group had both derivative financial liabilities and derivative financial assets.

	31 December 2019		31 December 2018	
	Fair value	**Notional**	**Fair value**	**Notional**
Derivative financial asset (see also Note 25)	**40,095**		**33,287**	
Embedded derivatives	40,095	n/a	31,115	n/a
Interest rate swaps	-	n/a	120	n/a
Electricity trading assets (term contracts)	-	-	2,052	248 GWh

	31 December 2019		31 December 2018	
	Fair value	**Notional**	**Fair value**	**Notional**
Derivative financial liability (see also Note 25)	**785**		**1,106**	
Interest rate swaps	15	n/a	-	-
Redemption Options share contracts	770	n/a	-	-
Electricity trading liabilities (term contracts)	-	-	1,106	94 GWh

As at 31 December 2019 the Group had derivative financial assets in amount of EUR 40,095 (31 December 2018: EUR 33,287), which included:

- Embedded derivatives of EUR 40,095 related to the bond (31 December 2018: EUR 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 and recognized a separate embedded derivative asset). The fair value of the Bond Tap of EUR 200,000 was also assessed at inception date, in February 2019, in amount of EUR 3,240 and recognized as embedded derivative asset with a corresponding increase of the bond liability.

As of 31 December 2018, the combined fair value of these embedded options was assessed through the Option Adjusted Spread model. As at 31 December 2019, the yields used as input in the Option Adjusted Spread (OAS)

27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

model presented some anomalies. Therefore, alternatively, a discounted cash flow valuation technique was used in order to estimate the option-free value at this date. The fair value was obtained from an independent valuation specialist.

- Starting with 2019 the Company has applied the "own use" exception and therefore no electricity trading assets are recorded as at 31 December 2019 (31 December 2018: EUR 2,052).

As at 31 December 2019 the Group had derivative financial liabilities in amount of EUR 785 (31 December 2018: EUR 1,106), which included:

- Starting with 2019 the Company has applied the "own use" exception and therefore no electricity trading liabilities are recorded as at 31 December 2019 (31 December 2018: EUR 1,106).
- Interest rate swaps liability in amount of EUR 15 (31 December 2018: asset in amount of EUR 120): 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.
- Redemption Options share contracts fair value of EUR 770 related to the Company's acquisiiton of 7,781,832 shares in RCS & RDS SA from certain minority shareholders. There is a redemption option in the contracts regarding the right of these minorty shareholders to redeem these shares in a 3 year period, for an established price. This embedded option was accounted in Group's consolidated financial statements at fair value. The fair value was obtained from an independent valuation specialist. The management has determined that such fair value was developed in accordance with the requirements of IFRS 13.

28. CONTINGENCIES AND COMMITMENTS

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.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 did not recognize provisions (except for limited amounts in limited cases) as management assessed that the outcome of these litigations is not more likely than not to result in significant cash outflows for the Group.

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 RON 3,900,000 (by maintaining the first court solution). This amount has been recorded as a provision on the statement of financial position. 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 Distribuție Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged in 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.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 – 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 USD 1,800,000 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 USD 1,800,000, 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 that was to be considered only if the Appellate Court would have admitted the appeal filed by the Plaintiffs.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

On 15 August 2019, the Appellate Court dismissed the appeal filed by the Plaintiffs regarding the introduction in the judgement of RCS&RDS, RCS Management S.A., the Company and DIGI Távközlési és Szolgáltató Kft.. The Appellate Court noted that, none of the mentioned companies have sufficient contacts with US in order to extend over them the US jurisdiction. Consequently, the Appellate Court decided to eliminate these companies from the case. On the other hand, the Appellate Court decided that i-TV Digitális Távközlési Zrt. doesn't have the same treatment taking into consideration that at the moment of the initial judgement was named party to that trial.

On 29 August 2019, the Plaintiffs challenged the decision issued by the Appellate Court to the same court (in plen, en banc), and such motion was dismissed by the Appellate Court. The Plaintiffs had the opportunity to challenge this ruling in front of the Supreme Court. However, the Plaintiffs have failed to file an appeal in the applicable deadline. Accordingly, the Appellate Court's decision is final, which means that the Company, RCS&RDS, RCS Management S.A., and DIGI Tavkozlesi es Szolgaltato Kft, are effectively dismissed from the case. As a result, only i-TV remains to act as a defendant in the case. Further, the US Court will resume the judgment of the case as regards i-TV.

Additionally, the opinion of external lawyers representing the Company in this litigation is that any judgement issued by the US Court against i-TV would not be enforceable and it will need to be first recognised in the relevant jurisdiction, subject to foreign judgement's compliance with the respective jurisdiction's mandatory legal provisions.

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.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 RON 1,250,000. The Bucharest Tribunal's decision also decided on the confiscation from RCS&RDS of an amount of EUR 3,100 plus RON 655,000 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 criminal fine of RON 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.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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 for 23 May 2019. On 17 July 2019, the parties submitted the post-hearing briefs. The Arbitral Tribunal has issued the award at the end of October 2019 and on 25 November 2019 the Secretary General of VIAC has communicated the award to RCS&RDS. As a result of the reduction of the final request for relief submitted by the claimant through its post-hearing briefs, in its final award, the Arbitral Tribunal only recognized certain of the claims made by the claimant. The Arbitral Tribunal also recognized the counterclaim raised by RCS&RDS and denied part of the set-offs raised by the claimant against the counterclaim.

On December 19, 2019, the VIAC amended certain errors in its original Award. Under the award so amended, approximately EUR 2,100 plus approximately EUR 24 in default interest was due to Yolt Services s.r.o., which was significantly lower than the amounts they had claimed. The amounts awarded have been paid to the claimant in full.

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, representing a minor part of its business) and Invitel overlap. For the duration of the New Procedure, Digi HU's ownership and control over Invitel was not affected.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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). In December 2018, we have challenged in a competent Hungarian court parts of the GVH's decision alleging Digi Hu's failure to act in a certain manner, as well as the size of the fine. The court of first instance (i) reduced the fine imposed on DIGI HU by the GVH from HUF 90,000,000 (approximately EUR 280) to HUF 45,000,000 (approximately EUR 140). (ii) confirmed the authority's decision regarding DIGI HU's liability for failure to proactively comment on certain data regarding the territorial scope of certain telecommunications services provided by i-TV, but also ruled that (iii) the Initial Decision was adopted not only because of Digi HU's conduct, but also that GVH had failed itself to properly gather the necessary information at the time of the evaluation leading to the Initial Decision, which was not exclusively due to Digi HU's failure to proactively act in the required manner. GVH filed an appeal and Digi HU filed a cross-appeal against the court's decision, with the first hearing being initially scheduled for March 25, 2020. However, due to the measures implemented by the Hungarian government in response to the COVID – 19 pandemic, the hearing has been postponed and we do not have information regarding the new hearing date.

Although we continue to strongly believe that Digi HU fully cooperated during the initial procedure by providing complete and accurate information, and that GVH's decision to withdraw the Initial Decision and to apply a fine is incorrect, in order to address GVH's concerns in connection with the Transaction in the context of the New Procedure, in consultation with GVH Digi HU proposed as remedial measure sale by Invitel to a third party of its operations in 14 Hungarian settlements and parts of its network in the Szeged settlement that overlapped with DIGI Hungary's own network there, the underlying sale and purchase agreement having been executed on January 9, 2020. Following the proposal of this remedial package, on March 18, 2020 GVH authorised again the Transaction, subject to fulfilment of the remedial measures within three months as of the communication of its approval issued in the New Procedure.

Dispute with the Hungarian National Media and Telecommunication Authority („NMHH") relating to its refusal to allow the Company to participate in an auction for mobile telecommunication frequencies in Hungary

On September 13, 2019, the NMHH issued an order refusing to allow the Company to participate in a public auction for the acquisition of mobile telecommunication frequencies in Hungary, which we intended to use in the development of our mobile telecommunication network in the country.

The main argument of the NMHH was that the Company did not actually intend to participate in the auction procedure in good faith as, allegedly, its bid was merely a way to avoid potential disqualification had the bid been submitted by DIGI Hungary. In turn, as NMHH alleged, DIGI Hungary would not have been allowed to participate in the first place as a consequence of its alleged violations during Invitel's acquisition, a review of which is pending. The NMHH erroneously alleged that, had the bid been successful, the Company would not have been able to provide mobile telecommunication services in Hungary because it was not a registered service provider and did not have sufficient infrastructure and frequency bandwidth.

The Company challenged the NMHH's order to the President of NMHH. As it stated in the appeal, the NMHH's order had been rendered based on subjective allegations, rather than objective grounds and applicable procedural requirements. We believe that the Company met all applicable requirements of the auction documentation and there are no objective grounds to refuse its registration as a participant in the auction. The Company had acted in good faith and had not, and had no intention to, mislead the NMHH. Furthermore, we believe that even if the bid was submitted by DIGI Hungary, there were no formal grounds to deny its registration as a participant.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

While our appeal to the President of the NMHH was pending, the auction procedure was suspended. On November 27, 2019, the appeal was rejected on similar reasoning stated in the initial order. On the same date, we appealed that decision to a competent Hungarian court and the first hearing is scheduled for May 6, 2020. We also filed for injunctive relief to suspend the auction pending judicial review of our claims. On January 10, 2020, our appeal regarding the request for relief was rejected. On January 20, 2020, we filed a further appeal to the Supreme Court of Hungary. Although we believe that under applicable Hungarian law, the auction cannot proceed until the Supreme Court of Hungary makes a final determination regarding our appeal, the law is not entire clear on this issue and there is no assurance that the NMHH will adhere to our understanding. We request access to the auction procedure's files periodically in order to monitor whether the NMHH makes any steps in order to move forward with the auction. Upon our latest access on March 11th, 2020, we established that the NMHH did not moved forward with the auction. The measures implemented by the Hungarian government in response to the COVID-19 epidemics makes it more difficult access the files of the case. We have not yet received any response from NMHH on our latest request for accessing the file.

Additionally, on January 22, 2020 we applied for a further injunctive relief to have us admitted into the pool of bidders pending resolution by the Metropolitan Court in the substance of the case. This request was rejected by the Metropolitan Court on February 10, 2020. We filed an appeal against the Metropolitan Court's decision to the Supreme Court of Hungary on 18 February, 2020, it is still under review by the Supreme Court.

The Metropolitan Court scheduled the first hearing in the substance of the matter on May 6th 2020.

Dispute with the National Authority for Consumer Protection („NACP") in relation to 2019 increases of our tariffs in Romania

In the beginning of 2019, RCS&RDS increased certain tariffs charged to Romanian customers for electronic communication services. In April and May 2019, the NACP carried out a review of those increases (along with their review of prices charged by our competitors), as a result of which it issued a minutes sanctioning RCS&RDS with a fine of RON70,000 for allegedly having violated the law in so increasing the tariffs. According to the NACP, those increases were the result of RCS&RDS transferring to its customers the costs that had increased on account of the costs imposed by the law, the authority making reference to the emergency Government Ordinance no.114, dated December 28, 2018. The NACP also ordered RCS&RDS the termination of the allegedly unfair commercial practice which can result in the reverse of the price increases.

We believe that the NACP's minutes and order are entirely without merit as (i) the disputed tariff increases were in no way unlawful; and (ii) there were solid economic reasons therefor, which were not related to additional costs imposed by legislation changes. In particular, from 2009 to 2019 RCS&RDS did not increase the main prices for its electronic communication services; therefore the 2019 increases were the function of economic developments over the past 10 years (such as increases in operational costs (including wages), significant depreciation of the RON against the EUR and the USD, significant inflation and a series of changes in VAT rates, among others), as well as very significant investments by the RCS&RDS in the development of its services. As a private company operating in a competitive market environment, the RCS&RDS is entitled by law to direct its own pricing policy.

On June 14, 2019, RCS&RDS appealed the NACP's minutes to a Romanian court of the first instance (thereby suspending their application). The appeal was granted on November 18, 2019, under which the court cancelled the minutes. The NACP is entitled to appeal that judgment within 30 days following receipt of the full text thereof. Until present, the full text has not yet been communicated to the parties and therefore no such appeal has been filed.

On July 18, 2019, RCS&RDS filed for injunctive relief requesting that the NACP's order be suspended. The injunctive relief was granted on August 9, 2019, but was appealed by the NACP. The first hearing of the appeal on the injunctive relief is scheduled for June 3, 2020. On September 26, 2019, RCS&RDS filed to a Romanian court of the first instance a substantive appeal against the NACP's order itself. At the hearing from March 17, 2020 the first instance scheduled the issuance of the decision on the substantive appeal for March 25, 2020 (such date may be further delayed in the context of the Romanian government's suspension of certain judicial proceedings for the duration of the COVID-19 pandemic and the related containment efforts). Should the NACP's order not be annulled by the court, or the NACP succeed in reversing our appeal against its minutes, that could result in us being forced to lower our tariffs in Romania (which in itself will represent a significant impediment to our revenue generation in the country) or pay our Romanian customers the difference between what they actually paid us since the date of the NACP's order based on new tariffs

28. CONTINGENCIES AND COMMITMENTS (continued)

and what they would have paid us based on old tariffs, damage our reputation and otherwise have a material adverse effect on our business, prospects, results of operations or financial condition.

Material commitments

Commitments are presented on a discounted basis, using an interest rate of 3M LIBOR + 5.33% p.a., 3M EURIBOR + 5.33% p.a. or 3M ROBOR + 5.33% p.a.

Capital expenditure

The capital expenditure the Group has assumed until 31 December 2019 is mostly made of commitments for the purchase of mobile and fixed network equipment amounting to approximately EUR 125,967 (31 December 2018: EUR 82,325).

Satellite capacity expenses

The Group has committed under the long term agreement with Intelsat, the satellite solution provider, to use until November 2022 the contracted services and to pay monthly equal fees cumulating to EUR 18,253 (31 December 2018: EUR 22,644).

2100 MHz spectrum fee

The Group has committed to pay an annual fee to the Romanian Communication Authority for the *2100 MHz* radio spectrum license awarded until 31 December 2021 inclusively, amounting to a cumulated value of EUR 6,627 (31 December 2018: EUR 9,641).

900 MHz spectrum fee

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 900 MHz radio spectrum license awarded starting with April 2014 until April 2029 inclusively, amounting to a cumulated value of EUR 16,174 (31 December 2018: EUR 17,315).

1800 MHz spectrum fee

The Group has committed to pay an annual fee to the Hungarian Communication Authority for the *1800 MHz* radio spectrum license awarded until 31 October 2029 inclusively, amounting to a cumulated value of EUR 4,766 (31 December 2018: EUR 5,190).

2600 MHz spectrum fee

The Group has committed to pay an annual fee to the Romanian Communication Authority for the *2600 MHz* radio spectrum license awarded until 31 April 2029 inclusively, amounting to a cumulated value of EUR 10,548 (31 December 2018: EUR 11,292).

3700 MHz spectrum fee

The Group has committed to pay an annual fee to the Romanian Communication Authority for the *3700 MHz* radio spectrum license awarded until 31 November 2025 inclusively, amounting to a cumulated value of EUR 1,744 (31 December 2018: EUR 1,977).

3800 MHz spectrum fee

The Group has committed to pay an annual fee to the Hungarian Communication Authority for the 3*800 MHz* radio spectrum license awarded until June 2034 inclusively, amounting to a cumulated value of EUR 5,967 (31 December 2018: 5,980).

Sports rights and TV films and documentaries

As of 31 December 2019, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 85,661 (31 December 2018: EUR 42,645).

28. CONTINGENCIES AND COMMITMENTS (continued)

Letters of guarantee and letters of credit

As of 31 December 2019, there were bank letters of guarantee and letters of credit issued in amount of EUR 93,527 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2018: EUR 19,639).

On November 28, 2019, RCS & RDS entered into certain arrangements (the "Romanian Operational Arrangements") with each of Digital Cable Systems S.A., AKTA Telecom S.A. and ATTP Telecommunications S.R.L. (the "Network Owners"). Under the Romanian Operational Arrangements, the Network Owners will assign to RCS & RDS the operation of their fixed electronic communications networks, which are predominantly located in rural parts of Romania and, as at the date of this offering memorandum, collectively cover approximately 540,000 RGUs (the "Romanian Rural Networks"). RCS & RDS will use the Romanian Rural Networks to provide its services to such customers and expects to capitalize on synergies offered by its existing infrastructure in the country. As part of that arrangement, it will be paying the Network Owners a periodic fee linked, among other things, to the number of underlying RGUs. As part of the Romanian Operational Arrangements, RCS & RDS will also acquire certain B2B clients from ATTP Telecommunications S.R.L.

Closing under the Romanian Operational Arrangements is conditioned upon, among other things, the following: (a) the approval of the above transactions by Romanian antitrust authorities, which is currently pending; and (b) the acquisition by ATTP Telecommunications S.R.L. of (i) the rights to certain Romanian Rural Networks, which are the subject of its agreement with RCS & RDS and (ii) the majority of shares in the capital of Digital Cable Systems S.A. and AKTA Telecom S.A. After closing, the Romanian Operational Arrangements will remain in effect for an initial period of three years, which could be extended by each of the relevant parties for one subsequent three-year period. Upon the expiration of the Romanian Operational Arrangements (whether in three or six years from closing), the Network Owners will be entitled to require RCS & RDS to purchase, and RCS & RDS will be entitled to require the Network Owners to sell, the Romanian Rural Networks. If the Network Owners exercise their put, or the RCS & RDS exercises its call, the purchase price will be set-off against the amount of fee payments made in the prior three or six years, as applicable. The maximum aggregate consideration payable by RCS & RDS to the Network Owners under the above arrangements (subject to a set-off of fee payments discussed above) is approximately EUR 77,000.

29. SUBSEQUENT EVENTS

Bond issuance

On 5 February 2020 RCS & RDS SA issued Senior Secured Notes in total amount of EUR 850,000, in two tranches: (i) EUR 450,000 2.50% senior secured notes due 2025 and (ii) EUR 400,000 3.25% senior secured notes due 2028.

The gross proceeds of the Offering were used to redeem the entire aggregate principal amount outstanding of the Bonds in amount of EUR 550,000 5.0% senior secured notes due 2023 issued by the Company, to pay EUR 22,300 of redemption premium and accrued, but unpaid, interest to holders thereof, as well as repayment or prepayment of other outstanding debt of the Group. The redemption price and unpaid but accrued interest expense were in amount of EUR 22.3 million.

COVID-19 outbreak

In December 2019, a novel strain of coronavirus (SARS-CoV-2) and the respiratory disease (COVID-19) it causes was reported in Wuhan, China and starting with late February 2020 the outbreak spread rapidly outside China and throughout Europe (with the biggest outbreak outside Asia occurring in Italy). On March 11, 2020, the World Health Organization declared COVID-19 a pandemic.

We have taken additional steps to ensure the health and safety of customers, employees and partners and the reliable delivery of services during the COVID-19 outbreak, more specifically:

→ we have developed and upgraded our business continuity plans to respond promptly and efficiently to any disruptive incidents during the COVID-19 outbreak, while safeguarding the health of our employees and minimizing the impact on the delivery of services.
→ all employees have been asked to work remotely as much as possible, and wherever possible;
→ employees who must be on site are applying social distancing and hygiene protocols based on guidance from health authorities;
→ customers are encouraged to apply social distancing protocols, avoid use of cash and use our online or other remote services and resources for payment of their invoices and for placing their orders;

→ specific disinfection protocols have been put in place in all our locations (offices, shops, cashier offices, call centers etc.);
→ split-team shift work, staff segregation and flexible working hours procedures have been initiated to mitigate the risk of an entire team becoming infected and to ensure the continuity of all our services (i.e., fixed internet and data, mobile telephony and data, fixed telephony, cable TV, DTH and online platforms);
→ all employee travel to countries where there is an increased risk of infection has been cancelled or postponed.
→ we continuously monitor the developments and may scale down our investment projects to allow business continuity.

At present the spread and consequences of the outbreak are difficult to predict. A protracted uncertainty and lack of containment of COVID-19 could have several negative consequences for the Group, including:
→ public authority responses to the pandemic, which may lead to outages and disruptions of the Group’s operations;
→ economic downturn and widespread recession, diminished business and consumer confidence, inflation and market volatility;
→ increasing levels of unemployment, which may have a direct negative impact on the spending patterns of retail customers, both in terms of subscribed services and usage levels, as well as potentially lead to a higher number of non-paying customers or generally result in service disconnections;
→ cashflow disruptions (at the level of the Group, as well as at the level of the global and regional economies);
→ currency exchange rate fluctuations;
→ reduced availability of credit and increases of interest rates or application of more onerous debt covenants;
→ workforce disruptions due to illness or employee refusal to work on-site due to perceived risk of contagion;
→ supply chain disruptions; and
→ difficulty in obtaining required licenses and permits due to the limited activity of certain public authorities during the COVID-19 outbreak.

For developments in legal proceedings in which the Group was involved (both as a plaintiff and a defendant), subsequent to 31 December 2019, please refer to Note 28.

(all amounts in EUR '000, unless specified otherwise)

30. 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.

	2019	**2018**
Revenues	**1,186,026**	**1,038,121**
Operating profit	145,000	101,975
Depreciation, amortization and impairment	298,850	211,480
EBITDA	**443,850**	**313,455**
Other income	-	(8,873)
Other expenses	2,496	19,987
Adjusted EBITDA	**446,346**	**324,569**
Adjusted EBITDA (% of revenue)	*37.63%*	*31.27%*

For breakdown of depreciation, amortization and impairment refer to Notes 5, 6 and 7.

Starting with January 1, 2019, the Company adopted the IFRS 16. Under IFRS 16, the Group was required to change the way it accounted for leases previously classified as operating lease under IAS 17, which were off-balance-sheet. The Group adopted IFRS 16 from January 1, 2019 using the modified retrospective method, and therefore has not restated numbers previously reported for the period ended 31 December 2018, as permitted under the specific transitional provisions in the standard. The impact of adopting IFRS 16 on EBITDA was EUR 66,229 for the year ended 31 December 2019.

For the year ended 31 December 2019 and 31 December 2018, EBITDA was adjusted to exclude Other income and Other expense.

For year ended 31 December 2019 Other expenses include: (i) EUR 1,564 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 26); (ii) EUR 932 impact from the derecognition of the fair value assessment of energy trading contracts.

For year ended 31 December 2018 Other expenses include: (i) EUR 12,738 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 25); (ii) Invitel's acquisition related costs of EUR 2,519 and (iii) provisions for ongoing litigations of EUR 4,730 (for further details please see note 27). Mark-to-market gain from fair value assessment of energy trading contracts of EUR 8,873 is presented as Other income in the year ended 31 December, 2018.

For year ended 31 December 2018Other income includes the IPO related costs recovered from the selling shareholders as well as income from the disposal of Digi SAT d.o.o participation in amount of EUR 156.

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Emil Jugaru,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executive Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
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Stand-alone Financial Statements for the year ended 31 December 2019

GENERAL INFORMATION

STAND-ALONE STATEMENT OF FINANCIAL POSITION

STAND-ALONE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

STAND-ALONE STATEMENT OF CASH FLOWS

STAND-ALONE STATEMENT OF CHANGES IN EQUITY

NOTES TO THE STAND-ALONE FINANCIAL STATEMENTS

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

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

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Financial assets	3	74,303	58,251
Long-term loan receivable	4	560,802	355,851
Financial assets at fair value through OCI	5	39,592	32,058
Total non-current assets		**674,697**	**446,160**
Current assets			
Trade and other receivables	6	14,541	15,361
Short term loan receivable	7	7,695	4,655
Derivative financial assets	9	40,095	31,115
Cash and cash equivalents	10	215	56
Total current assets		**62,546**	**51,187**
Total assets		**737,243**	**497,347**
EQUITY AND LIABILITIES			
Equity	11		
Issued and paid-up share capital		6,810	6,918
Share premium		3,406	3,406
Treasury shares		(16,803)	(14,524)
Reserves		(6,220)	(13,755)
Retained earnings		114,936	117,051
Total equity		**102,129**	**99,096**
Non-current liabilities			
Bonds – long term liabilities	12	560,177	355,851
Total non-current liabilities		**560,177**	**355,851**
Current liabilities			
Trade and other payables		28,292	7,590
Derivative financial liabilities	9	40,866	31,115
Bonds – short term liabilities	12	5,779	3,695
Total current liabilities		**74,937**	**42,400**
Total liabilities		**635,114**	**398,251**
Total equity and liabilities		**737,243**	**497,347**

These stand-alone financial statements were authorized for issue by the Board of Directors on 19 March 2020 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Emil Jugaru,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executive Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
___________ _	__________ _	____________ _	____________ _	____________ _	_____________	____________ _

	Notes	2019	2018
Interest income	14	31,573	22,240
Dividend income	14	9,833	10,122
Operating expenses	15	(2,933)	(5,756)
Other expenses		-	(479)
Operating Profit		**38,473**	**26,127**
Finance income	16	6,341	3,725
Finance expenses	16	(34,831)	(23,818)
Net finance costs		**(28,490)**	**(20,093)**
Profit before taxation		**9,983**	**6,034**
Income tax	17	(714)	(304)
Net profit for the period		**9,269**	**5,730**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Fair value change for Financial assets at fair value through OCI		7,535	(10,088)
Other comprehensive income for the period, net of income tax		**7,535**	**(10,088)**
Total comprehensive income for the period		**16,804**	**(4,358)**

These stand-alone financial statements were authorized for issue by the Board of Directors on 19 March 2020 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Emil Jugaru,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executive Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
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(all amounts are in thousand Euro, unless specified otherwise)

	Notes	2019	2018
Cash flows from operating activities			
Profit before taxation		**9,983**	**6,034**
Adjustments for:			
Interest expense	16	27,992	20,123
Interest revenue		(31,573)	(22,240)
Losses/gains on derivative financial instruments		1,451	(2,623)
Equity settled share-based payments	19	790	3,723
Unrealised foreign exchange (gain) / loss		(134)	-
Cash flows from operations before working capital changes		**8,509**	**5,017**
Increase/(Decrease) in trade receivables and other assets		1,590	(1,977)
(Increase)/Decrease in trade payables and other current Liabilities		719	(661)
Cash flows from operations		**10,818**	**2,379**
Interest paid		(27,500)	(17,500)
Interest received		33,820	19,607
Income tax paid		(726)	(792)
Cash flows from operating activities		**16,412**	**3,694**
Cash flows from financing activities			
Dividends paid to shareholders		(3,520)	(2,619)
Cash outflows from acquisition of treasury shares		(6,194)	(1,195)
Proceeds from Bonds	12	200,000	-
Proceeds from group companies' borrowings	12	19,952	5,004
Borrowing payments to group companies		(226,491)	(4,859)
Cash flows used in financing activities		**(16,253)**	**(3,669)**
Net increase/(decrease) in cash and cash equivalents		**159**	**25**
Cash and cash equivalents at the beginning of the period		56	31
Cash and cash equivalents at the end of the period		**215**	**56**

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

	Share capital	Share premium	Treasury shares	Fair value reserve*	Retained earnings	Total equity
Balance at 1 January 2019	**6,918**	**3,406**	**(14,524)**	**(13,755)**	**117,051**	**99,096**
Comprehensive income for the period						
Net profit for the period	-	-	-	-	9,269	**9,269**
Fair value change for Financial assets at fair value through OCI	-	-	-	7,535	-	**7,535**
Total comprehensive income for the period	**-**	**-**	**-**	**7,535**	**9,269**	**16,804**
Transactions with owners, recognized directly in equity						
Contributions by and distributions to owners	-	-	-	-	(9,959)	**(9,959)**
Conversion of class A shares to class B shares	(108)	-	-	-	108	-
Net change in treasury shares (Note 11)	-	-	(6,194)	-	-	**(6,194)**
Equity-settled share-based payment transactions (Note 19)	-	-	3,915	-	(1,533)	**2,383**
Total transactions with owners	**(108)**	**-**	**(2,278)**	**-**	**(11,384)**	**(13,770)**
Balance at 31 December 2019	**6,810**	**3,406**	**(16,803)**	**(6,220)**	**114,936**	**102,129**

**Fair value reserves represent Legal reserves*

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

	Share capital	Share premium	Treasury shares	Fair value reserve*	Retained earnings	Total equity
Balance at 1 January 2018	**6,918**	**3,406**	**(13,922)**	**(3,667)**	**102,967**	**95,702**
Comprehensive income for the period						
Net profit for the period	-	-	-	-	5,730	**5,730**
Fair value change for Financial assets at fair value through OCI	-	-	-	(10,088)	-	**(10,088)**
Total comprehensive income for the period	-	-	-	**(10,088)**	**5,730**	**(4,358)**
Transactions with owners, recognized directly in equity						
Contributions by and distributions to owners	-	-	-	-	(7,035)	**(7,035)**
Net change in treasury shares (Note 11)	-	-	(1,192)	-	-	***(1,192)***
Equity-settled share-based payment transactions (Note 19)	-	-	590	-	15,389	***15,979***
Total transactions with owners	-	-	**(602)**	-	**8,354**	**7,752**
Balance at 31 December 2018	**6,918**	**3,406**	**(14,524)**	**(13,755)**	**117,051**	**99,096**

**Fair value reserves represent Legal reserves*

1. CORPORATE INFORMATION

Digi Communications N.V. ("DIGI" or "the Company") is a company incorporated in the Netherlands with place of business and registered office in Romania. DIGI registered office is located in Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5, Bucuresti, Romania. On 11 April 2017 the Company changed its name to Digi Communications N.V., its former name being Cable Communications Systems N.V. ("CCS").

The Company was established on March 29, 2000 and mainly acts as a holding- and finance company.

The principal shareholder of DIGI is RCS Management S.A. ("RCSM") a company incorporated in Romania. The ultimate 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/only asset is the ownership of RCS&RDS and respectively DIGI.

The financial statements of the Company are included in the consolidated financial statements of Digi Group and RCS Management S.A., Bucharest, Romania.

The stand-alone financial statements were authorized for issue by the Board of Directors of DIGI on 19 March 2020.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

(a) Statement of compliance

These stand-alone financial statements for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (Option 4 under Article 362 NCC from Part 9 of Book 2 of the Dutch Civil Code) and in accordance with Part 9 of Book 2 of the Dutch Civil Code.

(b) Basis of measurement

The stand-alone financial statements have been prepared on the historical cost basis, except for available for sale financial assets and derivative financial instruments measured at fair value.

(c) Going concern assumption

Management believes that the Company will continue as a going concern for the foreseeable future.

(d) Judgements and estimates

Preparing the stand-alone 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 the process of applying the Company's accounting policies, management has made the following significant judgements and estimates, including assumptions that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 5**:** measurement of Financial assets at fair value through OCI
- Note 9**:** embedded derivatives

(e) Functional and presentation currency

The functional currency as well as the presentation currency for the Company's financial statements is the primary currency of the main economic transactions which influences its activity as a holding and finance company (EUR).

The stand-alone financial statements are presented in Euro ("EUR") and all values are rounded to the nearest thousand EUR except when otherwise indicated. The Company uses the EUR as a presentation currency of the stand-alone 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.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The consolidated financial statements of DIGI and RCS Management S.A. are presented in Euros, which is the functional and presentation currency of the Company.

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

Currency	2019			2018		
	Jan – 1	Average for the year	Dec – 31	Jan – 1	Average for the year	Dec – 31
RON per 1EUR	4.6639	4.7452	4.7793	4.6597	4.6535	4.6639
USD per 1EUR	1.1450	1.1196	1.1234	1.1993	1.1723	1.1450

2.2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are consistent with accounting policies applied for the Consolidated Financial Statements of the Group, except for the following:

Financial instruments

(i) Non-derivative financial assets

Financial assets (Investments in subsidiaries)

The investments of the Company in the shares of its subsidiaries are measured at historical cost in its standalone financial statements, as allowed by IAS 27.

