

An aerial night photograph of a city, likely Budapest, showing a complex network of highways and buildings. Overlaid on the image are several glowing, white, curved lines that represent fiber optic cables or data paths, creating a sense of connectivity and technology. The city lights are visible in the background, and the overall scene is illuminated with a warm, orange glow from the city lights and the glowing lines.

DIGI
communications n.v.

1ST QUARTER 2020 – FINANCIAL REPORT
for the three month period ended March 31, 2020

DIGI COMMUNICATIONS N.V. (“Digi”)



(the “COMPANY”)

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

**FINANCIAL REPORT (the “REPORT”)
for the three month period ended March 31, 2020**

This Unaudited Condensed Consolidated Interim Financial Report for the period ended 31 March 2020 refers to the Unaudited Condensed Consolidated Interim Financial Statements prepared in accordance with IAS 34 “Interim Financial Reporting”.

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Important Information



Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report are not historical facts and are forward-looking. 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. 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.

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

Operating and Market Data

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

More specifically:

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

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

of other telecommunications companies.

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

Non-GAAP Financial Measures

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

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

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

Rounding

Certain amounts that appear in this Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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



The following discussion and analysis of the financial condition and results of operations of the Group should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Group as of March 31, 2020.

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 the three months ended March 31, 2020, we had revenues of €13.2 million, net loss of €6.0 million and Adjusted EBITDA of €14.7 million.

Recent Developments

COVID-19 outbreak

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. As a result, restriction measures have been taken in the territories where we have operations (in Romania starting with the 23rd of March 2020; in Hungary starting with the 11th March; in Spain starting with the 15th March; in Italy starting with the 12th March 2020). 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. The Group has implemented necessary measures for the operational activity, during the restrictions periods caused by COVID-19, to run similar to normal periods. Some of the measures regarding the development of technical capacities were prioritized, in order to sustain increases of traffic during this period when the on-line communication was in continuous progress. Fixed and mobile networks have been working within normal parameters, although there was and continues to be an important traffic increase starting with the second part of March until present.

In Romania, during the restrictions period, we have seen an increase of usage for fixed internet and cable TV services for residential customers. The need to be connected and the massive shift to work from home contributed to the sustained usage for fixed services. This pattern was reflected in the increase of traffic with 20-30% especially in the second part of the day.

In Hungary, given the different type of restrictive measures implemented in this territory, there was no significant negative impact during the restriction period so far in terms of usage for our services, which followed significantly the same pace as for normal business periods.

In Spain, the pace of RGU growth was significantly impacted so far, following the portability for mobile and fixed telephony restriction implemented during this period. So far we have seen an increase in usage for fixed internet and for mobile telephony and internet services, reflecting an increase of traffic with up to 25%.

At present the spread and consequences of the outbreak are difficult to predict. A protracted uncertainty and lack of containment of COVID-19, as well as the measures that governments can implement during this period, could have several negative consequences for the Group.

SOP exercise

On 6 April 2020 Mr. Bogdan Ciobotaru, Non-Executive Director of the Company, have exercised his stock option, which have vested in accordance with the provisions of the Company’s stock option plan and which were granted pursuant to the decision of the Company’s general meeting of shareholders dated 2 May 2018. In accordance with this stock option plan and the general meeting of shareholders dated 2 May 2018, Mr. Bogdan Ciobotaru was granted 116,090 class B shares.

GSM

On 30 April 2020, the GSM approved the distribution of a gross dividend of 0.65 RON per share for 2019.

Basis of Financial Presentation

The Group prepared its Interim Financial Statements as of March 31, 2020 in accordance with IFRS as adopted by the EU. For the periods discussed in this Report, the Group's presentation currency was the euro. The Group's financial year ends on December 31 of each calendar year.

Functional Currencies and Presentation Currency

Each Group entity prepares individual financial statements in its functional currency, which is the currency of the primary economic environment in which such entity operates. As our operations in Romania and Spain and Italy generated approximately 61% and 22%, respectively, of our consolidated revenue for the three months ended March 31, 2020 our principal functional currencies are the Romanian leu and EUR.

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

Presentation of Revenue and Operating Expenses

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

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

Exchange rates

In the three month period ended March 31, 2020 the Romanian leu has depreciated with approximately 1.3% and the Hungarian forint has depreciated with approximately 6.6%.

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

Value of one euro in the relevant currency	As at and for the three months ended March 31,	
	2019	2020
Romanian leu (RON)⁽¹⁾		
Period end rate	4.76	4.83
Average rate	4.74	4.80
Hungarian forint (HUF)⁽²⁾		
Period end rate	320.79	359.09
Average rate	318.01	339.01
U.S. dollar (USD)⁽¹⁾		
Period end rate	1.12	1.10
Average rate	1.14	1.10

(1) According to the exchange rates published by the National Bank of Romania.

(2) According to the exchange rates published by the Central Bank of Hungary.

In the three months ended March 31, 2020 we had a net foreign exchange loss of €24.6 million, compared to a net foreign exchange loss of €10.8 million in the three months ended March 31, 2019.

Growth in Business, RGUs and ARPU

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

The following table shows our RGUs (thousand) and monthly ARPU (€month) by geographic segment and business line as at and for the three month period ended March 31, 2019 and 2020:

RGUs (thousand)/ARPU (€month)	As at and for the three months ended March 31,		% change
	2019	2020	
Romania			
Cable TV			
RGUs	3,391	3,713	9.5%
ARPU	5.1	5.2	2.0%
Fixed internet and data			
RGUs			
Residential	2,427	2,687	10.7%
Business	163	188	15.3%
ARPU			
Residential	4.7	4.8	2.1%
Business	26.4	24.4	(7.6%)
Mobile telecommunication services⁽¹⁾			
RGUs	3,404	3,476	2.1%
ARPU	4.6	4.7	2.2%
Fixed-line telephony			
RGUs			
Residential	1,035	943	(8.9%)
Business	132	127	(3.8%)
ARPU			
Residential	1.3	1.3	0.0%
Business	3.3	3.3	0.0%
DTH			
RGUs	516	500	(3.1%)
ARPU	4.9	5.0	2.0%
Hungary			
Cable TV			
RGUs	692	692	0.0%
ARPU	8.2	7.7	(6.1%)
Fixed internet and data			
RGUs	753	749	(0.5%)
ARPU	8.4	8.6	2.4%
Mobile telecommunication services⁽²⁾			
RGUs	14	122	771.4%
ARPU	6.8	n/m	-
Fixed-line telephony			
RGUs	689	672	(2.5%)
ARPU	2.5	2.1	(16.0%)
DTH			
RGUs	273	252	(7.7%)
ARPU	9.1	8.4	(7.7%)

RGUs (thousand)/ARPU (€/month)	As at and for the three months ended		% change
	March 31,		
	2019	2020	
Spain			
Fixed internet and data			
RGUs	19	113	494.7%
ARPU	23.7	21.0	(11.4%)
Mobile telecommunication services⁽¹⁾⁽³⁾			
RGUs	1,496	2,019	35.0%
ARPU	9.3	9.5	2.2%
Fixed-line telephony			
RGUs	7	44	528.6%
ARPU	3.1	3.1	0.0%
Other⁽⁴⁾			
Mobile telecommunication services⁽¹⁾⁽³⁾			
RGUs	201	238	18.4%
ARPU	8.7	8.3	(4.6%)

(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.

Historical Results of Operations

Results of Operations for the three months ended March 31, 2019 and 2020

	As at and for the three months ended March 31,	
	2019	2020
	(€millions)	
Revenues		
Romania	181.2	193.2
Hungary	55.0	52.3
Spain	40.7	62.6
Other	5.3	6.1
Elimination of intersegment revenues	(1.1)	(1.0)
Total revenues	281.2	313.2
Other income/ (expense)	(2.2)	1.6
Operating expenses		
Romania	(108.9)	(101.8)
Hungary	(45.4)	(40.9)
Spain	(32.2)	(50.3)
Other	(5.1)	(6.6)
Elimination of intersegment expenses	1.1	1.0
Depreciation, amortization and impairment of tangible and intangible assets	(73.3)	(79.4)
Total operating expenses	(263.8)	(277.9)
Operating profit	15.2	37.0
Finance income	6.8	0.1
Finance expense	(32.5)	(98.3)
Net finance costs	(25.8)	(98.1)
Profit/ (loss)before taxation	(10.5)	(61.2)
Income credit/(tax expense)	(7.1)	5.2
Profit/ (loss) for the period	(17.6)	(56.0)

Revenue

Our revenue (excluding intersegment revenue and other income) for the three month period ended March 31, 2020 was €13.2 million, compared with €281.2 million for the three month period ended March 31, 2019, an increase of 11.4%.

