# CABLE COMMUNICATIONS SYSTEMS NV

## CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

**PREPARED IN ACCORDANCE WITH**
**IAS 34 INTERIM FINANCIAL REPORTING**
**for the nine month period ended 30 September 2014**

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## GENERAL INFORMATION

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

| | Notes | 30 September 2014 | 31 December 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 650,315 | 624,672 |
| Intangible assets | 5 | 203,893 | 168,653 |
| Available for sale financial assets | | 31,982 | 30,982 |
| Investments in associates | | 2,390 | 2,280 |
| Long term receivables | | 6,242 | 2,666 |
| Deferred tax asset | | 3,717 | 5,008 |
| **Total non-current assets** | | **898,539** | **834,261** |
| **Current assets** | | | |
| Inventories | | 21,950 | 21,065 |
| Programme assets | 5 | 22,238 | 29,387 |
| Trade and other receivables | | 108,830 | 81,484 |
| Income tax receivable | | 1,484 | 4,857 |
| Other assets | | 14,397 | 11,680 |
| Cash and short term deposits | | 75,812 | 50,234 |
| **Total current assets** | | **244,711** | **198,707** |
| **Total assets** | | **1,143,250** | **1,032,968** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | | 51 | 51 |
| Share premium | | 8,247 | 8,247 |
| Treasury shares | | (16,703) | (16,703) |
| Reserves | | 44,812 | 54,095 |
| Retained earnings | | 92,664 | 71,397 |
| **Total equity attributable to equity holders of the parent** | | **129,071** | **117,087** |
| Non-controlling interest | | 3,470 | 3,396 |
| **Total equity** | | **132,541** | **120,483** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 6 | 686,299 | 638,933 |
| Deferred tax liability | | 25,544 | 37,826 |
| Other long term liabilities | | 11,757 | 5,280 |
| **Total non-current liabilities** | | **723,600** | **682,039** |
| **Current liabilities** | | | |
| Trade payables and other payables | | 215,487 | 174,740 |
| Interest-bearing loans and borrowings | 6 | 21,814 | 11,458 |
| Income tax payable | | 815 | 640 |
| Derivative financial instruments | 14 | 2,156 | 317 |
| Deferred revenue | | 46,837 | 43,291 |
| **Total current liabilities** | | **287,109** | **230,446** |
| **Total liabilities** | | **1,010,709** | **912,485** |
| **Total equity and liabilities** | | **1,143,250** | **1,032,968** |

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

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

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

| | **Notes** | **Continuing operations 30 September 2014** | **Discontinued operations 30 September 2014** | **Nine month period ended 30 September 2014** | **Continuing operations 30 September 2013** | **Discontinued operations 30 September 2013** | **Nine month period ended 30 September 2013** |
|---|---|---|---|---|---|---|---|
| Revenues | 8 | 483,983 | - | 483,983 | 450,049 | 18,777 | 468,826 |
| Other income | | - | - | - | 754 | | 754 |
| Gain from sale of discontinued operations | | 9,594 | - | 9,594 | - | 37,773 | 37,773 |
| Operating expenses | 9 | (449,869) | - | (449,869) | (410,954) | (14,604) | (425,558) |
| **Operating profit** | | **43,708** | **-** | **43,708** | **39,849** | **41,946** | **81,795** |
| Finance income | 10 | 12,755 | - | 12,755 | 307 | 4,416 | 4,723 |
| Finance expenses | 10 | (43,849) | - | (43,849) | (33,938) | (362) | (34,300) |
| **Net finance costs** | | **(31,094)** | **-** | **(31,094)** | **(33,631)** | **4,054** | **(29,577)** |
| **Profit / (loss) before taxation** | | **12,614** | **-** | **12,614** | **6,218** | **46,000** | **52,218** |
| Income tax | | (1,355) | - | (1,355) | (4,375) | (5,540) | (9,915) |
| **Net profit / (loss) for continuing operations** | | **11,259** | **-** | **11,259** | **1,843** | **40,460** | **42,303** |
| **Other comprehensive income** | | | | | | | |
| Translation reserve | | (8,760) | - | (8,760) | (6,327) | - | (6,327) |
| Reversal of deferred tax related to prior revaluation of PPE | | 10,788 | - | 10,788 | 0 | - | 0 |
| Available for sale financial asset, net change in fair value | | 397 | - | 397 | 4,643 | - | 4,643 |
| **Movements in prior years reserves** | | **(156)** | - | **(156)** | 0 | **-** | 0 |
| **Other comprehensive income for the period, net of income tax** | | **2,269** | - | **2,269** | **(1,684)** | **-** | **(1,684)** |
| **Total comprehensive income for the period** | | **13,528** | **-** | **13,528** | **159** | **40,460** | **40,619** |
| **Profit / (Loss) attributable to:** | | | | | | | |
| Equity holders of the parent | | 10,925 | - | 10,925 | 1,631 | 38,728 | 40,359 |
| Non-controlling interest | | 334 | - | 334 | 212 | 1,732 | 1,944 |
| **Profit / (Loss) for the year** | | **11,259** | **-** | **11,259** | **1,843** | **40,460** | **42,303** |
| **Total comprehensive income attributable to:** | | | | | | | |
| Equity holders of the parent | | 2,200 | - | 2,200 | (1,405) | - | (1,405) |
| Non-controlling interest | | 69 | - | 69 | (279) | - | (279) |
| **Total comprehensive income for the period** | | **2,269** | **-** | **2,269** | **(1,684)** | **-** | **(1,684)** |