At each year-end the Company reviews the value of its investments for impairment, by considering mainly the comparison of cost to net asset value of the respective subsidiary/sub-group, as well as the profitability of the respective subsidiary/sub-group.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Transactions with the Company’s shares (Class A shares) between shareholders are considered completed at the date the transfer of ownership has been agreed upon by the parties in a written contract. Transactions with the B shares are trading on the stock exchange and are consider completed at the transaction date.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium. When treasury shares are cancelled the excess of cost above nominal value is debited to retained earnings.

Share and repurchase agreements related to treasury shares do not result in the derecognition of the respective treasury shares and do not affect their valuation.

Dividend income

Dividend income is recognised in profit or loss on the date that DIGI’s right to receive payment is established.

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

3. FINANCIAL ASSETS

Investments in subsidiaries

Changes in investments in subsidiaries are presented below:

	31 December 2019	31 December 2018
Opening balance 1 January	**58,251**	**45,992**
Acquisitions	14,459	-
Share based plan (Note 19)	1,593	12,259
Closing balance 31 December	**74,303**	**58,251**

Investments in group companies

The Company's investments in group companies comprise the following:

Name	Registered office	Ownership 31 December 2019	Ownership 31 December 2018	Acquisition cost 31 December 2019
RCS&RDS S.A.	Bucharest, Romania	95.58%	93.58%	74,288
Lexin Hvar B.V.	Amsterdam, the Netherlands	95.00%	95.00%	16
Total				**74,303**

On December 10, 2019, the Company purchased 7,718,832 shares in the share capital of RCS & RDS from certain minority shareholders, representing approximately 2.0% of RCS & RDS's outstanding share capital, for EUR 13,689 thousand. The share purchase agreement includes a call option for the sellers over those shares, which is exercisable within three years from the date of sale, at a premium compared to initial price. The fair value of the call option was assessed at EUR 770 and was recorded as derivative liability. Therefore, the total consideration, including the option value, was EUR 14,459.Please see Note 9 and Note 18.

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

4. LONG TERM LOAN RECEIVABLE

Amounts due from Group Company

	31 December 2019	31 December 2018
Opening balance as at 1 January	**355,851**	**358,474**
Additional amount Proceeds Loan	203,500	-
Changes in amortization borrowing costs	1,451	(2,623)
Closing balance 31 December	**560,802**	**355,851**

In October 2016, RCS&RDS S.A. has concluded a Proceeds loan agreement with the Company for an amount of EUR 350,000 and beared interest at 5.562%. The loan was due in September 2023.

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023 (the “Additional Notes”). The Additional Notes had the benefit of the same guarantees and coupon as the initial issuance from 2016. The additional notes were issued with a premium of EUR 3,500 which was included in the carrying amount of the bond liability and is amortised over the term of the notes.In February 2019 the Proceeds loan between RCS & RDS and the Company was amended to include the additional amount (EUR 203,500). All the other clauses of the Proceeds loan agreement remained the same.

On 5 February 2020 RCS & RDS SA issued Senior Secured Notes in total amount of EUR 850,000 senior secured notes, in two tranches: (i) EUR 450,000 at 2.50% senior secured notes due 2025 and (ii) EUR 400,000 at 3.25% senior secured notes due 2028 (collectively, the “Notes”).

The gross proceeds of the Offering were used to redeem the entire aggregate principal amount outstanding of EUR 550,000 5.0% senior secured notes due 2023 issued by the Company and to prepay or repay other outstanding debt facilities. The total Proceeds loan in amount of 553,500 was repaid by RCS & RDS to the Company on 5 February 2020. This facility was closed.

The fair value of the embedded derivatives related to the 2016 Bonds was also assessed at inception date, in October 2016, in amount of EUR 8,474. It was recognized as Long term loan receivable on debit side (from Proceeds Loan) with a corresponding increase in the Bond liability on credit side.

The amount of EUR 3,240 represented fair value at inception date of embedded derivative of bond tap, at February 2019. It was recognized as Long term loan receivable on debit side (from Proceeds Loan) with a corresponding increase in the Bond liability on credit side.

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	31 December 2019	31 December 2018
Balance at 1 January	**32,058**	**42,146**
Fair value change for Financial assets at fair value through OCI	7,534	(10,088)
Balance at 31 December	**39,592**	**32,058**

The above financial assets at fair value through OCIcomprise shares in RCS Management S.A. As at 31 December 2019 the percentage of ownership of Digi in RCSM is 10%.

During 2018 and 2019, there were no changes made to the Financial assets at fair value through OCI, the movement in balances represents only difference in fair value as at reporting date

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment of the Financial assets at fair value through OCI shares held in RCSM at year end 2018 and 2019 was performed based on the quoted price/share of the shares of the Company as of the valuation date, adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

The decrease in the fair value of the Financial assets at fair value through OCI during 2018, as reported in OCI, was not considered to be an impairment.

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

6. RECEIVABLES

	31 December 2019	31 December 2018
Amounts due from Group companies	13,525	15,123
Prepaid expenses	1,016	238
Total	**14,541**	**15,361**

All receivables fall due in less than one year. The fair value of the receivables approximates the book value.

Amounts due from group companies represent mainly dividends receivable.

7. SHORT TERM LOANS

The short term loans are provided to Group companies and include the following:

Name	CCY	31 December 2019	31 December 2018
Loan RCS&RDS S.A	EUR	7,695	4,655
Total		**7,695**	**4,655**

On 15 December 2018, The Company granted a loan to RCS & RDS S.A in amount of 10,000 EUR due in one year. The loan bears interest of 5.5% p.a. On 12 September 2019 the value of this loan was increased from EUR 10,000 to EUR 20,000. All other terms of the contract remained the same.

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

8. RELATED PARTY DISCLOSURES

Receivables from Group companies	Object	31 December 2019	31 December 2018
RCS & RDS	Proceeds Loan	560,802	355,851
RCS & RDS	Dividend receivable	12,116	14,201
RCS & RDS	Interest receivable Loans	21	10
RCS & RDS	Short term loan	7,695	4,655
RCS & RDS	WHT Bonds	1,310	833
Lexin Hvar B.V.	Interest receivable	78	78
Total		**582,022**	**375,629**

Payables to Group companies	Object	31 December 2019	31 December 2018
RCS & RDS	Prepaid interest	(1,197)	(757)
RCS & RDS	Other	(404)	(1,010)
Total		**(1,601)**	**(1,767)**

Payables to Related parties	Object	31 December 2019	31 December 2018
RCS Management S.A.	Dividends	(10,292)	(4,345)
Zoltan Teszari	Dividends	(227)	-
Total		**(10,518)**	**(4,345)**

Transactions with Group companies Revenues	Object	2019	2018
RCS & RDS	Dividend	9,833	10,122
RCS & RDS	Interest	28,323	19,617
RCS & RDS	Costs recovered	2,752	0
RCS & RDS	WHT	5,635	3,333
RCS & RDS	Services	15	132
Total		**46,558**	**33,204**

Transactions with Group companies Expenses			
RCS & RDS	Reinvoiced costs	92	-
RCS & RDS	Services	9	67
Total		**101**	**67**

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

9. DERIVATIVE ASSETS AND LIABILITIES

As at 31 December 2019 the Company had derivative financial assets recorded:

	31 December 2019		31 December 2018	
	Fair value	Notional	Fair value	Notional
Embedded derivatives asset	40,095	n/a	31,115	n/a

Embedded derivative assets of EUR 40,095 are related to the 2016 Bond (31 December 2018: EUR 31,115). The 2016 Bond includes several call options as well as one put option for which we recognized a separate embedded derivative asset. The combined fair value of these embedded options was assessed as at 31 December 2018 through the Option Adjusted Spread model. As at 31 December 2019, the yields used as input in the Option Adjusted Spread (OAS) model presented some anomalies. Therefore, alternatively, a discounted cash flow valuation technique was used in order to estimate the option-free value at this date. The fair value was obtained from an independent valuation specialist.

As at 31 December 2019 the Company had derivative financial liabilities recorded:

	31 December 2019		31 December 2018	
	Fair value	Notional	Fair value	Notional
Embedded derivatives liability	(40,866)	n/a	(31,115)	n/a

The same disclosure applies to the embedded derivative liability, resulting from the terms of the Proceed Loan to RCS & RDS SA, which mirror the terms of the bond as detailed above and fair value of the call option related to acquisition of RCS & RDS' shares from certain minority shareholders. For details, please see Note 18.

10. CASH AND CASH EQUIVALENTS

As at 31 December 2019 Cash and cash equivalents balance was of EUR 215 (31 December 2018: EUR 56). All cash is freely disposable.

11. SHAREHOLDER'S EQUITY

11.1 Share capital

As at 31 December 2019, the authorized capital of the company amounts to EUR 11,000,000. The authorized capital is divided into shares as follows:

(a) one hundred million (100,000,000) class A shares, with a nominal value of ten eurocents (EUR 0.10) each; and

(b) one hundred million (100,000,000) class B shares, with a nominal value of one eurocent (EUR 0.01) each.

The issued and paid-up capital as at 31 December 2018 was in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

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.

11. SHAREHOLDER'S EQUITY (CONTINUED)

Therefore, the issued and paid-up capital as at 31 December 2019 was in amount of EUR 6,810,042.52, divided into 100,000,000 shares (out of which (i) 64,556,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 35,443,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

The class B shares resulting from the Conversion are 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 and 2020.

Class B Shares are listed on the Romanian Stock Exchange ("BVB") starting from 16 May 2017.

	31 December 2019	**31 December 2018**
Class A:		
Ordinary Shares – Issued and Paid (No.)	64,556,028	65,756,028
Ordinary Shares – Unissued (No.)	35,443,972	34,243,972
Nominal Value	0.10 EUR per share	0.10 EUR per share
Class B:		
Ordinary Shares – Issued and Paid (No.)	35,443,972	34,243,972
Ordinary Shares – Unissued (No.)	64,556,028	65,756,028
Nominal Value	0.01 EUR per share	0.01 EUR per share
Share Capital Value (EUR thousand)	6,810	6,918

The rights attaching to the class B shares are uniform in all respects except for the voting rights to the class A shares.

At 31 December 2019, the shareholders of DIGI are as follows:

	31 December 2019		**31 December 2018**	
Shareholder name	**No. of shares**	**%**	**No. of shares**	**%**
Class A:				
RCS Management S.A.	57,866,545	57.87%	57,866,545	57.87%
Teszari Zoltan	2,280,122	2.28%	2,280,122	2.28%
DIGI-treasury shares	4,409,361	4.41%	5,609,361	5.61%
Total class A	**64,556,028**		**65,756,028**	
Class B:				
Shares listed on BVB	34,116,833	34.12%	33,339,354	33.34%
DIGI - treasury shares	1,327,139	1.33%	904,618	0.90%
Total class B	**35,443,972**		**34,243,972**	
TOTAL	**100,000,000**		**100,000,000**	

The ultimate beneficial shareholder of the Group is Mr. Zoltan Teszari. Mr. Zoltan Teszari is the controlling shareholder of the Group, being the controlling shareholder of RCSM (the controlling parent of DIGI) and minority shareholder of DIGI and RCS&RDS.

Proposed appropriation of the result

The board of directors proposed to add the result for the year to retained earnings. This proposal has been reflected in the statement of financial position. At the annual general meeting in 2020, the board of directors shall propose to pay-out from retained earnings a dividend per share of RON 0.65, totaling EUR 0.14 (using 31 December 2019 fx

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

11. SHAREHOLDER'S EQUITY (CONTINUED)

rate). This proposed dividend payment shall only be reflected in the statement of financial position when it is approved by the annual general meeting.

11.2 Dividends

The GSM from 30 April 2019 approved the distribution of a gross dividend of RON 0.50 per share (EUR 0.11 per share) for the year ended 31 December 2018. The dividend was distributed on 29 May 2019.

11.3 Nature and purpose of reserves

Treasury shares

Contains cost of treasury shares.

Reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through OCI until the assets are derecognised or impaired. The fair value reserve is considered Legal reserve.

Retained earnings

Contains cumulative Retained earnings of past periods.

11.4 Stand-alone Equity Reconciliation

31-Dec-19	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
Stand-alone	**6,810**	**3,406**	**(16,803)**	**114,936**	**(6,220)**	**-**	**-**	**-**	**102,129**
Net result of the period	-	-	-	38,125	-	-	-	-	**38,125**
Revaluation reserve transfer	-	-	(3)	4,935	-	-	(4,935)	-	**(3)**
Retained earnings of the other subsidiaries in the Group	-	-	-	(26,646)	-	-	-	-	**(26,646)**
Reserves only in the consolidated FS	-	-	-	-	-	(36,708)	29,320	7	**(7,381)**
Impact of accounting policies difference cost vs equity method for subsidiaries	-	-	-	51,774	-	-	-	-	**51,774**
Consolidated	**6,810**	**3,406**	**(16,806)**	**183,124**	**(6,220)**	**(36,708)**	**24,385**	**7**	**157,998**

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

11. SHAREHOLDER'S EQUITY (CONTINUED)

31-Dec-18	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
Stand-alone	**6,918**	**3,406**	**(14,524)**	**117,051**	**(13,755)**	**-**	**-**	**-**	**99,096**
Net result of the period				10,870					**10,870**
Retained earnings of the other subsidiaries in the Group	-	-	-	46,137	-	-	-	-	**46,137**
Revaluation reserve transfer	-	-	-	12,565	-	-	(12,565)	-	-
Reserves only in the consolidated FS						(34,242)	41,885	94	**7,737**
Impact of accounting policies difference cost vs equity method for subsidiaries				(17,798)					**(17,798)**
Consolidated	**6,918**	**3,406**	**(14,527)**	**168,825**	**(13,755)**	**(34,242)**	**29,320**	**94**	**146,039**

11.5 Net Result Reconciliation

	2019	2018
Stand-alone net result	**9,269**	**5,730**
Deferred tax subsidiaries	(10,629)	(15,427)
Income tax subsidiaries	(9,189)	(5,139)
Subsidiaries net results	51,133	32,858
Consolidated net result	**40,584**	**18,022**

12. BONDS-LONG TERM AND SHORT TERM DEBT

Long term portion	Nominal interest rate	31 December 2019	31 December 2018
2016 Bonds	5% p.a.	560,177[2]	355,851[1]
Total long term portion		**560,177**	**355,851**

[1] This amount includes fair value at inception of the 2016 Bonds in amount of EUR 8,474 net of amortisation expense of EUR 2,623.

[2] This amount includes fair value at inception of the 2016 Bonds in amount of EUR 8,474 and fair value at inception of the tap bonds from February 2019 in amount of EUR 3,240, net of amortisation expense of EUR 1,451.

2016 Senior Secured Notes

On October 26, 2016 the Company issued the 2016 Notes with a value of EUR 350,000 and maturity in 2023. The 2016 Notes were secured by (i) subject to certain exclusions, all present and future movable assets of RCS & RDS, including bank accounts, trade receivables, intragroup receivables, insurance receivables, inventories, movable tangible property (including installation, networks, machinery, equipment, vehicles, furniture, and other similar assets), intellectual property rights, insurance and proceeds related to any of the foregoing; (ii) all shares of certain of RCS & RDS's material subsidiaries held by RCS & RDS; and (iii) certain assets of the Company including all shares it holds in the RCS & RDS, certain bank accounts and rights under the proceeds loan agreement dated November 4, 2013 as amended and extended between the Company, as lender, and RCS & RDS, as borrower.

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023, as a tap to the original 2016 Notes.

On 5 February 2020 RCS & RDS SA issued Senior Secured Notes in total amount of EUR 850,000 senior secured notes, in two tranches: (i) EUR 450,000 at 2.50% senior secured notes due 2025 and (ii) EUR 400,000 at 3.25%

12. BONDS-LONG TERM AND SHORT TERM DEBT (CONTINUED)

Senior secured notes due 2028 (collectively, the "Notes"). The gross proceeds of the Offering were used to redeem the entire aggregate principal amount outstanding of EUR 550,000 5.0% senior secured notes due 2023 issued by the Company and to prepay or repay other outstanding debt facilities.

For the 2016 Bonds interest was payable semi-annually in arrears in April and October of each year.

The 2016 Notes included several redemptions options which were assessed to be closely related to the host contract.

The derivative resulted from these redemptions options is recorded at fair value.

The costs that were directly related to the 2016 Notes and Additional Notes were recharged through the intercompany account to RCS&RDS S.A.

For details about RCS & RDS's Facilities, please refer to the Note 15 from the Groups' Consolidated Financial Statements for the year ended 31 December 2019.

For details regarding Loans from Group companies, please see Note 8.

2019 Bridge Facility Agreement

On 31 July 2019, the RCS & RDS SA, as borrower and original guarantor, DIGI Hungary as borrower and original guarantor, Digi Communications NV, as borrower, original guarantor and parent, Invitel, as original guarantor, Citibank, N.A., London Branch, ING Bank N.V. and Unicredit Bank S.A., as mandated lead arrangers, Unicredit Bank S.A., as original issuing bank, and ING Bank N.V. as the agent of the other finance parties and several other financial institutions as original lenders, have concluded a syndicated multicurrency facility agreement consisting of two facilities in RON, EUR and HUF(the „2019 Bridge Facility Agreement").

The 2019 Bridge Facility Agreement is granted for 12 months, with the possibility of extension up to 24 months from the execution date of the Agreement. The value of the 2019 Bridge Facility Agreement is €150 million and may be increased up to €250 million (or its equivalent in other currencies).

Up to 31 December 2019, there are amounts blocked from the facility for the purpose of letters of guarantees issuance.

Collateral

Collateral for all facilities of RCS & RDS and DIGI

The obligations of the Group under the Bonds, as well as their obligations under the Senior Facilities Agreement of RCS & RDS on a paripassu basis pursuant to the terms of the Intercreditor Agreement dated 4 November 2013 and amended on 26 October 2016, are secured by a first-ranking security interest in certain assets of RCS&RDS and DIGI, namely:

(a) Certain Capital Stock that DIGI holds in RCS&RDS which as at 31 December 2019 accounted for 95.58% of the issued Capital Stock of RCS&RDS, as per Trade Register;

(b) All bank accounts of DIGI, including any new bank accounts;

(c) Receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by DIGI to its subsidiary, RCS&RDS on 4 November 2013 amended and restated on 26 October 2016 – at year end EUR 553,500)

(d) 100% of the quota in DIGI T.S. Kft Hungary;

(e) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and

(f) All DIGI T.S Kft Hungary's shares owned currently in Invitel representing 99.998395%.

(g) subject to certain exclusions, all present and future movable assets of RCS&RDS including bank account monies, trade and other receivables, intragroup receivables, inventories, movable tangible property (including installations, machinery, equipment, vehicles, furniture and other similar assets), intangible assets, intellectual property rights, insurance and proceeds related to any of the foregoing as described in the General Movable Mortgage Agreement between RCS&RDS and Wilmington Trust (London) Limited.

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

12. BONDS-LONG TERM AND SHORT TERM DEBT (CONTINUED)

In February 2020 Digi Spain became additional guarantor for the Collateral, pursuant to the terms of the Intercreditor Agreement.

13. REMUNERATION OF BOARD OF DIRECTORS

In April 2017, the new Board of Directors was appointed for the Company.

On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions for the stock option plan for Class B Shares grant applicable to the executive Board members of the Company in 2017. A total number of 280,000 class B shares were granted as part of the stock option plan for 2017. At vesting date, on 15 May 2018, the plan was settled in shares, at no cost for the executive Board members. For details, please see Note 19.

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 class B 686,090 conditional stock options (applicable for the years 2018 and 2019). For details, please see Note 19.

No other stock option plans were approved in 2019.

For the remuneration of the Directors for year ended 31 December 2019, in their capacity as Digi's Board members, please see Remuneration report from the 2019 Annual Report.

14. INCOME

	2019	2018
Interest income	31,573	22,240
Dividend income	9,833	10,122
Total income	**41,406**	**32,362**

Interest income includes interest received from loans granted to RCS & RDS. For details please see Note 4 and Note 7.

In May 2018, RCS & RDS declared dividends in amount of RON 50 million, equivalent of EUR 10.8 million from 2017 profit, out of which EUR 10.1 million represents the share distributed to the Company.

In May 2019, RCS & RDS declared dividends in amount of RON 50 million, equivalent of EUR 10.5 from 2018 profit, out of which EUR 9.8 million represents the share distributed to the Company.

15. OPERATING EXPENSES

	2019	2018
Salaries and related taxes	1,230	1,097
Share-based payment expense	790	3,720
Other expenses	912	939
Total operating expenses	**2,933**	**5,756**

For details about the share option plan implemented in 2018 and 2019, please see Note 19.

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

16. NET FINANCE COSTS

	2019	2018
Financial revenues		
Other financial revenues	5,635	3,465
	5,635	**3,465**
Financial expenses		
Interest expense	(27,992)	(20,123)
Other financial expenses	(6,250)	(3,356)
Foreign exchange differences (net)	116	(79)
	(34,126)	**(23,558)**
Net Financial Cost	**(28,490)**	**(20,093)**

17. INCOME TAX

Up to 21 April 2017 the Company was a Dutch Tax resident. In the context of the IPO from 2017, we became a tax resident in Romania. As from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania. The Company is a Romanian tax resident having its place of effective management in Bucharest, Romania, where all the strategic and commercial decisions are made, as well as the day-to-day management is carried out.

The statutory tax rate applied in Romania during 2018 and 2019 was 16%.

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate applicable to the net result before tax to the income tax expense at the Company's effective income tax rate for the financial years 2019 and 2018 is as follows:

	2019	2018
Net profit before income tax	**9,983**	**6,034**
At statutory income tax rate of the Company (16%)	1,597	969
Non-deductible expenses / (Non-taxable income)	(904)	(911)
Taxes in respect of prior years	22	246
Effective tax expense	**714**	**304**

18. FINANCIAL RISK MANAGEMENT

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

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

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

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company,

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit risk

Credit risk exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2019	31 December 2018
Trade and other receivables	6	14, 539	15,361
Short term loan receivable	7	7,695	4,655
Derivative financial assets	9	40,095	31,115
Cash and cash equivalents	10	215	56
Long term loan receivables	4	560,802	355,851
Total		**623,346**	**407,038**

The carrying amount of the financial assets, net of the recorded impairment allowances, represents the maximum amount exposed to credit risk.

The EUR Bonds issued by the Company have received ratings from Moody's and S&P (B1/BB-). Since the Company is a holding company, the same ratings could be extrapolated for the long term and short term loans receivables from RCS & RDS SA.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2019	31 December 2018
ING Bank	200	28
BRD Bank	-	28
Citi Bank	6	-
Unicredit Bank	9	-
Total	**214**	**56**

Impairment losses

The ageing of trade and other receivables, and other assets, at the reporting date was:

	31 December 2019	31 December 2018
Neither past due nor impaired	13,525	15,123
Total	**13,525**	**15,123**

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, inter-company loans. Management monitors on a monthly basis the forecast of cash outflows and inflows in order to determine its funding needs.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2019:

	31 December 2019						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Bonds	**560,177**	**653,068**	13,637	13,863	27,500	598,068	-
Trade and other payables	**28,292**	**28,292**	28,292	-	-	-	-
Total	**588,469**	**681,360**	**41,929**	**13,863**	**27,500**	**598,068**	**-**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2018:

	31 December 2018						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Bonds	**355,851**	**431,651**	8,678	8,822	17,500	396,651	-
Trade and other payables	**7,590**	**7,590**	7,590	-	-	-	-
Total	**363,441**	**439,241**	**16,268**	**8,822**	**17,500**	**396,651**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

At 31 December 2019, the Company had net current liabilities of EUR 12,391 (31 December 2018: net current assets EUR 8,787). Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

The Company's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and to keep the Company's leverage optimized. Management believes that there is no significant risk that the Company will encounter liquidity problems in the foreseeable future.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices will affect the Company'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.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to currency risk

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

The Board of Directors actively manages the exposure to RON currency only for borrowings.

The Company's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2019			31 December 2018	
	RON	**USD**	**GBP**	**RON**	**USD**
Trade and other receivables	21,196	-	-	15,045	-
Cash and cash equivalents	192	2	-	52	1
Trade and other payables	(25,700)	-	(35)	(6,248)	-
Gross statement of financial position exposure	**(4,312)**	**2**	**(35)**	**8,849**	**1**

The following significant exchange rates applied:

	2019	**2018**
Romania		
USD	4.2608	4.0736
EUR	4.7793	4.6639

Sensitivity analysis for currency risk

A 10 percent strengthening of the currencies listed below against the functional currencies of the Company would have decreased profit / increased loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant

	Effect on profit before tax	**Effect on profit before tax**
	31 December 2019	**31 December 2018**
RON	403	(880)
Total	**403**	**(880)**

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Company at 31 December would have had the equal but opposite effect on profit and loss, on the basis that all other variables remain constant.

The effect in equity is the effect in profit or loss before tax, net of tax (16%) (excluding translation effect into presentation currency).

Exposure to interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of the Company's borrowings as well as on the loans granted by the Company are fixed. The

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

interest rates of borrowings are disclosed in Note 7 and 12. The interest rates of loans granted by the Company are disclosed in Notes 4 and 7.

iv) Fair values

The Company measures at fair value available for sale investments and embedded derivatives.

Fair value hierarchy

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation techniques with all significant inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: valuation techniques using significant inputs that are not observable or based on observable market data (i.e. unobservable inputs).

The significance of a valuation input is assessed against the fair value measurement in its entirety.

Recurring fair value measurements

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements of financial instruments are categorised are as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2019				
Financial assets fair value through OCI	-	-	39,592	39,592
Embedded derivatives asset Bond	-	-	40,095	40,095
Total assets	**-**	**-**	**79,687**	**79,687**
Embedded derivatives liability Bond	-	-	40,095	40,095
Embedded derivatives liability call option (Note 9)	-	-	770	**770**
Total liabilities	**-**	**-**	**40,866**	**40,866**

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2018				
Financial assets fair value through OCI	-	-	32,058	**32,058**
Embedded derivatives	-	-	31,115	**31,115**
Total	**-**	**-**	**63,173**	**63,173**

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial assets at fair value through OCI

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange.

The fair value assessment at year end was made based on the quoted price/share as of the valuation date, which is a relevant method of estimating the market value of a minority ownership in its equity.

Sensitivity analysis for available for sale financial assets

A change in the share price, and respectively of the growth rate and/ or WACC at the reporting date would have an impact as follows:

	Share price	
	10% increase	10% decrease
31 December 2019		
Financial assets at fair value through OCI	3,959	(3,959)
31 December 2018		
Financial assets at fair value through OCI	3,195	(3,195)

Embedded derivatives

- *Redemption Options Bonds*

As at 31 December 2018 the fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a "plain vanilla" bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds. The fair value was obtained from a third party financial institution. The management has determined that such prices were developed in accordance with the requirements of IFRS 13.

As at 31 December 2019, the yields used as input in the Option Adjusted Spread (OAS) model presented some anomalies. Therefore, alternatively, a discounted cash flow valuation technique was used in order to estimate the option-free value at this date. Main inputs were the callable bond market value, coupon, payment terms and maturity date. The fair value was obtained from an independent valuation specialist.

- *Redemption Options share contracts*

On 10 December 2019, the Company acquired 7,781,832 shares in RCS & RDS SA from certain minority shareholders. There is a redemption option in the contracts regarding the right of these minorty shareholders to redeem these shares in a 3 year period, for an established price. This embedded option was accounted in the financial statements at fair value. The fair value was obtained from an independent valuation specialist. The management has determined that such fair value was developed in accordance with the requirements of IFRS 13.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2019 is as follows:

	Financial assets at fair value through OCI (Notes 5)	**Embedded derivatives asset**
1 January 2019	**32,058**	**31,115**
Gains recognised in profit or loss for the year	-	8,980
Gains recognised in other comprehensive income	7,534	-
31 December 2019	**39,592**	**40,095**

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Embedded derivative liability call option (Notes 9)
1 January 2019	**-**
Additions	770
31 December 2019	**770**

	Financial assets at fair value through OCI (Notes 5)	Embedded derivatives
1 January 2018	**42,146**	**33,264**
Gains recognised in profit or loss for the year	-	(2,149)
Gains recognised in other comprehensive income	(10,088)	-
31 December 2018	**32,058**	**31,115**

	Financial assets at fair value through OCI (Notes 5)	Embedded derivatives
1 January 2019	**32,058**	**31,115**
Gains recognised in profit or loss for the year	-	8,980
Gains recognised in other comprehensive income	7,534	-
31 December 2019	**39,592**	**40,095**

Assets and liabilities not measured at fair value but for which the fair value is disclosed

The fair value of long term loans and their corresponding carrying amount (excluding the interest accrued) and fair value measurement hierarchy are presented in the table below:

	31 December 2019		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 12)			
Bonds	550,000	566,885	Level 1
	31 December 2018		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 12)			
Bonds	350,000	366,625	Level 1

The fair value of bonds is calculated on the basis of the market price.

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, short term loans and trade and other payables.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (or recognized recently carrying values for other long term liabilities) and low transaction costs of these instruments.

vii) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. Management monitors "total net debt to EBITDA" ratio which is computed in accordance with the Senior Facilities Agreements' requirements (current leverage ratio is 2.8 (2018: 2.8)) and in accordance with the Senior Notes' requirements (current leverage ratio is 2.6 (2018:2.8)).

19. SHARE-BASED PAYMENT

19.1 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. Stock options granted to Executive Directors will be subject to performance criteria which, for the year 2017, include the (i) successful closing of the Offer and Admission, (ii) duration of employment with the Company and (iii) growth in EBITDA and in RGUs. Fair value at granting date was EUR 2,435.

At vesting date, on 15 May 2018, the plan was settled in shares, at no cost for the executive Board members. On 15 May 2018 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, which have vested in accordance with the provisions of the Company's stock option plan granted in 2017. In accordance with this stock option plan, Mr. Serghei Bulgac was granted 220,000 shares, while Mr. Valentin Popoviciu was granted 60,000 shares.

19.2 In December 2017, the Board of Directors approved a stock option plan whereby a number of directors, officers and employees of certain subsidiaries of the Group in Romania were granted options to acquire for free class B shares of the Company, with up to 1.6% out from the total number of shares issued by the Company being allocated for this program. The beneficiaries will be able to exercise the stock option (the vesting) only after the lapse of one year from the grant date.

In 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. Fair value at granting date was EUR 12,387. The Plan vested at the end of 2018 and beginning of 2019 and was settled in shares.

19.3 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.

On 28 May 2019 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, which have vested in accordance with the provisions of the Company's stock option plan In accordance with this stock option plan, Mr. Serghei Bulgac was granted 170,000 shares, while Mr.Valentin Popoviciu was granted 90,000 shares.

19.4 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 plan vested in May 2019.

Share options for the above share option plans, which vested during the year, were exercised at different dates. The average share price for 2019 was 28.48 RON/share.

As at 31 December 2019 the related share option expense of EUR 790 (2018: EUR 3,720) was recorded in the Statement of profit or loss and in the Other comprehensive income in the line item Operating expenses, within salaries and related taxes (Note 15).

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

19. SHARE-BASED PAYMENT (CONTINUED)

For details regarding the outstanding shares options, vested, granted, exercisable at year end, please see Remuneration report included in the 2019 Annual Report.

20. AUDIT FEES

	31 December 2019		31 December 2018	
	EY NL	EY Other	EY NL	EY Other
Statutory audit	83	-	98	-
Other audit services	-	317	-	285
Other assurance services	25	168	32	239
Non-audit services	-	-	-	-
Total	**108**	**485**	**130**	**524**

21. NUMBER OF EMPLOYEES AND EMPLOYEES COSTS

The average number of persons employed by the Company during the period ended 31 December 2019 was 11 (31 December 2018: 7).

For employees cost, please see Note 15.

22. GENERAL COMMITMENTS AND CONTINGENCIES

(a) Contractual commitments

The Company is a Guarantor for several credit facilities of RCS & RDS S.A concluded with different banks.

For details about Collateral please see Note 12.

The Company issued letters of guarantee in approximate amount of EUR 79 million equivalent.

(b) Legal proceedings

During the financial period, the Company was involved in one court proceedings (as a defendant). In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these financial statements. Specifically, for the litigation described below the Company did not recognize provisions as management assessed that the outcome of this litigation is not more likely than not to result in significant cash outflows for the Company.