The following table shows the distribution of revenue by geographic segment and business line for the three period ended March 31, 2019 and 2020:

	As at and for the three months ended March 31,		
	2019	2020	% change
	(€millions)		
Romania			
Cable TV	51.0	56.8	11.4%
Fixed internet and data	46.7	51.2	9.6%
Mobile telecommunication services ⁽²⁾	46.5	49.5	6.5%
Fixed-line telephony	5.3	5.1	(3.8%)
DTH	7.6	7.5	(1.3%)
Other revenue ⁽¹⁾	23.3	22.4	(3.9%)
Total	180.5	192.4	6.6%
Hungary			
Cable TV	17.1	16.0	(6.4%)
Fixed internet and data	19.0	19.4	2.1%
Mobile telecommunication services ⁽³⁾	0.3	0.2	(33.3%)
Fixed-line telephony	5.3	4.2	(20.8%)
DTH	7.5	6.5	(13.3%)
Other revenue ⁽¹⁾	6.0	6.1	1.7%
Total	55.0	52.3	(4.9%)
Spain			
Fixed internet and data	0.9	6.1	577.8%
Mobile telecommunication services ⁽²⁾⁽⁴⁾	39.5	55.8	41.3%
Fixed-line telephony	0.0	0.3	100.0%
Other revenue ⁽¹⁾	0.1	0.2	100.0%
Total	40.5	62.5	54.3%
Other⁽⁵⁾			
Mobile telecommunication services ⁽²⁾⁽⁴⁾	5.2	6.0	15.4%
Other revenue ⁽¹⁾	0.0	0.0	-
Total	5.2	6.0	15.4%
Total	281.2	313.2	11.4%

(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 mobile telephony 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 three month period ended March 31, 2020 was €192.4 million compared with €180.5 million for the three month period ended March 31, 2019, an increase of 6.6%. Revenue growth in Romania was the result of the increase in our cable TV and fixed internet and data RGUs, as well as an increase in our mobile telecommunication services ARPU. In March 2019 telecommunication services prices were increased.

Our cable TV RGUs increased from approximately 3,391 thousand as at March 31, 2019 to approximately 3,713 thousand as at March 31, 2020, an increase of approximately 9.5%, and our residential fixed internet and data RGUs increased from approximately 2,427 thousand as at March 31, 2019 to approximately 2,687 thousand as at March 31, 2020, an increase of approximately 10.7%. These increases were obtained both organically, primarily due to our investments in expanding of our fixed fiber-optic network and to our attractive fixed internet and data packages, as well as through small acquisitions. Mobile telecommunication services RGUs increased from approximately 3,404 thousand as at March 31, 2019 to approximately 3,476 thousand as at March 31, 2020, an increase of approximately 2.1%. Growth in mobile telephony subscribers is partially off-set by the decrease of mobile internet sticks RGUs. Mobile telecommunication services ARPU increased to an average €4.7/month for the three month period ended

March 31, 2020, compared to an average €4.6/month for the three month period ended March 31, 2019, an increase of approximately 2.2%. This ARPU variation is primarily the result of increase in voice and internet and data traffic generated by customers, which was partially offset by the decrease in MTR implemented as at 1 January 2020, as well as from package mix. Other revenues include mainly sales of equipment, but also contains services of filming sport events and advertising revenue. Sales of equipment includes mainly mobile handsets and other equipment. Growth in our cable TV, fixed internet and data, mobile telecommunication services and other revenues was partially offset by a decrease in revenue generated by our DTH and fixed-line telephony businesses as a result of decreases in RGUs in both business lines. DTH RGUs decreased from 516 thousand as at March 31, 2019 to 500 thousand as at March 31, 2020, a decrease of approximately 3.1%. 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 1,035 thousand as at March 31, 2019 to approximately 943 thousand as at March 31, 2020, a decrease of approximately 8.9%, as a result of the general trend away from fixed-line telephony and towards mobile telecommunication services.

In the current pandemic environment, in Romania, during the restrictions period, we have seen an increase of usage for fixed internet and cable TV services for residential customers. The need to be connected and the massive shift to work from home contributed to the sustained usage for fixed services. This pattern was reflected in the increase of traffic with 20-30% especially in the second part of the day.

Revenue in Hungary for the three month period ended March 31, 2020 was €52.3 million, compared with €55.0 million for the three month period ended March 31, 2019 (€51.6 million in constant currency), a decrease of 4.9% (decrease of 1.2% in constant currency). Average exchange rate for Q1 2020 compared to Q1 2019 depreciated with 6.6%, impacting adversely revenues translated from HUF in EUR. In constant currency, there is only a slight decrease of revenues mainly from the natural churn of Invitel's customers.

Our cable TV RGUs remained constant at approximately 692 thousand as at March 31, 2020 compared with March 31, 2019. Our fixed internet and data RGUs decreased from approximately 753 thousand as at March 31, 2019 to approximately 749 thousand as at March 31, 2020, a decrease of approximately 0.5%, and our fixed-line telephony RGUs decreased from approximately 689 thousand as at March 31, 2019 to approximately 672 thousand as at March 31, 2020, a decrease of approximately 2.5%. Our DTH RGUs decreased from approximately 273 thousand as at March 31, 2019 to approximately 252 thousand as at March 31, 2020, a decrease of approximately 7.7%. A number of DTH subscribers terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services.

In the current pandemic environment, in Hungary, given the different type of restrictive measures implemented in this territory, there was no significant negative impact during the restriction period so far in terms of usage for our services, which followed significantly the same pace as for normal business periods.

Revenue in Spain for the three month period ended March 31, 2020 was €62.5 million, compared with €40.5 million for the three month period ended March 31, 2019, an increase of 54.3%. The increase in our Spain revenue was due to the increase in mobile telecommunication services RGUs from approximately 1,496 thousand as at March 31, 2019 to approximately 2,019 thousand as at March 31, 2020, an increase of approximately 35.0%. 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 €6.5 million for the period ended March 31, 2020, compared to revenue of €1.0 million for the period ended March 31, 2019, an increase of 550%.

During the current pandemic environment, restriction measures have been taken in Spain starting with the 15th March. The pace of RGU growth was significantly impacted so far, following the portability for mobile and fixed telephony restriction implemented during this period. The need to be connected and the new work from home context lead to increase usage for fixed internet and for mobile telephony and internet services, reflecting an increase of traffic with up to 25%.

Revenue in Other represented revenue from our operations in Italy and for the three month period ended March 31, 2020 was €6.0 million, compared with €5.2 million for the three month period ended March 31, 2019, an increase of 15.4%. Mobile telecommunication services RGUs increased from approximately 201 thousand as at March 31, 2019 to approximately 238 thousand as at March 31, 2020, an increase of approximately 18.4%. The decrease in ARPU in Italy was primarily due to customers being attracted by lower value offerings.

Total operating expenses

Our total operating expenses (excluding intersegment expenses and other expenses, but including depreciation, amortization and impairment) for the three period ended March 31, 2020 were €277.9 million, compared with €263.8 million for the three month period ended March 31, 2019, an increase of 5.3%, respectively.

	As at and for the three months ended March 31,	
	2019	2020
Romania	108.5	101.5
Hungary	45.4	40.8
Spain	31.7	49.7
Other ⁽¹⁾	4.9	6.4
Depreciation, amortization and impairment of tangible and intangible assets	73.3	79.4
Total operating expenses	263.8	277.9

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

Operating expenses in Romania for three month period ended March 31, 2020 were €101.5 million, compared with €108.5 million for the three month period ended March 31, 2019, a decrease of 6.5%. The main variation is related to tax accruals. Following the Ordinance 114/2018, telecom tax was accrued for in Q1 2019, which was reversed later on in 2019 when the legal provisions regarding this tax were changed.