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

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

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

| | Notes | Nine month period ended 30 September 2014 | Nine month period ended 30 September 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit/(loss) before taxation** | | **12,614** | **63,218** |
| **Adjustments for:** | | | |
| Depreciation, amortization and impairment | 9 | 140,546 | 153,286 |
| Interest expense, net | 6 | 37,695 | 27,891 |
| Finance costs | | 1,884 | 1,558 |
| Impairment of trade and other receivables | 9 | 3,401 | 4,956 |
| Unrealised (gains) / losses on derivative financial instruments | | 1,839 | 815 |
| Equity settled share-based payments | 13 | 1,428 | 1,260 |
| Unrealised foreign exchange loss / (gain) | | (12,710) | (5,618) |
| Other non cash items | | - | 398 |
| Gain on disposal of subsidiary | | (10,986) | (45,739) |
| **Cash flows from operations before working capital changes** | | **175,711** | **202,025** |
| **Changes in:** | | | |
| Trade receivables and other assets | | (27,151) | (10,994) |
| Inventories | | (869) | 5,647 |
| Trade payables and other current liabilities | | 6,732 | (5,842) |
| Deferred revenue | | 2,423 | 2,456 |
| **Cash flows from operations** | | **156,846** | **193,293** |
| Interest paid | | (25,131) | (25,473) |
| Income tax paid | | (3,445) | (5,544) |
| **Cash flows from operating activities** | | **128,270** | **162,276** |
| **Cash flow used in investing activities** | | | |
| Purchases of property, plant and equipment | | (90,186) | (103,963) |
| Purchases of intangibles | | (49,651) | (64,913) |
| Acquisition of subsidiaries | | (10,373) | (3,065) |
| Sale of subsidiaries, net of cash disposed | | 10,332 | 41,051 |
| Proceeds from sale of property, plant and equipment | | 598 | 513 |
| **Cash flows used in investing activities** | | **(139,280)** | **(130,377)** |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | | (1,728) | (592) |
| Proceeds from borrowings | | 48,619 | 15,021 |
| Proceeds from related party borrowings | | - | 453 |
| Repayment of borrowings | | (1,648) | (40,889) |
| Repayment of related party borrowings | | - | (453) |
| Financing costs paid | | (5,171) | - |
| Settlement of derivatives | | (1,884) | (1,558) |
| Payment of finance lease obligations | | (781) | (761) |
| **Cash flows from financing activities** | | **37,407** | **(28,778)** |
| **Net (decrease)/ increase in cash and cash equivalents** | | **26,397** | **3,120** |
| Cash and cash equivalents at the beginning of the period | | 50,234 | 12,561 |
| Effect of exchange rate fluctuations of cash and cash equivalents held | | (819) | 90 |
| **Cash and cash equivalents at the end of the period** | | **75,812** | **15,772** |