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 – 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 USD 1,800,000 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

22. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 USD 1,800,000, 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 that was to be considered only if the Appellate Court would have admitted the appeal filed by the Plaintiffs.

On 15 August 2019, the Appellate Court dismissed the appeal filed by the Plaintiffs regarding the introduction in the judgement of RCS&RDS, RCS Management S.A., the Company and DIGI Távközlési és Szolgáltató Kft.. The Appellate Court noted that, none of the mentioned companies have sufficient contacts with US in order to extend over them the US jurisdiction. Consequently, the Appellate Court decided to eliminate these companies from the case. On the other hand, the Appellate Court decided that i-TV Digitális Távközlési Zrt. doesn't have the same treatment taking into consideration that at the moment of the initial judgement was named party to that trial.

On 29 August 2019, the Plaintiffs challenged the decision issued by the Appellate Court to the same court (in plen, en banc), and such motion was dismissed by the Appellate Court. The Plaintiffs had the opportunity to challenge this ruling in front of the Supreme Court. However, the Plaintiffs have failed to file an appeal in the applicable deadline. Accordingly, the Appellate Court's decision is final, which means that the Company, RCS&RDS, RCS Management S.A., and DIGI Tavkozlesi es Szolgaltato Kft, are effectively dismissed from the case. As a result, only i-TV remains to act as a defendant in the case. Further, the US Court will resume the judgment of the case as regards i-TV.

Additionally, the opinion of external lawyers representing the Company in this litigation is that any judgement issued by the US Court against i-TV would not be enforceable and it will need to be first recognised in the relevant jurisdiction, subject to foreign judgement's compliance with the respective jurisdiction's mandatory legal provisions.

23. SUBSEQUENT EVENTS

Bonds issuance

On 5 February 2020 RCS & RDS SA issued Senior Secured Notes in total amount of EUR 850,000, in two tranches: (i) EUR 450,000 2.50% senior secured notes due 2025 and (ii) EUR 400,000 3.25% senior secured notes due 2028.

The gross proceeds of the Offering were used to redeem the entire aggregate principal amount outstanding of the Bonds in amount of EUR 550,000 5.0% senior secured notes due 2023 issued by the Company, to pay EUR 22,300 of redemption premium and accrued, but unpaid, interest to holders thereof, as well as repayment or prepayment of other outstanding debt of the Group.

COVID-19 outbreak

In December 2019, a novel strain of coronavirus (SARS-CoV-2) and the respiratory disease (COVID-19) it causes was reported in Wuhan, China and starting with late February 2020 the outbreak spread rapidly outside China and throughout Europe (with the biggest outbreak outside Asia occurring in Italy). On March 11, 2020, the World Health Organization declared COVID-19 a pandemic.

We have taken additional steps to ensure the health and safety of customers, employees and partners and the reliable delivery of services during the COVID-19 outbreak, more specifically:

→ we have developed and upgraded our business continuity plans to respond promptly and efficiently to any disruptive incidents during the COVID-19 outbreak, while safeguarding the health of our employees and minimizing the impact on the delivery of services.
→ all employees have been asked to work remotely as much as possible, and wherever possible;
→ employees who must be on site are applying social distancing and hygiene protocols based on guidance from health authorities;
→ customers are encouraged to apply social distancing protocols, avoid use of cash and use our online or other remote services and resources for payment of their invoices and for placing their orders;
→ specific disinfection protocols have been put in place in all our locations (offices, shops, cashier offices, call centers etc.);
→ split-team shift work, staff segregation and flexible working hours procedures have been initiated to mitigate the risk of an entire team becoming infected and to ensure the continuity of all our services (i.e., fixed internet and data, mobile telephony and data, fixed telephony, cable TV, DTH and online platforms); and
→ all employee travel to countries where there is an increased risk of infection has been cancelled or postponed.
→ we continuously monitor the developments and may scale down our investment projects to allow business continuity.
→

At present the spread and consequences of the outbreak are difficult to predict. A protracted uncertainty and lack of containment of COVID-19 could have several negative consequences for the Group, including:

→ public authority responses to the pandemic, which may lead to outages and disruptions of the Group's operations;
→ economic downturn and widespread recession, diminished business and consumer confidence, inflation and market volatility;
→ increasing levels of unemployment, which may have a direct negative impact on the spending patterns of retail customers, both in terms of subscribed services and usage levels, as well as potentially lead to a higher number of non-paying customers or generally result in service disconnections;
→ cashflow disruptions (at the level of the Group, as well as at the level of the global and regional economies);
→ currency exchange rate fluctuations;
→ reduced availability of credit and increases of interest rates or application of more onerous debt covenants;
→ workforce disruptions due to illness or employee refusal to work on-site due to perceived risk of contagion;

23. SUBSEQUENT EVENTS (CONTINUED)

- → supply chain disruptions; and
- → difficulty in obtaining required licenses and permits due to the limited activity of certain public authorities during the COVID-19 outbreak.

For developments in legal proceedings in which the Company was involved, subsequent to 31 December 2019, please refer to Note 22.

These stand-alone financial statements were authorized for issue by the Board of Directors on 19 March 2020 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Emil Jugaru,	Marius CatalinVarzaru,	Zoltan Teszari,
CEO	*Independent Non-Executive Director*	*Executive Director*	*Independent Non-Executive Director*	*Non-executive Director*	*Non-executive Director*	*President*
____________ _	____________ _	____________ _	____________ _	____________ _	_____________	____________ _

Other information

PROFITS, DISTRIBUTION AND LOSSES

As per the Company's Articles of Association (Article 28), from the profits, shown in the annual accounts, as adopted, the board of directors shall determine which part shall be reserved. Any profits remaining thereafter shall be at the disposal of the general meeting. The board of directors shall make a proposal for that purpose.

Distributions on the shares shall be made to each share equally, irrespective of the class and nominal value of such share. Distributions may be made only insofar as the company's equity exceeds the amount of the paid in and called up part of the issued capital, increased by the reserves which must be kept by virtue of the law.

If a loss was suffered during any one year, the board of directors may resolve to offset such loss by writing it off against a reserve which the company is not required to keep by virtue of the law.

The distribution of profits shall be made after the adoption of the annual accounts, from which it appears that the same is permitted. The board of directors may, with due observance of the policy of the company on reserves and dividends, resolve to make an interim distribution in certain circumstances.

At the proposal of the board of directors or the class A meeting, the general meeting may resolve to make a distribution on shares, which can be either (wholly or partly) in cash or in shares. At the proposal of the board of directors or the class A meeting, the general meeting may resolve that distributions are made in another currency than Euro.

The board of directors may, subject to due observance of the policy of the company on reserves and dividends and with the prior approval of the class A meeting, resolve that distributions to holders of shares shall be made out of one or more reserves.

Dividends and other distributions of profit shall be made payable in the manner and at such date(s) - within four (4) weeks after declaration thereof - and notice thereof shall be given, as the board of directors shall determine. The board of directors may determine that entitled to dividends and other distributions of profits shall be, the shareholders, usufructuaries and pledgees, as the case may be, at a record date within four (4) weeks after notification thereof. A claim of a shareholder for payment of a distribution shall be barred after five years have elapsed.

For details regarding the Company's dividend polcy, please see chapter Dividend Policy from this Annual report.

AUDIT REPORT

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and Part 9 of book 2 of the Dutch civil code for the year ended 31 December 2019 were audited by Ernst & Young Accountants LLP. Their independent auditor's report is included below.

EY
Building a better working world

Independent auditor's report

To: the shareholders and board of directors of Digi Communications N.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 of Digi Communications N.V., based in Bucharest Romania.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Digi Communications N.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and stand-alone statement of financial position as at 31 December 2019
- The following statements for 2019: the consolidated and stand-alone statements of profit or loss and other comprehensive income, the consolidated and stand-alone statements of changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Digi Communications N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Building a better working world

Our audit approach

Our understanding of the business

Digi Communications N.V. is the head of a group of companies active in the telecommunications industry in Romania, Spain, Hungary and Italy. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Materiality	€10,500,000 (2018: €8,700,000)
Benchmark applied	Approximately 2.4% of earnings before interest, taxes, depreciation and amortization (EBITDA)
Explanation	The users of the financial statements of a for-profit entity typically focus on operating performance, particularly profit before tax. In the past years Digi Communications N.V.'s profit before tax heavily fluctuated, resulting from the impact of the discontinuance of operations and other non-recurring transactions. Furthermore, we note that in Digi Communications N.V.'s external communications, EBITDA is commonly used to report on financial performance. Considering these aspects, we have concluded that EBITDA is the most appropriate and stable benchmark for Digi Communications N.V. to base our materiality upon.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of directors that misstatements in excess of €525,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks
In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives and the board of directors. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate appropriate capitalization of expenses and to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in section 2 (Basis of preparation and accounting policies) in the financial statements. We have also used data analysis to identify and address high-risk journal entries.
We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations
We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit reports, and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern
In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Scope of the group audit

Digi Communications N.V. is at the head of a group of entities. Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

All entities that have contributions to consolidated EBITDA exceeding 5% of total are included within our audit scope. As a result, we have used the work of other EY member firms when auditing entities outside the Netherlands. In total the procedures performed for group entities within an audit scope represent approximately 98% of total assets, 96% of revenues and 97% of EBITDA.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit. We included in the audit specialists in the areas of IT, share based payments, income tax, business valuations and financial instrument valuations.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the board of directors board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Following the implementation of IFRS 16 a new key audit matter has been included as compared to previous year. Last year's key audit matter related to the Acquisition of Invitel Távközlési Zrt is no longer included as accounting for the acquisition did not change significantly in 2019.

Risk of inappropriate revenue recognition given multiple sources of revenue and complexity of billing systems (refer to note 19 in the consolidated financial statements).	
Risk	The group recognizes revenue from multiple sources, including rendering of cable TV (CATV) and direct-to-home TV (DTH) subscription services, provision of internet and data communication subscription services (fixed and mobile) and provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services. There is an inherent telecommunications industry risk associated with the recognition of revenue, given the complexity of billing systems, which process large volumes of data, and the impact of changing offerings and pricing models on revenue recognition (such as tariff structures). The group's revenue recognition relies on complex IT systems, comprising of a number of interdependent interfaces and databases.
Our audit approach	We focused our audit on those IT systems and related internal controls that are significant to the group's revenue recognition process. Considering that audit procedures over the IT systems and application controls require specific expertise, we involved our IT specialists in order to assist us in our audit procedures. In addition to IT audit procedures, we have analyzed the group's accounting policy for each revenue stream considering both the substance of the commercial offers that were in force during the year, and the applicable requirements of IFRS as well as the industry practices for each revenue stream and we have verified that the group's accounting policies are implemented consistently. Furthermore, we performed data-analytics on material revenue streams in which we verified that all revenue recognized during the year subsequently resulted in cash receipts. Our analytics did not reveal material exceptions. Finally we obtained confirmations for interconnection partners and performed testing procedures to ensure that cut-off of revenue between 2019 and 2020 is appropriate.
Key observations	We conclude that the revenue for 2019 has been appropriately recognized and disclosed in the financial statements.

Risk of non-compliance with covenants associated with bonds and senior facilities agreements (refer to note 15 in the consolidated financial statements).	
Risk	The availability of adequate funding and whether the group meets its financial covenants are significant to our audit, due to the relatively high leverage of the group. In 2020 RCS & RDS issued new bonds. The group redeemed the entire aggregate principal amount of the 2016 Bond outstanding and also repaid or prepaid other outstanding debt of the Group, including the entire aggregate principal amount of approximately €73.4 million equivalent outstanding under the 2018 Senior Facilities Agreement (SFA) and the principal amount of approximately €88.9 million equivalent outstanding under the 2016 SFA.

Risk of non-compliance with covenants associated with bonds and senior facilities agreements (refer to note 15 in the consolidated financial statements).	
	As of 31 December 2019, management performed covenant calculations in accordance with the requirements of the financing arrangements (including the new bonds) and concluded all covenants are complied with. As for many companies in Europe, the coronavirus impacts the group's activities. The group disclosed their assessment of the impact in note 29 in the consolidated financial statements.
Our audit approach	As part of our audit, we inspected the terms of the SFA and bonds with a particular focus on covenants clauses and perform confirmation procedures with the counterparties. Based on the audited financial information, we tested the group's assessment of compliance with the covenant requirements covering both quantitative and qualitative covenants as at 31 December 2019. We also evaluated management's assessment of continued compliance with the financial covenant requirements for the next year. Given the relevance of EBITDA (earnings before interest tax, depreciation and amortization) in the quantitative covenant calculations, we performed specific procedures to verify appropriate classification of items in EBITDA and on adjustments made to EBITDA, in accordance with the covenant requirements as stated in the SFA and bonds terms. We further assessed the adequacy of the disclosures included in the notes to the consolidated financial statements. We particularly focused on the subsequent event disclosure in respect of covid-19.
Key observations	We concur with management that covenants are complied with as per 31 December 2019 and we conclude the disclosures in the financial statements are appropriate.

Risk of inappropriate accounting for leases under IFRS 16 (refer to note 6 and 16 in the consolidated financial statements).	
Risk	IFRS 16 "Leases", became effective for annual reporting periods beginning on or after 1 January 2019. The application of this new standard has a material impact on the financial statements and the presentation of financial position and results of operations of the Group. The Group has applied the 'modified retrospective approach' and therefore comparative figures have not been restated. We considered this a key audit matter because of the magnitude of amounts involved, management's judgment required in evaluation whether an agreement contains a lease and estimating matters such as discount rates (incremental borrowing rates) and lease terms considering high variety in extension and renewal options.
Our audit approach	We obtained the IFRS 16 lease contracts database and tested it for completeness by reconciling its data to expense ledgers in the financial administration. We selected samples of lease contracts from the lease contracts database for which we verified that input data and assumptions such as lease price and term of the contract are appropriate.

Risk of inappropriate accounting for leases under IFRS 16 (refer to note 6 and 16 in the consolidated financial statements).	
	We also recalculated the lease liabilities, corresponding right-of-use assets, depreciation expense and interest expense. We have involved our experts to assist us in reviewing and challenging management's key assumptions and judgments relating to determination of the discount rates.
Key observations	We conclude that the Company appropriately accounted for IFRS 16 in the financial statements. Additionally, we assess the related disclosures in the financial statements as adequate.

Risk of impairment of property, plant and equipment, right-of-use assets and other non-current intangible assets (refer to note 5, note 6 and note 7 of the consolidated financial statements).	
Risk	At 31 December 2019, property, plant and equipment, right-of-use assets and non-current intangible assets amount to €1,196 million, €198 million and € 269 million respectively, together amounting to approximately 86% of total assets presented in the statement of financial position. Non-current assets other than goodwill require an assessment of triggering events for impairment at each reporting date, whereas goodwill is tested for impairment at least annually. The goodwill impairment tests carried out by management are complex and require significant management judgment. The recoverable amounts of (groups of) cash-generating units (CGUs) have been determined based on discounting of expected future cash flows from continuing use of the CGU's. Management performed the annual impairment tests for goodwill and specific impairment tests for other assets when indicators had been identified.
Our audit approach	Our audit procedures included an assessment of the historical accuracy of management's estimates through retrospective review, evaluating and testing the assumptions, methodologies, the discount rates and other data used by the Company, for example by comparing them to external data. This assessment included support of EY valuation experts. We evaluated the 2020 financial forecast and the solidity of management's financial forecast process. Furthermore, we evaluated management's outlook in the explicit period as well as the long term growth rate, in particular around forecasted revenues, EBITDAs and capital expenditures. Our assessment also included sensitivity analyses. In addition we evaluated management's assessment on potential triggers for impairment for non-current assets other than goodwill and have audited the impairment tests for those type of assets for which a triggering event existed. We assessed the adequacy of the disclosures included in the consolidated financial statements.

Risk of impairment of property, plant and equipment, right-of-use assets and other non-current intangible assets (refer to note 5, note 6 and note 7 of the consolidated financial statements).	
Key observations	We agree with management's conclusions that no other impairments are required and we concluded the disclosures in the consolidated financial statements being proportionate and in accordance with EU-IFRS.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The Group management board report
- The remuneration report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Section 2:135b of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Group management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code and the remuneration report i n accordance with Section 2:135b of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the board of directors as auditor of Digi Communications N.V. as of the audit for the year 2014 and have operated as statutory auditor since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of management and the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern.

Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements. The non-executive members of the board of directors are responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 19 March 2020

Ernst & Young Accountants LLP

signed by G.M.J. Bloetjes

Annex

ANNEX 1

Important Information

Cautionary Note Regarding Forward-Looking

Certain statements in this Report are not historical facts and are forward-looking. Forward- looking statements appear in various locations, including, without limitation, in the sections entitled *"Risk Factors"*, *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and *"Business"*. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Report includes forward- looking information that has been extracted from third-party sources. 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. These risks, uncertainties and other factors include, among other things, those listed in the section entitled "Risk Factors," as well as those included elsewhere in this Report. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward- looking statements. These factors include:

- significant competition in the markets in which we operate;
- rapid technological changes leading to increased competition and the rendering of our technologies or services obsolete;
- our capital expenditure not being able to generate a positive return or a significant reduction in costs or promote the growth of our business;
- deterioration of the general internal economic, political and social conditions in our principal countries of operation;
- continued uncertainties, challenging conditions in the global economy or volatile credit markets;
- currency transactional and translation risks associated with exchange rate fluctuations;
- a systems failure or shutdown in our networks;
- our ability to use Intelsat's and Telenor's satellites to broadcast our DTH services and failure to find a commercially acceptable alternative in a reasonable amount of time;
- difficulty in obtaining adequate managerial and operational resources as a result of our rapid growth and expansion in new areas of business;
- our ability to attract and retain key personnel without whom we may not be able to manage our business effectively;
- our ability to attract new customers and retain existing customers if we do not maintain or improve our reputation for quality of service;
- continued demand for cable TV and telecommunications products and services in Romania and Hungary;
- our ability to retain or increase our subscriber base and increasing costs of operations if we cannot acquire or retain content or programming rights or do so at competitive prices;
- a decrease in our ARPU figures as a result of our business strategy;
- failure to manage customer churn;
- our insurance not adequately covering all potential losses, liabilities and damage related to our business and certain risks being uninsured or not insurable;

- problems with and interruptions to our billing and credit control systems that our business relies upon;
- discontinuing of products or services by terminating contracts with, or charging of non-competitive prices by our current hardware, software and service suppliers;
- volatility in the cost of electricity we supply to our customers;
- our dependence on various intellectual property rights that we license from or that may be claimed by third parties;
- our dependence on our interconnection, roaming and MVNO arrangements with other telecommunications operators and third party network providers, over which we have no direct control;
- concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunication towers;
- leakage of sensitive customer data in violation of laws and regulations, and any other failure to fully comply with applicable data protection legislation, resulting in fines, loss of reputation and customer churn;
- undertaking future acquisitions on an opportunistic basis;
- downgrading of our credit ratings by an international rating agency;
- changes to IFRS standards for lease accounting and revenue recognition;
- changes in the determination of our tax residency;
- claims relating to breaches of competition law and investigations by competition authorities to which we may have been and may continue to be subject;
- our failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, which could result in substantial additional compliance costs or various sanctions or court judgments;
- difficulty in obtaining required licenses, permits or other authorisations to operate our existing network, and any subsequent amendment, revocation, suspension, or termination of licenses and permits obtained;
- disruption of service and additional expenses incurred as a result of being required to move some of our networks which are based on contracts and which may be terminated;
- inadvertent infringement of the intellectual property rights of others, which could lead to liability for infringements in relation to information disseminated through our network, protracted litigation and, in certain instances, loss of access to transmission technology or content;
- variation in payments related to copyrights;
- adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations;
- major litigation with the Antena Group and other parties and unfavorable court decisions;
- failure to comply with anti-corruption laws or allegations thereof;
- other contractual claims, complaints, litigation and negative publicity therefrom;
- higher vulnerability of the economies of the countries where we operate to fluctuations in the global economy;
- social, political and military conflicts in the region of our operations;
- political and economic uncertainty and risk resulting from the UK’s vote to leave the European Union;
- difficult business climate as a result of corruption in some of the markets where we operate;
- rapid or unforeseen economic or political changes characteristic of emerging markets such as the markets in which we operate;
- downgrading of Romania’s or Hungary’s credit ratings by an international rating agency;
- Romania’s difficulties related to its integration with the European Union and Hungary’s repeated backlashes against the European Union;
- less developed legal and judicial systems in some of our markets of operation;
- difficulty of service of process in, and enforcement of judgments rendered by courts of, the United States and the United Kingdom;
- our substantial leverage and debt servicing obligations;
- debt covenants that restrict our ability to finance our future operations and capital needs and to pursue business opportunities and activities;
- impairment of our ability to draw funds under the Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement;
- the significant amount of cash required to service our debt and sustain our operations and the fact that our ability to generate cash depends on many factors beyond our control and we may not be able to generate sufficient cash to service our debt;
- our inability to refinance maturing debt on terms that are as favorable as those from which we previously benefited or on terms that are acceptable to us or at all;
- our exposure to unexpected risk and potential losses relating to derivative transactions;
- the other factors discussed in more detail under “Risk Factors”; and

- factors that are not known to us at this time.

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

Any forward-looking statements are only made as of the date of this Report. Accordingly, we do not intend, and 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.

Presentation of Financial and Other Information

Presentation of Financial Information

The financial information presented in this Report is, unless otherwise indicated, the historical consolidated financial information for the Group. DIGI is the holding company for the Group and holds the majority of the outstanding shares of RCS & RDS. DIGI has no significant operations and has not engaged in any significant activities other than financing activities relating to the Group and acting as its holding company.

Included herein are the consolidated financial statements of the Group as at and for the year ended December 31, 2017, prepared in accordance with the IFRS as adopted by the EU (the "Annual Financial Statements").

The Group's presentation currency is the euro, as further described in the sections entitled *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Capital Structure—Exchange Rates".* Accordingly, the Financial Statements included herein are presented in euros.

We currently have operations in Romania, Hungary, Spain and Italy. In Note 4 of the Annual Financial Statements, as part of our "Other" segment we reported (i) revenue from, and expenses of, our (a) Italian operations and (b) Discontinued Operations, in each case, for the applicable periods and (ii) expenses of the Company. In this Report, unless otherwise stated, as part of our "Other" segment we only present the results of our Italian operations, for revenue, and the results of our Italian operations and expenses of the Company, for operating expenses.

Operating and Market Data

RGUs and ARPU

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 post-paid services, each separate SIM on a valid contract; (b) 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 amount of traffic generated.

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. In the periods under review, such non-recurring and one-off items represent gain/(loss) from sale of discontinued operations. 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 labeled “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.

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.

ANNEX 2

Corporate Governance Compliance Statement as per the BSE CGC

Ref.	Code provisions	Compliance as at 19 March 2020	Note
A.1.	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.	YES	While the Board of Directors is not formally regulated by separate terms of reference, the composition, activity, functions and responsibilities of the Board of Directors of the Company are provided in detail within the Articles (in force since the 21 April 2017). (*See for reference Chapter VII (from clause 15 to 23) from the Articles*)
A.2.	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	YES	Detailed provisions regarding the management of the conflict of interest matters regarding the Board of Directors are included in the following Company corporate regulations: clause 18 from the Articles, the Code of Conduct of the Company (applicable as of 14 May 2017), the Conflict of Interest Policy applicable to Board members (applicable as of 14 May 2017), and the Terms of Reference of the Audit Committee (applicable as of 14 May 2017).
A.3.	The Board of Directors or the Supervisory Board should have at least five members.	YES	The Board of Directors of the Company has 7 members.
A.4.	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non- executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice.	YES	5 members of the Board of Directors (out of 7) are non-executive. 2 members of the Board of Directors (out of 7) are independent non-executive directors – Bogdan Ciobotaru and Piotr Rymaszewski. The policy on the Profile for Non-Executive Directors provides for certain rules and criteria in connection with the non-executive directors *(See for reference in this respect the Company's website at http://www.digi-communications.ro/en/corporate-governance).*
A.5.	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	YES	_

Ref.	Code provisions	Compliance as at 19 March 2020	Note
A.6.	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	YES	–
A.7.	The company should appoint a Board secretary responsible for supporting the work of the Board.	YES	(*See for reference in this respect Part 3 from the IPO Prospectus from 26 April 2017 – page 57*).
A.8.	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	YES	According to the Terms of Reference of the Audit Committee, the Audit Committee performs such evaluation. The valuation of the year 2019 was presented by the Audit Committee to the Non-executive and the Executive members of the Board during the meeting from 18 March 2020.
A.9.	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	YES	*(See for reference Section "Corporate Governance" from this report)*
A.10.	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	YES	*(See for reference Section "Corporate Governance" from this report)*
A.11.	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the Nomination Committee should be independent.	YES (PARTIALLY)	The directors are appointed following a nomination made by the Class A Meeting, instead of a nomination proposal by the nomination committee established by the Board of Directors and consisting of non-executive directors. The good corporate governance sought by the BSE CGC is achieved by applying this nomination procedure, as the Class A Meeting takes into account that the Board of Directors should be composed such that the requisite expertise, background, competences and—as regards certain of the non-executive directors—independence are present for them to carry out their duties properly.
B.1.	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one	YES (PARTIALLY)	The Audit Committee of the Company is formed by 3 non-executive members.

Ref.	Code provisions	Compliance as at 19 March 2020	Note
	member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.		The Audit Committee is formed by qualified individuals, with auditing, financial and management experience. 2 out of the 3 members of the Audit Committee are independent non-executive Board members.
B.2.	The Audit Committee should be chaired by an independent non-executive member.	NO	The Audit Committee is not an independent director, as required by the BSE CGC. The shareholders of the Company have approved Marius Varzaru as the chairman of the Audit Committee due to his audit and accounting experience prior to joining the Company, and due to his extensive knowledge of the Company's and its affiliates' operations. Nonetheless, the good corporate governance sought by the BSE CGC is achieved by having the majority of the Audit Committee members being independent and high standard terms of reference being applied to the work of the Audit Committee.
B.3.	Among its responsibilities, the Audit Committee should undertake an annual assessment of the system of internal control.	YES	*(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at http://www.digi-communications.ro/en/corporate-governance)*
B.4.	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	YES	*(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at http://www.digi-communications.ro/en/corporate-governance and the description of the Audit Committee's activity in 2019 in section "Corporate Governance" from this report)*
B.5.	The Audit Committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	YES	This assessment was performed by the Audit Committee and the other non-executive members of the Board of Directors on a case by case basis.
B.6.	The Audit Committee should evaluate the efficiency of the internal control system and risk management system.	YES	This assessment was performed by the Audit Committee during the meetings that have taken place in 2019. *(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at http://www.digi-communications.ro/en/corporate-governance and the description of the Audit Committee's activity in 2019 in section "Corporate Governance" from this report)*

Ref.	Code provisions	Compliance as at 19 March 2020	Note
B.7.	The Audit Committee should monitor the application of statutory and generally accepted standards of internal auditing. The Audit Committee should receive and evaluate the reports of the internal audit team.	YES	This assessment was performed by the Audit Committee during the meetings that have taken place in 2019. *(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at http://www.digi-communications.ro/en/corporate-governance and the description of the Audit Committee's activity in 2019 in section "Corporate Governance" from this report)*
B.8.	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards	YES	The Audit Committee submitted to the Board a summary on the Audit Committee's activity in 2019, comprising main findings. Other ad-hoc reporting was performed during the year. Also, whenever necessary during the year, the Audit Committee reported to the Board of Directors particular matters that called for the Board of Directors' attention, care or decision.
B.9.	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	YES	There are numerous provisions in the Articles and in the other corporate governance documents of the Company precluding from any preferential treatment between the Company and one shareholder with regard to entering into transactions and agreements. The Board of Directors of the Company has also adopted a Policy on Bilateral Contacts with the Shareholders. *(See for reference in this respect the Company's website at http://www.digi-communications.ro/en/corporate-governance).*
B.10.	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	YES (PARTIALLY)	Formally, there is no separate policy regarding the transactions that the Company can enter into. However, the Articles contain for detailed provisions regarding the approval requirements for the entering by the Company into agreements and transactions (*for example, see for reference clause 19 from the Articles*).

Ref.	Code provisions	Compliance as at 19 March 2020	Note
B.11.	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	YES	As of 1 April 2018, the internal audit function has been ensured by a group of selected individuals lead by an appointed Internal Audit Director of the Company.
B.12.	To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	YES	The relationship between the internal audit function and the Audit Committee is described and regulated in detail in the Terms of Reference of the Audit Committee *(See for reference in this respect the Company's website at http://www.digi-communications.ro/en/corporate-governance).*
C.1.	The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. […] Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.	YES	The Company has approved a Remuneration Policy and the Terms of Reference of the Remuneration Committee *(See for reference in this respect the Company's website at http://www.digi-communications.ro/en/corporate-governance).*
D.1.	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	YES	Currently, the IR is a cross-functional unit covered by the PR function, by the Chief Financial Officers of the Company and by the Company Secretary.Additionally, the Company receive consultancy from an experienced external IR expert.
D.1.1.	Principal corporate regulations: the articles of association, general shareholders' meeting procedures.	YES	The Articles contain detailed provisions on the corporate rules of the Company (including regarding the procedures of the general shareholders' meeting).

Ref.	Code provisions	Compliance as at 19 March 2020	Note
D.1.2.	Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	YES	(*See for reference in this respect section"Corporate Governance" from this report*).
D.1.3.	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non- compliance with the present Code;	YES	All such (current and periodic) reports are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares*.
D.1.4.	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	YES	-
D.1.5.	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	N/A	The Company properly informed its investors and its shareholders on any information in connection with its activity of relevance to the market. The Company does not deem that any of the reports that it issued to the market fits in any of the scenarios provided at this point D.1.5. For more details regarding all such (current and periodic) reports, see for reference the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares*
D.1.6.	The name and contact data of a person who should be able to provide knowledgeable information on request;	YES	Dan Ionita (Co-Chief Executive Officer), Smaranda Streanga (Co-Chief Executive Officer), Teodora Buga (Senior Bussiness Analyst) and Eliza Popa (Secretary of the Board) - *ipo.relations@digi-communications.ro*
D.1.7.	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	YES	All such (current and periodic) reports are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations.http://www.digi-communications.ro/en/investor-relations/shares*
D.2.	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.	YES	The Reserves and Dividend Policy of the Company is accessible on the Company's website – *http://www.digi-communications.ro/en/see-file/Digi-Communications-NV-Dividend-policy-ENG.pdf*.

Ref.	Code provisions	Compliance as at 19 March 2020	Note
			Also, regarding the dividend policy, see for reference the Company's disclosures in section "Dividend Policy" from the IPO Prospectus from 26 April 2017 (page 185).
D.3.	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.	YES (PARTIALLY)	Neither the Company nor the Group subsidiaries have adopted formal policies with respect to forecasts. Also, forecasts are not made with a periodical regularity. However, the Company and/or its Group subsidiaries perform either *ad-hoc* and/or occasional forecasting based on relevant assumptions. Such forecasts (such as the business plans) are prepared either upon request from external partners (e.g., lending banks, regulatory authorities, etc.) or for internal analytical purposes (e.g., for assessing CAPEX previsions, etc.).
D.4.	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next general meeting of shareholders.	YES	Clause 32 from the Articles of the Company provides for the freedom of any shareholder to attend a general shareholders' meeting. For more details and the conditions applicable to any shareholder's participation and voting, see for reference all provisions from clause 32 onwards from the Articles.
D.5.	The external auditors should attend the shareholders' meetings when their reports are presented there.	N/A	The Company does not restrict the participation of the external auditors at the general shareholders' resolutions resolving upon the external auditors' report.
D.6.	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	YES	With respect to the annual results for 2019, see for reference Section Risk management, risks and internal control systems and Annex 4 to this report.
D.7.	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	NO	According to its corporate documentation, the Company publishes the annual results and the yearly management report on the BSE, AFM, on its website and on a national and international online newspaper, as well as the result of the general shareholders' meeting resolutions within the shortest deadlines.
D.8.	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	YES	All such periodic reports in both Romanian and English languages are accessible on the Company's website - *http://www.digi-communications.ro/en/investor-relations/shares*.
D.9.	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these	YES	All such presentations are accessible are accessible on the Company's website - *http://www.digi-*

Ref.	Code provisions	Compliance as at 19 March 2020	Note
	occasions should be published in the IR section of the company website at the time of the meetings/conference calls.		*communications.ro/en/investor-relations/shares/financial-results-presentations/investor-presentations*.
D.10.	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	N/A	The Company occasionally supports forms of sports, cultural, religious, educational or artistic expressions.

