DIGI COMMUNICATIONS NV

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
IAS 34 INTERIM FINANCIAL REPORTING
for the nine-month period ended 30 September 2019

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GENERAL INFORMATION

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(all amounts in EUR '000, unless specified otherwise)

	Notes	Unaudited 30 September 2019	Audited 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,168,725	1,138,992
Right of use assets	4	182,060	-
Intangible assets	5	261,938	245,852
Financial assets at fair value through OCI	15	36,671	32,058
Investments in associates		968	970
Long term receivables		2,919	5,584
Other non-current assets		5,411	4,629
Deferred tax asset		2,681	2,659
Total non-current assets		**1,661,373**	**1,430,744**
Current assets			
Inventories		11,047	16,586
Programme assets	5	24,716	21,379
Trade and other receivables		80,315	60,002
Contract assets		45,393	44,076
Income tax receivable		8	547
Other assets		17,954	12,417
Derivative financial assets	15	41,908	33,287
Cash and short term deposits		17,965	13,832
Total current assets		**239,306**	**202,126**
Total assets		**1,900,679**	**1,632,870**
EQUITY AND LIABILITIES	6		
Equity attributable to equity holders of the parent			
Share capital		6,810	6,918
Share premium		3,406	3,406
Treasury shares		(14,197)	(14,527)
Reserves		(20,696)	(18,583)
Retained earnings		184,062	168,825
Total equity attributable to equity holders of the parent		**159,385**	**146,039**
Non-controlling interest		8,476	7,305
Total equity		**167,861**	**153,344**
Non-current liabilities			
Interest-bearing loans and borrowings, including bonds	7	821,945	716,193
Deferred tax liabilities		67,597	60,652
Lease liabilities	7	122,871	-
Decommissioning provision		7,076	6,082
Other long term liabilities		46,356	34,600
Total non-current liabilities		**1,065,846**	**817,527**
Current liabilities			
Trade payables and other payables		473,648	461,463
Interest-bearing loans and borrowings	7	95,285	168,625
Lease liabilities	7	58,408	-
Income tax payable		2,463	543
Derivative financial liabilities	15	34	1,106
Provisions		7,092	7,225
Contract liabilities		30,042	23,037
Total current liabilities		**666,972**	**661,999**
Total liabilities		**1,732,818**	**1,479,526**
Total equity and liabilities		**1,900,679**	**1,632,870**

The notes on pages 7 to 49 are an integral part of these unaudited interim condensed consolidated financial statements.
These unaudited interim condensed consolidated financial statements were reissued on 27 January 2020.

(all amounts in EUR '000, unless specified otherwise)

	Notes	Unaudited Nine month period ended 30 September 2019	Unaudited Nine month period ended 30 September 2018		
		Continuing Operations	**Continuing Operations**	**Discontinued Operations**	**TOTAL**
Continuing Operations					
Revenues	9	874,644	756,368	-	756,368
Other income		-	9,729	-	9,729
Operating expenses	10	(766,595)	(668,169)	-	(668,169)
Other expenses		(2,496)	(16,279)	(1,070)	(17,349)
Operating Profit		**105,553**	**81,649**	**(1,070)**	**80,579**
Finance income	11	11,533	3,819	-	3,819
Finance expenses	11	(77,177)	(45,007)	-	(45,007)
Net finance costs		**(65,644)**	**(41,188)**	**-**	**(41,188)**
Profit before taxation		**39,909**	**40,461**	**(1,070)**	**39,391**
Income tax		(14,990)	(18,465)	-	(18,465)
Net profit for the period		**24,919**	**21,996**	**(1,070)**	**20,926**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign operations – foreign currency translation differences		(2,703)	(5,044)	-	(5,044)
Cash Flow hedge reserves		(106)	518	-	518
Items that will not be reclassified to profit or loss					
Net gain/(loss) on equity instruments measured at fair value through OCI		4,613	(6,186)	-	(6,186)
Other comprehensive income/(loss) for the period, net of income tax		**1,804**	**(10,712)**	**-**	**(10,712)**
Total comprehensive income for the period		**26,723**	**11,284**	**(1,070)**	**10,214**