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

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

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

| | Share capital | Share premium | Treasury shares | Translation reserve | Revaluation reserve | Fair value Reserves | Retained earnings | Total equity attributable to equity holders of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **51** | **8,247** | **(16,703)** | **(23,160)** | **55,688** | **21,567** | **71,397** | **117,087** | **3,396** | **120,483** |
| **Comprehensive income for the period** | | | | | | | | | | |
| Net profit for the year | | | | | | | 10,925 | **10,925** | 334 | **11,259** |
| **Other comprehensive income / (loss)** | - | - | - | (8,426) | (1,254) | 397 | 11,483 | **2,200** | 69 | **2,269** |
| **Total comprehensive income for the period / (loss)** | **-** | | **-** | **(8,426)** | ***(1,254)*** | **397** | **22,408** | **13,125** | **403** | **13,528** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | | | | |
| Equity-settled share-based payment transactions | - | | - | - | - | | 1,373 | **1,373** | 55 | **1,428** |
| ***Total contributions by and distributions to owners*** | **-** | | **-** | **-** | **-** | | ***1,373*** | ***1,373*** | ***55*** | ***1,428*** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | | | |
| Movement in ownership interest while retaining control | | | | | | | (2,514) | **(2,514)** | (384) | **(2,898)** |
| ***Total changes in ownership interests in subsidiaries*** | **-** | | **-** | **-** | **-** | | ***(2,514)*** | ***(2,514)*** | ***(384)*** | ***(2,898)*** |
| **Total transactions with owners** | **-** | | **-** | **-** | **-** | | **(1,141)** | **(1,141)** | **(329)** | **(1,470)** |
| **Balance at 30 September 2014** | **51** | **8,247** | **(16,703)** | **(31,586)** | **54,434** | **21,964** | **92,664** | **129,071** | **3,470** | **132,541** |

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

| | **Share capital** | **Share premium** | **Treasury shares** | **Translation reserve** | **Revaluation reserve** | **Fair value reserve** | **Retained earnings** | **Total equity attributable to equity holders of the parent** | **Non-controlling interest** | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | **51** | **8,247** | **(16,703)** | **(17,866)** | **75,948** | **16,272** | **37,044** | **102,993** | **3,516** | **106,509** |
| **Comprehensive income for the period** | | | | | | | | | | |
| Net loss for the year | - | | - | - | - | | 40,359 | **40,359** | 1,944 | **42,303** |
| **Other comprehensive income / (loss)** | - | - | - | (6,048) | (14,939) | 4,643 | 14,939 | **(1,405)** | **(279)** | **(1,684)** |
| **Total comprehensive income for the period/(loss)** | - | - | - | **(6,048)** | **(14,939)** | **4,643** | **55,298** | **38,954** | **1,665** | **40,619** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | | | | |
| Equity-settled share-based payment transactions | - | | - | - | - | | 1,206 | **1,206** | 54 | **1,260** |
| Dividends distributed | - | | - | - | - | | - | - | - | - |
| ***Total contributions by and distributions to owners*** | - | - | - | - | - | - | ***1,206*** | ***1,206*** | ***54*** | ***1,260*** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | | | |
| Movement in ownership interest while retaining control | - | | - | - | - | | - | - | (384) | **(384)** |
| ***Total changes in ownership interests in subsidiaries*** | - | - | - | - | - | - | - | - | ***(384)*** | ***(384)*** |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **-** | | **1,206** | **1,206** | **(330)** | **876** |
| **Balance at 30 September 2013** | **51** | **8,247** | **(16,703)** | **(23,914)** | **61,009** | **20,915** | **93,548** | **143,153** | **4,851** | **148,004** |

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

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

## 1. CORPORATE INFORMATION

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

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

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

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

## 2.1 BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Judgements and estimates

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

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

### (b) Judgements and estimates

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

| Currency | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Jan – 1 | Average for the 9 months | Sep – 30 | Jan – 1 | Average for the 9 months | Sep - 30 |
| RON per 1EUR | 4.4847 | 4.4480 | 4.4114 | 4.4287 | 4.4082 | 4.4604 |
| HUF per 1EUR | 296.91 | 308.76 | 310.36 | 291.29 | 296.75 | 298.48 |
| CZK per 1EUR | 27.43 | 27.52 | 27.50 | 25.14 | 25.75 | 25.74 |
| XDR per 1EUR | 111.61 | 116.24 | 118.85 | 113.72 | 112.68 | 114.6 |
| HRK per 1EUR | 7.58 | 7.62 | 7.62 | 7.55 | 7.56 | 7.61 |
| USD per 1EUR | 1.3765 | 1.3549 | 1.2583 | 1.3190 | 1.3171 | 1.3505 |