ANNEX 3

Corporate Governance Compliance Statement as per the Dutch Corporate Governance Code (DCGC)

Ref.	Code provisions	Compliance	Explanation
1.1.1	**Long-term value creation strategy:** The executive directors should develop a view on long-term value creation by the company and its affiliated enterprise and should formulate a strategy in line with this. Depending on market dynamics, it may be necessary to make short-term adjustments to the strategy. When developing the strategy, attention should in any event be paid to the following: i. the strategy's implementation and feasibility; ii. the business model applied by the company and the market in which the company and its affiliated enterprise operate; iii. opportunities and risks for the company; iv. the company's operational and financial goals and their impact on its future position in relevant markets; v. the interests of the stakeholders; and vi. any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.	YES	—
1.1.2	**Involvement of the non-executive directors:** The executive directors should engage the non-executive directors early on in formulating the strategy for realizing long-term value creation. The executive directors render account to the non-executive directors of the strategy and the explanatory notes to that strategy.	YES	—
1.1.3	**Role of the non-executive directors:** The non-executive directors should supervise the manner in which the executive directors implement the long-term value creation strategy. The non-executive directors should regularly discuss the strategy, the implementation of the strategy and the principal risks associated with it. In the report drawn up by the non-executive directors, an account is given of its involvement in the establishment of the strategy, and the way in which it monitors its implementation.	YES	—

Ref.	Code provisions	Compliance	Explanation
1.1.4.	**Accountability of the executive directors:** In the management report, the executive directors should give a more detailed explanation of its view on long-term value creation and the strategy for its realization, as well as describing which contributions were made to long-term value creation in the past financial year. The executive directors should report on both the short-term and long-term developments.	YES	___
1.2.1	**Risk assessment:** The executive directors should identify and analyze the risks associated with the strategy and activities of the company and its affiliated enterprise. It is responsible for establishing the risk appetite, and also the measures that are put in place in order to counter the risks being taken.	YES	___
1.2.2	**Implementation:** Based on the risk assessment, the executive directors should design, implement and maintain adequate internal risk management and control systems. To the extent relevant, these systems should be integrated into the work processes within the company and its affiliated enterprise it and should be familiar to those whose work they are relevant to.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
1.2.3	**Monitoring of effectiveness:** The executive directors should monitor the operation of the internal risk management and control systems and should carry out a systematic assessment of their design and effectiveness at least once a year. This monitoring should cover all material control measures relating to strategic, operational, compliance and reporting risks. Attention should be given to observed weaknesses, instances of misconduct and irregularities, indications from whistleblowers, lessons learned and findings from the internal audit function and the external auditor. Where necessary, improvements should be made to internal risk management and control systems.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
1.3.1	**Appointment and dismissal:** The executive directors both appoints and dismisses the senior internal auditor. Both the appointment and the dismissal of the senior internal auditor should be submitted to the non-executive directors for approval, along with the recommendation issued by the audit committee.	YES	
1.3.2	**Assessment of the internal audit function:** The executive directors should assess the way in which the internal audit function fulfils its responsibility annually, taking into account the audit committee's opinion.	YES	

Ref.	Code provisions	Compliance	Explanation
1.3.3	**Internal audit plan:** The internal audit function should draw up an audit plan, involving the executive directors, the audit committee and the external auditor in this process. The audit plan should be submitted to the executive directors, and then to the non-executive directors, for approval. In this internal audit plan, attention should be paid to the interaction with the external auditor.	YES	
1.3.4	**Performance of work:** The internal audit function should have sufficient resources to execute the internal audit plan and have access to information that is important for the performance of its work. The internal audit function should have direct access to the audit committee and the external auditor. Records should be kept of how the audit committee is informed by the internal audit function.	YES	
1.3.5	**Reports of findings:** The internal audit function should report its audit results to the executive directors and the essence of its audit results to the audit committee and should inform the external auditor. The research findings of the internal audit function should, at least, include the following: i. any flaws in the effectiveness of the internal risk management and control systems; ii. any findings and observations with a material impact on the risk profile of the company and its affiliated enterprise; and iii. any failings in the follow-up of recommendations made by the internal audit function.	YES	
1.3.6	**Absence of an internal audit department:** If there is no separate department for the internal audit function, the non-executive directors will assess annually whether adequate alternative measures have been taken, partly on the basis of a recommendation issued by the audit committee and will consider whether it is necessary to establish an internal audit department. The non-executive directors should include the conclusions, along with any resulting recommendations and alternative measures, in the report of the non-executive directors.	N/A	___
1.4.1	**Accountability to the non-executive directors:** The executive directors should discuss the effectiveness of the design and operation of the internal risk management and control systems referred to in best practice provisions 1.2.1 to 1.2.3 inclusive with the audit committee and render account of this to the non-executive directors.	YES	___

Ref.	Code provisions	Compliance	Explanation
1.4.2	**Accountability in the management report:** In the management report, the executive directors should render account of: i. the execution of the risk assessment, with a description of the principal risks facing the company in relation to its risk appetite. These risks may include strategic, operational, compliance and reporting risks; ii. the design and operation of the internal risk management and control systems during the past financial year; iii. any major failings in the internal risk management and control systems which have been observed in the financial year, any significant changes made to these systems and any major improvements planned, along with a confirmation that these issues have been discussed with the audit committee and the non-executive directors; and iv. the sensitivity of the results of the company to material changes in external factors.	YES	—
1.4.3	**Statement by the executive directors:** The executive directors should state in the management report, with clear substantiation, that: i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems; ii. the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies; iii. based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and iv. the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.	YES	—
1.5.1	**Duties and responsibilities of the audit committee:** The audit committee undertakes preparatory work for the non-executive directors' decision-making regarding the supervision of the integrity and quality of the company's financial reporting and the effectiveness of the company's internal risk management and control systems. Among other things, it focuses on monitoring the executive directors with regard to:	YES	—

Ref.	Code provisions	Compliance	Explanation
	i. relations with, and compliance with recommendations and following up of comments by, the internal and external auditors; ii. the funding of the company; iii. the application of information and communication technology by the company, including risks relating to cybersecurity; and iv. the company’s tax policy.		
1.5.2	**Attendance of the executive directors, internal auditor and external auditor at audit committee consultations:** The chief financial officer, the internal auditor and the external auditor should attend the audit committee meetings, unless the audit committee determines otherwise. The audit committee should decide whether and, if so, when the chairman of the executive directors should attend its meetings.	YES	___
1.5.3	**Audit committee report:** The audit committee should report to the non-executive directors on its deliberations and findings. This report must, at least, include the following information: i. the methods used to assess the effectiveness of the design and operation of the internal risk management and control systems referred to in best practice provisions 1.2.1 to 1.2.3, inclusive; ii. the methods used to assess the effectiveness of the internal and external audit processes; iii. material considerations regarding financial reporting; iv. the way material risks and uncertainties referred to in best practice provision 1.4.3 have been analysed and discussed, along with a description of the most important findings of the audit committee.	YES	___
1.5.4	**Non-executive directors:** The non-executive directors should discuss the items reported on by the audit committee as per of best practice provision 1.5.3.	YES	___
1.6.1	**Functioning and appointment:** The audit committee should report annually to the non-executive directors on the functioning of, and the developments in, the relationship with the external auditor. The audit committee should advise the non-executive directors regarding the	YES	___

Ref.	Code provisions	Compliance	Explanation
	external auditor's nomination for appointment/reappointment or dismissal and should prepare the selection of the external auditor. The audit committee should give due consideration to the executive directors' observations during the aforementioned work. Also, on this basis, the non-executive directors should determine its nomination for the appointment of the external auditor to the general meeting.		
1.6.2	**Informing the external auditor about their functioning:** The non-executive directors should give the external auditor a general idea of the content of the reports relating to their functioning.	YES	___
1.6.3	**Engagement:** The audit committee should submit a proposal to the non-executive directors for the external auditor's engagement to audit the financial statements. The executive directors should play a facilitating role in this process. In formulating the terms of engagement, attention should be paid to the scope of the audit, the materiality to be used and remuneration for the audit. The non-executive directors should resolve on the engagement.	YES	___
1.6.4	**Accountability:** The main conclusions of the non-executive directors regarding the external auditor's nomination and the outcomes of the external auditor selection process should be communicated to the general meeting.	YES	___
1.6.5	**Departure of the external auditor:** The company should publish a press release in the event of the early termination of the relationship with the external audit firm. The press release should explain the reasons for this early termination.	N/A	___
1.7.1	**Provision of information to the external auditor:** The executive directors should ensure that the external auditor will receive all information that is necessary for the performance of his work in a timely fashion. The executive directors should give the external auditor the opportunity to respond to the information that has been provided.	YES	___
1.7.2	**Audit plan and external auditor's findings:** The external auditor should discuss the draft audit plan with the executive directors before presenting it to the audit committee. The audit committee should annually discuss with the external auditor: i. the scope and materiality of the audit plan and the principal risks of the annual reporting identified by the external auditor in the audit plan; and	YES	___

Ref.	Code provisions	Compliance	Explanation
	ii. based also on the documents from which the audit plan was developed, the findings and outcomes of the audit work on the financial statements and the management letter.		
1.7.3	**Publication of financial reports:** The audit committee should determine whether and, if so, how the external auditor should be involved in the content and publication of financial reports other than the financial statements.	YES	___
1.7.4	**Consultations with the external auditor outside the executive directors' presence:** The audit committee should meet with the external auditor as often as it considers necessary, but at least once per year, outside the presence of the executive directors.	YES	___
1.7.5	**Examination of discussion points arising between the external auditor and the executive directors:** The non-executive directors should be permitted to examine the most important points of discussion arising between the external auditor and the executive directors based on the draft management letter or the draft audit report.	YES	___
1.7.6	**External auditor's attendance of non-executive directors' meetings:** The external auditor should in any event attend the meeting of the non-executive directors at which the report of the external auditor on the audit of the financial statements is discussed.	YES	___
2.1.1	**Profile:** The non-executive directors should prepare a profile, taking account of the nature and the activities of the enterprise affiliated with the company. The profile should address: i. the desired expertise and background of the non-executive directors; ii. the desired diverse composition of the non-executive directors, referred to in best practice provision 2.1.5; iii. the size of the non-executive directors; and iv. the independence of the non-executive directors. The profile should be posted on the company's website	YES	___
2.1.2	**Personal information:** The following information about each non-executive directors should be included in the report of the non-executive directors: i. gender;	YES	___

Ref.	Code provisions	Compliance	Explanation
	ii. age; iii. nationality; iv. principal position; v. other positions, in so far as they are relevant to the performance of the duties of the non-executive directors; vi. date of initial appointment; and vii. current term of office.		
2.1.3	**Executive committee:** If the executive directors work with an executive committee, the executive directors should take account of the checks and balances that are part of the two-tier system. This means, among other things, that the executive directors' expertise and responsibilities are safeguarded and the non-executive directors are informed adequately. The non-executive directors should supervise this whilst paying specific attention to the dynamics and the relationship between the executive directors and the executive committee. In the management report, account should be rendered of: i. the choice to work with an executive committee; ii. the role, duty and composition of the executive committee; and iii. how the contacts between the non-executive directors and the executive committee have been given shape.	N/A	
2.1.4	**Expertise:** Each non-executive director and each executive director should have the specific expertise required for the fulfilment of his duties. Each non-executive director should be capable of assessing the broad outline of the overall management.	YES	—
2.1.5	**Diversity policy:** The non-executive directors should draw up a diversity policy for the composition of the executive directors, the non-executive directors and, if applicable, the executive committee. The policy should address the concrete targets relating to diversity and the diversity aspects relevant to the company, such as nationality, age, gender, and education and work background.	NO	The Company does not have a diversity policy in relation to the non-executive directors. The desired expertise and background of the candidates are decisive when non-executive directors are appointed or reappointed. The members of the board, as well as all employees of the Company and of the group companies are recruited and promoted primarily based on professional achievements, experience and performance within the group, irrespective of gender, age, origin or any other personal or social feature. Although the Company does not have in place a formal diversity policy, in practice, the Company has not and does not intend to discriminate between potential candidates for any available board position due to their gender, age, origin or any other personal or social feature.

Ref.	Code provisions	Compliance	Explanation
2.1.6	**Accountability about diversity:** The corporate governance statement should explain the diversity policy and the way that it is implemented in practice, addressing: i. the policy objectives; ii. how the policy has been implemented; and iii. the results of the policy in the past financial year. If the composition of the executive directors and the non-executive directors diverge from the targets stipulated in the company's diversity policy and/or the statutory target for the male/female ratio, if and to the extent that this is provided under or pursuant to the law, the current state of affairs should be outlined in the corporate governance statement, along with an explanation as to which measures are being taken to attain the intended target, and by when this is likely to be achieved.	NO	The Company does not have a diversity policy. See explanation to principle 2.1.5. above.
2.1.7	**Independence of the non-executive directors:** The composition of the non-executive directors is such that the members are able to operate independently and critically vis-à-vis one another, the executive directors, and any particular interests involved. In order to safeguard its independence, the non-executive directors are composed in accordance with the following criteria: i. any one of the criteria referred to in best practice provision 2.1.8, sections i. to v. inclusive should be applicable to at most one non-executive director; ii. the total number of non-executive directors to whom the criteria referred to in best practice provision 2.1.8 are applicable should account for less than half of the total number of non-executive directors; and iii. for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is at most one non-executive director who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.	NO	The Company has five non-executive directors, of which three do not meet the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and continued in 2019 and will last at least until the expiry of the mandate cycle of the present members of the board. When appointing the non-executive members of the board, the general shareholders meeting from 21 April 2017 and 30 April 2019 aimed to set-up a board made up from selected individuals with most extensive experience and insight into the group. Therefore, Mr. Teszari Zoltan was appointed as the non-executive director and as the President of the board, while Mr. Marius Varzaru (current general manager of Digi Spain) and Mr. Emil Jugaru (Head of RCS & RDS Sales and Customer Care Business Unit) were appointed as non-executive members of the board. Given the particularity of the business and operations of our group companies and the need for business continuity and internal and industry awareness, the general shareholders meeting from 21 April 2017 and 30 April 2019 gave priority to these functionality needs. However, the amended articles of association of the Company and the corporate governance documents of the Company establish clear and detailed rules regarding independent behavior and the management of any conflict of interest that any member of the board, and particularly all non-executive members of the board are strictly required to comply with.
2.1.8	**Independence of non-executive directors:** A non-executive director is not independent if they or their spouse, registered partner or life	NO	See explanation to best practices 2.1.7. above.

Ref.	Code provisions	Compliance	Explanation
	companion, foster child or relative by blood or marriage up to the second degree: i. has been an employee or member of the management board of the company (including associated companies as referred to in Section 5:48 of the Financial Supervision Act (*Wet op het financieel toezicht/Wft*)) in the five years prior to the appointment; ii. receives personal financial compensation from the company, or a company associated with it, other than the compensation received for the work performed as a non-executive director and in so far as this is not in keeping with the normal course of business; iii. has had an important business relationship with the company or a company associated with it in the year prior to the appointment. This includes in any event the case where the non-executive director, or the firm of which he is a shareholder, partner, associate or adviser, has acted as adviser to the company (consultant, external auditor, civil notary or lawyer) and the case where the non-executive director is a management board member or an employee of a bank with which the company has a lasting and significant relationship; iv. is a member of the management board of a company in which a member of the management board of the company which he supervises is a non-executive director; v. has temporarily performed management duties during the previous twelve months in the absence or incapacity of management board members; vi. has a shareholding in the company of at least ten percent, taking into account the shareholding of natural persons or legal entities cooperating with him or her on the basis of an express or tacit, verbal or written agreement; vii. is a member of the management board or supervisory board – or is a representative in some other way – of a legal entity which holds at least ten percent of the shares in the company, unless the entity is a group company.		

Ref.	Code provisions	Compliance	Explanation
2.1.9	**Independence of the chairman of the board:** The chairman of the board should not be a former member of the board of the company and should be independent within the meaning of best practice provision 2.1.8.	NO	The president (chairman) of the board does not meet the independence criteria contained in the DCGC. Mr. Zoltan Teszari's appointment as the president was voted by the general shareholders meeting of the Company from 21 April 2017 and will last during the entire period for which Mr. Teszari Zoltan will be a member of the board. The president is the principal shareholder of the Company. The president is not a member of the audit committee.
2.1.10	**Accountability regarding non-executive directors' independence:** The report of the non-executive directors should state that, in the opinion of the non-executive directors, the independence requirements referred to in best practice provisions 2.1.7 to 2.1.9 inclusive have been fulfilled and, if applicable, should also state which non-executive director(s), if any, it does not consider to be independent.	NO	The report of the non-executive directors only states which non-executive directors are not independent under the Bucharest Stock Exchange Corporate Governance Code.
2.2.1	**Appointment and reappointment periods – executive directors:** An executive director is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time, which reappointment should be prepared in a timely fashion. The diversity objectives from best practice provision 2.1.5 should be considered in the preparation of the appointment or reappointment.	YES	
2.2.2	**Appointment and reappointment periods – non-executive directors:** A non-executive director is appointed for a period of four years and may then be reappointed once for another four-year period. The non-executive director may then subsequently be reappointed again for a period of two years, which appointment may be extended by at most two years. In the event of a reappointment after an eight-year period, reasons should be given in the report of the non-executive directors. In any appointment or reappointment, the profile referred to in best practice provision 2.1.1 should be observed.	NO	The president (chairman) of the board may be reappointed for an indefinite number of terms. For details regarding the expected applicability period of and rationale for the deviation, please see the explanations from above.
2.2.3	**Early retirement:** A non-executive director or an executive director should retire early in the event of inadequate functioning, structural incompatibility of interests, and in other instances in which this is deemed necessary by the non-executive directors. In the event of the early retirement of an executive director or non-executive director, the company should issue a press release mentioning the reasons for the departure.	YES	___
2.2.4	**Succession:** The non-executive directors should ensure that the company has a sound plan in place for the succession of executive directors and	NO	The Company has a retirement schedule. However, in light of his position as principal shareholder of the Company and with the General Meeting of

Ref.	Code provisions	Compliance	Explanation
	non-executive directors that is aimed at retaining the balance in the requisite expertise, experience and diversity. Due regard should be given to the profile referred to in best practice provision 2.1.1 in drawing up the plan for non-executive directors. The non-executive directors should also draw up a retirement schedule in order to avoid, as much as possible, non-executive directors retiring simultaneously. The retirement schedule should be published on the company's website.		shareholders' approval, the retirement schedule will not be applicable to the President (chairman) of the Board. Mr. Zoltan Teszari, the main shareholder of the Company, holds the position of President of the Board. According to the Rotation Schedule for the non-executive directors of the Company established by the Board pursuant to article 15 paragraph 6 of the Articles on 15 May 2017, Mr. Zoltan Teszari is expressly excluded from the agreed rotation schedule.
2.2.5	**Duties of the selection and appointment committee:** The selection and appointment committee should prepare the non-executive directors' decision-making and report to the non-executive directors on its deliberations and findings. The selection and appointment committee should in any event focus on: i. drawing up selection criteria and appointment procedures for executive directors and non-executive directors; ii. periodically assessing the size and composition of the executive directors and the non-executive directors, and making a proposal for a composition profile of the non-executive directors; iii. periodically assessing the functioning of individual executive directors and non-executive directors, and reporting on this to the non-executive directors; iv. drawing up a plan for the succession of executive directors and non-executive directors; v. making proposals for appointments and reappointments; and vi. supervising the policy of the executive directors regarding the selection criteria and appointment procedures for senior management.	NO	The Company does not have a nomination committee (and did not allocate such tasks to another board committee). The Company has decided not to set up a nomination committee as referred to in the DCGC, since the general meeting of holders of class A shares as a whole will perform the duties of such nomination.
2.2.6	**Evaluation by the non-executive directors:** At least once per year, outside the presence of the executive directors, the non-executive directors should evaluate its own functioning, the functioning of the various committees of the non-executive directors and that of the individual non-executive directors and should discuss the conclusions that are attached to the evaluation. In doing so, attention should be paid to:	NO	However, due valuation by the Audit Committee and the Remuneration Committee of their own activity is performed on yearly basis,

Ref.	Code provisions	Compliance	Explanation
	i. substantive aspects, the mutual interaction and the interaction with the executive directors; ii. events that occurred in practice from which lessons may be learned; and iii. the desired profile, composition, competencies and expertise of the non-executive directors.		
2.2.7	**Evaluation of the executive directors:** At least once per year, outside the presence of the executive directors, the non-executive directors should evaluate both the functioning of the executive directors as a whole and that of the individual executive directors and should discuss the conclusions that must be attached to the evaluation, such also in light of the succession of executive directors. At least once annually, the executive directors, too, should evaluate its own functioning as a whole and that of the individual executive directors.	NO	However, due valuation of the Executives Directors' activity is performed on an yearly basis by the Audit Committee and the Remuneration Committee.
2.2.8	**Evaluation accountability:** The non-executive directors' report should state: i. how the evaluation of the non-executive directors, the various committees and the individual non-executive directors has been carried out; ii. how the evaluation of the executive directors and the individual executive directors has been carried out; and iii. what has been or will be done with the conclusions from the evaluations.	NO	See explanation to best practices 2.2.6 and 2.2.7 above.
2.3.1	**Non-executive director's terms of reference:** The division of duties within the non-executive directors and the procedure of the non-executive directors should be laid down in terms of reference. The non-executive director's terms of reference should include a paragraph dealing with its relations with the executive directors, the general meeting, the employee participation body (if any) and the executive committee (if any). The terms of reference should be posted on the company's website.	NO	There are no separate rules in place for the Non-executive directors. However, Chapter VII from the Articles include detailed provisions and rules regarding the board, including on the composition, remuneration, the allocation of tasks and duties among the executive directors and the non-executive directors, on the decision-making process and the management of any conflict of interest.
2.3.2	**Establishment of committees:** If the board consists of more than four non-executive directors, it should appoint from among its non-executive directors an audit committee, a remuneration committee and a selection and appointment committee. Without prejudice to the collegiate responsibility of the non-executive directors, the duty of these committees	NO	The Company does not have a nomination committee. See explanation to principle 2.2.5 above.

Ref.	Code provisions	Compliance	Explanation
	is to prepare the decision-making of the non-executive directors. If the non-executive directors decide not to establish an audit committee, a remuneration committee or a selection and appointment committee, the best practice provisions applicable to such committee(s) should apply to the non-executive directors together.		
2.3.3	**Committees' terms of reference:** The non-executive directors should draw up terms of reference for the audit committee, the remuneration committee and the selection and appointment committee. The terms of reference should indicate the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. The terms of reference should be posted on the company's website.	YES	___
2.3.4	**Composition of the committees:** The audit committee or the remuneration committee should not be chaired by the chairman of the board or by a former executive of the board of the company. More than half of the members of the committees should be independent within the meaning of best practice provision 2.1.8.	YES(PARTIALLY)	The audit committee and the remuneration committee are chaired by non-executive directors of the Company. More than half of the members of the Remuneration Committee do not comply with the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Remuneration Committee. See explanation to principle 2.1.7. above.
2.3.5	**Committee reports:** The non-executive directors should receive from each of the committees a report of their deliberations and findings. In the report of the non-executive directors it should comment on how the duties of the committees were carried out in the financial year. In this report, the composition of the committees, the number of committee meetings and the main items discussed at the meetings should be mentioned.	YES	___
2.3.6	**Chairman of the board:** The chairman of the board should in any case ensure that: i. the non-executive directors have proper contact with the executive directors, the employee participation body (if any) and the general meeting; ii. the board elects a vice-chairman; iii. there is sufficient time for deliberation and decision-making by the board; iv. the board members receive all information that is necessary for the proper performance of their duties in a timely fashion;	YES	___

Ref.	Code provisions	Compliance	Explanation
	v. the board and its committees function properly; vi. the functioning of individual executive directors and non-executive directors is assessed at least annually; vii. the board members follow their induction programme; viii. the board follow their education or training programme; ix. the board performs activities in respect of culture; x. the non-executive directors recognize signs from the enterprise affiliated with the company and ensures that any (suspicion of) material misconduct and irregularities are reported to the supervisory board without delay; xi. the general meeting proceeds in an orderly and efficient manner; xii. effective communication with shareholders is assured; and xiii. the non-executive directors are involved closely, and at an early stage, in any merger or takeover processes. The chairman of the board should consult regularly with the executive directors.		
2.3.7	**Vice-chairman of the board:** The vice-chairman of the board should deputize for the chairman when the occasion arises.	YES	___
2.3.8	**Delegated non-executive director:** A delegated non-executive director is a non-executive director who has a special task. The delegation may not extend beyond the responsibilities of the board itself and may not include the management of the company. Its purpose is more intensive supervision and advice and more regular consultation with the executive directors. The delegation should be of a temporary nature only. The delegation may not detract from the duties and powers of the non-executive directors. The delegated non-executive director continues to be a member of the board and should report regularly on the execution of his special duty to the plenary board.	N/A	___
2.3.9	**Temporary executive function of a non-executive director:** A non-executive director who temporarily takes on the management of the company, where the executive directors are absent or unable to fulfil their duties, should resign as a non-executive director of the board.	N/A	___
2.3.10	**Company secretary:** The non-executive directors should be supported by the company secretary. The secretary:	YES	___

Ref.	Code provisions	Compliance	Explanation
	i. should ensure that the proper procedures are followed and that the statutory obligations and obligations under the articles of association are complied with; ii. should facilitate the provision of information of the board; and iii. should support the chairman of the board in the organisation of the affairs of the board, including the provision of information, meeting agendas, evaluations and training programmes. The company secretary should, either on the motion of the non-executive directors or otherwise, be appointed and dismissed by the executive directors, after the approval of the non-executive directors has been obtained. If the secretary also undertakes work for the executive directors and notes that the interests of the executive directors and the non-executive directors diverge, as a result of which it is unclear which interests the secretary should represent, the secretary should report this to the chairman of the board.		
2.3.11	**Report of the non-executive directors:** The annual statements of the company include a report by the non-executive directors. In this report, the non-executive directors should render account of the supervision conducted in the past financial year, reporting in any event on the items referred to in best practice provisions 1.1.3, 2.1.2, 2.1.10, 2.2.8, 2.3.5 and 2.4.4 and, if applicable, the items referred to in best practice provisions 1.3.6 and 2.2.2.	YES	Information with respect to these matters are comprised in the report's section on Corporate Governance.
2.4.1	**Stimulating openness and accountability:** The executive directors and the non-executive directors are each responsible for stimulating openness and accountability within the organ of which they form part, and between the different organs within the company.	YES	—
2.4.2	**Other positions:** Executive directors and non-executive directors should report any other positions they may have to the non-executive directors in advance and, at least annually, the other positions should be discussed at the non-executive directors meeting. The acceptance of membership of a supervisory board by an executive director requires the approval of the non-executive directors.	YES	—
2.4.3	**Point of contact for the functioning of non-executive directors and executive directors:** The chairman of the board should act on behalf of	YES	—

Ref.	Code provisions	Compliance	Explanation
	the board as the main contact for the executive directors, non-executive directors and shareholders regarding the functioning of executive directors and non-executive directors. The vice-chairman should act as contact for individual non-executive directors and executive directors regarding the functioning of the chairman.		
2.4.4	**Attendance at non-executive directors' meetings:** Non-executive directors should attend non-executive directors' meetings and the meetings of the committees of which they are a part. If non-executive directors are frequently absent from these meetings, they should be held to account on this. The report of the non-executive directors should state the absenteeism rate from non-executive directors and committee meetings of each non-executive directors.	YES	___
2.4.5	**Induction programme for non-executive directors:** All non-executive directors should follow an induction programme geared to their role. The induction programme should in any event cover general financial, social and legal affairs, financial reporting by the company, any specific aspects that are unique to the relevant company and its business activities, the company culture and the relationship with the employee participation body (if any), and the responsibilities of a non-executive director.	YES	___
2.4.6	**Development:** The executive directors and non-executive directors should each conduct an annual review for their own organ to identify any aspects with regard to which the non-executive directors and executive directors require training or education.	YES	___
2.4.7	**Information safeguards:** The executive directors should ensure that internal procedures are established and maintained which safeguard that all relevant information is known to the executive directors and the non-executive directors in a timely fashion. The non-executive directors should supervise the establishment and implementation of these procedures.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
2.4.8	**Non-executive directors' responsibility for obtaining information:** The non-executive directors and each individual non-executive director have their own responsibility for obtaining the information from the executive directors, the internal audit function, the external auditor and the employee participation body (if any) that the non-executive directors needs in order to be able to carry out its duties as a supervisory organ properly.	YES	___

Ref.	Code provisions	Compliance	Explanation
2.4.9	**Obtaining information from officers and external parties:** If the non-executive directors consider it necessary, it may obtain information from officers and external advisers of the company. The company should provide the necessary means to this end. The non-executive directors may require that certain officers and external advisers attend its meetings.	YES	___
2.5.1	**Executive directors' responsibility for culture:** The executive directors should adopt values for the company and its affiliated enterprise that contribute to a culture focused on long-term value creation and discuss these with the non-executive directors. The executive directors are responsible for the incorporation and maintenance of the values within the company and its affiliated enterprise. Attention must be paid to the following, among other things: i. the strategy and the business model; ii. the environment in which the enterprise operates; and iii. the existing culture within the enterprise, and whether it is desirable to implement any changes in this. The executive directors encourage behavior that is in keeping with the values and propagates these values through leading by example.	YES	___
2.5.2	**Code of Conduct:** The executive directors should draw up a code of conduct and monitor its effectiveness and compliance with this code, both on the part of itself and of the employees of the company. The executive directors should inform the non-executive directors of its findings and observations relating to the effectiveness of, and compliance with, the code. The code of conduct will be published on the company's website.	YES	___
2.5.3	**Employee participation:** If the company has established an employee participation body, the conduct and culture in the company and its affiliated enterprise should also be discussed in the consultations between the executive directors, the non-executive directors and such employee participation body.	N/A	___
2.5.5	**Accountability regarding culture:** In the management report, the executive directors should explain: i. the values and the way in which they are incorporated in the company and its affiliate enterprise; and ii. the effectiveness of, and compliance with, the code of conduct.	YES	___

Ref.	Code provisions	Compliance	Explanation
2.6.1	**Procedure for reporting actual or suspicion of misconduct or irregularities:** The executive directors should establish a procedure for reporting actual or suspected irregularities within the company and its affiliated enterprise. The procedure will be published on the company's homepage. The executive directors should ensure that employees have the opportunity to file a report without jeopardizing their legal position.	YES	___
2.6.2	**Informing the chairman of the board:** The executive directors should inform the chairman of the board without delay of any signs of actual or suspected material misconduct or irregularities within the company and its affiliated enterprise. If the actual or suspected misconduct or irregularity pertains to the functioning of an executive director, employees can report this directly to the chairman of the board.	YES	___
2.6.3	**Notification by the external auditor:** The external auditor should inform the chairman of the audit committee without delay if, during the performance of his duties, he discovers or suspect an instance of misconduct or irregularity. If the actual or suspected misconduct or irregularity pertains to the functioning of an executive director, the external auditor should report this directly to the chairman of the board.	N/A	___
2.6.4	**Oversight by the non-executive directors:** The non-executive directors monitor the operation of the procedure for reporting actual or suspected misconduct or irregularities, appropriate and independent investigations into signs of misconduct or irregularities, and, if an instance of misconduct or irregularity has been discovered, an adequate follow-up of any recommendations for remedial actions. In order to safeguard the independence of the investigation in cases where the executive directors their selves are involved, the non-executive directors should have the option of initiating its own investigation into any irregularities that have been discovered and to coordinate this investigation.	YES	___
2.7.1	**Preventing conflicts of interest:** Executive directors and non-executive directors are alert to conflicts of interest and should in any case refrain from the following: i. competing with the company; ii. demanding or accepting substantial gifts from the company for themselves or their spouse, registered partner or other	YES	___