(all amounts in EUR '000, unless specified otherwise)

	Notes	Unaudited Nine month period ended 30 September 2019	Unaudited Nine month period ended 30 September 2018		
		Continuing Operations	**Continuing Operations**	**Discontinued Operations**	**TOTAL**
Profit attributable to:					
Equity holders of the parent		22,991	19,381	-	19,381
Non-controlling interest		1,927	1,545	-	1,545
Profit for the period		**24,918**	**20,926**	**-**	**20,926**
Total comprehensive income attributable to:					
Equity holders of the parent		24,976	8,948	-	8,948
Non-controlling interest		1,746	1,265	-	1,265
Total comprehensive income for the period		**26,722**	**10,213**	**-**	**10,213**
Basic earnings per share (EUR/share)		**0.2**	**0.2**	**-**	**0.2**
Diluted earnings per share (EUR/share)		**0.2**	**0.2**	**-**	**0.2**

The notes on pages 7 to 49 are an integral part of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements were re-issued on 27 January 2020.

(all amounts in EUR '000, unless specified otherwise)

	Notes	Unaudited Nine month period ended 30 September 2019	Unaudited Nine month period ended 30 September 2018
Cash flows from operating activities			
Profit before taxation		**39,909**	**39,391**
Adjustments for:			
Depreciation, amortization and impairment of property, plant and equipment, intangibles and right-of-use assets	10	218,860	152,684
Interest expense, net	11	48,267	33,546
Impairment of trade and other receivables	10	6,383	7,537
Share-based payment expense		2,043	12,404
Unrealised losses/ (gains) on derivative financial instruments		(7,165)	(12,587)
Unrealised foreign exchange loss / (gain)		21,444	3,464
Gain on sale of assets		140	(11)
Provisions		-	4,729
Cash flows from operations before working capital changes		**329,881**	**241,157**
Changes in:			
Trade receivables, other assets and contract assets		(42,518)	(28,267)
Inventories		4,822	(4,219)
Trade payables, other payables		5,743	8,915
Contract liabilities		7,004	12,380
Cash flows from operations		**304,932**	**229,966**
Interest paid		(37,689)	(26,837)
Income tax paid		(5,365)	(2,574)
Cash flows from operating activities		**261,878**	**200,555**
Cash flow used in investing activities			
Purchases of property, plant and equipment		(149,428)	(146,972)
Purchases of intangibles		(92,387)	(52,770)
Acquisition of subsidiaries, net of cash acquired acquired*		(375)	(141,599)
Proceeds from sale of property, plant and equipment		241	184
Cash flows used in investing activities		**(241,949)**	**(341,157)**
Cash flows from financing activities			
Dividends paid to shareholders		(4,212)	(3,122)
Cash outflows from purchase of treasury shares		(3,574)	(703)
Proceeds from borrowings**	7	234,496	174,827
Repayment of borrowings	7	(193,053)	(23,259)
Financing costs paid		(4,983)	(2,667)
Settlement of derivatives		-	(826)
Payment of obligations under finance lease		-	(2,661)
Payment of principal portion of lease liabilities		(44,470)	
Cash flows used in/from financing activities		(15,796)	**141,589**
Net increase / (decrease) in cash and cash equivalents		**4,133**	**987**
Cash and cash equivalents at the beginning of the period		**13,832**	16,074
Effect of exchange rate fluctuations of cash and cash equivalents held		-	2
Cash and cash equivalents at the end of the period		**17,965**	**17,063**

**Included is the consideration paid for acquisition of Invitel in amount of EUR 135,4 million paid by Digi Hu for the completion of transaction on 30 May 2018. For details, please see Note 12 Business Combinations.*
**Included in Proceeds from borrowings of EUR 234,496 are Proceeds from bank loans and proceeds from the Additional Notes of 230,996 (Note 7) and EUR 3,500 representing premium over the aggregate principal amount of the Additional Notes of EUR 200,000*
The notes on pages 7 to 43 are an integral part of these unaudited interim condensed consolidated financial statements.