## 2.2. GOING CONCERN

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

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

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

## 2.3 SIGNIFICANT ACCOUNTING POLICIES

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

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

## 3. SEGMENT REPORTING

| **30 Sep 2014** | **Romania** | **Hungary** | **Spain** | **Other** | **Eliminations** | **Reconciling item** | **Group** |
|---|---|---|---|---|---|---|---|
| Segment revenue and other income | 342,391 | 88,577 | 38,871 | 14,144 | | | **483,983** |
| Inter-segment revenues | 1,926 | - | 517 | - | (2,443) | | **-** |
| Segment operating expenses | (208,828) | (54,040) | (36,425) | (12,473) | 2,443 | | **(309,323)** |
| | | | | | | | - |
| **EBITDA** | **135,489** | **34,536** | **2,963** | **1,672** | **-** | | **174,660** |
| Depreciation, amortization and impairment of tangible and intangible assets | | | | | - | (140,546) | **(140,546)** |
| One off transactions | | | | | | 9,594 | **9,594** |
| **Operating profit** | | | | | **-** | | **43,708** |
| Additions to tangible non-current assets | 106,652 | 8,543 | 69 | 394 | - | - | **115,658** |
| Additions to intangible non-current assets | 10,903 | 32,708 | 1,949 | 625 | - | - | **46,185** |
| *Carrying amount of:* | | | | | | | |
| Property, plant and equipment | 545,284 | 104,413 | 266 | 352 | - | - | **650,315** |
| Non-current intangible assets | 144,283 | 54,593 | 4,291 | 726 | - | - | **203,893** |
| Investments in associates | 2,390 | - | - | 31,982 | - | - | **34,372** |

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

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

| **30 September 2013** | **Romania** | **Hungary** | **Spain** | **Other** | **Eliminations** | **Reconciling item** | **Group** |
|---|---|---|---|---|---|---|---|
| Segment revenue and other income | 308,824 | 88,957 | 35,411 | 36,388 | | | **469,580** |
| Inter-segment revenues | 2,979 | - | 653 | - | (3,632) | | **-** |
| Segment operating expenses | (163,815) | (55,078) | (30,547) | (26,432) | 3,632 | | **(272,240)** |
| **EBITDA** | **147,988** | **33,879** | **5,517** | **9,956** | **-** | **-** | **197,340** |
| Depreciation, amortization and impairment of tangible and intangible assets | | | | | | (153,318) | **(153,318)** |
| One off transaction | | | | | | 37,773 | **37,773** |
| **Operating profit** | | | | | **-** | | **81,795** |
| Additions to tangible non-current assets | 71,241 | 11,289 | 79 | 353 | - | | **82,962** |
| Additions to intangible non-current assets | 19,874 | 411 | 811 | 11 | - | | **21,107** |
| *Carrying amount of:* | | | | | | | |
| Property, plant and equipment | 507,897 | 118,670 | 281 | 939 | - | | **627,787** |
| Non-current intangible assets | 149,247 | 23,547 | 1,934 | 402 | - | | **175,130** |
| Investments in associates | 2,386 | - | - | 30,595 | - | | **32,981** |

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

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

## 4. PROPERTY, PLANT AND EQUIPMENT (PPE)

**Acquisitions and disposals**

During the nine month period ended 30 September 2014, the Group acquired property, plant and equipment with a cost of EUR 115,658 (30 September 2013: EUR 96,195). The acquisitions related mainly to cable plant - EUR 48,814 (nine months ended 30 September 2013: EUR 32,632) out of which EUR 10,114 represents the network assets of the newly acquired CFO Integrator, customer premises equipment of EUR 35,812 (nine months ended 30 September 2013: EUR 17,303) out of which EUR 24,984 represents CPE found in group's inventory, equipment and devices of EUR 18,174 (nine months ended 30 September 2013: EUR 16,132), buildings and structures of EUR 7,773 (nine months ended 30 September 2013: EUR 20) and vehicles of EUR 2,485 (nine months ended 30 September 2013: EUR 976). Other new investments including solar energy projects were of only EUR 838 (nine months ended 30 September 2013: EUR 197) and EUR 129 (nine months ended 30 September 2013: EUR 10,886) respectively.

Assets with a net book value of EUR 1,647 (30 September 2013: EUR 8,324) were disposed or transferred to inventory by the Group during the nine month period ended 30 September 2014.

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

## 5. NON-CURRENT INTANGIBLE ASSETS AND PROGRAMME ASSETS

**Acquisitions**

***Non-current intangible assets***
During the nine month period ended 30 September 2014, the Group acquired non-current intangible assets with a cost of EUR 46,185 (30 September 2013: EUR 21,107) as follows:

- Software and licences in amount of EUR 37,433 (30 September 2013: EUR 17,344) out of which an amount of EUR 32,221 represents the 1,800 MHz mobile telephony license in Hungary;
- Customer relationships by acquiring control in other companies in amount of EUR 3,381 (30 September 2013: EUR 1,716);
- Subscriber acquisition costs ("SAC") in amount of EUR 2,113 (30 September 2013: EUR 1,109); SAC represents third party costs for acquiring and connecting customers of the Group;
- Goodwill in amount of EUR 3,257 acquired through business combination (30 September 2013: EUR 939).