Ref.	Code provisions	Compliance	Explanation
	life companion, foster child or relative by blood or marriage up to the second degree; iii. providing unjustified advantages to third parties at the company's expense; iv. taking advantage of business opportunities to which the company is entitled for themselves or for their spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree.		
2.7.2	**Terms of reference:** The terms of reference of the non-executive directors should contain rules on dealing with conflicts of interest, including conflicting interests between executive directors and non-executive directors on the one hand and the company on the other. The terms of reference should also stipulate which transactions require the approval of the non-executive directors. The company should draw up regulations governing ownership of, and transactions in, securities by executive or non-executive directors, other than securities issued, by the company.	NO	See explanation to principle 2.3.1 above.
2.7.3	**Reporting:** A conflict of interest may exist if the company intends to enter into a transaction with a legal entity: i. in which a member of the board personally has a material financial interest; or ii. which has a member of the board who is related under family law to a member of the board of the company. An executive director should report any potential conflict of interest in a transaction that is of material significance to the company and/or to such executive director to the chairman of the board and to the other members of the board without delay. The executive director should provide all relevant information in that regard, including the information relevant to the situation concerning his spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. A non-executive director should report any conflict of interest or potential conflict of interest in a transaction that is of material significance to the company and/or to such non-executive director to the chairman of the board without delay and should provide all relevant information in that regard, including the relevant information pertaining to his spouse,	YES	—

Ref.	Code provisions	Compliance	Explanation
	registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. If the chairman of the board has a conflict of interest or potential conflict of interest, he should report this to the vice-chairman of the board without delay. The non-executive directors should decide, outside the presence of the executive director or non-executive director concerned, whether there is a conflict of interest.		
2.7.4	**Accountability regarding transactions: board members:** All transactions in which there are conflicts of interest with board members should be agreed on terms that are customary in the market. Decisions to enter into transactions in which there are conflicts of interest with board members that are of material significance to the company and/or to the relevant board members should require the approval of the non-executive directors. Such transactions should be published in the management report, together with a statement of the conflict of interest and a declaration that best practice provisions 2.7.3 and 2.7.4 have been complied with.	YES	___
2.7.5	**Accountability regarding transactions: majority shareholders:** All transactions between the company and legal or natural persons who hold at least ten percent of the shares in the company should be agreed on terms that are customary in the market. Decisions to enter into transactions with such persons that are of material significance to the company and/or to such persons should require the approval of the non-executive directors. Such transactions should be published in the management report, together with a declaration that best practice provision 2.7.5 has been complied with.	YES	___
2.7.6	**Personal loans:** The company should not grant its board members any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the non-executive directors. No remission of loans should be granted.	YES	___
2.8.1	**Non-executive directors involvement:** When a takeover bid for the company's shares or for the depositary receipts for the company's shares is being prepared, in the event of a private bid for a business unit or a participating interest, where the value of the bid exceeds the threshold referred to in Section 2:107a(1)(c) of the Dutch Civil Code, and/or in the	YES	___

Ref.	Code provisions	Compliance	Explanation
	event of other substantial changes in the structure of the organization, the executive directors should ensure that the non-executive directors is involved in the takeover process and/or the change in the structure closely and in a timely fashion.		
2.8.2	**Informing the non-executive directors about request for inspection by competing bidder:** If a takeover bid has been announced for the shares, or depositary receipts for shares, in the company, and the executive directors receive a request from a competing bidder to inspect the company's records, the executive directors should discuss this request with the non-executive directors without delay.	YES	Until the date of this report such event did not occurred.
2.8.3	**Executive directors' position on a private bid:** If a private bid for a business unit or a participating interest has been made public, where the value of the bid exceeds the threshold referred to in Section 2:107a(1)(c) of the Dutch Civil Code, the executive directors of the company should as soon as possible make public its position on the bid and the reasons for this position.	YES	Until the date of this report such event did not occurred.
3.1.1	**Remuneration policy proposal:** The remuneration committee should submit a clear and understandable proposal to the non-executive directors concerning the remuneration policy to be pursued with regard to the executive directors. The non-executive directors should present the policy to the general meeting for adoption.	YES	___
3.1.2	**Remuneration policy:** The following aspects should in any event be taken into consideration when formulating the remuneration policy: i. the objectives for the strategy for the implementation of long-term value creation within the meaning of best practice provision 1.1.1; ii. the scenario analyses carried out in advance; iii. the pay ratios within the company and its affiliated enterprise; iv. the development of the market price of the shares; v. an appropriate ratio between the variable and fixed remuneration components. The variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character;	NO	If shares options are being awarded, share options can be exercised before three years have lapsed after they have been awarded (minimum term required by the DCGC). This deviation was implemented to match the Romanian tax provisions for the granting of stock option to employees and management and also to ensure sooner transfer of stocks to eligible employees, officers and directors.

Ref.	Code provisions	Compliance	Explanation
	vi. if shares are being awarded, the terms and conditions governing this. Shares should be held for at least five years after they are awarded; and vii. if share options are being awarded, the terms and conditions governing this and the terms and conditions subject to which the share options can be exercised. Share options cannot be exercised during the first three years after they are awarded.		
3.1.3	**Remuneration – executive committee:** If the board works with an executive committee, the executive directors should inform the non-executive directors about the remuneration of the members of the executive committee who are not executive directors. The executive directors should discuss this remuneration with the non-executive directors annually.	N/A	—
3.2.1	**Remuneration committee's proposal:** The remuneration committee should submit a proposal to the non-executive directors concerning the remuneration of individual executive directors. The proposal is drawn up in accordance with the remuneration policy that has been established and will, in any event, cover the remuneration structure, the amount of the fixed and variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the company and its affiliated enterprise.	YES	—
3.2.2	**Executive directors' views on their own remuneration:** When drafting the proposal for the remuneration of executive directors, the remuneration committee should take note of individual executive directors' views with regard to the amount and structure of their own remuneration. The remuneration committee should ask the executive directors to pay attention to the aspects referred to in best practice provision 3.1.2.	YES	—
3.2.3	**Severance payments:** The remuneration in the event of dismissal should not exceed one year's salary (the 'fixed' remuneration component). Severance pay will not be awarded if the agreement is terminated early at the initiative of the executive director, or in the event of seriously culpable or negligent behavior on the part of the executive director.	YES	These conditions are provided in the management agreements concluded by the Company with each Director.
3.3.1	**Time spent and responsibility:** The remuneration of the non-executive directors should reflect the time spent and the responsibilities of their role.	NO	Non-executive directors receive the same fixed base salary the executive directors receive and such fixed base salary is not related to the time spent by the non-executive directors and the specific responsibilities of their role as

Ref.	Code provisions	Compliance	Explanation
			required by the DCGC. The remuneration conditions as provided in the general shareholders meeting from 21 April 2017 and in the terms of reference of the remuneration committee and the remuneration policy will apply for an indefinite period until further amendment. Non-executive directors additionally sit in the Company's audit and remuneration committees, which in the Company's view compensates for the Non-Executive Directors work within the Company
3.3.2	**Remuneration of non-executive directors:** non-executive directors may not be awarded remuneration in the form of shares and/or rights to shares.	NO	Non-executive Directors may be awarded remuneration in the form of share options. Any such grant of shares as part of share option plans will need to be expressly decided by the Company's general shareholders resolutions. From time to time particular effort made by certain Non-Executive Directors for the Company or for the activity carried out within certain Group subsidiaries will be rewarded.
3.3.3	**Share ownership:** Shares held by a non-executive director in the company on whose supervisory board they serve should be long-term investments.	YES	___
3.4.1	**Remuneration report:** The remuneration committee should prepare the remuneration report. This report should in any event describe, in a transparent manner, in addition to the matters required by law: i. how the remuneration policy has been implemented in the past financial year; ii. how the implementation of the remuneration policy contributes to long-term value creation; iii. that scenario analyses have been taken into consideration; iv. the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year; v. in the event that an executive director receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and vi. in the event that a current or former executive director receives a severance payment, the reason for this payment.	YES	The Remuneration Committee prepares, as it has done for the year 2018 and 2019, annual reports outlining its activity within the Company, as well as outlining the remuneration conditions at the level of the most relevant subsidiaries of the Company. As in 2018 and 2019 there has been no change in the remuneration of the Directors, the activity of the Remuneration Committee mainly focused on the supervision of the multiple ongoing stock option plans, as well as on the remuneration conditions applicable at the level of the Company's subsidiaries in Romania, Hungary, Spain and Italy.

Ref.	Code provisions	Compliance	Explanation
3.4.2	**Agreement of executive director:** The main elements of the agreement of an executive director with the company should be published on the company's website in a transparent overview after the agreement has been concluded, and in any event no later than the date of the notice calling the general meeting where the appointment of the executive director will be proposed.	NO	The main elements of the agreement of an executive director with the Company has not been published on the Company's website. However, sufficient information was disclosed regarding the remuneration of directors.
4.1.1	**Non-executive directors supervision:** The non-executive directors' supervision of the executive directors should include the supervision of relations with shareholders.	YES	___
4.1.2	**Proper conduct of business at meetings:** The chairman of the general meeting is responsible for ensuring the proper conduct of business at meetings in order to promote a meaningful discussion at the meeting.	YES	___
4.1.3	**Agenda:** The agenda of the general meeting should list which items are up for discussion and which items are to be voted on. The following items should be dealt with as separate agenda items: i. material changes to the articles of association; ii. proposals relating to the appointment of board members; iii. the policy of the company on additions to reserves and on dividends (the level and purpose of the addition to reserves, the amount of the dividend and the type of dividend); iv. any proposal to pay out dividend; v. resolutions to approve the management conducted by the executive directors (discharge of executive directors from liability); vi. resolutions to approve the supervision exercised by the non-executive directors (discharge of non-executive directors from liability); vii. each substantial change in the corporate governance structure of the company and in the compliance with this Code; and viii. the appointment of the external auditor.	YES	___
4.1.4	**Proposal for approval or authorization:** A proposal for approval or authorization by the general meeting should be explained in writing. In its explanation the executive directors should deal with all facts and	YES	___

Ref.	Code provisions	Compliance	Explanation
	circumstances relevant to the approval or authorization to be granted. The notes to the agenda should be posted on the company's website.		
4.1.5	**Shareholder's explanation when exercising the right to put items on the agenda:** If a shareholder has arranged for an item to be put on the agenda, he should explain this at the meeting and, if necessary, answer questions about it.	YES	___
4.1.6	**Placing of items on the agenda by shareholders:** A shareholder should only exercise the right to put items on the agenda after they have consulted with the executive directors on this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the company's strategy, for example as a result of the dismissal of one or several board members, the executive directors should be given the opportunity to stipulate a reasonable period in which to respond (the response time). The opportunity to stipulate the response time should also apply to an intention as referred to above for judicial leave to call a general meeting pursuant to Section 2:110 of the Dutch Civil Code. The relevant shareholder should respect the response time stipulated by the executive directors, within the meaning of best practice provision 4.1.7.	YES	___
4.1.7	**Stipulation of the response time:** If the executive directors stipulate a response time, this should be a reasonable period that does not exceed 180 days from the moment the executive directors are informed by one or more shareholders of their intention to put an item on the agenda to the day of the general meeting at which the item is to be dealt with. The executive directors should use the response time for further deliberation and constructive consultation, in any event with the relevant shareholder(s), and should explore the alternatives. At the end of the response time, the executive directors should report on this consultation and the exploration to the general meeting. This should be monitored by the non-executive directors. The response time may be stipulated only once for any given general meeting and should not apply to an item in respect of which the response time had been previously stipulated, or to meetings where a shareholder holds at least three-quarters of the issued capital as a consequence of a successful public bid.	YES	___

Ref.	Code provisions	Compliance	Explanation
4.1.8	**Attendance of members nominated for the board:** Board members nominated for appointment should attend the general meeting at which votes will be cast on their nomination.	YES	___
4.1.9	**External auditor's attendance:** The external auditor may be questioned by the general meeting in relation to his report on the fairness of the financial statements. The external auditor should for this purpose attend and be entitled to address this meeting.	YES	___
4.1.10	**General meeting's report:** The report of the general meeting should be made available, on request, to the shareholders no later than three months after the end of the meeting, after which shareholders should have the opportunity to react to the report in the following three months. The report should then be adopted in the manner provided for in the articles of association.	YES	___
4.2.1	**Substantiation of invocation of overriding interest:** If the executive directors and the non-executive directors decide not to provide the general meeting with all information desired with the invocation of an overriding interest on the part of the company, they must give reasons for this.	YES	___
4.2.2	**Policy on bilateral contacts with shareholders:** The company should formulate an outline policy on bilateral contacts with the shareholders and should post this policy on its website.	YES	___
4.2.3	**Meetings and presentations:** Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences should be announced in advance on the company's website and by means of press releases. Analysts' meetings and presentations to investors should not take place shortly before the publication of the regular financial information. All shareholders should be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations should be posted on the company's website.	YES	___
4.2.4	**Posting information in a separate section of the website:** The company should post and update information which is relevant to the shareholders and which it is required to publish or submit pursuant to the provisions of company law and securities law applicable to it in a separate section of the company's website.	YES	___

Ref.	Code provisions	Compliance	Explanation
4.2.5	**Executive directors contacts with press and analysts:** The contacts between the executive directors on the one hand and the press and financial analysts on the other should be handled and structured carefully and with due observance of the applicable laws and regulations. The company should not do anything that might compromise the independence of analysts in relation to the company and vice versa.	YES	___
4.2.6	**Outline of anti-takeover measures:** The executive directors should outline all existing or potential anti-takeover measures in the management report and should also indicate in what circumstances and by whom these measures may likely be used.	YES	___
4.3.1	**Voting as deemed fit:** A shareholder should vote as he sees fit. A shareholder who makes use of the voting advice of a third party is expected to form his own judgment on the voting policy or the voting advice provided by this adviser.	YES	___
4.3.2	**Providing voting proxies or voting instructions:** The company should give shareholders and other persons entitled to vote the possibility of issuing voting proxies or voting instructions, respectively, to an independent third party prior to the general meeting.	YES	___
4.3.3	**Cancelling the binding nature of a nomination or dismissal:** The general meeting of shareholders of a company not having statutory two-tier status (*structuurregime*) may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the board and/or a resolution to dismiss a member of the board by an absolute majority of the votes cast. It may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one-third. If this proportion of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favor of a resolution to cancel the binding nature of a nomination, or to dismiss a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting.	NO	Such resolution can be adopted by the general meeting with a two-third majority representing at least half of the issued share capital (default position under Dutch statutory law). This deviation is provided within the Articles as approved by the Company's general shareholders resolutions from 21 April 2017. This deviation is meant to avoid vote inefficiencies or blockage upon the appointment or dismissal of any relevant director.
4.3.4	**Voting right on financing preference shares:** The voting right attaching to financing preference shares should be based on the fair value of the capital contribution.	YES	___
4.3.5	**Publication of institutional investors' voting policy:** Institutional investors (pension funds, insurers, investment institutions and asset	N/A	___

Ref.	Code provisions	Compliance	Explanation
	managers) should post annually, in any event on their website, their policy on the exercise of the voting rights for shares they hold in listed companies.		
4.3.6	**Report on the implementation of institutional investors' voting policy:** Institutional investors should report annually, on their website and/or in their management report, on how they implemented their policy on the exercise of the voting rights in the relevant financial year. In addition, they should report on their website at least once per quarter on whether and, if so, how they have voted as shareholders at general meetings. This report will be posted on the website of the institutional investor.	N/A	___
4.4.1	**Trust office board:** The board of the trust office should have the confidence of the holders of depositary receipts and operate independently of the company that has issued the depositary receipts. The trust conditions should specify in what cases and subject to what conditions holders of depositary receipts may request the trust office to call a meeting of holders of depositary receipts.	N/A	___
4.4.2	**Appointment of board members:** The board members of the trust office should be appointed by the board of the trust office, after the job opening has been announced on the website of the trust office. The meeting of holders of depositary receipts may make recommendations to the board of the trust office for the appointment of persons to the position of board member. No executive directors or former executive directors, non-executive directors or former non-executive directors, employees or permanent advisers of the company should be a member of the board of the trust office.	N/A	___
4.4.3	**Board appointment period:** A person may be appointed to the board of the trust office for a maximum of two four-year terms, followed by a maximum of two two-year terms. In the event of a reappointment after an eight-year period, reasons should be given in the report of the board of the trust office.	N/A	___
4.4.4	**Attendance of the general meeting:** The board of the trust office should attend the general meeting and should, if desired, make a statement about how it proposes to vote at the meeting.	N/A	___
4.4.5	**Exercise of voting rights:** In exercising its voting rights, the trust office should be guided primarily by the interests of the depositary receipt	N/A	___

Ref.	Code provisions	Compliance	Explanation
	holders, taking the interests of the company and the enterprise affiliated with it into account.		
4.4.6	**Periodic reports:** The trust office should report periodically, but at least once per year, on its activities. The report should be posted on the company's website.	N/A	___
4.4.7	**Contents of the reports:** The report referred to in best practice provision 4.4.6 should, in any event, set out: i. the number of shares for which depositary receipts have been issued and an explanation of changes to this number; ii. the work carried out in the financial year; iii. the voting behaviour in the general meetings held in the financial year; iv. the percentage of votes represented by the trust office during the meetings referred to under iii.; v. the remuneration of the members of the board of the trust office; vi. the number of meetings held by the management and the main items dealt with in them; vii. the costs of the activities of the trust office; viii. any external advice obtained by the trust office; ix. the (other) positions held by the board members of the trust office; and x. the contact details of the trust office.	N/A	___
4.4.8	**Voting proxies:** The board of the trust office should issue voting proxies under all circumstances and without limitations to all depositary receipt holders who request this. Each depositary receipt holder may also issue binding voting instructions to the trust office in respect of the shares which the trust office holds on his behalf.	N/A	___
5.1.1	**Composition of the board:** The majority of the board is made up of non-executive directors. The requirements for independence stipulated in best practice provisions 2.1.7 and 2.1.8 apply to the non-executive directors.	NO	See explanation to principle 2.1.7 above.
5.1.2	**Chairman of the board:** The chairman of the board chairs the meetings of the board. The chairman of the board should ensure that the board as a	YES	___

Ref.	Code provisions	Compliance	Explanation
	collective, as well as the board's committees, have a balanced composition and function properly.		
5.1.3	**Independence of the chairman of the board:** The chairman of the board should not be an executive director or former executive director of the company and should be independent within the meaning of best practice provision 2.1.8.	NO	See explanation to principle 2.1.7 above.
5.1.4	**Composition of committees:** The committees referred to in best practice 2.3.2 should be comprised exclusively of non-executive directors. Neither the audit committee nor the remuneration committee can be chaired by the chairman of the board or by a former executive director of the company	YES	___
5.1.5	**Accountability for supervision by non-executive directors:** The non-executive directors render account of the supervision exercised in the past financial year. They should, as a minimum, report on the items referred to in best practice provisions 1.1.3, 2.1.2, 2.1.10, 2.2.8, 2.3.5 and 2.4.4 and, if applicable, the items referred to in best practice provisions 1.3.6 and 2.2.2.	YES	Information with respect to these matters are comprised in the report's section on Corporate Governance.

ANNEX 4

Risk Factors

Any investment in the Shares and/or the Notes is subject to a number of risks. Prior to investing in the Shares and the Notes, prospective investors should carefully consider the risk factors associated with any such investment, the Group's business and the industry in which it operates, together with all other information contained in this Report including, the risk factors described below.

The occurrence of any of the following events could have a material adverse effect on our business, prospects, results of operations and financial conditions. The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations and/or financial condition and, if any such risk should occur, the price of the Shares and/or the Notes may decline and investors could lose all or part of their investment. An investment in the Shares and/or the Notes involves complex financial risks and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Investors should consider carefully whether any such investment is suitable for them in the light of the information in this Report and their personal circumstances.

Risks Relating to Our Business and Industry

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

We face significant competition in all our markets and business lines, which is expected to intensify further. For example, in Romania and Hungary we face intense competition in our cable TV, DTH, fixed internet and data and fixed-line telephony business lines from local entities controlled by Deutsche Telekom ("**Telekom Romania**" and "**Magyar Telekom**," respectively) and Vodafone (following Vodafone's acquisition of Liberty Global's businesses in both countries in July 2019) ("**UPC Romania**" and "**UPC Hungary**," respectively). In the Romanian mobile telecommunication services market, we compete with Telekom Romania and local entities controlled by Orange ("**Orange Romania**") and Vodafone ("**Vodafone Romania**"). Increased competition may encourage the customers to stop subscribing to our services (an effect known as "churn") and thereby adversely affect our revenue and profitability.

These competitors, as well as other competitors that may enter the market in the future, may enjoy certain competitive advantages that we do not, such as having greater economies of scale, easier access to financing, access to certain new technologies, more comprehensive product offerings in certain business lines, greater personnel resources, greater brand name recognition, fewer regulatory burdens and more experience or longer-established relationships with regulatory authorities, customers and suppliers. In particular, all our principal competitors in our core Romanian market are part of much larger international telecommunication groups.

In recent years, the telecommunications industry has experienced a significant increase in customer demand for multiple-play offerings, which combine two or more fixed and mobile services in one package. Although we believe that the combination of our own fixed and mobile infrastructures in Romania is unparalleled, all of our principal competitors in the country have made arrangements to significantly enhance their multiple-play capabilities. In particular, Telekom Romania is currently continuing to invest in the development of its FTTH network to complement its existing mobile infrastructure.

Orange Romania and Vodafone Romania have taken advantage of the ANCOM-endorsed practice for Romania's fixed line operators to open their networks to competitors. Both entered into certain network sharing agreements with Telekom Romania (in February 2016 and in June 2018, respectively) enabling them to provide cable TV and fixed internet and data services via Telekom Romania's network under their own brand names. Orange Romania is also party to a mobile network sharing agreement concluded in July 2013 with Vodafone Romania, under which each party independently operates its spectrum and retains strategic control over switched networks. These developments have resulted, and are expected in the future to result in, synergies to their businesses, increase competition, further pressure on prices, higher rates of customer churn and ultimately could adversely affect our revenue and profitability. Although, in 2015, ANCOM confirmed its view (which was supported by the European Commission) that we are under no obligation to open our fixed network to third parties, there is no assurance that this decision may not be reversed. If we are directed by ANCOM, or any other competent authority, to open our infrastructure to third parties, including our competitors, that could further enhance our competitors' market positions, while eroding our key competitive advantages, and have a material adverse effect on our business, prospects, results of operations or financial condition.

Separately, Vodafone has completed the acquisition of Liberty Global's operations in four European countries, including Romania and Hungary, in July 2019. Deutsche Telekom has also been publicly reported to be exploring a sale of its businesses in Romania.

In addition to competition in our traditional services and technologies, we also experience significant pressure from the rapid development of new technologies and alternative services, which are either offered by our existing competitors or new entrants. See "*—Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to, or implement new technological developments in a cost-efficient manner or at all*." For example, our fixed-line telephony and fixed internet and data business lines in Romania are experiencing increased competition from the country's mobile telecommunication services sector. This may result in slower growth or a decrease in our fixed-line telephony and fixed internet and data services penetration rates as our subscribers may migrate from fixed to mobile services, choosing to switch to our competitors such as Telekom Romania, Orange Romania, or Vodafone Romania, who currently have stronger market positions than us in the mobile telecommunication services sector. These competitorsare also aiming to offer increasingly innovative integrated solutions to customers, such as 5G (currently in limited operation by us and all our competitors in Romania) and financial services combined with traditional telecommunication offerings (such as "Orange Money" proposition offered by Orange Romania). We also have to compete with companies offering other technologies alternative to our telephony services, such as Skype, WhatsApp, Google Hangouts and Facebook Messenger, as well as with companies offering alternative platforms that make TV and entertainment content available to customers, such as

OTT platforms Netflix, HBO Go, Amazon Prime, Apple TV, and Google Play, along with other services which allow legal or illegal downloading of movies and television programs.

Our success in these markets may be adversely affected by the actions of our competitors in a number of ways, including:

- lower prices, more attractive multiple-play services or higher quality services, features or content;
- more rapid development and deployment of new or improved products and services; or
- more rapid enhancement of their networks.

Our market position will also depend on effective marketing initiatives and our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors, changes in consumer preferences and economic, political and social conditions in the markets in which we operate. Any failure to compete effectively or any inability to respond to, or effectively anticipate, consumer sentiment, including in terms of pricing of services, acquisition of new customers and retention of existing customers, could have a material adverse effect on our business, prospects, results of operations or financial condition.

The ongoing COVID-19 pandemic may materially adversely affect our business and ability to comply with obligations under the Notes and the Guarantees.

The Group, its customers and its suppliers may be adversely impacted by the novel coronavirus (SARS-CoV-2) and the respiratory disease (COVID-19) it causes. Since early 2020, the spread of COVID-19 has negatively impacted the economic environment in the countries in which we and our suppliers operate. This, among other things, has resulted in significant volatility in international capital markets and reduced availability of capital. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The European region, where all our countries of operations are located, has been particularly severely affected. As of the date of this Report, all countries in which we operate and most countries in which our suppliers have their primary operations have implemented unprecedented widespread restrictions on domestic economic activities, including wholesale closure of businesses, restrictions on movement (including air travel), in-person social networking and suspension of public events, including spectator sports. No assurance can be provided and the moment that those restrictions will be lifted in the near future or that further, more severe, restrictions will not be imposed. If those, or further restrictions, persist for a prolonged time, it could lead to severe negative consequences for the affected jurisdictions and worldwide, as well as fundamental long-term changes in behavior patterns for business and individuals.

For example, these restrictions could, among other things, lead to significant changes in how our customers use our services. Our residential customers who are quarantined or isolated at home may increase their fixed-line and mobile data and voice usage, which could strain on our network and systems. Conversely, although telecommunication services are considered to be an everyday necessity, a prolonged period of COVID-19-related restrictions may lead to customer payment defaults (including if there are widescale lay-offs or failure by employers to honor their salary payment obligations) and/or reduction in content/service consumption as individual customers are forced to prioritize other expenditures, such as, for example, food or medication. In addition, existing and any further restrictions on general business activity may negatively impact our higher-ARPU business customers, reduce their fixed and mobile data and voice usage and/or their ability to make payments or continue using our services (including if a prolonged period of restrictions results in widespread insolvencies). On the other hand, increased reliance on our fixed and mobile network capabilities by our corporate customers at a time when in-person business interaction is severely restricted or completely suspended may present significant additional challenges for our network, which we may not be able to resolve promptly.

The COVID-19 pandemic may also negatively impact the ability of our suppliers to provide equipment necessary to develop our mobile or fixed-line telecommunication networks and otherwise operate our business. For example, our suppliers of network equipment and mobile handsets based in China have been impacted by the COVID-19 pandemic, resulting in increased supply lead times, reduced manufacturing capacity, supply disruptions, as well as shortages of air and ocean freight options from affected regions. The COVID-19 pandemic may also impact our ability to provide new content to our cable TV and DTH customers. Certain of our content suppliers, such as sports leagues including the UEFA Champions League and UEFA Europa League, are currently unable to produce new content as professional sports leagues have been universally suspended. If the health emergency caused by COVID-19 continues, we may not be able to develop alternate sourcing in a prompt manner, or at all.

Any of the above consequences of the COVID-19 pandemic may have a significant adverse effect on our business, prospects, results of operations or financial condition or our ability to comply with the obligations under the Notes and the Guarantees. In addition to external challenges, our staff may be required to work remotely and may be restricted from making in-person sales and in-person repair and maintenance visits to our customers. It is possible that there may be a prolonged period of workforce displacement, commercial and other similar restrictions, during which we may be required to continued honouring our salary, utilities, rent and other payment obligations, whilst our revenue generation capabilities are significantly restricted

As at the date of this Report, the COVID-19 pandemic is ongoing, and the scale and economic impact of the outbreak remains unknown. The COVID-19 pandemic and resulting disruption of market conditions globally and in the markets in which we operate could adversely affect our business, prospects, results of operations or financial condition. There can be no assurance that governmental or other actions would result in prompt and adequate improvement of such market conditions in the future, should the situation deteriorate further or further restrictions are imposed, or current or new restrictions persist for a prolonged period of time.

Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to, or implement, new technological developments in a cost-efficient manner or at all.

The markets in which we operate are characterized by rapid and significant changes in technology, customer demand and behavior, and as a result, by a changing competitive environment. Given the fast pace of technological innovation in our industry, we face the risk of our technology becoming obsolete. We may need to make substantial investments to upgrade our networks or to obtain licenses for and develop and install new technologies (such as 5G, which is expected to become the standard for providing mobile telecommunication services in the foreseeable future and may, to a certain extent, present a viable alternative to, and a replacement for, fixed-line offerings) to remain competitive. The cost of implementing these investments could be significant, and there is no assurance that the services enabled by new technologies will be accepted by customers to the extent required to generate a rate of return that is acceptable to us. In addition, we face the risk of unforeseen complications in the deployment of these new services and technologies and there is no assurance that our original estimates of the necessary capital expenditure to offer such services will be accurate. New services and technologies may not be developed and/or deployed according to expected schedules or may not be commercially viable or cost effective. Should our services fail to be commercially viable, this could result in additional capital expenditures or a reduction in profitability. Any such change could have a material adverse effect on our business, prospects, results of operations or financial condition.

In addition, rapid technological change makes it difficult to predict the extent of our future competition. For example, new transmission technologies and means of distributing content or increased consumer demand for, and affordability of, products based on new mobile communication technologies could trigger the emergence of new competitors or strengthen the position of existing competitors. There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. Any failure to do so could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our financial condition and results of operations. Conversely, we may overestimate the demand in the marketplace for certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenue, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology or service. Our future success depends on our ability to anticipate, react and adapt in a timely manner to technological changes. Responding successfully to technological advances and emerging industry standards may require substantial capital expenditure and access to related or enabling technologies to introduce and integrate new products and services successfully. Failure to do so could have a material adverse effect on our competitive position, business, prospects, results of operations or financial condition.

We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.

The expansion and operation of our fixed and mobile networks, as well as the costs of development, sales and marketing of our products and services, require substantial capital expenditure. In recent years, we have undertaken significant investment to attract and retain customers, including expenditures for equipment and installation costs, license acquisitions, implementation of new technologies (such as GPON), as well as upgrades of existing networks, such as the FTTB/FTTH roll-out. As at the date of this report, we have the following material ongoing capital requirements:

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

In addition, we may, from time to time, incur significant capital expenditure in relation to our opportunistic mergers and acquisitions, such as the acquisition of Invitel. See "*—We may undertake future acquisitions which may increase our risk profile, distract our management or increase our expenses.*"

However, no assurance can be given that any existing or future capital expenditures will generate a positive return, a significant reduction in costs, or promote the growth of our business. If our investments fail to generate the expected positive returns or cost reductions, our operations could be significantly adversely affected and future growth could be significantly curtailed.

In order to finance our capital expenditures and working capital needs, we use a combination of cash from operations, financial indebtedness, reverse factoring and vendor financing arrangements. In the near future, we expect to fund significant capital expenditures, such as acquisition of new licenses (including mobile bandwidth) to expand our existing offerings and local telecommunication services providers to grow our network, predominantly with external financing sourced from international financial institutions or debt capital markets. Our working capital needs have fluctuated in the past years along with the need to finance the development of our mobile telecommunication services business (where we continue to acquire ancillary CPE (such as handheld devices) that are further on-sold to customers subject to deferred payments). We generally pay our suppliers within a relatively short period after acquiring products, but on-sell CPE to our customers subject to a deferral of payments for up to 12 months. For our working capital needs, we enter into certain reverse factoring and vendor financing agreements to extend the terms of our payments to suppliers. If we fail to negotiate or renegotiate such arrangements, our ability to finance the continued expansion of our business would be materially adversely affected.