(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 (audited)	**6,918**	**3,406**	**(14,527)**	**(34,242)**	**29,320**	**(13,755)**	**94**	**168,824**	**146,038**	**7,306**	**153,344**
Comprehensive income for the period											
Net profit for the period	-	-	-	-	-	-	-	22,991	**22,991**	1,927	**24,918**
Foreign currency translation differences	-	-	-	(2,529)	-	-	-	-	**(2,529)**	(174)	**(2,703)**
Gain on equity instruments measured at fair value through OCI	-	-	-	-	-	4,613	-	-	**4,613**	-	**4,613**
Cash Flow hedge reserves[(1)]	-	-	-	-	-	-	(99)	-	**(99)**	(7)	**(106)**
Transfer of revaluation reserve (depreciation)	-	-	-	-	(4,098)	-	-	4,098	-	-	-
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**(2,529)**	**(4,098)**	**4,613**	**(99)**	**27,089**	**24,976**	**1,746**	**26,722**
Transactions with owners, recognized directly in equity											
Contributions by and distributions to owners											
Conversion of class A shares to class B shares	(108)	-	-	-	-	-	-	108	-	-	-
Purchase of treasury shares	-	-	(3,574)	-	-	-	-	-	**(3,574)**	-	**(3,574)**
Equity-settled share-based payment transactions	-		3,904	-	-	-	-	(1,963)	**1,941**	102	**2,043**
Dividends distributed								(9,959)	**(9,959)**	(675)	**(10,634)**
Total contributions by and distributions to owners	**(108)**	**-**	**330**	**-**	**-**	**-**	**-**	**(11,814)**	**(11,592)**	**(573)**	**(12,165)**
Changes in ownership interests in subsidiaries											
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)**	**-**	**330**	**-**	**-**	**-**	**-**	**(11,851)**	**(11,629)**	**(576)**	**(12,205)**
Balance at 30 September 2019 (unaudited)	**6,810**	**3,406**	**(14,197)**	**(36,771)**	**25,222**	**(9,142)**	**(5)**	**184,062**	**159,385**	**8,476**	**167,861**

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

The notes on pages 7 to 49 are an integral part of these unaudited interim condensed consolidated financial statements.

(all amounts in EUR '000, unless specified otherwise)

	Share capital	**Share premium**	**Treasury shares**	**Translatio n reserve**	**Revaluatio n reserve**	**Fair value reserves**	**Cash flow hedge reserves**	**Retained earnings**	**Total equity attributable to equity holders of the parent**	**Non-controllin g interest**	**Total equity**
Balance at 1 January 2018 (audited)	**6,918**	**3,406**	**(13,922)**	**(29,957)**	**35,120**	**(3,667)**	**(248)**	**138,869**	**136,519**	**6,029**	**142,548**
Comprehensive income for the period											
Net profit for the period	-	-	-	-	-	-	-	19,381	**19,381**	1,545	**20,926**
Foreign currency translation differences	-	-	-	(4,731)	-	-	-	-	**(4,731)**	(313)	**(5,044)**
Loss on equity instruments measured at fair value through OCI	-	-	-	-	-	(6,186)	-	-	**(6,186)**	-	**(6,186)**
Cash Flow hedge reserves(1)	-	-	-	-	-	-	485	-	**485**	33	**518**
Transfer of revaluation reserve (depreciation)	-	-	-	-	(4,468)	-		4,468	**-**	-	**-**
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**(4,731)**	**(4,468)**	**(6,186)**	**485**	**23,849**	**8,949**	**1,265**	**10,214**
Transactions with owners, recognized directly in equity											
Contributions by and distributions to owners											
Equity-settled share-based payment transactions	-	-	(110)	-	-	-	-	11,184	**11,074**	630	**11,704**
Dividends distributed	-	-	-	-	-	-	-	(7,037)	**(7,037)**	(679)	**(7,716)**
Total contributions by and distributions to owners	**-**	**-**	**(110)**	**-**	**-**	**-**	**-**	**4,147**	**4,037**	**(49)**	**3,988**
Changes in ownership interests in subsidiaries Payments while having full control											
Movement in ownership interest while retaining control	-	-	-	-	-	-	-	-	**-**	-	**-**
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**-**		**(110)**	**-**	**-**	**-**	**-**	**4,147**	**4,037**	**(49)**	**3,988**
Balance at 30 September 2018 (unaudited)	**6,918**	**3,406**	**(14,032)**	**(34,688)**	**30,652**	**(9,853)**	**237**	**166,865**	**149,505**	**7,245**	**156,750**

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

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.