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

Operating expenses in Hungary for the three month period ended March 31, 2020 were €40.8 million, compared with €45.4 million for the three month period ended March 31, 2019 (€42.6 million in constant currency), a decrease of 10.1% (decrease of 4% in constant currency).

The HUF/EUR average exchange rate depreciated in Q1 2020 compared to Q1 2019 with 6.6%, resulting in a decrease in HUF expenses translated in EUR. Programming expenses decreased as a result of the RGU variation, as well as due to discounts and negotiations of content fees.

Operating expenses in Spain for the three month period ended March 31, 2020 were €49.7 million, compared with €31.7 million for the three month period ended March 31, 2019, an increase of 56.8%. 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 due to a larger employee base.

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

Operating expenses in Other represented expenses of our operations in Italy and expenses of Digi and for the three month period ended March 31, 2020 were €6.4 million, compared with €4.9 million for the three month period ended March 31, 2019, an increase of 30.6%.

This increase was primarily due to accruals related to Stock Option Plans vested in 2019, which were higher as compared with the comparative period.

Depreciation, amortization and impairment of tangible and intangible assets

The table below sets out information on depreciation, amortization and impairment of our tangible and intangible assets for the three month period ended March 31, 2019 and 2020.

	As at and for the three months ended March 31,	
	2019	2020
	(€millions)	
Depreciation of property, plant and equipment	34.6	33.8
Amortization of non-current intangible assets	15.5	16.4
Amortization of programme assets	11.3	11.0
Depreciation of right of use assets	10.3	14.0
Impairment of property, plant and equipment	1.0	4.1
Total	73.3	79.4

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment was €33.8 million for the three month period ended March 31, 2020, compared with €34.6 million for the three month period ended March 31, 2019, a decrease of 2.3%. Impairment for property plant and equipment include mainly the adjustment recognized for assets held for sale in Hungary which are presented at the lower of carrying value and fair value less costs to sell.

Amortization of non-current intangible assets

Amortization of non-current intangible assets was €16.4 million for the three month period ended March 31, 2020, compared with €15.5 million for the three month period ended March 31, 2019, a decrease of 5.8%. This was due to increase in the amortization subscriber acquisition cost.

Amortization of program assets

Amortization of program assets was €1.0 million for the three month period ended March 31, 2020, compared with €1.3 million for the three month period ended March 31, 2019, a decrease of 2.7%.

Depreciation of right of use

The Group has adopted IFRS 16 Leases from January 1, 2019. The depreciation of the right of use assets was €14.0 million for the period ended March 31, 2020, compared to €10.3 million for the period ended March 31, 2019.

Other income/ (expense)

We recorded €1.6 million of net other expense in the three month period ended March 31, 2020 compared with €2.2 million of other expenses in the three months ended March 31, 2019.

Other income recorded in the period ended March 31, 2020 is related to share option plans vested and which are expected to be one-time events.

Other expenses recorded for the period ended March 31, 2019 reflected mark-to-market unwinding as the fair value assessment of energy trading contracts is no longer needed (€0.9 million) and accrued expenses for the period in amount of €1.3 million related to the share option plan approved in December 2017.

Operating profit

For the reasons set forth above, our operating profit was €37.0 million for the three month period ended March 31, 2020, compared with €15.2 million for the three month period ended March 31, 2019.

Net finance expense

We recognized net finance expense of €98.1 million in the three month period ended March 31, 2020, compared with €25.8 million for the three month period ended March 31, 2019, an increase of 280.9%.

In the three months ended March 31, 2020 we had a net foreign exchange loss of €24.6 million, compared to a net foreign exchange loss of €10.8 million in the three months ended March 31, 2019.

On February 5, 2020 we issued Senior Secured Notes in amount of 850 million EUR. The proceeds were used to repay 2016 Senior Secured Notes of 550 million EUR, partially prepay or repay SFA 2016 and repay SFA 2018 respectively.

Interest of €2.8 million deemed to have accrued in the current period up to repayment date in respect of the 2016 Senior Secured Notes. We recorded penalties for early prepayment in amount of €3.8 million. At repayment date,

upon exercise of call option, the fair value of the embedded derivative assets was derecognized through profit and loss account and impacted finance expenses in amount of EUR 40,0.

As a result of early repayments and prepayments made on 5 February 2020, interest expense in the period decreased compared to previous period.

Profit/(loss) before taxation

For the reasons set forth above, our loss before taxation was €1.2 million in the three month period ended March 31, 2020, compared with €10.5 million for the three month period ended March 31, 2019.

Income credit/(tax expense)

An income tax credit of €5.2 million was recognized in the three month period ended March 31, 2020, compared to a tax expense of €7.1 million recognized in the three month period ended March 31, 2019, mainly due to deferred tax release in the period.

Net loss for the period

For the reasons set forth above, our net loss was €6.0 million in the three month period ended March 31, 2020, compared to net loss of the prior period of €17.6 million for the three months ended March 31, 2019.

Liquidity and Capital Resources

Historically, our principal sources of liquidity have been our operating cash flows as well as debt financing. Going forward, we expect to fund our cash obligations and capital expenditures primarily out of our operating cash flows, credit facilities and letter of guarantee facilities. We believe that our operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

All of our businesses have historically produced positive operating cash flows that are relatively constant from month to month. Variations in our aggregate cash flow during the periods under review principally represented increased or decreased cash flow used in investing activities and cash flow from financing activities.

We have made and intend to continue to make significant investments in the growth of our businesses by expanding our mobile 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 believe that we will be able to continue to meet our cash flow needs by the acceleration or deceleration of our growth and expansion plans.

Historical cash flows

The following table sets forth our consolidated cash flows from operating activities for the three month period ended March 31, 2019 and 2020, cash flows used in investing activities and cash flows from/(used in) financing activities.

	As at and for the three months ended March 31,	
	2019	2020
	(€millions)	
Cash flows from operations before working capital changes	96.6	112.9
Cash flows from changes in working capital	(8.4)	(30.6)
Cash flows from operations	88.3	82.3
Interest paid	(6.6)	(15.5)
Income tax paid	(1.0)	(1.5)
Cash flow from operating activities	80.6	65.3
Cash flow used in investing activities	(74.3)	(83.6)
Cash flows from /(used in) financing activities	2.7	95.1
Net decrease in cash and cash equivalents	9.0	76.8
Cash and cash equivalents at the beginning of the period	13.8	11.0
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	22.9	87.8

Cash flows from operations before working capital changes were €12.9 million in the three month period ended March 31, 2020 and €96.6 million in the three month period ended March 31, 2019 for the reasons discussed in “—*Historical Results of Operations—Results of operations for the three month period ended March 31, 2020 and 2019*”.

The following table shows changes in our working capital:

	For the three months ended March 31,	
	2019	2020
	(€millions)	
(Increase) in trade receivables and other assets	(21.9)	(36.5)
Decrease in inventories	0.4	1.0
Increase/(decrease) in trade payables and other current liabilities	13.1	(5.5)
Increase/(decrease) in contract liabilities	(0.0)	10.4
Total	(8.4)	(30.6)

We had a working capital requirement of €30.6 million in the three month period ended March 31, 2020 (compared with a working capital requirement of €8.4 million in the three month period ended March 31, 2019). Trade receivables balance has increased mainly due to deferred compensations at period end. In Q1 2020 part of the services were invoiced in advance for the entire year, resulting in an increase of contract liabilities balance.

Cash flows from operating activities were €65.3 million in the three month period ended March 31, 2020 and €80.6 million in the three month period ended March 31, 2019. Included in these amounts are deductions for interest

paid and income tax paid. Income tax paid which were €1.5 million in the three months ended March 31, 2020 and €1.0 million in the three months ended March 31, 2019. Interest paid was €5.5 million in the three months ended March 31, 2019, compared with €6.6 million in the three months ended March 31, 2019. Interest paid in current period includes €8.5 million interest paid on 5 February 2020 at the repayment of the 2016 Senior Secured Notes. The decrease in cash flows from operating activities in the three months ended March 31, 2020 was primarily due to changes in working capital discussed above.

Cash flows used for investing activities were €33.6 million in the three month period ended March 31, 2020 and €4.3 million in the three month period ended March 31, 2019.