***Programme assets***
During the nine month period ended 30 September 2014, additions of programme assets in the amount of EUR 30,186 (30 September 2013: EUR 49,757) represent broadcasting rights for sports competitions for 2014/2015 season and related advance payments for future seasons, and also rights for movies and documentaries.

**Goodwill**

***(i) Reconciliation of carrying amount***
**Cost**

| | |
|---|---:|
| **Balance at 1 January 2013** | **81,649** |
| Additions from acquisition of subsidiaries | 939 |
| Sales of subsidiaries | (833) |
| Effect of movement in exchange rates | (1,006) |
| **Balance at 30 September 2013** | **80,749** |
| **Balance at 1 January 2014** | **80,554** |
| Additions from acquisition of subsidiary | 3,257 |
| Effect of movement in exchange rates | (35) |
| **Balance at 30 September 2014** | **83,776** |

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

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

## 6. INTEREST-BEARING LOANS AND BORROWINGS

Included in Long term interest-bearing loans and borrowings are bonds EUR 435,999 (December 2013: EUR 434,245), bank loans EUR 244,136 (December 2013: EUR 198,154) and leasing EUR 6,164 (December 2013: EUR 6,534).

Included in Short term interest-bearing loans and borrowing are bank loans EUR 5,893 (December 2013: EUR 4,674), leasing obligations amounting to EUR 956 (December 2013: EUR 1,007), other short term debts of EUR 735 (December 2013: EUR 500) and interest payable amounting to EUR 14,231 (December 2013: EUR 5,777).

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

| | **Carrying amount** |
|---|---|
| **Balance as of 01 January 2014** | **650,391** |
| ***New drawings*** | |
| Proceeds from bank borrowings | 48,619 |
| Interest expense for the period | 37,695 |
| ***Repayment*** | |
| Payment of lease obligations | (781) |
| Repayment of borrowings | (1,648) |
| Current year interest paid | (25,131) |
| ***Effect of movements in exchange rates*** | (1,032) |
| **Balance as of 30 September 2014** | **708,113** |

## 7. RELATED PARTY DISCLOSURES

| | | **30 September 2014** | **31 December 2013** |
|---|---|---|---|
| **Receivables from Related Parties** | | | |
| RCS Management S.A. | (i) | 178 | 72 |
| Ager Imobiliare S.R.L. | (i) | 651 | 626 |
| Music Channel S.R.L. | (i) | 65 | 63 |
| Digi Serbia | (i) | 183 | - |
| Other | | 257 | 80 |
| **Total** | | **1,334** | **841** |

| | | **30 September 2014** | **31 December 2013** |
|---|---|---|---|
| **Payables to Related Parties** | | | |
| Related parties-share options | (i) | 68 | 88 |
| RCS-Management | (i) | 2,678 | 3,173 |
| Digi Serbia | (i) | 82 | - |
| Other | | 1,362 | - |
| **Total** | | **4,190** | **3,261** |
| | | | |
| **Individuals** | | | |
| Mr. Teszari Zoltan | (ii) | 411 | 416 |
| Others | | 53 | - |
| **Total** | | **4,654** | **3,677** |

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

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

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

| | Nine months ended 30 September 2014 | Nine months ended 30 September 2013 |
|---|---|---|
| Short term employee benefits – salaries | 888 | 480 |

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

## 8. REVENUES

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

| | Nine months ended 30 September 2014 | Nine months ended 30 September 2013 |
|---|---|---|
| **Revenues from continuing operations** | **483,983** | **450,049** |
| **Cable TV** | | |
| Romania | 115,913 | 110,001 |
| Hungary | 25,428 | 25,697 |
| | **141,341** | **135,698** |
| **Internet and data** | | |
| Romania | 121,747 | 112,494 |
| Hungary | 23,878 | 23,061 |
| Spain | 6,741 | 2,635 |
| Italy | 48 | - |
| | **152,414** | **138,190** |
| **Telephony Revenues** | | |
| Romania | 52,350 | 42,839 |
| Hungary | 6,287 | 7,517 |
| Spain | 32,093 | 32,767 |
| Italy | 3,602 | 4,476 |
| | **94,332** | **87,599** |
| **DTH Revenue** | | |
| Romania | 33,326 | 37,988 |
| Hungary | 23,611 | 25,659 |
| Czech Republic | 10,444 | 13,092 |
| | **67,381** | **76,739** |
| **Other revenues** | | |
| Romania | 19,055 | 4,748 |
| Hungary | 9,372 | 7,023 |
| Czech Republic | 52 | 43 |
| Spain | 36 | 9 |
| | **28,515** | **11,823** |