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.

Re-issue of previously issued financial information for the nine month period ended 30 September 2019

On 14 November 2019, the Company issued and published on its website the condensed consolidated interim financial report for the nine month period ended 30 September 2019 (“the original financial statements”). In connection with the Company’s decision to issue an additional EUR 800 million senior secured notes, the Company was required to re-issue financial information for the nine month period ended 30 September 2019 in these unaudited interim condensed consolidated financial statements for the nine month period ended 30 September 2019 (“the re-issued financial statements). As a result of this, the Company made certain changes compared to the original financial statements, as a result of not significant inaccuracies/errors that were identified and also as a result of additional disclosures requirements.

- **IFRS 16**:
  - Transition disclosures presented in Note 2, section 2.3.
  - Lease liabilities, previously presented as Non-current liabilities in the Interim Condensed Consolidated Statement of Financial Position, were split between current liabilities and non-current liabilities
  - Additions to rights of use asset disclosure in Note 5 (disclosures previously included in Note 4)
  - Cash-flow statement presentation of Payment of principal portion of lease liabilities under Cash flows used in/from financing activities (previously presented as “IFRS 16 rent expenses” under cash flows from operating activities)
- **Note 7:** Additional disclosures regarding the Additional Notes from February 2019 and 2019 Bridge Facility Agreement

- **Note 17**: Subsequent events.

1. CORPORATE INFORMATION (CONTINUED)

Below tables summarize the adjustments that were recorded as at 30 September 2019:

As at 30 September 2019	*(all in Euro thousand)*		
Statement of Financial Position	**Reported as at 14 November 2019**	**Adjustments**	**Adjusted**
Interest-bearing loans and borrowings, including bonds	818,883	3,062[1]	821,945
Deferred tax liabilities	71,589	(3,991)[2]	67,598
Reserves	(20,683)	(13)[3]	(20,696)
Retained earnings	183,120	943[4]	184,062

1. The additional notes were issued with a premium of EUR 3,500. This premium was initially recorded as finance income but should have been included in the carrying amount of the liability and amortized over the term of the notes. The amortization until 30 September 2019 was EUR 438.
2. Correction of Deferred tax liability related to an error in the calculation of this balance
3. Effect of exchange rate fluctuations of the above mentioned adjustments
4. Impact on Equity of the above mentioned adjustments

Below tables summarize the adjustments that were recorded for the nine month period ended 30 September 2019:

9 months period ended 30 September 2019 (all in Euro thousand)			
Statement of comprehensive income	**Reported as at 14 November 2019**	**Adjustments**	**Adjusted**
Other financial revenues	11,682	(3,500)[1]	8,182
Interest expense and amortization of borrowing cost	(41,926)	438[2]	(41,488)
Income tax	(18,995)	4,005[3]	(14,990)
Net profit for the period	23,976	943[4]	24,919

1 The additional notes were issued with a premium of EUR 3,500. This premium was initially recorded as finance income but should have been included in the carrying amount of the liability and amortized over the term of the notes.
2 The amortization until 30 September 2019 of the premium over the Additional Notes, in amount of €438.
3 Correction of Deferred tax liability related to an error in the calculation of this balance.
4 Impact on Net Profit of the above mentioned adjustments

The cash flow statements and the statements of changes in equity have been also restated accordingly.

1. CORPORATE INFORMATION (CONTINUED)

Re-issue of previously issued financial information for the nine month period ended 30 September 2018

On 14 November 2018, the Company issued and published on its website the condensed consolidated interim financial report for the nine month period ended 30 September 2018 ("the original financial statements"). In connection with the Company's decision to issue an additional EUR 200,000 senior secured notes due 2023, the Company was required to re-issue financial information for the nine month period ended 30 September 2018 and financial information for the nine month period ended 30 September 2017 in the unaudited interim condensed consolidated financial statements for the nine month period ended 30 September 2018 ("the re-issued financial statements). As a result of this, the Company made certain changes compared to the original financial statements, as a result of the impact of adjusting subsequent events and inaccuracies/errors that were identified.