In addition, our liquidity and capital requirements may increase if we expand into additional areas of operation, accelerate the pace of our growth or make acquisitions. If, for any reason, we are unable to obtain adequate funding to meet these requirements, we may be required to limit our operations and our expansion plans, including plans to expand our network and service offering, our operations could be significantly adversely affected, future growth could be significantly curtailed and our competitive position could be impaired.

We may undertake future acquisitions which may increase our risk profile, distract our management or increase our expenses.

Our historical growth has been due in part to our acquisitions of cable and/or internet operations. For example, on May 30, 2018, we acquired Invitel. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Acquisitions and* *disposals*." As part of our strategy, we may undertake, additional acquisitions in the future in our existing business lines or complementary to them, as, and if, appropriate opportunities become available. Such acquisitions could be significant, especially in Romania, in particular in light of the recent publicly reported developments of the competitive landscape there and the resulting potential for further market consolidation or new entrants. See "-We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenue and profitability." We regularly monitor potential acquisition targets in order to be able to act in an expedient fashion should an attractive opportunity arise. However, a decision to proceed with any such acquisition will be subject to number of conditions that may or may not materialize, including regulatory support and availability of third-party financing (see "*Management's Discussion and Analysis of Financial Condition and Results of Operation-trends and Other Key Factors Impacting our Results of Operations -Capital expenditure*") and we expect to have other strategic alternatives, which we will consider as appropriate. Should we decide to proceed with any such transaction, we may not be successful in our efforts to estimate the financial effects thereof on our business, especially as our previous acquisitions were relatively small in size and there is no guarantee that future acquisitions would not be larger businesses, which may prove more difficult to integrate. In addition, acquisitions may divert our management's attention or financial or other resources away from our existing business or require additional expenditures. Such developments could have a material adverse effect on our business, results of operations or financial condition.

Our ability to acquire new businesses may be limited by many factors, including availability of financing, the debt covenants in our financing agreements, the prevalence of complex ownership structures among potential targets, government regulation and competition from other potential acquirers. If acquisitions are made, there can be no assurance that we will be able to maintain the customer base of businesses we acquire, generate expected margins or cash flows or realize the anticipated benefits of such acquisitions, including growth or expected synergies. Although we analyze acquisition targets, those assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations. There can be no assurance that our assessments of, and assumptions regarding, acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations.

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

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

Our growth and expansion in new areas of business may make it difficult to obtain adequate operational and managerial resources, thus restricting our ability to expand our operations.

We have experienced substantial growth and development in a relatively short period of time, and our business may continue to grow in the future. For example, in 2014 we relaunched our mobile telecommunication services business line in Romania and focused on growth in this area, achieving approximately 3.4 million mobile telecommunication services RGUs as at December 31, 2019, an increase of approximately 1.3 million RGUs compared with approximately 2.1 million such RGUs as at December 31, 2014. We also launched a mobile telecommunications business in Hungary in 2019. On May 30, 2018 we purchased Invitel, one of the largest telecommunication services providers in Hungary, which increased the total number of homes passed by our fixed networks by approximately 1.1 million. In 2012 and 2015, respectively, we also added solar energy generation and energy supply to our business.

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

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

In particular, in relation to the development of our recently launched mobile telecommunications business in Hungary, we have limited experience operating this type of business in the respective geography and our current 1,800 MHz license is limited to one duplex of 5 MHz. There can be no assurance that we will be successful in adapting to the demands of this market or that we will be able to supplement our existing licenses (see "*—Risks relating to legal and regulatory matters and litigation—It may be difficult for us to obtain all licenses, permits or other authorizations required to operate our existing network or any other required licenses, permits or other authorizations, and once obtained they may be amended, suspended or revoked or may not be renewed*").

An inability to ensure appropriate operational and managerial resources and to successfully manage our growth could have a material adverse effect on our business, prospects, results of operations or financial condition.We may be unable to attract and retain key personnel, directors, managers, employees and other individuals without whom we may not be able to manage our business effectively.

We depend on the availability and continued service of a relatively small number of key managers, employees and other individuals, including our founder and President, Zoltán Teszári, directors and senior management. These key individuals are heavily involved in the daily operation of our business and are, at the same time, required to make strategic decisions, ensure their implementation and manage and supervise our development. The loss of any of these key individuals could significantly impede our financial plans, product development, network expansion, marketing and other plans, which could in turn affect our ability to comply with the financial covenants under the Notes and our existing credit facilities. In particular, Mr. Teszári's continued involvement in the strategic oversight of the Company is key for our continued development and competitive position. In addition, competition for qualified executives in the telecommunications industry in the markets in which we operate is intense. Our future operating results depend, in significant part, upon the continued contributions of our existing management and our ability to expand our senior management team by adding highly skilled new members, who may be difficult to identify and recruit. If any of our senior executives or other key individuals cease their employment or engagement with us, our business, prospects, results of operation or financial condition could be materially adversely affected.

We may experience labour shortages in the context of the ongoing COVID-19 pandemic.

Any labour shortages, increased labour costs or other factors affecting labour supply for our production could adversely affect our business, prospects, results of operation or financial condition.

In the context of the COVID-19 pandemic employees which can work remotely have been instructed to do so, however there are certain aspects of our business that require on-site work. Although we have implemented social distancing, hygiene and disinfection protocols, as well as split-team, shift work, staff segregation and flexible working hours procedures to mitigate the risk of an entire team becoming infected and to ensure the continuity of all our services, there is no assurance that that our supply of skilled workers would not be disrupted or that our labour costs would not increase due to illness or refusal to work on-site due to perceived risk of contagion. Any failure to identify and recruit replacement workers immediately following an unexpected loss of skilled workers could reduce our competitiveness and have an adverse effect on our business and operations.

If we fail to manage our existing workforce and/or recruit sufficient workers in a timely manner during the health emergency caused by COVID-19, our business, prospects, results of operation or financial condition could be materially adversely affected.

We are subject to transactional currency risks associated with exchange rate fluctuations.

For the year ended December 31, 2019 we generated approximately 81.8% of revenue in our two principal functional currencies, the Romanian leu and the Hungarian forint (which included approximately 26.3% representing revenue collected in local functional currencies, but denominated in euro). As at December 31, 2019, we had €748.9 million and US$74.4 million of obligations denominated in euros and U.S. dollars, respectively compared to €489.9 million and US$68.1 million of obligations denominated in euros and U.S. dollars, as at

December 31, 2018. Our euro obligations principally relate to outstanding financial debt, and our exposure to the U.S. dollar primarily relates to purchases of content for our cable TV and DTH businesses and mobile CPE acquisitions. A significant depreciation of our principal operational currencies relative to the euro and, to a lesser extent, the U.S. dollar, could have a material adverse effect on our business, prospects, results of operations or financial condition.

In particular, our ability to repay or refinance our euro-denominated financial indebtedness could be adversely impacted by a significant appreciation of our functional currencies relative to the euro. In this respect, from December 31, 2016 to December 31, 2018, the Romanian leu and the Hungarian forint have declined compared to the euro by approximately 3.6% and approximately 2.4% in total, respectively. However, in 2019, the Romanian leu's depreciation against the euro accelerated by a further 2.5% and is continuing at a rapid pace, particularly in the context of the COVID-19 pandemic. Such deppreciation of our functional currencies relative to the euro could also markedly reduce our consolidated financial results as reported in euros (see "*—We are subject to currency translation risks associated with exchange rate fluctuations*"). This could result in a breach of certain financial covenants under the 2019 Unicredit Equipment Financing Agreement, 2019 Bridge Facilities Agreement, the 2016 Senior Facilities Agreement, the ING Facilities Agreement and other existing credit facilities, thereby requiring us to seek waivers from these creditors or causing the acceleration of this indebtedness. In addition, this could make it more difficult for us to comply with the incurrence financial covenants under the Notes. In accordance with our historical approach, we may hedge the interest payments and/or repayments of the whole or a portion of the principal amount of our financial indebtedness. However, any hedging arrangements we enter into may not adequately offset the risks of foreign exchange rate fluctuations and may result in losses. In addition, further appreciation of the euro and the U.S. dollar could require us to offset the impact of such exchange rate fluctuations by price increases for customers in Romania and Hungary that are invoiced in local currencies, which could cause a reduction in the number of RGUs and could have a material adverse effect on our business, prospects, results of operations or financial condition. See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Exchange rates—Liabilities denominated in euros and U.S. Dollar*."

We are subject to currency translation risks associated with exchange rate fluctuations.

Our Financial Statements are presented in euros. However, the majority of our revenue and expenses are denominated in the Romanian leu and the Hungarian forint and are translated into euros at the applicable exchange rates for inclusion in our consolidated Financial Statements. In addition, some of our borrowings and their related interest payments, as well as other assets and liabilities, are denominated in currencies other than the euro, which also require translation into euros at the applicable exchange rates when we prepare our consolidated Financial Statements. Therefore, we are exposed to fluctuations in exchange rates when converting non-euro amounts into euro for reporting purposes. Any fluctuation in the value of a relevant functional currency against the euro may affect the value of our revenue, costs, assets and liabilities as stated in our consolidated Financial Statements, which may in turn affect our reported financial condition and results of operations in a given reporting period.

A systems failure or shutdown in our networks may occur.

Our cable TV, fixed internet and data and fixed-line telephony services are currently carried through our transmission networks composed primarily of fiber-optic cables. In addition, as at December 31, 2019, we had approximately 5,000 mobile network base stations in Romania and 1,700 base stations in Hungary for our mobile telecommunication services. Furthermore, our information technology system comprises numerous intra-linked systems that are periodically updated, upgraded, enhanced and integrated with new systems. Failure to maintain or update these systems, particularly where updates may be required to support new or expanded products or services, could result in their inability to support or expand our business, as it is dependent on the continued and uninterrupted performance of our network. Our ability to deliver services may be subject to disruptions of our systems from communications failures that may be caused by, among other things, computer viruses, power failures, natural disasters, software flaws, transmission cable cuts, sabotage, acts of terrorism, vandalism and unauthorized access. Any such disruption or other damage that affects our network could result in substantial losses, for which we are not adequately covered by our existing insurance policies. Disaster recovery, security and service continuity protection measures that we have undertaken or may in the future undertake, and our monitoring of network performance, may be insufficient to prevent losses. Our network may be susceptible to increased network disturbances and technological problems, and such difficulties may increase over time. Such disruptions may affect our provision of new or existing services and reputation, leading to costly repairs and loss of customers. For so long as any such disruption continues, our revenue could be significantly impacted, which in turn could have a material adverse effect on our operating cash flows, business, prospects, results of operations or financial condition.

We may be unable to use Intelsat's and Telenor's satellites to broadcast our DTH services and may fail to find a commercially acceptable alternative in a reasonable amount of time.

We currently broadcast programming for our DTH services using nine transponders (and use an additional transponder for transmitting non-DTH signals), of which three are located on a satellite operated by Intelsat Global Sales & Marketing Ltd ("**Intelsat**"), and six (including the one used for transmitting non-DTH signals) are leased through Intelsat on a Telenor satellite. Our current lease arrangement with Intelsat covering both sets of transponders is effective until 2022. There can be no assurance that an extension of the term of this arrangement can be agreed on similar financial terms post 2022 or that we will not have to find alternative providers. As DTH is a competitive, price-sensitive business, we may not be able to pass an increase in satellite transmission costs, in whole or in part, to our DTH customers.

Satellite broadcasts may also be disrupted for various reasons

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

Should the satellites we use significantly deteriorate, or become unavailable for regulatory reasons or any other reason, we may not be able to secure replacement capacity on an alternative satellite on a timely basis or at the same or similar cost or quality. Our ability to recoup losses related to service failures from Intelsat may also be limited. Even if alternative capacity were available on other satellites, the replacement satellites may need to be repositioned in order to be co-located with the satellites we currently use. If it is not possible to co-locate replacement satellites, we would be required to repoint all our existing customers' receiving dishes to enable them to receive our signal. Accurate repointing requires specialist tools and expertise, and we believe that there could be substantial costs of repointing all of our existing subscribers' receiving dishes in the event the satellite networks we currently use fail. Moreover, the time needed to repoint our dishes to alternative satellites would vary depending on the market. Accordingly, the inability to use Intelsat's or Telenor's satellites or otherwise to obtain access to sufficient levels of satellite bandwidth on a timely basis and at commercially acceptable prices, or any system failure, accident or security breach that causes interruptions in our operations on the satellite networks we use could impair our ability to provide services to our customers and could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

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

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

The success of our business depends on, among other things, the quality and variety of the television programming delivered to our customers. We depend substantially on third parties to provide us with programming TV content and we license rights to broadcast certain high interest sports events and movies on our own premium channels in Romania and Hungary. Our programming agreements generally have terms ranging from one to five years (including options to extend) and contain various renewal, cancellation and annual price adjustment provisions. No assurance can be provided that we will succeed in renewing our rights for content upon the expiry of currently applicable contractual terms on competitive terms or at all. If we fail to negotiate or renegotiate programming agreements for popular content on satisfactory terms or at all, we may not be able to offer a compelling and popular product to our customers at a price they are willing to pay.

Generally, our programming agreements may be terminated if we fail to make any of our payments or breach our obligations to keep our transmission signal secure or within agreed technical parameters and we fail to address any such breaches within a certain time period, typically between 10 and 30 days.

The ability to broadcast certain sports competitions, especially football matches, is integral to our ability to attract and retain customers. We currently hold rights to broadcast some of the most popular competitions in our countries of operation, such as Romanian Football League 1, the UEFA Champions League and the UEFA Europa League, which are currently suspended in the context of the COVID-19 pandemic. No assurance can be provided that if the health emergency caused by COVID-19 continues, we will succeed in developing new or alternate sources of content. In addition, there is no assurance that after the resumption of professional sports events after the COVID-19 pandemic we will succeed in acquiring new or renewing existing broadcasting rights upon the expiration of the underlying contracts.

We believe that in order to compete successfully, we must continue to obtain attractive content and deliver it to our customers at competitive prices. When we offer new content, or upon the expiry of existing programming agreements or broadcast licenses, our content suppliers may decide to increase the rates they charge for content or they may opt out of the "must carry" (free air regime) and start charging for the retransmission of their channels by us, thereby increasing our operating costs. In addition, some of the channels we broadcast in Romania are subject to "must carry" rules, meaning that the content suppliers have opted to make them available free of charge, which, under certain conditions, creates an obligation for us to include them in our cable TV package. If some or all of the main channels we carry in Romania on the "must carry" basis opted out of this regime, we may have to pay for their retransmission or discontinue the transmission of such channels as part of our services, which may lead to increases in costs or potential customer churn. Regulatory requirements in some jurisdictions, such as Hungary, affect content suppliers by, for example, requiring them to produce channels in high definition, and may lead them to increase the rates they charge to us. Increases in programming fees or license fees or changes in the way programming fees or license fees are calculated could force us to increase our subscription rates, which in turn could cause customers to terminate their subscriptions or lead potential new customers to refrain from subscribing. In addition, if we were to breach the terms of the applicable agreements, the license content providers could decide to withhold certain content or we could lose the right to retransmit certain programs or broadcast certain competitions. Also, program providers and broadcasters may elect to distribute their programming through other distribution platforms, such as Internet-based platforms, or may enter into exclusive arrangements with other distributors. If we cannot pass on any increased programming or license fees to our customers, or if we lose rights to transmit certain programming or broadcast certain competitions, it could have a material adverse effect on our reputation, competitive position, business, prospects, results of operations or financial condition.

Our business strategy may cause our average revenue pre unit (ARPU) figures to decrease.

In our core markets of Romania and Hungary, our customer base for services other than DTH is located primarily in more affluent urban population centers. However, as we expand into less affluent demographic segments of our geographic markets, our ARPU figures may decline depending upon changes in our mix of customers and the prices at which our packages are offered. For example, reduced versions of our analog and digital cable TV packages in Romania, targeted at rural customers, offer less content and generate less revenue than their standard versions. Further, our reported ARPU for cable TV, DTH and fixed internet may be affected by fluctuations in exchange rates. See "*—We are subject to currency translation risks associated with exchange rate fluctuations.*" A material decrease in ARPU from current levels could have a material adverse effect on our business, prospects, results of operations or financial condition.

We may fail to manage customer churn.

The pay TV (which includes cable TV and DTH business lines), fixed internet and data, fixed-line telephony and mobile telecommunication services industries all experience churn as a result of, among other things, high levels of competition and technological advancements. In particular, our DTH and fixed-line telephony service has experienced relatively high levels of churn in recent years. Although churn may have a negative effect on our business, we focus on growth in total number of RGUs, ARPU, revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin (as defined in the March 2019 Prospectus) as key indicators of our performance, rather than churn. We believe that our churn levels are in line with those of our principal competitors in our core markets.

Customer churn could increase as a result of:

- the availability of competing services, some of which may be less expensive or technologically superior to those offered by us or offer content or features that we do not offer;
- customers moving to areas where we cannot offer services;
- customer dissatisfaction with the quality of our customer service, including billing errors;
- interruptions in the delivery of services to customers over our network and poor fault management; and
- customers choosing to discontinue a certain service without replacing it with an equivalent service provided by us or our competitors.

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

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

We maintain an insurance policy in respect of our critical communications equipment in data centers in Bucharest and certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. This insurance policy has an aggregate coverage of up to approximately €41.2 million equivalent as at December 31, 2019. We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. In Hungary, we maintain mandatory third-party liability and casualty and collision insurance for our car fleet, as well as an insurance policy for our equipment. We can provide no assurance that insurance will continue to be available to us on commercially reasonable terms or at all. Our insurance may not be adequate to cover all our potential losses or liabilities. At present, we have no coverage for business interruption or loss of key management personnel and a substantial proportion of our assets are not insured. Should a significant event affect one of our facilities or networks, we could experience substantial property loss and significant disruptions in the provision of our services for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

Sophisticated billing and credit control systems are critical to our ability to increase revenue streams, avoid revenue losses, monitor costs and potential credit problems and bill our customers properly and in a timely manner. New technologies and applications are expected to increase customers' expectations and to create increasing demands on billing and credit control systems. Any damage, delay or interruptions in our systems or failure of servers or backup servers that are used for our billing and credit control systems could disrupt our operations, and this, in turn, could have a material adverse effect on our reputation, business, prospects, results of operations or financial condition.

Our business relies on hardware, software, commodities and services supplied by third parties. These suppliers may choose to discontinue or reduced for a number of reasons, including because these suppliers may be precluded from manufacturing and delivering their products and services (such as in the context of the COVID-19 pandemic), may choose to discontinue their products or services, seek to charge us prices that are not competitive or choose not to renew contracts with us.

We have important relationships with certain suppliers of hardware, software and services (such as ECI, Ericsson, Wuhan Fiberhome, Huawei, Kaon, Nagravision S.A. ("**Nagravision**"), Nokia, and ZTE). These suppliers may, among other things, extend delivery times, supply unreliable equipment, raise prices and limit or discontinue supply due to their own shortages, business requirements, regulatory intervention, changes in trade policies or otherwise. Conversely, we may ourselves need to discontinue or reduce the use of products and services from particular suppliers due to similar or other reasons, including with limited notice. For example, some of our suppliers (particularly Chinese ones) have been affected in the context of the COVID-19 pandemic, resulting in increased supply lead times, reduced manufacturing capacity, supply disruptions, as well as shortages of air and ocean freight options from affected regions. In addition, such suppliers may in the future be affected by restrictions imposed by certain countries as a result of trade disputes and/or state security considerations. Although we are not entirely dependent on hardware, software and services supplied by particular suppliers, in many cases we have made substantial investments in the equipment or software of a certain supplier. This makes it difficult for us to find replacement suppliers quickly in the event that a supplier refuses to offer us favorable prices, ceases to produce the equipment we use or fails to provide the support we require. In the event that hardware or software products or related services are defective, or if the suppliers are insolvent, it may be difficult or impossible to enforce claims against them, in whole or in part. The occurrence of any of these risks may create technical problems, damage our reputation, result in the loss of customers and could have a material adverse effect on our business, prospects, results of operations or financial condition. Further, our contractual obligations to customers may exceed the scope of the warranties we have obtained from suppliers.

We are also exposed to risks associated with the potential financial instability and business continuity issues of our suppliers. If our suppliers were to discontinue certain products, were unable to provide equipment to meet our specifications or interrupt the provision of equipment or services to us, whether as a result of bankruptcy, regulatory actions, court decisions or otherwise and if we were unable to procure satisfactory substitutes, it could have a material adverse effect on our business, results of operations or financial condition.

Our business relies on third-party licenses and other intellectual property arrangements.

We rely on third-party licenses and other intellectual property arrangements to enable us to carry on our business. Network elements and telecommunications equipment including hardware, software and firmware deployed on our network are licensed or purchased from various third parties, including from vendors holding the intellectual property rights to use these elements and equipment. Although these agreements provide warranties, indemnities and the right of termination in the event of any breach or threatened breach of any intellectual property rights, no assurance can be provided that competitors or other third parties will not challenge or circumvent the intellectual property rights we own or license or that the relevant intellectual property rights are valid, enforceable or sufficiently broad to protect our interest or will provide us with any competitive advantage. In addition, certain license holders are entitled to control our compliance with the underlying license arrangements and no assurance can be provided that we will be able to satisfy their requirements at all times. Any resulting loss, withdrawal or suspension of those intellectual property rights could result in a significant increase in our costs or otherwise have a material adverse effect on our business, prospects, results of operations or financial condition.

Our ability to provide commercially viable services depends, in part, upon interconnection, roaming and MVNO arrangements with other operators and third-party network providers and on the impact of EU roaming regulations.

Our ability to provide commercially viable mobile and fixed-line telecommunication services depends, in part, upon our interconnection and roaming arrangements with other operators. In particular, we are dependent, in certain regions, on interconnection with our competitors' mobile and fixed-line networks and the associated infrastructure for the successful operation of our business. In Romania and Hungary, ANCOM and NMIAH, respectively, regulate the frameworks governing interconnection charges in an effort to facilitate access to other companies' networks. In Romania, ANCOM sets price caps on the interconnection charges that major telecommunications operators, including us, may charge, while in Hungary, NMIAH regulates the termination rates for interconnection. We are also dependent on third-party network providers for the provision of MVNO services in Spain and Italy, the offering of fixed-line services in Spain a and the supply of international roaming services.

In addition, Regulation (EU) No. 531/2012 on roaming on public mobile communications networks within the European Union ("**EU Roaming Regulation**") requires mobile communications providers within the European Union to ensure that their customers could continue using their service while travelling to a different EU country as if they were using it in their home jurisdiction, save for paying wholesale charges to the relevant service provider. However, on July 1 2019, ANCOM allowed us to continue to apply roaming surcharges for an additional year (such extension is only permissible for one year periods). Had we been required not to apply such surcharges, it could have had a material negative impact on our mobile telecommunications business as we generally offer unlimited packages to our customers for a fixed fee. This model is predicated on domestic calls pricing, and lack of roaming charges could lead to massively increased consumption in roaming, which would generate material wholesale roaming expense for us that we could not recover under our current business model. Although we intend to apply to ANCOM for subsequent one-year extensions and believe that there is reasonable chance that such extensions will be granted, there can be no assurance that we will be able to obtain any such further extension on terms favorable to us, and if we failed to do so and failed to adjust our business model accordingly, we would be required to fully bear, in whole or in part, the wholesale cost of roaming for our clients.

Although we have interconnection and other agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnection and other services they provide. There can be no assurance that interconnection, resale, roaming or MVNO agreements will be easy to agree, that we will be able to renew these agreements on commercially acceptable terms, that they will not be terminated, or that ANCOM, NMIAH or the European Commission will not take any action that could materially adversely affect our operations. If we fail to maintain these agreements on commercially acceptable terms, or if there are any difficulties or delays in interconnecting with other networks and services, or a failure of any operator to provide reliable roaming services to us on a consistent basis, this could have a material adverse effect on our business, prospects, results of operations or financial condition.

Concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunication towers may materially adversely affect the prospects of our mobile telecommunication services business.

Media and other reports have linked radio-frequency emissions from mobile handsets and mobile telecommunication towers to various health concerns, including cancer, and interference with various electronic medical devices, including hearing aids and pacemakers. In particular, in May 2011, the World Health Organization classified radiofrequency electromagnetic fields as potentially carcinogenic to humans based on an increased risk for adverse health effects associated with wireless phone use. In addition, certain media have speculated that health risks may be intensified by 5G networks/technology, although no conclusive studies providing any negative impact have been published to date. Concerns over radio frequency emissions may discourage the use of mobile handsets or may create difficulties in the procurement of tower sites for our mobile telecommunication business, which could have a material adverse effect on the prospects of such business.

If there is sound scientific evidence of a link between radio frequency emissions and health concerns or if concerns about such health risks increase in countries in which we do business, the prospects and results of operations of our mobile telecommunication services business could be materially adversely affected. In addition, the actual or perceived health risks associated with electromagnetic radio emissions and wireless communications devices and antennas and the resulting costs and lowered usage, as well as any related potential new regulatory measures could have a material adverse effect on our business, results of operations or financial condition.

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

We collect, store and use in our operations data, which may be protected by data protection laws. Although we take precautions to protect customer data in accordance with the applicable privacy requirements, it is possible that there may be data leakages in the future. We work with third-party service providers, such as certain software companies, who until the date of the present annex have proven through the documents made available and by the obligations assumed in the agreements that they comply with the standards imposed by the Regulation (EU) 2016/679 (hereinafter referred to as the "**GDPR**") and with the security requirements imposed by the companies within the Group, nevertheless, there is a possibility that at some point, for certain reasons, they will no longer be able to fully comply with the relevant contractual terms and all data protection obligations imposed on them.

The telecommunications sector has become increasingly digitalized, automated and online-based in recent years, increasing our exposure to risks of unauthorized or unintended data release through hacking and general information technology system failures. Unanticipated information technology problems, system failures, computer viruses, intentional/unintentional misuses, hacker attacks or unauthorized access to our network or other failures could result in a failure to maintain and protect customer data in accordance with applicable regulations and requirements and could affect the quality of our services, compromise the confidentiality of our customer data or cause service interruptions, and may result in the imposition of fines and other penalties.

In April 2018, we were fined by the Romanian National Supervisory Authority for Personal Data Processing for breaches of national data protection legislation (contrary to certain provisions in the telecommunications' field) , especially in relation to the types of data that we process, and although we are committed, and have made significant efforts, to fully align our practices with the requirements of the regulator, as at the date of this report this process has not been completed yet. In addition, the **GDPR** became effective on May 25, 2018, introducing enhanced data protection requirements and substantial fines for a breach thereof. Although we have already made, and continue making, adjustments to our policies and procedures to ensure full compliance with the GDPR, as at the date of this report its formal implementation in the countries where we operate is still ongoing as the general regulatory framework requires interpretation and adaptation. Therefore, there can be no assurance that the adjustments we have already made, as well as those that we are planning to make in the future, will fully satisfy GDPR's requirements. Also, on January 11, 2017, the European Commission published a proposal for its new e-Privacy regulation, which is expected to replace the currently effective e-Privacy Directive 2002/58/EC. The new e-Privacy regulation is expected to be adopted in a near future and we are currently evaluating whether our practices need to be adjusted to ensure compliance therewith. There can be no assurance that such compliance could be achieved within the regulatory timeframes, when set, or at all.

In 2019, an "ethical hacking" of one of DIGI Hungary's customer databases occurred, which involved unauthorized access thereto from the outside. However, promptly following the incident the perpetrator identified himself to DIGI Hungary and informed it of the deficiencies in the security systems detected. Notwithstanding the nature of the incident, the Hungarian Data Protection Authority launched a related investigation, which was completed on December 19, 2019. As a result of this investigation, the Hungarian Data Protection Authority initiated an official administrative procedure to assess whether DIGI Hungary's operation of the database in question complied with the GDPR. This administrative procedure is currently pending.

Should we be found to be in breach of any applicable data protection laws, this may result, depending on its severity, in fines, claims for damages, prosecution of relevant employees and managers, reputational damage and customer churn and may have a material adverse effect on our business, prospects, results of operation or financial condition.

Any suspension, downgrade or withdrawal of our credit ratings by an international rating agency could have a negative impact on our business.

The Group's corporate rating is B1 by Moody's and BB- by S&P. Any adverse revisions to our corporate credit ratings for domestic or international debt by international rating agencies may adversely impact the credit rating of our existing indebtedness (including the Notes), our ability to raise additional financing and the interest rates and other commercial terms, under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

Adoption of IFRS 16 will lead to divergence between our reported Adjusted EBITDA and total debt and related or similarly titled metrics under each Indenture and for covenant purposes

We adopted IFRS 16 for the financial periods beginning January 1, 2019. See "*Management's Discussion and Analysis of Financial* Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations – Adoption of IFRS." IFRS 16 will not have any impact on calculations we are required to make under the Indenture for the purposes of ensuring compliance therewith, as those will be made in accordance with the IFRS in effect as at issuance date, unless the Company makes, in its sole and absolute discretion, an irrevocable election by written notice to the Trustee to apply IFRS as in effect from time to time, including IFRS 16. Until such time as this election is made, the disapplication of IFRS 16 for the purposes of our calculations under the Indentures is likely to lead to certain divergences between some financial metrics that we report on a regular basis (including Adjusted EBITDA) and related or similarly titled metrics under the Indentures and for covenant purposes.

Risks Relating to Legal and Regulatory Matters and Litigation

Failure to comply with anti-corruption or money laundering laws, or allegations thereof, could have a material adverse effect on our reputation and business.

While we are committed to doing business in accordance with applicable anti-corruption and money laundering laws, we face the risk that members of the Group or their respective officers, directors, employees, agents or business partners may take actions or have interactions with persons that violate such laws, and may face allegations that they have violated such laws. In general, if we are alleged or found to have violated applicable anti-corruption or money laundering laws in any matter, any such allegations or violation may have a material adverse effect on our reputation and business, including, among others, application of criminal sanctions against us or our officers or employees, disgorgement of property, termination of existing commercial arrangements, our exclusion from further public or private tenders, as well as affect our ability to comply with certain covenants under our existing indebtedness.

For example, on January 15, 2019, the Bucharest Tribunal issued its January Judgment in relation to the investigation conducted by the DNA into alleged bribery and money laundering in connection with our entry into a joint venture with Bodu S.R.L. in 2009 and certain subsequent transactions. The joint venture related to an events hall in Bucharest. At the time of our original investment, 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**"). The DNA's original enquiry (that followed allegations by Antenna Group that unlawful bribes had been advanced to Mr Dumitru Dragomir) centred around the €3.1 million investment that we made into the JV from 2009 to 2011. The DNA's subsequent money laundering enquiry related to later transactions entered into with Bodu S.R.L in 2015 and 2016, through which we ultimately acquired the sole ownership of the events hall. We undertook those transactions in order to ensure continuity of our business in relation to the events hall and recover our original investment. However, the DNA alleged that these were attempts to conceal unlawful bribes.

The January Judgment:

- 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 of money laundering and (a) ordered it to pay a criminal fine of approximately RON1.25 million; (b) confiscated €3.1 million of our original investment in the JV and RON655,124 as alleged unlawful profits derived by RCS & RDS from the JV; and (c) maintained seizure of the two previously attached real estate assets;
- convicted Integrasoft S.R.L. (one of our Romanian subsidiaries and RCS & RDS's partner in the JV following the 2016 acquisition) of accessory to money laundering and ordered it to pay a criminal fine of approximately RON 700,000;

- cancelled (a) the original 2009 joint venture agreement (along with all subsequent amendments thereto); (b) the 2015 settlement agreement (along with all subsequent amendments thereto); and (c) the 2016 purchase by RCS & RDS of the events hall's real estate and business;
- convicted 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.) of accessory to money laundering (in his capacity as director of Integrasoft S.R.L.) and sentenced him to four years' imprisonment;
- acquitted Messrs. Serghei Bulgac (the current Chief Executive Officer and President of the board of directors of RCS & RDS), Mihai Dinei and Alexandru Oprea (a former Chief Executive Officer and President of the board of directors of RCS & RDS) of all charges; and
- convicted Mr. Dumitru Dragomir and a director of Bodu S.R.L. of unlawfully receiving the bribes allegedly paid through the JV investments (which, owing to different limitations periods, had not yet become time-barred).