Purchases of property, plant and equipment were €55.6 million in the three months ended March 31, 2020 and €46.1 million in the three months ended March 31, 2019.

Purchases of intangible assets were €27.9 million in the three months ended March 31, 2020 and €28.2 million in the three months ended March 31, 2019.

Cash flows from financing activities were €5.1 million inflow for the three month period ended March 31, 2020, €2.7 million inflow for the three months ended March 31, 2019.

On 5 February 2020 RCS & RDS SA issued Senior Secured Notes in total amount of EUR 850.0 million. Part of the gross proceeds of the Offering were drawn for general corporate purposes. In March 2020, we drew €20.7 million from SFA 2016 Facility B (revolver). These amounts were not utilised as at 31 March 2020.

DIGI COMMUNICATIONS NV

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**PREPARED IN ACCORDANCE WITH
IAS 34 INTERIM FINANCIAL REPORTING
for the three-month period ended 31 March 2020**

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DIGI Communications N.V.**Interim Condensed Consolidated Statement of Financial Position**for the three month period ended 31 March 2020 *(all amounts in EUR '000, unless specified otherwise)*

	Notes	31 March 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,176,342	1,188,394
Right of use assets	5	189,855	197,930
Intangible assets	6	267,878	268,928
Financial assets at fair value through OCI		35,137	39,592
Investment in associates		972	969
Long term receivables		2,199	2,642
Other non-current assets		6,236	5,943
Deferred tax assets		2,629	2,620
Total non-current assets		1,681,248	1,707,018
Current assets			
Inventories		14,677	15,560
Programme assets	6	13,015	17,557
Trade and other receivables		92,396	69,680
Contract assets		56,589	50,715
Income tax receivable		8	9
Other assets		18,001	11,884
Derivative financial assets	17	16,437	40,095
Cash and cash equivalents		87,772	10,998
Total current assets		298,895	216,498
Assets held for sale	14	3,985	-
Total assets		1,984,128	1,923,516
EQUITY AND LIABILITIES			
Equity			
Share capital	7	6,810	6,810
Share premium		3,406	3,406
Treasury shares		(16,968)	(16,806)
Reserves		(30,473)	(18,536)
Retained earnings		135,087	188,679
Equity attributable to equity holders of the parent		97,862	163,553
Non-controlling interest		3,397	6,224
Total equity		101,259	169,777
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings, including bonds	8	1,025,703	811,363
Lease liabilities	9	133,794	133,537
Deferred tax liabilities		62,145	69,746
Decommissioning provision		7,140	7,180
Other long term liabilities		46,422	40,312
Total non-current liabilities		1,275,204	1,062,138
Current liabilities			
Trade and other payables		457,947	460,294
Interest-bearing loans and borrowings	8	49,353	130,667
Lease liabilities	9	54,707	64,721
Income tax payable		923	1,498
Derivative financial liabilities	17	777	785
Provisions		6,060	6,118
Contract liabilities		37,898	27,518
Total current liabilities		607,665	691,601
Total liabilities		1,882,869	1,753,739
Total equity and liabilities		1,984,128	1,923,516

The notes on pages 6 to 39 are an integral part of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements were issued on 15 May 2020.

DIGI Communications N.V.**Interim Condensed Consolidated Statement of Comprehensive Income**for the three month period ended 31 March 2020 (*all amounts in EUR '000, unless specified otherwise*)

	Notes	Unaudited Three month period ended 31 March 2020	Unaudited Three month period ended 31 March 2019
Revenues	11	313,184	281,179
Other income	20	1,624	-
Operating expenses	12	(277,852)	(263,767)
Other expenses	20	-	(2,188)
Operating Profit		36,956	15,224
Finance income	13	128	6,761
Finance expenses	13	(98,256)	(32,524)
Net finance costs		(98,128)	(25,763)
Profit before taxation		(61,172)	(10,539)
Income tax		5,165	(7,108)
Net profit for the period		(56,007)	(17,647)
Other comprehensive income			
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign operations – foreign currency translation differences		(6,604)	180
Cash Flow hedge reserves		2	(68)
<i>Items that will not be reclassified to profit or loss</i>			
Net gain/(loss) on equity instruments measured at fair value through OCI		(4,456)	(1,479)
Other comprehensive income/(loss) for the period, net of income tax		(11,058)	(1,367)
Total comprehensive income for the period		(67,065)	(19,014)
Profit attributable to:			
Equity holders of the parent		(53,544)	(16,472)
Non-controlling interest		(2,463)	(1,175)
Profit for the period		(56,007)	(17,647)
Total comprehensive income attributable to:			
Equity holders of the parent		(64,310)	(17,845)
Non-controlling interest		(2,755)	(1,169)
Total comprehensive income for the period		(67,065)	(19,014)

The notes on pages 6 to 39 are an integral part of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements were issued on 15 May 2020.

DIGI Communications N.V.**Interim Condensed Consolidated Cash Flow Statement**for the three month period ended 31 March 2020 (*all amounts in EUR '000, unless specified otherwise*)

	Notes	Three months period ended 31 March 2020	Three months period ended 31 March 2019
Cash flows from operating activities			
Profit before taxation		(61,172)	(10,539)
Adjustments for:			
Depreciation, amortization and impairment		79,356	73,322
Interest expense		13,379	17,910
Finance cost		13,750	-
Impairment of trade and other receivables		2,275	1,719
Losses/(gains) on derivative financial instruments		41,876	1,620
Equity settled share-based payments expense		(1,287)	848
Unrealised foreign exchange loss/(gain)		25,705	11,795
Gain on sale of assets		(968)	(31)
Cash flows from operations before working capital changes		112,914	96,644
Changes in:			
Decrease/(increase) in trade receivables, other assets and contract assets		(36,509)	(21,921)
Decrease/(increase) in inventories		967	413
(Decrease)/increase in trade payables and other current liabilities		(5,480)	13,142
(Decrease)/increase in contract liabilities		10,380	(18)
Cash flows from operations		82,272	88,260
Interest paid		(15,477)	(8,501)
Income tax paid		(1,511)	(1,041)
Net cash flows from operating activities		65,284	78,718
Cash flow used in investing activities			
Purchases of property, plant and equipment		(55,780)	(46,095)
Purchases of intangibles		(27,870)	(28,198)
Acquisition of subsidiaries, net of cash and acquisition of NCI		-	(162)
Proceeds from sale of property, plant and equipment		47	157
Net cash flows used in investing activities		(83,603)	(74,298)
Cash flows from financing activities			
Dividends paid to shareholders		(1,108)	-
Cash outflows from acquisition of treasury shares		(166)	(165)
Proceeds from borrowings		873,858	202,257
Repayment of borrowings		(735,599)	(182,795)
Financing costs paid		(25,922)	(3,282)
Payment of lease obligations		(15,973)	(11,413)
Net cash flows (used in)/from financing activities		95,090	4,602
Net increase/(decrease) in cash and cash equivalents		76,771	9,022
Cash and cash equivalents at the beginning of the year		10,998	13,832
Effect of exchange rate fluctuations of cash and cash equivalents held		3	5
Cash and cash equivalents at the end of the year		87,772	22,859

The notes on pages 6 to 39 are an integral part of these unaudited interim condensed consolidated financial statements.

DIGI Communications N.V.
Interim Condensed Consolidated Statement of Changes in Equity

 for the three month period ended 31 March 2020 *(all amounts in EUR '000, 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 2020	6,810	3,406	(16,806)	(36,708)	24,385	(6,220)	7	188,679	163,553	6,224	169,777
Comprehensive income for the year											
Profit/(loss) for the year	-	-	-	-	-	-	-	(53,544)	(53,544)	(2,463)	(56,007)
Foreign currency translation differences	-	-	-	(6,312)	-	-	-	-	(6,312)	(292)	(6,604)
Revaluation of equity instruments measured at fair value through OCI	-	-	-	-	-	(4,456)	-	-	(4,456)	-	(4,456)
Cash Flow hedge reserves ⁽¹⁾	-	-	-	-	-	-	2	-	2	-	2
Transfer of revaluation reserve (depreciation)	-	-	-	-	(1,171)	-	-	1,171	-	-	-
Total comprehensive income for the year	-	-	-	(6,312)	(1,171)	(4,456)	2	(52,373)	(64,310)	(2,755)	(67,065)
Transactions with owners, recognised directly in equity											
<i>Contributions by and distributions to owners</i>											
Purchase of treasury shares (Note 7)	-	-	(166)	-	-	-	-	-	(166)	-	(166)
Equity-settled share-based payment transactions (Note 16)	-	-	4	-	-	-	-	(1,219)	(1,215)	(72)	(1,287)
Total contributions by and distributions to owners	-	-	(162)	-	-	-	-	(1,219)	(1,381)	(72)	(1,453)
<i>Changes in ownership interests in subsidiaries</i>											
Changes in ownership interests in subsidiaries											
Total changes in ownership interests in subsidiaries											
Total transactions with owners	-	-	(162)	-	-	-	-	(1,219)	(1,381)	(72)	(1,453)
Balance at 31 March 2020	6,810	3,406	(16,968)	(43,020)	23,214	(10,676)	9	135,087	97,862	3,397	101,259

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

The notes on pages 6 to 39 are an integral part of these unaudited interim condensed consolidated financial statements.