Below tables summarize the adjustments that were recorded as at 30 September 2018:

As at 30 September 2018	*(all in Euro thousand)*		
Statement of Financial Position	**Reported as at 14 November 2018**	**Adjustments**	**Adjusted**
Other non-current assets		4,323[1]	4,323
Derivative financial assets	36,848	3,563[2]	40,411
Deferred tax liabilities	(60,826)	(1,090)[3]	(61,916)
Trade payables and other payables	(410,030)	2,495[4]	(407,535)
Provisions	-	(7,224)[5]	(7,224)
Equity attributable to equity holders of the parent	(147,577)	(1,928)[6]	(149,505)
Non-controlling interest	(7,112)	(133)[6]	(7,245)

1 recognition of deferred green certificates (€4,323)

2 fair value re-assessment for embedded derivative asset (€3,563)

3 additional deferred tax liability generated by the recorded adjustments (€1,090)

4 reclassification from trade and other payables to provisions (€2,495)

5 additional provisions in connection with ongoing litigation (€4,729) and reclassification from trade and another payables line (€2,495)

6 impact on equity attributable to equity holders of the parent (€1,928) and non-controlling interest (€133) of the recorded adjustments above

1. CORPORATE INFORMATION (CONTINUED)

Below tables summarize the adjustments that were recorded for the nine month period ended 30 September 2018:

9 months period ended 30 September 2018 (all in Euro thousand)			
Statement of comprehensive income	**Reported as at 14 November 2018**	**Adjustments**	**Adjusted**
Revenues	752,045	4,323[1]	756,368
Other expenses	(12,620)	(4,729)[2]	(17,349)
EBITDA	233,670	(407)	233,263
Finance income	257	3,562[3]	3,819
Income Tax	(17,373)	(1,092)[4]	(18,465)
Net profit for the period	18,864	2,062	20,926

1 recognition of deferred green certificates (€4,323)

2 additional provisions in connection with ongoing litigation (€4,729)

3 fair value re-assessment for embedded derivative asset (€3,563)

4 additional deferred tax expense from the recorded adjustments (€1,092)

The cash flow statements and the statements of changes in equity have been also restated accordingly as at 30 September 2018.

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

2.1 BASIS OF PREPARATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements for the nine month period ended 30 September 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2018. These interim condensed consolidated financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and part 9 of book 2 of the Dutch Civil code.

(b) Basis of measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis, except for buildings, 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 2018.

(all amounts in EUR '000, unless specified otherwise)

2.1 BASIS OF PREPARATION (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	2019			2018		
	1 Jan	Average for the 9 months	30 Sep	1 Jan	Average for the 9 months	30 Sep
RON per 1EUR	4.6639	4.7382	4.7511	4.6597	4.6514	4.6637
HUF per 1EUR	321.51	323.09	334.65	310.14	317.41	323.78
USD per 1EUR	1.1450	1.1237	1.0889	1.1643	1.1944	1.1598

2.1 BASIS OF PREPARATION (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 13b) Liquidity risk.

2.3 SIGNIFICANT ACCOUNTING POLICIES

Starting from 1 January 2019, the Group has implemented IFRS 16 which is effective for annual periods beginning on or after 1 January 2019. The rest of the significant accounting policies applied by the Group in this condensed consolidated 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 2018.

New pronouncements

The accounting policies used are consistent with those of the previous financial year except for the following new and amended IFRSs which have been adopted by the Group as of 1 January 2019.
The Group has initially adopted IFRS 16 Leases from January 1, 2019. The effects of this standard are described in the following paragraphs and notes below.

- **IFRS 16: Leases**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their Statement of financial position. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ’low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize in the statement of comprehensive income the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

Transition to IFRS 16

The Group transitioned to IFRS 16 in accordance with the modified retrospective approach (recognising the cumulative effect of initially applying IFRS 16 at the date of initial application), therefore the comparative figures are not restated.