We believe that the convictions and related sanctions in the January Judgment were erroneous and not supported by the evidence provided to the court. See "*Business—Litigation and Legal Proceedings—Investigation by the Romanian National Anti-Corruption Agency*." We continue to deny any allegations against RCS & RDS S.A. (the main Romanian subsidiary of the Company), Integrasoft S.R.L. or any of our or their current or former officers or employees in relation to this matter and believe that they at all times acted in compliance with applicable law. Notices of appeal against the January Judgment were filed to the Bucharest Court of Appeal on behalf of RCS & RDS, Integrasoft S.R.L. and Messrs. Ioan Bendei, Serghei Bulgac and Mihai Dinei on January 16, 2019. A full appeal setting out all the reasons teherefore is expected to be submitted soon after the January Judgement complete text has been communicated to the parties. As at the date thereof, this has not yet occurred.

Pending such communication, and thereafter, pending appeal proceedings in the Bucharest Court of Appeal, the January Judgment neither is, nor will be, final or enforceable. The Bucharest Court of Appeal's consideration on the appeal will involve a full re-trial of the factual matters and legal issues in this case. Nevertheless, the January Judgment may have a material adverse effect on our business reputation, results of operations or financial condition. In particular, if the January Judgement is confirmed on appeal and ultimately becomes effective, our ability to participate in public tenders in Romania may be impeded (for example, if the terms of such tenders specifically prohibit legal entities with a criminal record to participate). In addition, even while appeals are pending, it cannot be excluded that the January Judgment could result in increased scrutiny of our operations and adversely impact perceptions of us (including as to the effectiveness of our compliance policies and procedures). If any of this were to occur, our relationships with governmental authorities, commercial partners or lenders and our perceived attractiveness as a licensee or commercial counterparty may deteriorate, which, among other things, may impair our ability to renew or sustain existing material arrangements with such governmental authorities or counterparties or to enter into new commercially desirable arrangements.

We have been and may continue to be subject to competition law investigations and claims.

We have been in the past and may continue to be the subject of claims regarding alleged anticompetitive behavior on the markets of the jurisdictions where we operate to restrict competition and limit consumer choice.

For example, on November 14, 2018, the Hungarian Competition Authority (GVH) withdrew (the **"GVH Withdrawal Decision**") its original approval (the "**GVH Original Approval**") of DIGI Hungary's acquisition of Invitel and launched a new investigation to re-assess certain market overlaps between Invitel and i-TV, another subsidiary we have in Hungary providing telecommunication services. The stated reason for the GVH Withdrawal Decision and such new investigation was that at the time of the initial evaluation leading to the GVH Original Approval, DIGI Hungary had allegedly failed to proactively comment on certain data regarding the territorial scope of certain telecommunications services provided by i-TV. In addition, the GVH Withdrawal Decision imposed a fine of approximately €280,000 on DIGI Hungary. In December 2018, DIGI Hungary appealed the above findings, and the fine imposed by, the GVH Withdrawal Decision to a competent Hungarian Court. On June 4, 2019, the court (i) reduced the imposed fine by 50% to approximately €140,000, but (ii) agreed with the GVH Withdrawal Decision insofar it had alleged DIGI Hungary's failure to proactively comment on certain data regarding the territorial scope of certain telecommunication services provided by i-TV; however it (iii) established that the GVH had itself to properly gather the necessary information at the time of the evaluation leading to the GVH Original Approval, which was not exclusively due to DIGI Hungary's failure to proactively act in the required manner. On June 19, 2019, the GVH filed an appeal against that judgement and DIGI Hungary submitted its response and cross-appeal on August 23, 2019. The appeal hearing was scheduled for March 25, 2020, but as consequence to the measures implemented by the Hungarian government in response to the COVID – 19 epidemics, the hearing has been postponed and we do not have information regarding the new hearing date.. Although we continue to believe that DIGI Hungary fully cooperated with the GVH during their initial evaluation leading to the GVH Original Approval by providing complete and accurate information and that the GVH

Withdrawal Decision was incorrect, in order to address the authority's concerns, and in consultation with GVH, we proposed as remedial measure sale by Invitel to a third party of its operations in 14 Hungarian settlements and parts of its network in the Szeged settlement that overlapped with DIGI Hungary's own network there, the underlying sale and purchase agreement having been executed on January 9, 2020. Following the proposal of this remedial package, GVH authorised again DIGI Hungary's acquisition of Invitel on March 18, 2020, subject to fulfilment of the remedial measures within three months as of the communication of the new GVH approval to DIGI Hungary. See "*Overview-Recent Developments-Litigations and other proceedings*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations-trends and Other Key Factors Impacting Our Results of Operations-Acquisitions and siposals*" and "*Business-Litigation and Legal Proceedings-Further investigation by the GVH of our acquisition of Invitel*".

We fully cooperated with the relevant competition authorities in any proceedings, in which we have been involved and intend to continue to do so if we are the subject of future proceedings, but such proceedings are typically lengthy and could take several years to be resolved. There is no assurance that the GVH (or any other antitrust authority in our countries of operations) will not conduct further investigations on us or, if they do, that they will not impose sanctions on us as a result of such investigations. Such sanctions may include fines of up to 1% of our total turnover in the year prior to the decision if we fail to provide accurate and complete information to the relevant authority within the terms indicated by it or imposed by applicable law and up to 10% of our total turnover in the year prior to the decision per individual violation of competition law, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

In addition, the telecommunications and media sectors, amongst other industries, are under constant scrutiny by national competition regulators in the countries, in which we operate and by the European Commission. Whether in the context of sector inquiries, antitrust investigations or in relation to requests for information, competition authorities may, from time to time, have different interpretations of our behavior in the relevant markets or of the clauses in the agreements that we enter into and construe them as potentially non-compliant with applicable competition legislation. As a result, we could be subject to fines up to the amount mentioned above and/or other restrictive measures.

For example, in April 2013, the Romanian Competition Council (the "RCC") launched a sector inquiry regarding (a) electronic communication services offered in Romania as part of multiple-play packages and on a standalone basis; (b) access to electronic communications infrastructure in Bucharest; and (c) examination of the sector in the rest of Romania in order to evaluate the relative market power of participants. Its inquiry in connection with the access to electronic communications infrastructure in Bucharest was completed in early 2016 and recommended increased oversight by ANCOM of communication infrastructure operators (us included) and monitoring of non-discriminative access to such infrastructure by communication providers. The RCC's inquiry regarding electronic communication services in Romania was finalized in late 2017. As a result thereof, relevant existing practices of market participants (us included) could be subjected to stricter scrutiny in the future. In addition, the RCC's 2017 report included certain findings on common potentially abusive provisions in agreements with individual customers, such as termination clauses. The RCC alerted the Romanian National Authority for Consumer Protection ("**NACP**"), which re-addressed the matter to ANCOM. There is no further information available at the moment. However, should NACP and/or ANCOM deem some of such provisions to be indeed abusive vis-à-vis customers, market participants (us included) may be required to amend existing customer agreements, and may face fines and other sanctions in connection with current practices.

On September 13, 2019, the GVH commenced an investigation against DIGI Hungary for allegedly having violated Hungarian consumer protection regulations in marketing its recently launched mobile services. According to the GVH, DIGI Hungary failed to adequately disclose to potential clients: (a) the data consumption capabilities of the service, (b) the lack of international roaming options and (c) the fact that the services was only available to DIGI Hungary's existing fixed-line and DTH customers. We believe that DIGI Hungary acted in compliance with all applicable regulations and do not think that the GVH's allegations have merit. However, we are fully cooperating with the GVH in respect of this investigation. Although it is currently at an early stage, if the GVH were to conclude that DIGI Hungary was in fact liable for those violations, it could subject DIGI Hungary to fines, the aggregate amount of which should be, as general rule, calculated based on the net costs of the underlying marketing activities (which were not material for our business given the limited scope of our current mobile offering in Hungary, see "*Business-Products and Services-Mobile telecommunication Services*"), but which could be further adjusted based on GVH's assessment of other relevant factors (such as, for example, the gravity of the alleged infringement).

Sector inquiries are not targeted at particular companies and are concluded with reports describing the markets analyzed and including recommendations for better market functioning. The competition authorities cannot apply fines as a result of sector inquiry proceedings for anticompetitive conduct, but may decide to open new investigations targeted at particular companies, which may result in stricter scrutiny of our business and/or the imposition of fines or other sanctions. Additionally, the results of an inquiry could lead to lawsuits being brought by third parties.

Sanctions by the NACP in relation to our 2019 increase of tariffs in Romania may force us to lower prices and, provided customers claim reimbursement, pay them back.

In the beginning of 2019, we increased certain tariffs we charge to our Romanian customers for electronic communication services. In April and May 2019, the NACP carried out a review of those increases (along with their review of prices charged by our competitors), as a result of which it issued minutes sanctioning RCS & RDS with a fine of RON70,000 for allegedly having violated the law in so increasing the tariffs. According to the NACP, those increases were the result of RCS & RDS transferring to its customers the costs that had increased on account of the Government Emergency Ordinance 114/2018 (the "December Ordinance"). The NACP also ordered RCS & RDS to reverse the price increases (which order could entitle our Romanian customers to claim the difference between what they actually paid us based on the new tariffs and what they would have paid us based on the old tariffs).

We believe that the NACP's minutes and order are without merit as (i) the disputed tariff increases were not unlawful; and (ii) there were good economic reasons therefor, which were not related to the additional costs imposed by, or that could be the result of, regulatory changes. On June 14, 2019, RCS & RDS appealed the NAC's minutes to a Romanian court of first instance (thereby suspending their application). The appeal was granted on November 18, 2019. The NACP is entitled to appeal that judgment within 30 days following receipt of the full text thereof. As at the date of this report, the full text has not yet been communicated to the parties and therefore no such appeal has been filed. On July 18, 2019, RCS & RDS filed for injunctive relief requesting that the NAC's order be suspended. The injunctive relief was granted on August 9, 2019 but was appealed by the NACP. The hearing of that appeal is currently scheduled for June 3, 2020. On September 26, 2019, RCS & RDS filed to a Romanian court of first instance a substantive appeal against the NACP's order itself. The hearing of this appeal took place on March 3, 2020 with the issuance of the decision being initially postponed for March 17, 2020 and subsequently for March 25, 2020 (such date may be further delayed in the context of the Romanian government's suspension of certain judicial proceedings for the duration of the COVID-19 pandemic and the related containment efforts). See "Business—Litigation and Legal Proceedings—Dispute with the NACP in relation to 2019 increases of our tariffs in Romania."

Should the NACP's order not be annulled by the court, or the NACP succeed in reversing our appeal against its minutes, that could result in us being forced to lower our tariffs in Romania (which in itself will represent a significant impediment to our revenue generation in the country) or pay our Romanian customers the difference between what they actually paid us based on the new tariffs and what they would have paid us based on the old tariffs (which, in aggregate, could be a significant amount), damage our reputation and otherwise have a material adverse effect on our business, prospects, results of operations or financial condition.

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

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as ongoing compliance with, among other things, telecommunications, audio-visual, energy, environmental, health and safety, labor, building and urban planning, personal data protection and consumer protection laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and monitoring licensees' compliance with the terms thereof. We may sometimes disagree with the way legal provisions are interpreted or applied by regulators and we may, from time to time, challenge or contest regulatory decisions in the course of our business, which may affect our relations with regulators. The competent authorities in the countries where we carry out our activities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may result in the conclusion that we have violated laws, decrees or regulations. We may be unable to refute any such conclusions or remedy the violations found.

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

Because we are subject to a large number of changing regulatory requirements and market and regulatory practices, we may not be in compliance with certain requirements under telecommunications and media laws, consumer protection laws, personal data protection laws and regulations or regulatory decisions. For instance, we have not always complied in a timely fashion with obligations relating to interconnection, including the obligation that our interconnection agreements comply with applicable ANCOM decisions, and the obligation that we pay our regulatory fees. We were in breach of certain technical obligations/parameters relating to our network and the provision of our services (e.g., level of noise/radiation above the threshold, poor TV signal in certain villages/towns, etc.), for which we have received warnings from ANCOM and small fines. We have generally remedied such breaches after receiving such sanctions from ANCOM, but we may be unable to remedy (or do that in a timely fashion) such breaches in the future. In addition, from time to time, our satellite spectrum license may not cover some of our channels or up-link connections and our retransmission endorsements may not cover some of our channels or may cover certain channels that we are not currently broadcasting. See "*Industry Regulation—Romania—Television and Radio Services—Licenses—Satellite Spectrum License.*" We may also, from time to time, not be in full compliance with our "must carry" obligations and may have differing interpretations of such obligations than the regulators. Our failure to comply with existing laws and regulations and the findings of government inspections may result in the imposition of fines or other sanctions on us by ANCOM or the National Audiovisual Council of Romania ("**NAC**"). The recent regulatory changes introduced by the December Ordinance entitle ANCOM to impose fines of up to 10% of our total turnover in the year prior to ANCOM's decision in the event of repeated violations of regulatory obligations under current law in Romania. See "*—Risks relating to investments in countries where we operate—Any potential deterioration of the general internal economic, political and social conditions in Romania and Hungary, our principal countries of operation, or any adverse changes in the Romanian or Hungarian tax or regulatory environment, may not be offset by developments in other markets*." Should ANCOM impose such fines for any actual or alleged violation, it could have a material adverse effect on our business, prospects, results of operations or financial condition.

To the extent certain provisions in our agreements with individual customers are deemed unenforceable by ANCOM or NACP, a court may decide that such provisions are invalid and must be removed from such agreements and we may face minor administrative fines. In certain cases, some agreements may be terminated in full. See also *"—We have been and may continue to be subject to competition law investigations and claims."* While we are not aware of any relevant claims, there can be no assurance that no such claims will be filed in the future.

Recent proposed amendments to the statute of NACP, as well as to other legislative acts in the consumer protection field seek to raise fines that may be applied to economic operators, particularly by linking them to the turnover of such economic operators (e.g., such as application of fines of up to 10% of turnover for abusive provisions included in agreements concluded with consumers). In addition, under such proposals, breaches of consumer protection rules could trigger discontinuation of certain business activities and application of administrative and criminal penalties. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and could have a material adverse effect on our business, prospects, results of operations or financial condition.

It may be difficult for us to obtain all licenses, permits or other authorizations required to operate our existing network or any other required licenses, permits or other authorizations, and once obtained they may be amended, suspended or revoked or may not be renewed.

The operation of telecommunications networks and the provision of related services are regulated to varying degrees by European, national, state, regional or local governmental and/or regulatory authorities in the countries where we operate. Our operating licenses or authorizations specify the services we can offer and the frequency spectrum we can utilize for mobile operations. The operating licenses are subject to review, interpretation, modification or termination by the relevant authorities and the regulatory framework applicable to them may also be amended. There is no assurance that the relevant authorities will not take any action that could materially adversely affect our operations. Our operating licenses are generally renewable upon expiration. However, there is no assurance that licenses will be renewed. If we fail to renew any of our licenses, we may lose the ability to continue to operate the relevant business and the realizable value of our relevant network infrastructure and related assets may be materially adversely affected. Some of these licenses and other authorizations are particularly complicated and lengthy to obtain and may subject us to ongoing compliance obligations. Moreover, if we fail to comply with the requirements of the applicable legislation or if we fail to meet any of the terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated. The difficulty in obtaining and/or renewing licenses, permits or other authorizations required to operate our existing network or any other required licenses, permits or other authorizations may be exacerbated by the COVID-19 pandemic and efforts to contain its spread, which may result in disruptions to or suspension of the activity of certain public authorities and governmental or local agencies for the duration of the pandemic. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operations.

Further, the deployment of our networks requires obtaining access rights from various third parties services, as well as various approvals or permits from European, national, state, regional or local governmental and/or regulatory authorities, particularly in relation to establishing base stations for our mobile telecommunication services. For example, on September 13, 2019, the NMIAH refused to allow the Company to participate in a public auction for the acquisition of mobile telecommunication frequencies in Hungary, which we intended to use in the development of our mobile telecommunication network in the country. We appealed that decision to a Hungarian court and requested injunctive relief to suspend the auction pending judicial review of our claims. The first hearing in the file consisting in appealing the NMIAH rejection order was scheduled for MAY 6, 2020. On January 10, 2020, our request for relief wa rejected. On January 20, 2020, we filed a further appeal to the Supreme Court of Hungary. This appeal is currently pending at the Supreme Court of Hungary. Although we believe that under applicable Hungarian law, the auction cannot proceed until the Supreme Court of Hungary makes a final determination regarding our appeal, the law is not entirely clear on this issue and there is no assurance that the NMHH will adhere to our understanding. On January 22, 2020, we applied for further injunctive relief to have us admitted into the pool of bidders pending resolution by the Supreme Court of Hungary and as consequence to the rejection of this further injunctive relief we challenged the first court decision to the Supreme Court of Hungary. This appeal is currently pending at the Supreme Court of Hungary. See "*Business—Litigation and Legal Proceedings—Dispute with the NMHH relating to its refusal to allow the Parent to participate in an auction for mobile telecommunication frequencies in Hungary*." As our existing licenses in Hungary have material limitations as to bandwidth and coverage, should the Supreme Court of Hungary uphold the NMIAH's decision, the successful development of our mobile telecommunication offerings in Hungary could be put in significant jeopardy and the prospects for our growth in the Hungarian mobile telecommunications sector vis-a-vis our principal competitors could be severely impeded. Further, no assurance can be provided that the NMIAH will not introduce new, or interpret existing, criteria for the future auctions for telecommunications frequencies in such a way that would preclude us from participating therein. This, especially in light of the NMIAH's current practices, which we are challenging in court, may jeopardize our ability to renew our existing, or obtain new, telecommunication licenses in Hungary.

In addition, such approvals and permits may include building, construction and environmental permits, antenna and mast deployment approvals and various other planning permissions. Obtaining these access rights, approvals and permits can be a complex process and is often characterized by different practices and requirements at the various regulatory authorities which frequently results in inconsistent and bureaucratic processes and/or by varying demands of third parties from whom access rights are obtained. Moreover, in certain instances, applicable regulatory regime has deteriorated over time and otherwise may be not fully adapted to the requirements and realities of modern telecommunications business, while regulatory authorities have recently significantly intensified enforcement activities, including imposition of fines. Though we have a dedicated team tasked with obtaining the required access rights, licenses, permits and other authorizations, due to the inherent challenges of these regimes, we have experienced, and may continue to experience, difficulties in obtaining some of these access rights, approvals and permits, which has led us to operate (in full or in part) without necessary authorizations in some instances and may require us to exert considerable effort and incur considerable expenses in order to implement suitable alternatives or could result in fines or other penalties being imposed by regulators.

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

In Romania, we currently provide our cable TV, fixed-line telephony and fixed internet and data services through networks that are mostly above-ground and for which we lease the right to use poles from electricity and public transportation companies. In Hungary, we provide our cable TV, fixed-line telephony and fixed internet and data services through networks that are mostly underground. In Romania and Hungary, market participants (us included) may not always be able to obtain or use the necessary permits for developing, building and completing networks in a timely manner or at all, and this may result in such networks (including mobile network base stations) not being fully authorized. Since 2011 (and earlier with respect to certain towns and cities), Romanian authorities have implemented a series of regulatory measures, which led to a *de-facto* prohibition on building above-ground networks on public property (in particular, in urban areas) and imposed pressure to move our existing networks underground. Although urban regulations have since been partially relaxed so as to allow above-ground infrastructure building in rural areas, the overall negative regulatory trend is continuing and may lead to forced changes to network building practices, as well as to requirements to alter existing network locations, which can involve significant capital expenditure. We are moving our networks underground in cities where local authorities have granted us the required authorizations expediently or where the necessary infrastructure was already available. However, we may not always be in full compliance with obligations to move our networks underground or we may have different interpretations with respect to the imposition of such obligations by public authorities. If we were forced to place our above-ground networks underground pursuant to plans of authorities that contemplate impractical solutions, our costs for providing services may increase and our customer satisfaction may be adversely affected. In addition, if we are found not to be in compliance with such obligations, or otherwise in violation of restrictive covenants, easements or rights of way, we may face fines or service interruptions while we relocate our networks.

Certain agreements we entered into for the purpose of developing our networks, including majority of leases of poles that support our above-ground fixed fiber-optic networks, are with persons whose title thereto or authority or capacity to enter into such agreements were not fully verifiable or clear at the time, among other reasons, because of unclear and constantly changing legislation. In addition, certain agreements with third parties with respect to our network (including mobile network base stations) were not documented or executed in the authenticated form required by Romanian law and, as such, they, or the building permits obtained on the basis thereof, may be invalidated or easily discontinued. Moreover, certain agreements were entered into without full compliance with other applicable formalities, such as public tender requirements. No assurance can be provided that such agreements will not be subject to cancellation or revocation in the future. Further, a significant portion of our above-ground fixed fiber-optic network in Romania and Hungary is built on poles leased from various regional electricity distribution companies. Renewal of agreements concluded with these operators is often delayed and problematic. In addition, certain of our lease agreements have provisions allowing the lessor to terminate the lease at its option, subject to prior notice ranging from 10 to 90 days.

We are not aware of any significant claims with regard to any irregularities related to any of the above arrangements. However, if such claims were to arise and be numerous and successful, or if there is any failure to renew these arrangements (or these agreements are terminated or cancelled), it may result in additional significant costs, material capital expenditure, service interruptions, contractual penalties or regulatory fines or other sanctions or, in the worst case, loss of business if there is no adequate alternative or there is a delay in securing such alternative. Any of these network-related risks could have a material adverse effect on our business, prospects, results of operations or financial condition.

If we infringe the intellectual property rights of third parties, or if we are otherwise held liable for infringements in relation to information disseminated through our network, we could face protracted litigation and, in certain instances, lose access to transmission technology or content.

The telecommunications industry in the markets in which we operate is characterized by the existence of a large number of patents and trademarks. Objections to the registration of new trademarks from third parties and claims based on allegations of patent and/or trademark infringement or other violations of intellectual property rights are common. Further, as the number of entrants into the Romanian and Hungarian markets increases and the overlap of product function expands, the possibility of such allegations increases. Defending intellectual property claims, such as the foregoing, requires us to engage in lengthy and costly litigation and divert the attention of our senior management and technical personnel from our businesses. Successful challenges to our rights to intellectual property or claims of infringement of a third party's intellectual property could require us to incur monetary liability, temporarily or permanently discontinue the use of the respective intellectual property, or enter into royalty or licensing agreements, which may not be available on commercially reasonable terms or at all. If we were required to take any such action, it could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

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

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

In Romania and Hungary, we are obliged to make payments to various collective copyright protection organizations as compensation for the use of copyrighted content in the programming delivered by us through our cable TV and DTH services, and copyrighted content used on our website. These amounts are not fixed and are determined by negotiation in accordance with a methodology based on certain legal provisions and relevant European practices. There can be no assurance that amounts payable to various collective copyright protection organizations will not increase in the future or that additional claims could not arise in relation to our past activity or that we will not be subjected to penalties or fines for delaying payments. Since we may not be able to pass on such increases in costs to our customers, such increases, penalties or fines could have a material adverse effect on our results of operations or financial condition.

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

The tax laws and regulations in Romania, the Netherlands, Hungary, Spain and Italy may be subject to change, and there may be changes in interpretation and enforcement of tax law. These changes in tax law and/or interpretation and enforcement of the tax law may be difficult for us to predict, and we may therefore be unprepared for these changes. As a result, we may face increases in taxes payable if tax rates increase, or if tax laws or regulations are modified by the competent authorities in a manner, which could have a material adverse effect on our cash flows, business, prospects, results of operation or financial condition for any affected reporting period. For example, the Romanian Fiscal Code currently provides, subject to certain conditions, an exemption from Romanian withholding taxes for the interest paid on receivable instruments/titles issued by Romanian companies set up in accordance with Romanian Company Law 31/1990 (as amended and supplemented). Based on advice it has received from recognized tax experts experienced in such matters, we believe that this exemption should be applicable to interest payments made by RCS&RDS on the Notes to non-resident holders thereof. If the above provisions of the Romanian Fiscal Code, or the interpretation thereof, were to change, we could be required to pay certain Additional Amounts in relation to the Notes, which could be significant.

In addition, such competent authorities periodically examine or audit the Group. In particular, a review by the Romanian tax authorities in the tax affairs of the Company for the years 2013 to 2016 was performed in 2017. This review was for verification purposes only (i.e., not due to an infringement) and such reviews are common in Romania for companies of our size (that review did not result in any material adjustment, fine or recommendation). We regularly consider the likelihood of assessments and, for probable adverse assessments, have established tax allowances, which represent our management's best estimate of the potential assessments. However, the actual resolution of any of these tax matters could differ from the amount provisioned, which could have a material adverse effect on our cash flows, business, prospects, results of operation or financial condition for any affected reporting period.

We may be subject to fines, awards of damages or other penalties arising from legal proceedings, contractual claims and disputes, as well as negative publicity arising therefrom.

We are involved in legal proceedings from time to time, which may lead to the imposition of damages, fines or other penalties on us. We may be adversely affected by other contractual claims, complaints and litigation, including from counterparties with whom we have contractual relationships, customers, competitors or regulatory authorities, as well as any adverse publicity that we may attract. Any such litigation, complaints, contractual claims, or adverse publicity could have a material adverse effect on our business, reputation, results of operation or financial condition.

Risks Relating to Investments in Countries where We Operate

Any potential deterioration of the general internal economic, political and social conditions in Romania and Hungary, our principal countries of operation, or any adverse changes in the Romanian or Hungarian tax or regulatory environment, may not be offset by developments in other markets.

Our success is closely tied to general economic developments in Romania and Hungary. Both countries have undergone substantial political, economic and social change in recent years. As is typical of emerging markets, they do not possess the full business, legal and regulatory infrastructures that would generally exist in more mature free market economies. In addition, the tax, currency and customs legislation in Romania and Hungary are subject to varying interpretations and changes, which can occur frequently. See "*—Romania's and Hungary's legal and judicial systems are less developed than in other European countries, which makes an investment in the Shares* *and the Notes riskier than investments in securities of an issuer that operates in a more developed legal and judicial system*." These issues continue to result in relatively high poverty rates and low wages.

Moreover, both of these countries have experienced periods with significant political instability. In particular, for the past several years, the political environment in Romania, our primary market, has been unstable, dominated by political conflict and under significant pressure from street protests in 2017 and 2018 mainly related to legislative proposals of the Parliament and the Government to amend the Criminal Code and to decriminalize certain criminal acts. Political instability in Romania continues and could delay or stop economic and regulatory reforms in the country.

In Hungary, our other core market, the ruling party, which has been in power since 2010, introduced various policies and measures that raised certain concerns about the rule of law, including taxes with retroactive application and a new constitution that has been scrutinized by international organizations (including the EU Commission). The Hungarian opposition towards the European Union's reaction to the migration crisis (significantly affecting Hungary in its early stages) might additionally encourage the present government to adopt national protective measures that might discourage foreign presence or investments in Hungary. Any disruption of the reform policies and recurrence of political or governmental instability could have a material adverse effect on us and the value of investments related to Romania and Hungary.

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

Negative developments in, or the general weakness of, the Romanian or Hungarian economies, in particular increasing levels of unemployment may have a direct negative impact on the spending patterns of retail consumers, both in terms of subscriber and usage levels. Because a substantial portion of our revenue is derived from residential customers who may be impacted by such conditions, it may be more difficult for us to attract new customers or maintain ARPU at existing levels. Deterioration in the Romanian or Hungarian economies may further lead to a higher number of non-paying customers or generally result in service disconnections. Additionally, any uncertainty or instability in, or related to, the political conditions in Romania and Hungary, including any changes to their respective political regimes, legal, tax and regulatory frameworks or governing policies, could negatively affect our business and operations.

In addition, Romanian and Hungarian policy-making and regulatory frameworks are often subject to rapid and sometimes dramatic changes, the consequences of which may be difficult to foresee, or which could potentially lead to slower economic growth or general deterioration of economic conditions in those countries. For example, the Romanian government has implemented a series of reforms, including numerous increases to minimum wage rates, as well as changes to the country's social security taxation regime and a transfer of its burden from employers to employees; it also introduced certain one-off exceptional taxes. Some of those measures may have a severe impact on various sectors of Romanian economy, including telecommunication and energy companies. In particular, on December 29, 2018, it issued the December Ordinance, which became effective on January 1, 2019 and introduced major changes affecting the energy, banking and private pension sectors of the Romanian economy. Most importantly for our business, it (i) increased ANCOM's annual monitoring fee to 3.0% of total turnover of a telecommunications operator for the preceding year (the "**Monitoring Fee**"); (ii) provided for very significant fees for extending existing, or acquiring new, telecommunications licenses; and (iii) significantly increased penalties for breaches of regulations governing the Romanian telecommunication industry (up to 10% of the violator's turnover in the year prior to the decision to impose such penalties). The December Ordinance was repeatedly amended thereafter, most recently on January 6, 2020 through the Government Emergency Ordinance 1/2020. These amendments have disapplied the vast majority of the December Ordinance's original provisions affecting our business in Romania, with the exception of the Monitoring Fee, which remains in place at a reduced rate of up to 2.0%, and the penalties. However, whether or not ANCOM will be entitled to charge the Monitoring Fee is currently conditional on whether its other funding is sufficient to cover its operational requirements (an arrangement which was also in place prior to the issuance of the December Ordinance in its original form). ANCOM has not applied such fees over the previous several years and for 2019 the Monitoring Fee was set to zero. Unfavorable economic conditions, regulatory uncertainty and special taxation may ultimately have a direct and/or indirect negative impact on consumers' spending and/or the prices we are able to charge for our products and services. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Regulation*".

As our business is primarily focused on Romania and Hungary, any such negative developments may not be offset by positive trends in other markets. Therefore, a weak economy and negative economic or political developments in the principal countries in which we operate may jeopardize our growth targets and could have a material adverse effect on our business, prospects, results of operations or financial condition. See also "—Risks Relating to Investments in Countries Where We Operate—Romania's and Hungary's legal and judicial systems are less developed than in other European countries, which makes an investment in the Shares and the Notes riskier than investments in securities of an issuer that operates in a more developed legal and judicial system."

The current and upcoming social, political and military conflicts in the region of our operations may have consequences, which may materially adversely affect our business.

Since early 2014, Ukraine, which neighbors both Romania and Hungary, has been confronting a severe internal crisis, in which the Russian Federation is also alleged to be heavily involved. During this crisis, Ukraine lost control over the peninsula of Crimea to the Russian Federation and lost control over a significant part of its other eastern territories to pro-Russian separatists. In response to the perceived heavy intervention (including military intervention) by the Russian Federation in Ukraine, the United States and the European Union have imposed several sets of economic sanctions and are threatening further sanctions in the future. The Russian Federation has denied its involvement and has imposed certain retaliatory economic sanctions.

In addition, the ongoing political instability in the Republic of Moldova, another country neighboring Romania, is threatening to trigger another political conflict in the region. Also, many EU countries, including Hungary, have suffered from the recent massive migration of Middle East refugees, which has had a profound impact on their economic, social and political environments. Hungary's response to the refugee crisis has been questioned by EU officials. Although we are not currently affected by the above developments, they have the potential to cause materially adverse economic conditions, social turmoil or, in a worse case, military confrontation in the region.

Effects are to a large extent unpredictable, but may include drop in investments caused by uncertainty, further economic sanctions, which may negatively affect the economies of our countries of operation, significant currency fluctuations, increases in interest rates, decreases in the availability of credit, trading and capital flows and increases in energy prices.