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

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

| | Nine months ended 30 September 2014 | Nine months ended 30 September 2013 |
|---|---|---|
| **Revenues from discontinued operations** | **-** | **18,777** |
| | | |
| **Cable TV** | | |
| Slovakia | - | 2,365 |
| | **-** | **2,365** |
| **Internet and data** | | |
| Slovakia | - | 381 |
| | **-** | **381** |
| **DTH Revenue** | | |
| Slovakia | - | 14,569 |
| Serbia | - | 892 |
| Croatia | - | 231 |
| | **-** | **15,692** |
| **Other revenues** | | |
| Slovakia | - | 159 |
| Serbia | - | 146 |
| Croatia | - | 34 |
| | **-** | **339** |
| | | |
| **Total revenues from continuing and discontinued operations** | **483,983** | **468,826** |

## 9. OPERATING EXPENSES

| | Nine months ended 30 September 2014 | Nine months ended 30 September 2013 |
|---|---|---|
| ***Operating expenses from continuing operations*** | **449,869** | **410,954** |
| | | |
| Depreciation of property, plant and equipment | 91,956 | 91,535 |
| Amortization of programme assets | 36,864 | 46,280 |
| Amortization of non-current intangible assets | 11,712 | 12,939 |
| Salaries and related taxes | 89,778 | 81,662 |
| Programming expenses | 46,931 | 45,277 |
| Telephony expenses | 42,381 | 36,188 |
| Rentals | 27,989 | 23,882 |
| Cost of goods sold | 26,268 | 2,043 |
| Invoicing and collection expenses | 9,474 | 8,995 |
| Taxes and penalties | 9,322 | 6,334 |
| Utilities | 9,477 | 11,215 |
| Copyrights | 6,235 | 6,050 |
| Internet connection and related services | 3,721 | 4,112 |
| Impairment of receivables, net of reversals | 3,401 | 4,738 |
| Impairment of property, plant and equipment | 15 | 19 |
| Other expenses | 34,345 | 29,685 |
| ***Operating expenses from discontinued operations*** | - | **14,604** |
| | | |
| **Total operating expenses** | **449,869** | **425,558** |

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

## 10. NET FINANCE COSTS

| | Nine months ended 30 September 2014 | Nine months ended 30 September 2013 |
|---|---|---|
| ***Financial revenues*** | | |
| Interest from banks | 138 | 123 |
| Other financial revenues | 556 | 142 |
| | **694** | **265** |
| ***Financial expenses*** | | |
| Interest expense | (37, 360) | (32,307) |
| Net gain/(loss) on derivative financial instruments | (3,724) | (2,362) |
| Other financial expenses | (2,765) | (3,684) |
| | **(43,849)** | **(38,353)** |
| Foreign exchange differences (net) | 12,061 | 4,457 |
| **Net Financial Gain / (Expenses) from continuing operations** | **(31,094)** | **(33,631)** |
| **Net Financial Gain / (Expenses) from discontinued operations** | **-** | **4,054** |
| **Net finance costs** | **(31,094)** | **(29,577)** |

## 11. ACQUISITIONS OF SUBSIDIARY

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

## 12. FINANCIAL RISK MANAGEMENT

**(a) Currency risk**

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

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

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

**(b) Liquidity risk**

At 30 September 2014, the Group had net current liabilities of EUR 42,398 (31 December 2013: EUR 31,739).As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities.
The Group’s policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and to keep the Group’s leverage optimized. The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and working capital, whilst considering future cash flows from operations. Management believes that there is no significant risk that the Group will encounter liquidity problems in the foreseeable future.

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

**(c) Credit risk**
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables from customers.
The carrying amount of trade and other receivables, net of impairment adjustment, and cash and cash equivalents represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

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

## 13. SHARE-BASED PAYMENT

For the year 2014, 1,305,500 share options were granted to eligible employees under the share based payment plan. Three quarters of the fair value equivalent of the share options has been accrued as of 30 September 2014 as management estimates that performance criteria will be met. The related share option expense for nine months ended 30 September 2014 of EUR 1,428 (September 2013: EUR 1,260) has been recorded in the consolidated statement of comprehensive income in the line item Operating expenses, within Salaries and related taxes (refer to Note 9).