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

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

For leases that have been classified at 1 January 2019 as operating leases in accordance with IAS 17, the lease liability is recognized at the present value of the remaining lease payments, discounted using lessee’s incremental borrowing rate at the date of initial application of the new standard. The right-of-use asset was measured at the date of initial application at the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. The adoption had, as a result, a significant increase in lease liabilities and total assets. The Group’s equity ratio declined and the Net debt rose accordingly, due to the material increase in lease liabilities.

Statement of comprehensive income: In contrast to the previous presentation of operating lease expenses, depreciation charges on right of use assets and the interest expense from the unwinding of the discount on the lease liabilities are recognized. These changes improved the profit from operating activities (EBIT) but negative effect on net income.
IFRS 16 also provides new guidance on the treatment of sale and leaseback transactions. The seller/lessee recognizes a right of use asset in the amount of the proportional original carrying amount that relates to the right of use retained. Accordingly, only the proportional amount of gain or loss from the sale must be recognized. During 2019, no material sale and leaseback transaction occurred.

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

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases previously classified as finance leases

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

Leases previously accounted for as operating leases

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

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

The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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

The Group also applied the available practical expedients wherein it:
• used a single discount rate to a portfolio of leases with reasonably similar characteristics;
• relied on its assessment of whether leases are onerous immediately before the date of initial application;
• excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
• used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As at 1 January 2019:

• Right-of -use assets with the gross book value of EUR 209,801 were recognised. This includes the lease assets recognised previously under finance leases with the carrying amount of EUR 21,281 that were reclassified from Property, plant and equipment;
• Prepayments of EUR 697 related to previous operating leases were reclassified to lease liabilities;
• Additional lease liability was recognized at that date in amount of EUR 195,846, out of which EUR 7,967 related to the leases that previously were recognized as financial leases;
• At transition date, no deferred tax impact was recognized, given that the right-of-use assets were recognized based on the amount approximately equal to the lease liabilities. Any adjustments from related prepaid and accrued lease payments previously recognized were not material.

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Operating leases commitments reconciliation	**EUR '000**
Operating leases commitments as at 31 December 2018	**254,293**
Less:	
Operating leases that did not meet recognition criteria under IFRS 16*	**(130,835)**
Operating lease commitments in scope of IFRS 16 as at 31 December 2018	**123,457**
Weighted average discount rate as at 1 January 2019	5.59%
Discounted operating lease commitments at 1 January 2019	**98,192**
Add:	
Other additional contracts in scope	50,167
Impact of incremental borrowing rate as per IFRS 16	6,250
Impact of assumptions regarding ROU useful life	33,270
Reclassification of financial leases liabilities	7,967
Lease liabilities as at 1 January 2019	**195,846**

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

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of- use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment to purchase the underlying asset.

(all amounts in EUR '000, unless specified otherwise)

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant judgement in determining the lease term of contracts with or without explicit renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms that range from 1 month up to 30 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. For these specific cases, the Group took into consideration the characteristics of the leased assets as well as the Group's estimations included in the Group's business plans. For leases where we consider it reasonably certain that the extension option will be exercised, we considered the extended the lease term for the purpose of the computation of lease liabilities (on top of the non-cancellable period) with a period in the range of one to five years.
After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

***Amounts recognised in the interim consolidated statement of financial position and interim consolidated statement of comprehensive income*:**

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right of use assets						
	Land	Buildings	Network	Equipment and devices	Vehicles	**Total**	**Lease liabilities**
As at 1 January 2019	3,194	44,042	151,065	2,490	9,011	209,801	195,846
Additions	-	7,239	16,308	2,335	4,179	30,061	29,903
Depreciation expense	-	(10,252)	(33,765)	(355)	(1,938)	(46,309)	-
Disposals	-	(9,913)	-	-	(1,580)	(11,493)	-
Interest expense	-	-	-	-	-	-	6,780
Payments	-	-	-	-	-	-	(51,250)
As at 30 September 2019	**3,194**	**31,117**	**133,608**	**4,470**	**9,671**	**182,060**	**181,279**

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

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

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

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28.