These and other unforeseen negative effects of the crises in the region could have a material adverse effect on our business, prospects, results of operations and financial condition.

The UK's decision to leave the European Union could create further political and economic uncertainty and risks which may negatively affect the markets in which we operate and our business. It can also have a negative impact on the ability of the prospective investors in the Notes to enforce English court judgements in the EU jurisdictions where we operate.

The referendum resulting in a vote for the United Kingdom to leave the European Union ("**Brexit**"), has created volatility in the global financial markets and could contribute to prolonged uncertainty around certain aspects of the European and global economies, as well as European companies and consumers. Brexit took place on January 31, 2020 and is likely to adversely affect European and worldwide economic conditions, and could contribute to greater instability, in the global financial markets before and after the terms of the United Kingdom's future relationship with the European Union are settled. Brexit could also affect the general political environment in the European Union, as well as the stability and standing of the European Union as a single market.

Until more clarity is available around the legal, political and economic realities and requirements for Brexit, political and economic uncertainty, notably in European markets, may occur, which could lead to a downturn in the markets in which we operate and a decrease in spending and investment. Additionally, this uncertainty can lead to an increase in costs for us due to legal and regulatory changes, as well as currency exchange rate fluctuations between the euro and Romanian leu, Hungarian forint and the U.S. dollar. These effects could have an adverse effect on our business, investments and potential growth into Europe. These factors could increase our operating costs, delay capital expenditure programs, or place additional regulatory burdens on us that could have a material adverse effect on our business, prospects, results of operations or financial condition. Furthermore, as a result of this uncertainty, financial markets could experience significant volatility, which could adversely affect the value of the Notes.

In addition, Brexit has led to general volatility in the currency exchange market. Increased volatility in the currency exchange market as a result of Brexit could also materially adversely affect our results of operations as we may be unable to implement adequate strategies to protect against the currency exchange risk.

Current uncertainty around the Brexit could also have a negative effect on the ability of potential investors in the Notes to enforce English court judgements in either Romania, Hungary, Spain or the Netherlands, where the group and the Collateral are located, in an efficient manner or at all. Although an alternative to the current mechanism for the recognition and enforcement of English judgments in the EU jurisdictions where the Group has its businessmay be put in place during or after the completion of any Brexit, there is no assurance that any such replacement or alternative mechanism will prove to be as effective as existing judgment recognition protocols or that any such replacement or alternative mechanism will be put in place at all. If, following Brexit, there is no such alternative or replacement mechanism for any period of time (or if the rules governing the recognition of English court judgments in other EU member states were to change prior to the completion of Brexit), enforcement and recognition of English court judgements during any such period will be subject to considerations set out under the caption "Enforcement of Civil Liabilities—Foreign court judgments—Judgments rendered by courts of other states, from the Notes Offering Memorandum." If that were the case, recognition and enforcement of English judgments against us by potential investors in the Notes could become more difficult. See also *"—Investors may be unable to enforce foreign arbitral awards or court judgments or effect service of process against us or our assets in the jurisdictions in which we operate or our executive officers reside*." from the Notes Offering Memorandum.

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

Corruption is one of the main risks confronting companies with business operations in Romania and Hungary. International and local media, as well as international organizations, have issued numerous alerting reports on the levels of corruption in these countries. For example, the 2019 Transparency International Corruption Perceptions Index, which evaluates data on corruption in countries throughout the world and assigns scores countries from 0 (least corrupt) to 100 (most corrupt), gave Romania and Hungary scores of 44, respectively, corresponding to a ranking of 70 out of 180 countries (2018: 47 and 46 score, 61 and 66 rank out of 180 countries and territories).

Corruption has been reported to affect the judicial systems and some of the regulatory and administrative bodies in Romania and Hungary, which may be relevant for our businesses. Although it is difficult to predict all of the effects of corruption on our operations, it can, among other things, slow down approvals of regulatory permits and licenses we need to conduct our business. Therefore, corruption could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

The long-term foreign and domestic currency debt of Romania is currently rated BBB-/A-3 (negative outlook) by S&P, Baa3 (stable outlook) by Moody's and BBB- (stable outlook) by Fitch; while the long-term foreign and domestic currency debt of Hungary is currently rated BBB-/A-2 (positive outlook) by S&P, Baa3 (stable outlook) by Moody's and BBB- (positive outlook) by Fitch. Any adverse revisions to Romania's or Hungary's credit ratings for domestic or international debt by these or similar international rating agencies may materially adversely impact our ability to raise additional financing and the interest rates and other commercial terms under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

Romania's difficulties related to its integration with the European Union and Hungary's repeated backlashes against the European Union may adversely affect our business.

Romania entered the European Union in January 2007 and continues to undergo legislative changes due to its accession to, and its continued integration with, the EU. As part of the accession process, the European Union has established a series of measures for Romania in order to fulfill basic EU membership requirements. The European Commission was tasked with monitoring Romania's progress, which it does by issuing annual compliance reports. In its 2017 Report (the "**2017 Report**") on Romania's progress under the Co-operation and Verification Mechanism (the "**CVM**"), the European Commission gave a generally positive assessment of Romania's efforts and proposed 12 recommendations for it to fulfill in order to ensure compliance with the CVM. However, in its 2018 Report (the "**2018 Report**") on Romania's progress under the CVM, the European Commission stated that while certain steps towards the implementation thereof had indeed been taken, further developments in 2018 (such as substantial changes to the laws governing organization and functioning of the country's judicial system and numerous initiatives to grant amnesty to individuals convicted of certain corruption crimes) represented a major pushback and called into question its overall positive assessment of Romania's progress made in the 2017 Report. In particular, the 2018 Report noted the unfortunate developments in the areas of judicial independence, judicial reform and combating high-level corruption. It also set out eight additional recommendations for the country to follow. In its 2019 Report (the "2019 Report"), the European Commission reiterated its concerns in relation to negative developments regarding recent judicial reforms and the weakening fight against corruption. It noted that the Romanian Government had failed to adhere to the eight additional recommendations formulated in the 2018 Report and reiterated that in its opinion the country had failed to build upon the progress achieved in previous years. Prior to the issuance of the 2019 Report, in May 2019, the European Commission officially notified the Romanian Government that it was prepared to resort to measures available under the rule of law framework (beyond the CVM), should the necessary improvements not be implemented, or should the situation deteriorate further.

Unless satisfactory actions are taken, Romania could face EU sanctions, which could have a material adverse effect on financial operations, investments and capital flows in the country, and consequently, on our business, prospects, results of operations or financial condition. Such sanctions may take the form, for example, of a temporary suspension of the application of relevant provisions governing the relations of Romania with any other EU member state or member states or the suspension of member states' obligations to recognize and enforce, under the conditions laid down in EU law, Romanian judgments and judicial decisions.

The current Hungarian Government has repeatedly adopted positions which were at odds with those of the EU institutions, especially in the context of the 2015-2016 migrant crisis, during which Hungary strongly rejected the migrant quota plan and prompted widespread criticism from EU officials. Continued backlash by Hungary against the European Union's response to social, economic and/or political events may create uncertainty as to Hungary's commitment to its membership in the European Union and have a material adverse effect on financial operations, investments and capital flows in Hungary, and consequently, on our business, prospects, results of operations or financial condition.

Romania's and Hungary's legal and judicial systems are less developed than other European countries, which makes an investment in the Shares and/or the Notes riskier than investments in securities of an issuer that operates in a more developed legal and judicial system.

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

In addition to the foregoing, resolving cases may at times involve considerable delays. The court systems in Romania and Hungary are underfunded relative to those of other European countries. The enforcement of judgments may also prove difficult, which means that the enforcement of rights through court systems may be laborious, especially where such judgments may lead to closure of businesses or job losses. This lack of legal certainty and the inability to obtain effective legal remedies in a timely manner may adversely affect our business, and may also make it difficult for investors in the Additional Notes to address any claims that they may have.

We may be adversely affected by unfavorable conditions in the global economy or volatile equity and credit markets, in particular due to the uncertainty caused by the COVID-19 pandemic, as well as the persistent uncertainty around the United Kingdom's decision to leave the European Union.

Concerns about increased global political instability and trade controversies, as well as the potential economic slowdown and recession in Europe and the United States, the availability and cost of credit, diminished business and consumer confidence and inflation contribute to increased market volatility and diminished expectations for global, European and emerging economies, including the jurisdictions in which we operate.

This instability was further exacerbated by United Kingdom's vote on June 23, 2016 to leave the European Union and the persistent uncertainty on the terms of its departure which has occurred on January 31, 2020, following the lapse of the initial transitional period scheduled for December 31, 2020, as well as by the transmission of COVID-19 and efforts to contain its spread (which have resulted in international, national and local border closings and other significant travel restrictions and disruptions, significant disruptions to business operations, supply chains and customer activity, event cancellations and restrictions, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, and quarantines, as well as general concern and uncertainty that has negatively affected the economic environment), which has increased volatility in the global financial markets and is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the COVID-19 pandemic passes and/or the terms of the United Kingdom's future relationship with the European Union are settled.

The effects of an economic downturn or recession caused by the COVID-19 health emergency and the United Kingdom's departure from the European Union in global markets may impact a significant number of our customers, leading to increased unemployment and a decrease in disposable income(which may, in its turn, lead to a decrease in consumption spending), and government responses to the economic crisis, such as austerity measures, exceptional one-off taxes to compensate for decreasing budget revenues and increases in tax rates. Such conditions could have a material adverse effect on our business and results of operations.

Negative developments in, or the general weakness of, the economies in the countries where we operate, in particular increasing levels of unemployment, may have a direct negative impact on the spending patterns of our customers, both in terms of subscribed services and usage levels. Because a substantial portion of our revenue is derived from residential subscribers who may be impacted by these conditions, it may be (i) more difficult to attract new subscribers, (ii) more likely that certain of our subscribers will downgrade or disconnect all or part of the services they subscribe to and (iii) more difficult to maintain ARPUs at existing levels. In addition, we can provide no assurances that a deterioration of the economy will not lead to a higher number of non-paying customers or generally result in service disconnections. Therefore, a weak economy and negative economic development may jeopardize our growth targets and may have a material adverse effect on our business, prospects, results of operations and financial condition.

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

In addition, volatile credit markets have also affected us in the past, and may affect us in the future, through increases in interest rates of our floating rate debt and other financial obligations, particularly the 2019 UniCredit Equipment Financing Agreement, the 2019 Bridge Facilities Agreement, the 2016 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement. The lack of easily available credit in the future may also restrict our ability to grow at a pace commensurate with the business opportunities we can identify. See "*—We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.*" Additionally, this uncertainty can lead to an increase in costs for us due to legal and regulatory changes, as well as currency exchange rate fluctuations between the euro and Romanian leu, Hungarian forint and the U.S. dollar. These effects could have an adverse effect on our business, investments and potential growth into Europe. These factors could increase our operating costs, delay capital expenditure programs, or place additional regulatory burdens on us that could have a material adverse effect on our business, prospects, results of operations or financial condition. Furthermore, as a result of this uncertainty, financial markets could experience significant volatility, which could adversely affect the value of the Notes. All these factors and other effects of a continued economic downturn that we may fail to predict could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

Our presence outside of the United States and the United Kingdom may limit the legal recourse investors in the Additional Notes may enjoy against us. The issuer of the Notes is incorporated under the laws of Romania, the parent of the issuer is incorporated in The Netherlands (and is tax resident in Romania), DIGI Hungary and Invitel are both incorporated under the laws of Hungary and DIGI Spain is incorporated under the laws of Spain. Other subsidiaries of the Company are incorporated under the laws of Romania, Hungary, Spain and Italy. All of the Group's directors and executive officers reside outside the United States and United Kingdom, principally in Romania, with the exception of Mr. Bogdan Ciobotaru, who is a resident of the United Kingdom, Mr. Marius Varzaru, who is a resident of Spain and Mr. Piotr Rymaszewski, who is a resident of Poland.

The Notes and the Indentures (including the Guarantees) will be governed by the laws of the State of New York (save for the arbitration clauses providing for arbitration under the LCIA Rules (as defined below), which will be governed by English law). The Notes and the Indentures will provide that (a) any suit, action or proceeding arising out of, related to, or in connection with the Indentures, the Notes and the Guarantees or the transactions contemplated hereby, and any action arising under U.S. federal or state securities laws (a "Dispute") shall be referred to and finally resolved by arbitration under the rules of the London Court of International Arbitration, also known as LCIA (the "LCIA Rules"), with the seat of any such arbitration in London, United Kingdom, provided that (b) any party to the Indenture (an "Initiating Party") may, in its sole discretion and by notice in writing to the other parties, choose instead of arbitration to submit a Dispute to any U.S. federal or state court located in the State and City of New York, Borough of Manhattan, provided further that such notice is made before any request for arbitration has already been served in respect of the same Dispute. The Intercreditor Agreement is governed by English law and provides for an exclusive jurisdiction of English courts to settle any dispute arising out of or in connection therewith.

All of Romania, the Netherlands, Hungary and Spain are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "New York Convention"). Consequently, an arbitral award from an arbitral tribunal in the United Kingdom would generally be recognized and enforced in each of those jurisdictions on the basis of the rules of the New York Convention. However, it may be difficult to enforce foreign arbitral awards against us in some, or all, of those jurisdictions due to, among other things, procedural requirements of local legislation governing such enforcement or should such awards be considered contrary to local public policy. In addition, local laws in each of Romania, the Netherlands, Hungary and Spain may make it difficult to enforce judgments against us that were obtained in foreign courts. As a general matter, these laws permit an action to be brought before a court of competent jurisdiction in Romania for the recognition and enforcement of a final and conclusive judgment *in personam* rendered by a court from an EU member state, provided that the relevant conditions set forth in EC Regulation No. 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters are met. However, other conditions may be applicable with respect to specific matters, under special Romanian legislation or international conventions. Similar rules on the recognition and enforcement of foreign court judgments apply to judgments issued in non-EU member states, which are parties to the EU Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters of 2007 (the "**Lugano Convention**").

Judgments rendered by courts in the United States and other non-EU member states (which will include the United Kingdom following its departure from EU, see "-The UK's decision to leave the European Union could create further political and economic uncertainty and risks, which may negatively affect the markets in which we operate our business. It can also have a negative impact on the ability prospective investors in the Notes to enforce English court judgments in the EU jurisdictions where we operate"), which are not parties to the 2007 Lugano Convention are subject to different requirements, and may be even more difficult to enforce. Recognition and enforcement of such judgments is subject to compliance with a number of local procedural requirements. There is no treaty between the United States and either of Romania, the Netherlands, Hungary or Spain providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. Under Romanian law, reciprocity is presumed to exist in fact (de facto) unless there is proof to the contrary; such proof is to be determined by the Romanian Ministry of Justice, in consultation with the Romanian Ministry of Foreign Affairs. Should the presumption not be observed or should it be overturned, this may deprive you of effective legal recourse for claims related to your investment in the Notes. The possible need to re-litigate in Romania a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Romanian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Romanian court. These amounts in many instances depend on the amount of the relevant claim. Under Dutch and Spanish laws, reciprocity is presumed to exist de facto, unless there is proof to the contrary, such proof to be determined by the relevant local authorities. Reciprocity is not a mandatory condition to recognition and enforcement of foreign court judgments in Hungary, if there is a specific agreement on the choice of forum by the parties that is compliant with the applicable Hungarian law.

The limitations set out above may deprive investors in the Notes of effective legal recourse for claims related to their investment. See "Enforcement of Civil Liabilities."

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

Risks Relating to Our Financial Position

Our substantial leverage and debt servicing obligations could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our financial covenants as at 31 December 2019 as per the Senior Facilities and Senior Notes are presented in Note 25 of the *Consolidated financial statements as at 31 December 2019*.

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

- making it more difficult for us to satisfy our obligations with respect to our debt and liabilities;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thus reducing the availability of our cash flow to fund internal growth through working capital and capital expenditures and for other general corporate purposes;
- increasing our vulnerability to a downturn in our business or economic or industry conditions;
- placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry;
- negatively impacting credit terms with our creditors;
- restricting us from exploiting certain business opportunities; and
- limiting our ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations.

Additionally, we may incur substantial additional indebtedness in the future which could increase the risks listed above. Although the Indentures, the intercreditor agreement originally dated November 4, 2013, as amended and restated on October 26, 2016 and which establishes the relative rights of certain of our creditors under our financing arrangements (the "**Intercreditor Agreement**") and certain of our existing credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, such agreements do not prevent us from incurring obligations that do not constitute indebtedness as such term is defined therein. Any of these or other consequences or events could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

The Indenture limits our ability to:

- incur or guarantee additional indebtedness that would cause us to exceed a Consolidated Leverage Ratio (as such term is defined in the Indenture) of 4.25 to 1;
- pay dividends or make other distributions, purchase or redeem our stock or prepay or redeem subordinated debt;
- make investments or other restricted payments;
- sell assets and subsidiary stock;
- enter into certain transactions with affiliates;
- create liens;
- consolidate, merge or sell all or substantially all of our assets;
- enter into agreements that restrict certain of our subsidiaries' ability to pay dividends; and
- engage in any business other than a permitted business.

In addition, the 2016 Senior Facilities Agreement contain covenants that limit our ability to incur and assume debt and/or require us to maintain a net leverage ratio of 3.25 to 1 (and a consolidated EBITDA to total net interest ratio of 4.25 to 1 (as such terms are defined therein). The ING Facilities Agreement contain covenants that limit our ability to incur and assume debt and/or require us to maintain a net leverage ratio of 3.25 to 1 and a consolidated EBITDA to total interest ratio of 4.25 to 1 (as such terms are defined therein). The 2019 Bridge Facilites Agreement contains covenants that limit our ability to incur and assume debt and/or require us to maintain a total leverage ratio (as such term is defined therein) of 3.50 to 1 and a consolidated EBITDA to total interest ratio of 4.25 to 1 (as such terms are defined therein). Further, our existing financing arrangements require us to have positive equity and limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions.

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

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

Any impairment of our ability to draw funds under the 2019 Bridge Facilities Agreement, 2016 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement could materially adversely affect our business operations.

Our operations have been primarily financed using cash generated in our operations and debt financing. We rely on our senior credit facilities under the 2019 Bridge Facilities Agreement, the 2016 Senior Facilities Agreement, the Citi Facilities Agreement and the ING Facilities Agreement to fund our business operations and for various other purposes. Further, if we were unable to draw funds under our senior revolving credit facilities, we may need to find alternative sources of funds which may be at higher interest rates. In addition, the overdraft facilities under the ING Facilities Agreement and the Citi Facilities Agreement are provided on an uncommitted basis and can be withdrawn at any time. There also can be no assurance that we will have sufficient cash resources on hand at any given time to meet our expenses or debt servicing requirements. Our ability to draw funds depends on, among other things, our ability to maintain certain ratios. Our ability to meet these financial ratios and other required conditions to drawing could be affected by a number of factors, including by events beyond our control. In addition, our inability to maintain these financial ratios may also result in an event of default under the 2019 Bridge Facilities Agreement, the 2016 Senior Facilities Agreement or the ING Facilities Agreement, which would prohibit us from drawing funds under those facilities and potentially trigger a cross-default under the Notes. See *"—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities."* This inability to draw funds or to maintain our operations due to a lack of cash flow could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

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

No assurance can be provided that our business will generate sufficient cash flows from operations or that future debt or equity financings will be available to us to pay our debt when due or to fund our other capital requirements or any operating losses. If our future cash flows from operations and other capital resources (including borrowings under the 2019 Bridge Facilities Agreement, the 2016 Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Agreements) are insufficient to pay our obligations as they mature or to fund our liquidity needs in the longer term, we may be forced to:

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

No assurance can be provided that we would be able to accomplish these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on our indebtedness on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, the 2019 Bridge Facilities Agreement, the 2016 Senior Facilities Agreement and the ING Facilities Agreement, limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business and could have a material adverse effect on our financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

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

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

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various cross-default and cross-acceleration provisions, resulting in the acceleration of a substantial portion (if not all) of our debt and could have a material adverse effect on our business, prospects, results of operations or financial condition.

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

As at December 31, 2019, we had €40.1 million of embedded derivative assets related to the 2023 Notes (which include several call options, as well as one put option). We had not material derivative financial liabilities, the current derivative transations are represented by interest rate swaps arrangements for the entire term loan facility and accordion term loan facility under the 2015 Senior Facilities Agreement, through which RCS&RDS hedged against the volatility of cash flows on its floating rate borrowings due to fluctuation of market interest rates.

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

Risks Relating to the Shares and the Notes

Certain Shareholders hold a significant interest in and exert substantial influence over the Group and their interests may differ from or conflict with those of other Shareholders or with those of holders of the Notes.

Mr. Zoltán Teszári directly and indirectly beneficially owns 56.93% of the Company and 100% of the issued and outstanding Class A Shares and therefore will have 100% of the voting rights in a shareholders meeting for holders of Class A Shares ("Class A Meeting") (no votes can be cast on shares that the Company holds in its own capital).

Due to his ability to exercise control over the Class A Shares and their voting rights as well as the special rights attached to Class A Shares, including in relation to the appointment of the Board of Directors, Mr. Zoltán Teszári will be able to exercise control over all decisions of the Board of Directors and matters requiring shareholder approval, including payment of dividends and approval of significant corporate transactions. Furthermore, the interests of Mr. Zoltán Teszári may not always be aligned with those of other holders of Shares.

If the Principal Shareholder no longer holds a direct or indirect interest in at least 30% in the issued and outstanding nominal share capital of the Company, the rights accruing to the Class A Meeting as set out in the Articles shall cease to exist. For the avoidance of doubt, the provisions relating to the binding nomination right cease to apply in that circumstance.

Holders of Class B Shares have lower voting rights than holders of Class A Shares which may impact the trading price of Class B Shares as well as control over the Company.

Holders of Class A Shares and Class B Shares have different voting rights. Each Class A Share has 10 votes, and each Class B Share has one vote. When holders of Class A Shares and Class B Shares vote together, holders having a majority of the votes (or 66.67%, in the case of a vote requiring a special resolution for which a quorum requirement exists and such quorum is not present or represented (i.e. can only be adopted by a majority of at least two-thirds of the votes cast, if less than one half of the issued share capital is presented or represented at the General Meeting)) present and voting will be in a position to control the outcome of the vote even if the matter involves a conflict of interest among the Shareholders or has a greater impact on one group than the other. Therefore, holders of Class A Shares will have more control over the outcome of Shareholder votes and decision-making. As only the Class B Shares are listed on the Bucharest Stock Exchange, the value of Class B Shares may be adversely affected given this distribution of voting rights and control. Our equity capital structure may inhibit or prevent acquisition bids, may decrease the value of the listed Shares and may make it difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders. The existence of different classes of Shares with different voting rights limits the amount of control that holders of Class B Shares have over the Company.

There is no assurance that the holders of the Shares and/or Notes will be able to sell them.

The Shares are listed on the regulated market of the Bucharest Stock exchange and the Notes are currently in the process of being listed on the regulated market of the Irish Stock Exchange. We cannot guarantee the liquidity of any market that may develop for the Shares and/or the Notes, the ability of the holders of the Shares and/or the Notes to sell such Shares and/or Notes or the price at which they may be able to sell. Liquidity and future trading prices of the Shares and/or the Notes depend on many factors, including, among other things, prevailing interest rates, results of operations, the market for similar securities and general economic conditions. In addition, changes in the overall market for securities such as the Shares and/or the Notes and changes in our financial performance in the markets in which we operate may adversely affect the liquidity of any trading market in the Shares and/or the Notes that does develop and any market price quoted for the Shares and/or the Notes. As a result, we cannot ensure that an active trading market will be available for the Shares and/or the Notes.

Trading on the Bucharest Stock Exchange may be suspended.

The FSA is authorized to suspend securities from trading or to request the Bucharest Stock Exchange to suspend the trading of securities of a company listed on the Bucharest Stock Exchange if such continuation of trading would negatively affect investors' interests or to the extent the relevant issuer is in breach of its obligations under the relevant securities laws and regulations. Also, the Bucharest Stock Exchange is entitled to suspend from trading Shares in other circumstances, in accordance with its regulations. Any suspension could affect our Shares' trading price and would impair the transfer of the Shares.

The 2020 Notes may not become listed or remain listed on the Irish Stock Exchange.

Although RCS&RDS will use its commercially reasonable efforts to have the Notes listed on the Official List and admitted to trading on the regulated market of Euronext Dublin, as promptly as practicable following the Notes Issue Date and to maintain such listing as long as the Notes are outstanding, RCS&RDS cannot assure prospective investors that the Notes will remain listed. If RCS&RDS cannot maintain the listing of the Notes on the regulated market of Euronext Dublin or it becomes unduly onerous to make or maintain such listing, RCS&RDS may cease to make or maintain such listing, provided that it will use commercially reasonable efforts to obtain and maintain the listing of the Notes on another recognized listing exchange for high yield issuers, although there can be no assurance that RCS&RDS will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List on the regulated market of Euronext Dublin or another recognized listing exchange for high yield issuers in accordance with the Indentures, failure of the Notes to be approved for listing, or the delisting of the Notes from the Official List on the regulated market of Euronext Dublin or another stock exchange in accordance with the Indentures may have a material adverse effect on a holder's ability to resell the Notes in the secondary market.

Furthermore, after the listing of the Notes, although RCS&RDS, in the Indentures, agreed to use its commercially reasonable efforts to maintain the listing of the Notes on the Irish Stock Exchange as long as they are outstanding, RCS&RDS cannot assure existing and prospective investors that the Notes will remain listed. If RCS&RDS cannot maintain the listing of the Notes on the regulated market of the Irish Stock Exchange or it becomes unduly onerous to make or maintain such listing, it may cease to make or maintain such listing, provided that it will use commercially reasonable efforts to obtain and maintain the listing of the Notes on another recognized listing exchange for high yield issuers, although there can be no assurance that RCS&RDS will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Irish Stock Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, the delisting of the Notes from the Irish Stock Exchange, failure to be approved for listing or delisting from another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell the Notes in the secondary market.

The Shares and/or the Notes may be subject to market price volatility and the market price of may decline disproportionately in response to developments that are unrelated to the Company's operating performance.

The market price of the Shares and/or the Notes (following their listing) may be volatile and subject to wide fluctuations. The market price of the Shares and/or the Notes may fluctuate as a result of a variety of factors, including, but not limited to, those referred to in these "Risk Factors," as well as period to period variations in operating results or changes in revenue or profit estimates by the Group, industry participants or financial analysts. The market price could also be adversely affected by developments unrelated to the Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Group, speculation about the Group in the press or the investment community, unfavorable press, strategic actions by competitors (including acquisitions and restructurings), changes in market conditions and regulatory changes. Any or all of these factors could result in material fluctuations in the price of Shares and/or the Notes, which could lead to investors getting back less than they invested or a total loss of their investment.

Not all rights available to shareholders in the United States or other countries outside the Netherlands or Romania will be available to holders of the Shares.

In the event of an increase in our ordinary share capital, holders of Shares are generally entitled to full pre-emptive rights unless these rights are restricted or excluded by a resolution of the General Meeting, which requires a proposal thereto by the Board of Directors which in turn requires the approval by resolution of the shareholders of the relevant class in respect of the pre-emptive rights of the holders of such class only or, if such increase can be decided by the Board of Directors and the Articles so permit, by a resolution of the Board of Directors. However, certain holders of Shares outside the Netherlands may not be able to exercise pre-emptive rights unless local securities laws have been complied with.

Securities laws of certain jurisdictions may restrict the Group's ability to allow participation by shareholders in future offerings. In particular, shareholders in the United States may not be able to exercise their pre-emptive rights or participate in a rights offer, as the case may be, unless such rights and Shares are registered under the Securities Act or such rights and Shares are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Shareholders in other jurisdictions outside the Netherlands or Romania may be similarly affected if the rights and Shares being offered have not been registered with, or approved by, the relevant authorities in such jurisdictions. We intend to evaluate at the time of any issue of Shares subject to pre-emptive rights or in a rights offer, as the case may be, the costs and potential liabilities associated with any such registration or other means of making the rights available to U.S. Shareholders, as well as the indirect benefits to us of enabling the exercise of U.S. Shareholders of their pre-emptive rights to Shares or participation in a rights offer, as the case may be, and any other factors considered appropriate at the time and then to make a decision as to whether to file such a registration statement or take other steps to enable such holders to participate in the rights offer.

The issuance of additional Shares in the Company in connection with future acquisitions, any share incentive, share option plan or de-leveraging or otherwise may dilute all other shareholdings.

The Group may seek to raise financing to fund future acquisitions and other growth opportunities, may issue shares in relation to share incentives or share option plans, or may raise finance for the purposes of de-leveraging. We may, for these and other purposes, issue additional equity or convertible equity securities. As a result, existing holders of Shares may suffer dilution in their percentage ownership or the market price of the Shares may be adversely affected.

Our ability to pay dividends to Shareholders may be constrained.

We are a holding company and our ability to generate income and pay dividends is dependent on the ability of our subsidiaries to declare and pay dividends to us. The actual payment of future dividends by us and the payment of dividends, if any, to us by our subsidiaries and the amounts thereof will depend on a number of factors, including (but not limited to) the amount of distributable profits and distributable reserves and investment plans, earnings, level of profitability, ratio of debt to equity, credit ratings, applicable restrictions on the payment of dividends under applicable laws and financial restrictions on the debt instruments of our subsidiaries, compliance with covenants in our debt instruments, the level of dividends paid by other comparable listed companies and such other factors as the Board of Directors may deem relevant from time to time. As a result, our ability to pay dividends in the future may be limited and/or our dividend policy may change. If dividends are not paid in the future, capital appreciation, if any, of the Shares would be investors' sole source of gains.

Foreign shareholders may be subject to exchange rate risk.

The Shares are denominated in euro, but traded in Romanian lei. An investment in the Shares by an investor whose principal currency is not the leu exposes the investor to foreign currency exchange rate risk. Any depreciation of the leu in relation to such foreign currency will reduce the value of the investment in the Shares or any dividends in foreign currency terms. In addition, we are required, under Romanian law, to pay our dividends through the system operated by the Central Depository.

Transfers of the Shares and/or the Notes may be restricted, which may adversely affect the value of the Shares and/or the Notes.

The Shares and the Notes have been offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws of the United States. The Shares and the Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Therefore, an investor in the Shares and the Notes may not transfer or sell the Shares and/or the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement, and may be required to bear the risk of an investment in the Shares/ and or the Notes for an indefinite period of time. It is the investors' obligation to ensure that their offers and sales of Shares and/or the Notes within the United States and other countries comply with applicable securities laws.

We are subject to additional regulatory obligations and incur additional costs in connection with the trading of our Shares and Notes on the regulated market.

We are required to meet regulatory requirements pertaining to entities with shares admitted to trading on the Bucharest Stock Exchange and the 2020 Notes, once the latter will be admitted to trading on the regulated market of the Irish Stock Exchange, as well as those pertaining to entities registered in the Netherlands (such as the Dutch Corporate Governance Code), in particular with respect to disclosure, corporate governance and financial reporting, and allocate staff and resources to such purposes. Such increased costs could have a material adverse effect on our business, prospects, results of operations and financial condition. In addition, the regulations and requirements applicable to companies whose securities are listed on the Bucharest Stock Exchange and/or the Irish Stock Exchange are subject to change, and any future changes can be difficult to predict, increasing the risk that the Company may in the future be in violation of such rules and regulations, which can result in extensive fines and administrative fees. In addition, the Board of Directors and management may be required to devote time and effort to ensure compliance with such rules and regulations, which may entail that less time and effort can be devoted to other aspects of the business.

The rights of minority shareholders may be limited under Dutch law.

The Company is organized under the laws of the Netherlands. The rights of holders of the Shares, including the Shares, are governed by the Company's Articles and by Dutch law. These rights, including the rights of minority shareholders, as well as other matters affecting such rights, may be different in the Netherlands from those elsewhere, and an investor's ability to exercise such rights may be limited.