DIGI Communications N.V.
Interim Condensed Consolidated Statement of Changes in Equity

 for the three month period ended 31 March 2020 *(all amounts in EUR '000, 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	-	-	-	-	-	-	-	(16,472)	(16,472)	(1,175)	(17,647)
Foreign currency translation differences	-	-	-	170	-	-	-	-	170	10	180
Revaluation of equity instruments measured at fair value through OCI	-	-	-	-	-	(1,479)	-	-	(1,479)	-	(1,479)
Cash flow hedge reserves	-	-	-	-	-	-	(64)	-	(64)	(4)	(68)
Transfer of revaluation reserve (depreciation)	-	-	-	-	(1,371)	-	-	1,371	-	-	-
Total comprehensive income for the year	-	-	-	170	(1,371)	(1,479)	(64)	(15,101)	(17,845)	(1,169)	(19,014)
Transactions with owners, recognised directly in equity											
<i>Contributions by and distributions to owners</i>											
Purchase of treasury shares (Note 7)	-	-	(165)	-	-	-	-	-	(165)	-	(165)
Conversion of class A shares to class B shares	(108)	-	-	-	-	-	-	108	-	-	-
Equity-settled share-based payment transactions (Note 16)	-	7,711	2,937	-	-	-	-	(9,886)	762	86	848
Total contributions by and distributions to owners	(108)	7,711	2,772	-	-	-	-	(9,778)	597	86	683
<i>Changes in ownership interests in subsidiaries</i>											
Movement in ownership interest while retaining control	-	-	-	-	-	-	-	(37)	(37)	(3)	(40)
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	(37)	(37)	(3)	(40)
Total transactions with owners	(108)	7,711	2,772	-	-	-	-	(9,815)	560	83	643
Balance at 31 March 2019	6,810	11,117	(11,755)	(34,072)	27,949	(15,234)	30	143,909	128,754	6,220	134,974

The notes on pages 6 to 39 are an integral part of these unaudited interim condensed consolidated financial statements

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), 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. On 11 April 2017 the Company changed its name to Digi Communications N.V., its former name being Cable Communications Systems N.V.

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.

In May 2017, Digi Communications NV listed Class B shares on the Bucharest Stock Exchange.

The principal shareholder of the DIGI is RCS Management (“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.

These unaudited interim condensed consolidated financial statements were authorized for re-issue on 15 May 2020 by the Board of Directors of Digi Communications N.V.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements for the nine month period ended 31 March 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2019. These interim condensed consolidated financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and part 9 of book 2 of the Dutch Civil code.

(b) Basis of measurement

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

(c) Judgements and estimates

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

In preparing these interim condensed consolidated financial statements, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2019.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**(d) Functional and presentation currency**

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

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

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

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

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

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

Currency	2020			2019		
	Jan 1	Average for the three months	Mar 31	Jan 1	Average for the three months	Mar31
RON per 1EUR	4.7793	4.7959	4.8254	4.6639	4.7351	4.7628
HUF per 1EUR	330.52	339.01	359.09	321.51	318.01	320.79
USD per 1EUR	1.1234	1.1023	1.0956	1.1450	1.1356	1.1235

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2. GOING CONCERN

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

For further information refer to Note 15b) Liquidity risk.

2.3 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied by the Group in this condensed consolidated unaudited interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2019.

The accounting policies used are consistent with those of the previous financial year.

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.

- ***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. SEGMENT REPORTING

31 March 2020	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue	192,451	52,303	62,453	5,977	-	-	313,184
Inter-segment revenues	763	-	166	120	(1,049)	-	-
Segment operating expenses	(101,805)	(40,851)	(50,262)	(6,627)	1,049		(198,496)
Adjusted EBITDA (Note 20)	91,409	11,452	12,357	(530)	-	-	114,688
Depreciation, amortization and impairment of tangible and intangible assets						(79,356)	(79,356)
Other income (Note 20)	1,624	-	-	-	-	-	1,624
Operating profit							36,956
Additions to tangible and intangible non-current assets	55,081	16,646	20,209	3,356	-	-	95,292
<i>Carrying amount of:</i>							
Non-current assets	1,162,553	391,693	81,302	2,513	-	-	1,638,060
Investments in associates and financial assets at fair value through OCI	972	-	-	35,137	-	-	36,109

The types of products and services from which each segment derives its revenues are disclosed in Note 11.

3. SEGMENT REPORTING (continued)

31 March 2019	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue	180,472	55,042	40,494	5,171	-	-	281,179
Inter-segment revenues	744	-	194	145	(1,083)	-	-
Segment operating expenses	(108,850)	(45,426)	(32,185)	(5,077)	1,083	-	(190,455)
Adjusted EBITDA (Note 20)	72,366	9,616	8,503	239	-	-	90,724
Depreciation, amortization and impairment of tangible and intangible assets						(73,312)	(73,312)
Other expenses (Note 20)	(2,188)	-	-	-	-	-	(2,188)
Operating profit							15,224
Additions to tangible and intangible non-current assets	50,015	25,737	9,097	403	-	-	85,252
<i>Carrying amount of:</i>							
Non-current assets	1,094,150	432,634	31,104	2614	-	-	1,560,502
Investments in associates and financial assets at fair value through OCI	970	-	-	30,579	-	-	31,549

*In the interim condensed consolidated financial statements for the period ended 31 March 2019, Additions to tangible and intangible non-current assets included also the opening balance of the right to use asset, which was recognized starting with 1 January 2019 in accordance with IFRS 16.

The types of products and services from which each segment derives its revenues are disclosed in Note 11.

4. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the three-month period ended 31 March 2020, the Group acquired property, plant and equipment with a cost of EUR 61,197 (three months ended 31 March 2019: EUR 67,476).

The acquisitions related mainly to networks EUR 35,590 (three months ended 31 March 2019: EUR 35,570), customer premises equipment of EUR 6,857 (three months ended 31 March 2019: EUR 12,108), equipment and devices of EUR 16,553 (three months ended 31 March 2019: EUR 15,831), buildings and structures of EUR 807 (three months ended 31 March 2019: EUR 1,398).

5. RIGHT OF USE ASSETS

Starting from 1 January 2019, IFRS 16 was adopted.

The Group has lease contracts for various items of land, commercial spaces, network, vehicles, equipment, etc. used in its operations. Right of use assets are accounted for at cost and depreciated over the contract period.

During the three-month period ended 31 March 2020, right of use assets' net movement (additions, disposals and translation effect) is in amount of EUR 5,419.

6. NON-CURRENT INTANGIBLE ASSETS, CURRENT PROGRAMME ASSETS

a) Intangible assets

Acquisitions

Non-current intangible assets

During the three month period ended 31 March 2020, the Group acquired non-current intangible assets with a cost of EUR 21,797 (31 March 2019: EUR 17,775).

The additions were as follows:

- Software and licences in amount of EUR 10,480 (31 March 2019: EUR 5,303);
- Customer relationships by acquiring CATV and fixed internet subscribers in amount of EUR 1,573 (31 March 2019: EUR 4,112);
- Costs to obtain contracts with customers (Subscriber Acquisition Costs "SAC") in amount of EUR 9,744 (31 March 2019: EUR 8,360); SAC represents third party costs for acquiring and connecting customers of the Group;
- Goodwill did not increase through new additions in the first three months of 2020. (31 March 2019: nil).