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 September 2014 the Group had derivative financial liabilities in amount of EUR 2,156 corresponding to a cross currency interest rate swap.

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

***v) Fair value hierarchy***

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

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

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

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

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **30 September 2014** | | | | |
| Cross currency interest swap | - | - | (2,156) | (2,156) |
| **31 December 2013** | | | | |
| Cross currency swap | - | - | (254) | (254) |
| Foreign exchange forwards | - | (63) | - | (63) |
| **Total liabilities** | - | (63) | (254) | (317) |

## 15. GENERAL COMMITMENTS AND CONTINGENCIES

**(a) Contractual commitments**

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

As at 30 September 2014, contractual commitments for capital expenditure amounted to approximately EUR 32,088 (31 December 2013: EUR 45,204) and contractual operating commitments amounted to approximately EUR 125,299 (31December 2013: EUR 123,259), including operating leases.

In addition to the above, there are approximately another 590 operating lease contracts signed for a period of over 5 years, with an automatic renewal clause or for an indefinite term. The annual rent for these contracts is of maximum EUR 3,700 (quarterly rent of EUR 400).

**(b) Letters of guarantee**

As of 30 September 2014, there were bank letters of guarantee and letters of credit issued in amount of EUR 42,701 mostly in favour of content and satellite suppliers and for participation to tenders (31 December 2013: EUR 18,212). As of 30 September 2014 included in the cash and short term deposit balance there is an amount of EUR 32,802 collateral cash for the above letters of guarantee.

**(c) Legal proceedings**

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

**Intact Media Group Litigation**

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

**a) The "must carry" related litigations**

In 2011, Antena Group initiated three separate lawsuits against RCS&RDS alleging that it breached, inter alia, the Romanian must carry rules in relation to three TV stations owned by the plaintiff. Antena Group is claiming damages of and has requested that the court impose other non-monetary remedies, such as requiring RCS&RDS to provide the Intact Media Group channels to its subscribers free of charge and in compliance with the highest technical standards.

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

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

The case file regarding the injunctive relief requested by Antena Group was settled in the court of first instance and the court of appeals in RCS&RDS's favor, with both courts dismissing Antena Group's request as ungrounded. However, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality and rejected both the first instance and the appeal courts' decisions, ordering the retrial by the Bucharest Tribunal of the entire initial case file: both the injunctive relief and the monetary claims. The decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case, as the retrial was ordered solely based on procedural reasons. The next hearing in the retrial of the case file is scheduled for 9 February 2015. As we did in the first trial of this lawsuit, we will request for the case file to be split and for the monetary claim to be suspended.

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

At RCS&RDS request, both claims for monetary damages were suspended until the final settlement of the challenge initiated by RCS & RDS concerning the validity of the assignment of receivables between Antena Group and First Quality Debt Recovery. However, in the autumn of 2014, Antena Group reiterated part of its monetary claim in relation to the GSP TV channel, amounting to RON 500 thousand under a separate case file. The first hearing in the case file is scheduled for 2 February 2015. We will request the suspension of this claim, as it is in part identical with the initial monetary claim regarding GSP TV channel.

The case file regarding the injunctive relief in relation to the GSP tv channel was settled by the Bucharest Tribunal in favor of Antena Group, the court ordering us to include the channel in our network in compliance with some technical requirements. However, RCS&RDS is carrying the channel as of January 2012 and therefore the decision did not impact our network. The appeal filed by RCS & RDS against the Bucharest Tribunal’s decision was rejected on 14 October 2014. RCS & RDS will file a higher appeal once the decision of the Court of Appeal is drafted and communicated.

The case file regarding the carriage of the channel Antena 2 was settled in March 2014 by the Bucharest Tribunal in favor of RCS & RDS; Antena Group’s claims were rejected in their entirety. The appeal filed by Antena Group against the Bucharest Tribunal’s decision was rejected on 15 October 2014.

**b) Damage claim regarding alleged copyright infringement**

In June 2014, Antena Group filed a claim requesting us to pay approx. €40,000 for the alleged unlawful retransmission in the period June 2011 - June 2014 of four of its channels: Antena 1, Antena 2 (currently Antena Stars), Euforia Lifestyle and GSP TV (currently ZU TV). Antena Group grounded its claim on copyright legislation, alleging that, from the copyright commercial and legal perspective, we should have obtained a different authorization and paid a different fee than the ones regulated under the audiovisual legislation for the retransmission of its channels.