6. NON-CURRENT INTANGIBLE ASSETS AND PROGRAMME ASSETS (CONTINUED)**Goodwill***(i) Reconciliation of carrying amount*

Cost	
Balance at 1 January 2019	82,903
Additions	-
Effect of movement in exchange rates	(1,048)
Balance at 31 March 2019	81,855
Balance at 1 January 2020	80,844
Additions	-
Effect of movement in exchange rates	(2,663)
Balance at 31 March 2020	78,181

Impairment testing of goodwill

Goodwill is not amortized but is tested for impairment annually (as at 31 December) and when circumstances indicate the carrying values may be impaired. There were no impairment indicators for the cash generating units to which goodwill was allocated as of 31 March 2020.

b) Programme assets

During the three-month period ended 31 March 2020, additions of programme assets in the amount of EUR 6,651 (31 March 2019: EUR 6,500) represent broadcasting rights for sports competitions for 2020/2021 season and related advance payments for future seasons, and also rights for movies and documentaries.

7. EQUITY

There was no changes in the share capital structure during the period ended 31 March 2020.

On 6 April 2020 Mr. Bogdan Ciobotaru, Non-Executive Director of the Company, have exercised his stock option, which have vested in accordance with the provisions of the Company's stock option plan and which were granted pursuant to the decision of the Company's general meeting of shareholders dated 2 May 2018. In accordance with this stock option plan and the general meeting of shareholders dated 2 May 2018, Mr. Bogdan Ciobotaru was granted 116,090 class B shares.

For details, please see Note 16.

As at 31 March 2020, the Company had 5.8 million treasury shares.

The GSM from 30 April 2020 approved the distribution of a gross dividend of 0.65 RON (EUR 0.14) per share, for 2019.

8. INTEREST-BEARING LOANS AND BORROWINGS

Included in long term interest-bearing loans and borrowings are bonds of EUR 851,137 (December 2019: EUR 552,433), bank loans EUR 174,565 (December 2019: EUR 258,930).

Included in short term interest-bearing loans and borrowing are bank loans of EUR 35,845 (December 2019: EUR 53,873), short portion of long term interest-bearing loans of EUR 8,230 (December 2019: EUR 68,307) and interest payable amounting to EUR 5,279 (December 2019: EUR 8,487).

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 (collectively, the "Notes").

The gross proceeds of the Offering were used (a) to redeem the entire aggregate principal amount outstanding of EUR 550,000 5.0% senior secured notes due 2023 issued by the Company and pay redemption premium and accrued, but unpaid, interest to holders thereof; (b) to prepay or repay partially the outstanding amounts under 2016 Senior Facility 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).

On 24 March 2020, we drew RON100.0 million under revolving Facility B of the 2016 Senior Facilities Agreement. The amounts drawn are for general corporate purposes.

8. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

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

	Carrying amount
Balance as of 1 January 2020	942,030
<i>New drawings</i>	
Proceeds from bank loans and proceeds from Bond	873,858
Interest for the period	10,605
<i>Repayment</i>	
Repayment of borrowings	(735,599)
Current year interest paid	(13,529)
New finance cost(1)	562
Amortization of deferred finance costs and inception value of embedded derivative	836
<i>Effect of movements in exchange rates</i>	(3,708)
Balance as of 31 March 2020	1,075,056

(1) New finance cost presented above in amount of EUR 562 includes additional borrowing cost during the period of EUR 17,800, and fair value of the embedded derivative at inception date in February 2020 of EUR 18,362.

Included in Other long term liabilities and Trade payables and other payables there are supplier balances that are part of several factoring arrangements amounting to EUR 86,198.

9. LEASE LIABILITY

The Group leases mainly network pillars, land, commercial spaces, cars and equipment. As at 31 March 2020, financial leasing liability was significantly impacted by the variation of the foreign exchange rate for the Group's main functional currencies.

10. RELATED PARTY DISCLOSURES

		31 March 2020	31 December 2019
Receivables from Related Parties			
Ager Immobiliare S.R.L.	(ii)	768	763
RCS Management S.A.	(i)	1	1
Other		10	10
Total		779	774

		31 March 2020	31 December 2019
Payables to Related Parties			
RCS Management S.A.	(i)	9,342	10,520
Mr. Zoltan Teszari		239	242
Other		107	358
Total		9,688	11,119
(i)	Shareholder of DIGI		
(ii)	Entities affiliated to a shareholder of the parent		

Compensation of key management personnel of the Group

	Three months ended 31 March 2020	Three months ended 31 March 2019
Short term employee benefits –salaries	722	866

The amount above include employer contributions to State pension plan.

In May 2019 and May 2020, share option plans were approved by the General Shareholders' Meeting for members of the Company's Board of Directors. For details, please see Note 16.

11. REVENUES

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

	Three months ended 31 March 2020	Three months ended 31 March 2019
a) Revenues from contracts with costumers		
Cable TV		
Romania	56,777	51,032
Hungary	15,974	17,070
	72,751	68,102
Internet and data		
Romania	51,169	46,656
Hungary	19,374	18,959
Spain	6,119	924
	76,662	66,539
Telephony		
Romania	54,624	51,842
Hungary	4,380	5,552
Spain	56,179	39,501
Italy	5,975	5,165
	121,158	102,060
DTH		
Romania	7,527	7,603
Hungary	6,476	7,471
	14,003	15,074
Other revenues		
Romania	20,512	18,811
Hungary	6,098	5,990
Spain	155	70
Italy	5	8
	26,770	24,879
a) Other revenues		
Romania	1,840	4,525
Total revenues	313,184	281,179

Other revenues from contracts with costumers as at 31 March 2020 include mainly revenues from sale of handsets and other CPE, as well as advertising revenues.

11. REVENUES (CONTINUED)

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

Timing of revenue recognition	Three months ended 31 March 2020	Three months ended 31 March 2019
Goods transferred at a point in time	9,190	10,275
Services transferred over time	303,994	270,904
Total revenues	313,184	281,179

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.

12. OPERATING EXPENSES

	Three months ended 31 March 2020	Three months ended 31 March 2019
Depreciation of property, plant and equipment	33,765	34,628
Depreciation of right of use assets	13,963	10,834
Amortization of programme assets	11,033	11,336
Amortization of non-current intangible assets	16,445	15,462
Impairment of property, plant and equipment	4,042	1,030
Impairment of non-current intangible assets	107	22
Salaries and related taxes	52,168	49,655
Contribution to pension related fund	1,555	1,453
Programming expenses	26,651	26,531
Telephony expenses	57,022	48,047
Cost of goods sold	8,324	9,544
Invoicing and collection expenses	5,768	5,374
Taxes to authorities and penalties	6,016	10,551
Utilities	7,347	5,992
Copyrights	3,002	2,809
Internet connection and related services	6,464	2,070
Impairment of receivables, net of reversals	2,259	1,720
Taxes to authorities	2,437	2,406
Other materials and subcontractors	3,408	2,750
Other services	6,745	7,304
Rent and other expenses	9,331	14,249
Total operating expenses	277,852	263,767

For details regarding impairment of property, plant and equipment in current period, please Note 14.

Share option plans' expenses accrued in the period are included in the caption "Salaries and related taxes".
For details, please see Note 16.

13. NET FINANCE COSTS

	Three months ended 31 March 2020	Three months ended 31 March 2019
<i>Financial revenues</i>		
Interest from banks	14	3,255
Other financial revenues	114	3,506 ⁽¹⁾
Foreign exchange differences (net)	-	-
	128	6,761
<i>Financial expenses</i>		
Interest expense and amortization of borrowing cost	(11,749)	(16,022)
Interest expense for lease Liability	(1,630)	(1,888)
Net gain/(loss) on derivative financial instruments	(6)	(8)
Foreign exchange differences (net)	(24,560)	(10,818)
Other financial expenses	(60,311)	(3,788)
	(98,256)	(32,524)
Net Financial Cost	(98,128)	(25,763)

⁽¹⁾Included in Other financial revenues at 31 March 2019 was the bond premium from February 2019 in amount of EUR 3,500 which was reclassified at year end 31 December 2019 into borrowing cost of the Bond.

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 (collectively, the "Notes").

On the same date, the EUR 550,000 Senior Secured Notes issued in 2016 (including the tap of Additional Notes from 12 February 2019) were repaid. Other financial expenses in the period ended 31 March 2020 include redemption penalties in amount of EUR 13,786. Interest expense in the period include related accrued interest of EUR 2,817.

At repayment, the 2016 Senior Secured Notes embedded derivative asset was derecognized and included in finance expenses in amount of EUR 39,956. The new embedded derivative asset related to the Senior Secured Notes issued in 2020 was recognized. Fair value loss on Senior Secured Notes issued in 2020's embedded derivative asset is in amount of EUR 1,925, after taking into consideration fair value of the embedded derivative asset at inception of EUR 18,362.

14. ASSETS HELD FOR SALE

The Hungarian Competition Authority (Gazdasági Versenyhivatal, hereinafter “GVH”) withdrew on 14 November 2018 its initial decision approving the Transaction, issued in May 2018 (the “Withdrawal Decision”) and opened a new merger control procedure with the purpose of reassessing certain limited aspects in connection with market overlaps between Invitel and i-TV Digitalis Tavkozlesi Zrt. (“i-TV”, Digi HU’s Hungarian subsidiary) (the “New Procedure”).

GVH has issued on 18 March 2020 a new decision approving the acquisition by our Hungarian subsidiary, DIGI Tavkozlesi es Szolgaltato Kft. (“Digi HU”) of shares representing in total 99.998395% of the share capital and voting rights of Invitel Tavkozlesi Zrt. (“Invitel”) (the “Transaction”)

The Withdrawal Decision has been appealed by Digi HU, with the decision issued by the competent Hungarian court in first instance reducing the amount of the fine in half. In addition, although the competent court has maintained the Withdrawal Decision in relation to Digi HU’s alleged failure to proactively act in a required manner, it also established that GVH had failed to properly gather the necessary information at the time of its initial approval in order to clarify the matter. Both GVH and Digi have filed appeals against the court’s decision. The appeal hearing was initially 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.

Although we firmly continue to believe that the Withdrawal Decision was incorrect, in the context of the New Procedure and in order to address the authority’s concerns formulated at the time of it issuing the Withdrawal Decision, in consultation with GVH, Digi HU proposed a remedy package.

One of the main elements of this package is the 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 sale and purchase agreement having been executed on 9 January 2020. In response to the competition concerns identified by GVH in connection with 67 settlements where Invitel has overlapping services with i-TV, Digi HU proposed to ensure that i-TV’s rental agreements with the relevant local network operators will not be terminated until December 31, 2023 (but will be discontinued from 1 January 2024). Following its analysis of the proposal of this remedial package aimed at addressing competition concerns in connection with the Transaction, GVH authorised again DIGI Hungary’s acquisition of Invitel. Digi HU has to fulfil the remedial measures within three months as of the official communication of the new approval to it.

As at 31 March 2020, assets held for sale include fixed networks and equipment from the selected settlements in Hungary, as stated in the Sales and Purchase agreement from 9 January 2020. The corresponding attached liabilities are not significant as at 31 March 2020.

Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell and their depreciation ceased. The fair value less costs to sell was considered to be the estimated selling price. The final transaction price will be established at the date of transaction closing. In the period ended 31 March 2020, a corresponding impairment was recognized in the profit and loss account in amount of EUR 3,668.

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

(a) Credit risk

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

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

The carrying amount of the non-derivative financial assets, net of the recorded allowances for expected credit losses, represents the maximum amount exposed to credit risk. In general, the Group evaluates the concentration of risk with respect to trade receivables and contract assets as low.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. As a result, restriction measures have been taken in the territories where we have operations (in Romania starting with the 23rd of March 2020; in Hungary starting with the 11th of March; in Spain starting with the 15th of March; in Italy starting with the 12th March 2020)

In the current unpredictable environment, the Group continues to take steps to provide the highest level of service, business continuity and maintain the availability of customer channels. With the exception of Italy and Spain, locations where we have direct commercial presence (which were closed in accordance with the relevant public authorities requirements), all customer channels remained and continue to remain open at this time (shops, cashier offices, call centers etc.), while implementing specific measures for safeguarding the health of customers and employees.

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 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

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

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

At 31 March 2020, the Group had net current liabilities of EUR 308,770 (31 December 2019: EUR 475,104). As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities. Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

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

(c) Market risk

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

Exposure to currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures (other than the functional currency of each legal entity), primarily with respect to the EUR 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 and each of its subsidiaries.

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

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

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

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

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 (EUR and USD) though market fluctuations of interest rates. Details of borrowings are disclosed in Note 8.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Capital Management

The Group's objectives when managing capital are to safeguard the Groups 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 Agreement.

(e) Fair values

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

16. SHARE-BASED PAYMENT

The Group implemented share-based payment plans for certain members of the management team and key employees. The options vest if and when certain performance conditions, such as revenue, subscriber targets and other targets of the Group were met. Some of the share option plans vested in 2019 and were closed.

Currently, the following share option plans are in place:

16.1 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.

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.

16.2 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 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.

On 6 April 2020 Mr. Bogdan Ciobotaru, Non-Executive Director of the Company, have exercised his stock option, which have vested in accordance with the provisions of the Company's stock option plan and which were granted pursuant to the decision of the Company's general meeting of shareholders dated 2 May 2018. In accordance with this stock option plan and the general meeting of shareholders dated 2 May 2018, Mr. Bogdan Ciobotaru was granted 116,090 class B shares.

The further vesting of all option shares granted will be conditional upon several performance criteria.

16.3 On 30 April 2020, the General Shareholder's Meeting has approved the grant of stock options for class B shares applicable to the executive Board members in 2020.

Mr. Serghei Bulgac (Chief Executive Officer and Executive Director of the Company) and Mr. Valentin Popoviciu (Executive Director of the Company), have been granted by the Company conditional stock options pursuant to the decision of the Company's general meeting of shareholders dated 30 April 2020. The number of options of class B shares granted as part of this stock option plan amounts to a total of 130,000 stock options.

As at 31 March 2020 the related share option expense of EUR 336 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 12). The amount of EUR 1,624 (income) is excluded from EBITDA because the related share option plans are estimated to be one-time events.

17. FINANCIAL INSTRUMENTS

For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements are presented below:

Financial assets at fair value through OCI

Financial assets at fair value through OCI comprise shares in RCSM. In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. As at 31 March 2020, the fair value assessment of the shares held in RCSM was consequently performed based on the average quoted price/share of the shares of the Company as of the valuation date (RON/share 29.3), 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.

Embedded derivatives

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.

As at 31 March 2020, the valuation method was consistent with the one used as at 31 December 2019.

As at 31 March 2020 the Group had derivative financial assets in amount of EUR 16,437 (31 December 2019: EUR 40,095), which included:

- Embedded derivatives of EUR 16,437 (31 December 2019: EUR 40,095) related to the 2025 and 2028 Senior Secured Notes (includes several call options as well as one put option). The fair value of the Notes was also assessed at inception date, in February 2020, in amount of EUR 18,362 and recognized as embedded derivative asset with a corresponding increase of the bond liability.

As at 31 March 2020 the Group had derivative financial liabilities in amount of EUR 777 (31 December 2019: EUR 785), which included:

- Interest rate swaps liabilities in amount of EUR 6 (31 December 2019: EUR 15). 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 it 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 ended in April 2020.
- Redemption Options share contracts fair value of EUR 770 (31 December 2019: EUR 770) related to the Company's acquisition 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 minority 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.

17. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 March 2020				
Financial assets at fair value through OCI	-	-	35,137	35,137
Redemption Options share contracts	-	-	(770)	(770)
Interest rate swaps	-	-	(6)	(6)
Embedded derivatives	-	-	16,437	16,437
Total	-	-	50,798	50,798
31 December 2019				
Financial assets at fair value through OCI	-	-	39,952	39,952
Redemption Options share contracts	-	-	(770)	(770)
Interest rate swaps	-	-	(15)	(15)
Embedded derivatives	-	-	40,095	40,095
Total	-	-	78,902	78,902

18. GENERAL COMMITMENTS AND CONTINGENCIES

(a) Contractual 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.