We have requested the court to dismiss the claim for Antena Group’s lack of legal standing or on the merits of the case as ungrounded since we broadcasted the channels either under a legal obligation – must carry – or under agreements concluded with Intact Media Group.

On 30 October 2014, the case file was settled by the Bucharest Tribunal in favor of RCS&RDS; Antena Group’s claims were dismissed on terms of lack of legal standing. This decision may be appealed by Antena Group.

**c) Injunctive relief claimed on the grounds of an alleged abuse of dominant position**

In July 2014, two companies of the Antena Group (Antena Group and Antena 3) filed another claim against RCS&RDS requesting the court to ascertain that RCS & RDS abused its dominant position by its alleged refusal to pay for the carriage of Antena Group channels should Antena Group choose to waive the must carry regime that currently rules the retransmission of all Intact Media Group’s TV channels. Antena Group asked the court to oblige RCS & RDS to start negotiations with Antena Group in view of concluding a pay-tv based agreement under terms similar with those existing since 2013 between RCS & RDS and Pro TV S.A., one of the major broadcasters on the Romanian market. The case file is currently in its initial phase and a first hearing has not been established yet.

Management believes that the claim is vexatious, groundless and speculative. We note that at this time the Antena Group has not made a firm choice to enter the pay-tv broadcast market by waiving the must carry regime for its TV channels, thereby changing its business model.

**Romanian Competition Council Investigations**

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

Until the issuance of final decisions in this respect, RCS&RDS is not able to quantify the risks related to these investigations, but management does not believe RCS&RDS has committed any violations of competition law and would challenge any ruling that would be made against RCS&RDS.

**a) Telecom market interconnection investigation**

In May 2010, RCS&RDS made a complaint to the Romanian Competition Council in relation to the interconnection tariffs applied on the Romanian mobile telecom market, seeking to obtain a reduction in the interconnection tariffs. In February 2011, the Romanian Competition Council opened an investigation against Orange Romania, Vodafone Romania, Telekom Mobile (the former Cosmote) and RCS&RDS in relation to the relatively high differences between the level of the tariffs charged by the mobile phone operators for the off-net calls (i.e., incoming calls originating from a competing operator's network and terminated into the charging operator's network) as opposed to the lower tariffs charged for the on-net calls (i.e., calls initiated and ended in the same operators' network). RCS&RDS has been fully cooperating with the Romanian Competition Council in this investigation. This investigation is in a final stage while the investigated operators (including RCS&RDS) have offered a commitment not to discriminate in terms of tariffs between the off-net and the on-net calls. The offered commitments are currently under the market test until end of December 2014. Should the commitments be finally accepted by the Competition Council, this investigation will be closed in the absence of any antitrust fine.

**b) GSP investigation**

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

The preliminary report recently issued by the investigation case handler has amounted to the conclusion that RCS&RDS' refusal to negotiate the carriage of GSP TV channel is not abusive and that it does not amount to a competition law infringement. By reference to RCS&RDS' market power, the preliminary report on the investigation also proposed the Competition Council Plenum to consider issuing a formal recommendation for RCS&RDS to set, publish and to apply its own general terms in relation to broadcasters' request for the conclusion of a carriage agreement. We believe this is impractical if not impossible to implement given the features and dynamics of the TV carriage market. Failure to comply with the Competition Council's recommendations does not, in itself, lead to financial penalties. However, it may aggravate RCS&RDS's liability should further investigations be triggered in connection with RCS&RDS' behavior on the TV carriage market. On 11 December 2014, RCS&RDS attended the hearings of the case and defended its position in front of the Competition Council's Plenum. The Competition Council is expected to issue a final decision within several weeks as of the date of this report. RCS&RDS will continue to defend vigorously against any accusation or allegations in the context of this investigation.

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

## 17. EBITDA

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

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

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

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

| | Nine month period ended 30 September 2014 | Nine month period ended 30 September 2013 |
|---|---|---|
| **Revenues and other income** | **483,983** | **469,580** |
| **EBITDA** | | |
| Operating profit | 43,708 | 81,795 |
| Depreciation, amortization and impairment | 140,546 | 153,318 |
| One off transactions | (9,594) | (37,773) |
| **Adjusted EBITDA** | **174,660** | **197,340** |
| *Adjusted EBITDA (%)* | *36.09%* | *42.02%* |

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