As at 31 March 2020, contractual commitments for capital expenditure amounted to approximately EUR 123,946 (31 December 2019: EUR 125,967) and contractual operating commitments amounted to approximately EUR 108,114 (31 December 2019: EUR 98,488).

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.

(b) Letters of guarantee

As of 31 March 2020, there were bank letters of guarantee and letters of credit issued in amount of EUR 87,414 mostly in favour of content and satellite suppliers and for participation to tenders (31 December 2019: EUR 93,527).

There are cash collateral agreements for issuance of letters of counter guarantees. As at 31 March 2020 we had letters of guarantee issued in amount of EUR 1,114 (31 December 2019: EUR 1,114). These agreements are secured with moveable mortgage over cash collateral accounts.

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

(c) Legal proceedings

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 parties 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.

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.

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation with Electrica Distribuție 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 Distribuție Transilvania Nord S.A. claims that the cable trough is intended to include electricity distribution wires that would breach its alleged exclusive right to distribute electricity in the respective area.

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

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

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

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

On 27 April 2020, i-TV filed a motion to dismiss the Plaintiff's contempt claim for alleged failure of complying with the decision issued in October 2006. The plaintiffs have submitted their reply to the motion to dismiss, filed on April 27th, 2020. The defendants will submit a brief reply to this motion, the submission deadline expiring on May 19th, 2020.

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**").

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

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

On 15 January 2019, the Bucharest Tribunal dismissed the giving of bribe related allegations against RCS&RDS and its past and current directors on the basis that they had become time-barred, convicted RCS&RDS in connection with the offence of money laundering for which the court applied a criminal fine in the amount of 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.

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

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

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

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

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

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.

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)**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.

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 260 (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 260) to HUF 45,000,000 (approximately EUR 130). (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. The judgment of the Curia approved the first instance decision and confirmed the reasoning according to which GVH should have requested confirmation with respect to the data on which it based its Initial Decision. The judgment is final and binding.

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.

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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 November 29, 2019, we appealed that decision to the competent Hungarian court, the Metropolitan Court of Budapest. The first hearing scheduled for May 6, 2020 was postponed due to the state of emergency introduced as a consequence of the pandemic situation. Upon the court's order issued in line with the special legislation in force during the period of the state of emergency, we requested the court to hold a hearing once the state of emergency will be over; alternatively, the court would have decided the case without holding a hearing. The Metropolitan Court is expected to set the date of the new court hearing once the state of emergency announced by the Hungarian Parliament is terminated.

We also filed for injunctive reliefs to suspend the auction pending judicial review of our claims three times. The first request was rejected by the Metropolitan Court on January 10, 2020, against which we filed an appeal to the Supreme Court of Hungary on January 20, 2020, which was rejected by the Supreme Court by way of its decision delivered on April 22, 2020. 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, which is still pending. Although we believe that under applicable Hungarian law, the auction could not have proceeded until the Supreme Court of Hungary makes a final determination regarding our appeals, the law is not entirely clear on this issue. On March 25, 2020, we received a document list from NMHH as a result of our repeated requests to access the case file, according to which we became aware of the fact that the auction procedure continued on March 14, 2020 without our participation (and knowledge). Therefore, on the same day we filed a further (third) request for interim injunction with the aim to have the auction procedure suspended.

We supplemented this request filed with the court on April 6, 2020 taking into account the fact that NMHH continued with the auction procedure even after March 25, 2020 and completed it. NMHH published the final decision passed in the auction procedure on April 1, 2020. The third request for immediate legal protection was rejected by the Metropolitan Court, against which we filed an appeal on April 30, 2020 and is still pending.

Furthermore, on April 16, 2020, we filed a statement of claim requesting the Metropolitan Court to annul NMHH's decision on the merits of the case issued on April 1, 2020. In accordance with the applicable laws, the statement of claims was filed with NMHH which is obliged to forward it to the Metropolitan Court within 30 days.

In addition to the above, there are three (administrative and court) proceedings pending with respect to NMHH's rejections of our requests to access the case file of the auction procedure.

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.

18. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

On 22 April 2020, the first court admitted RCS&RDS claim and annulled the NACP order. NACP can challenge the court decision in 15 days as of communication of the decision.

19. SUBSEQUENT EVENTS

COVID-19 outbreak

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. As a result, restriction measures have been taken in the territories where we have operations (in Romania starting with the 23rd of March 2020; in Hungary starting with the 11th March; in Spain starting with the 15th March; in Italy starting with the 12th March 2020). 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. The Group has implemented necessary measures for the operational activity, during the restrictions periods caused by COVID-19, to run similar to normal periods. Some of the measures regarding the development of technical capacities were prioritized, in order to sustain increases of traffic during this period when the on-line communication was in continuous progress. Fixed and mobile networks have been working within normal parameters, although there was and continues to be an important traffic increase starting with the second part of March until present.

In Romania, during the restrictions period, we have seen an increase of usage for fixed internet and cable TV services for residential customers. The need to be connected and the massive shift to work from home contributed to the sustained usage for fixed services. This pattern was reflected in the increase of traffic with 20-30% especially in the second part of the day.

In Hungary, given the different type of restrictive measures implemented in this territory, there was no significant negative impact during the restriction period so far, in terms of usage of our services, which followed significantly the same pace as for normal business periods.

In Spain, the pace of growth was significantly impacted so far, following the portability for mobile and fixed telephony restriction implemented during this period. So far, we have seen an increase in usage for fixed internet and for mobile telephony and internet services, reflecting an increase of traffic with up to 25%.

At present the spread and consequences of the outbreak are difficult to predict. A protracted uncertainty and lack of containment of COVID-19, as well as the measures that governments can implement during this period, could have several negative consequences for the Group.

SOP exercise

On 6 April 2020 Mr. Bogdan Ciobotaru, Non-Executive Director of the Company, have exercised his stock option, which have vested in accordance with the provisions of the Company's stock option plan and which were granted pursuant to the decision of the Company's general meeting of shareholders dated 2 May 2018. In accordance with this stock option plan and the general meeting of shareholders dated 2 May 2018, Mr. Bogdan Ciobotaru was granted 116,090 class B shares.

GSM

On 30 April 2020, the GSM approved the distribution of a gross dividend of 0.65 RON per share for 2019.

For details regarding the up-date of the litigations, please see Note 18 (c) above.

20. 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) our charges for depreciation, amortization and impairment of assets. Our Adjusted EBITDA is EBITDA adjusted for the effect of non-recurring and one-off items, as well as mark to market results (unrealized) from fair value assessment of energy trading contracts.

	Three months ended 31 March 2020	Three months ended 31 March 2019
Revenues and other income	313,184	281,179
EBITDA		
Operating profit	36,956	15,224
Depreciation, amortization and impairment	79,356	73,312
EBITDA	116,312	88,536
Other income	(1,624)	-
Other expenses	-	2,188
Adjusted EBITDA	114,688	90,724
<i>Adjusted EBITDA (%)</i>	<i>36.62%</i>	<i>32.27%</i>

Starting with January 1, 2019, the Company adopted the IFRS 16. The impact of adopting IFRS 16 on EBITDA during the three month period ended 31 March 2020 was EUR 17.2 million, compared with 31 March 2019 when it was EUR 11.4 million.

For the three months period ended 31 March 2020, other income is related to share option plans vested and are expected to be one-time events (for details, please see Note 16).

For the three months period ended 31 March 2019, other expenses include: (i) EUR 1,256 representing the accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events; and (ii) EUR 932 impact from the derecognition of the fair value assessment of energy trading contracts.

21. FINANCIAL INDICATORS

Financial Indicator	Value as at 31 March 2020
Current ratio	
Current assets/Current liabilities	0.49
Debt to equity ratio	
Long term debt/Equity x 100 (where Long term debt = Borrowings over 1 year)	1,059%
Long term debt/Capital employed x 100 (where Capital employed = Long term debt+ Equity)	91%
Trade receivables turnover	
Average receivables/Revenues x 90	38.71
Non-current assets turnover	
(Revenues/Non-current assets)	0.75

Bucharest, 15 May 2020,

On behalf of the Board of directors of Digi Communications N.V.

Serghei Bulgac,
CEO

Valentin Popoviciu
Executive Director