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

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  - ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

  - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed there is no impact at Group level.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. Management has assessed there is no impact at Group level.

2.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has assessed the impact of these amendments on the Group's operations and considers these will have no impact.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. Management has assessed the impact of these amendments on the Group's operations and considers these will have no impact.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management has assessed there is no impact at Group level.

(all amounts in EUR '000, unless specified otherwise)

3. SEGMENT REPORTING

Nine months ended 30 September 2019	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue	557,235	163,568	137,414	16,427	-	-	**874,644**
Inter-segment revenues	2,430	-	525	427	(3,382)	-	**-**
Segment operating expenses	(303,608)	(121,691)	(107,660)	(18,158)	3,382	-	**(547,735)**
Adjusted EBITDA	**256,057**	**41,877**	**30,279**	**(1,304)**	**-**	**-**	**326,909**
Depreciation, amortization and impairment of tangible, right of use and intangible assets						(218,860)	**(218,860)**
Other income (Note 18)	-	-	-	-	-	-	**-**
Other expenses (Note 18)	(2,496)	-	-	-	-	-	**(2,496)**
Operating profit							**105,553**
Additions to tangible non-current assets and additions to right of use assets as well as transfers from initial recognition of right of use assets (for details please see Note 2.)	228,233	133,742	27,547	609	-	-	**390,130**
Additions to intangible non-current assets	43,500	1,673	13,015	1,622	-	-	**59,810**
Carrying amount of:							
Property, plant and equipment and right of use assets	933,902	382,404	33,811	667	-	-	**1,350,785**
Non-current intangible assets	211,419	33,522	15,059	1,938	-	-	**261,938**
Investments in associates and Financial assets at fair value through OCI	968	-	-	36,671	-	-	**37,639**

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

(all amounts in EUR '000, unless specified otherwise)

3. SEGMENT REPORTING (continued)

Nine months ended 30 September 2018	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue	514,219	134,972	89,988	17,189	-	-	**756,368**
Inter-segment revenues	2,602	-	616	452	(3,670)	-	**-**
Segment operating expenses	(320,091)	(108,722)	(69,159)	(21,183)	3,670	-	**(515,485)**
Adjusted EBITDA	**196,730**	**26,250**	**21,445**	**(3,542)**	**-**	**-**	**240,883**
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(152,684)	**(152,684)**
Other income (Note 18)	9,729	-	-	-	-	-	**9,729**
Other expenses (Note 18)	(14,830)	(2,519)	-	-	-	-	**(17,349)**
Operating profit							**80,579**
Additions to tangible non-current assets	117,264	163,547	4,198	53	-	-	**285,062**
Additions to intangible non-current assets	20,782*	34,902*	6,420	1,426	-	-	**63,530**
Carrying amount of:							
Property, plant and equipment	796,458	279,601	6,607	266	-	-	**1,082,932**
Non-current intangible assets	177,041*	57,826*	8,468	2,337	-	-	**245,672**
Investments in associates and Financial assets at fair value through OCI	788	-	-	35,960	-	-	**36,748**

*In the interim condensed consolidated financial statements for the period ended 30 September 2018, Hungarian additions and carrying value of intangible non-current assets were presented on Romania's column of additions to intangible non-current assets. The presentation was corrected in the current interim condensed consolidated financial statements.

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

4. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

Acquisitions and disposals

During the nine-month period ended 30 September 2019, the Group acquired property, plant and equipment with a cost of EUR 171,549 (nine months ended 30 September 2018: EUR 285,062).

The acquisitions related mainly to networks EUR 90,264 (nine months ended 30 September 2018: EUR 161,543), customer premises equipment of EUR 32,425 (nine months ended 30 September 2018: EUR 32,531), equipment and devices of EUR 39,498 (nine months ended 30 September 2018: EUR 61,122), buildings and structures of EUR 5,204 (nine months ended 30 September 2018: EUR 18,776) and vehicles of EUR 2,118 (nine months ended 30 September 2018: EUR 7,858).

The majority of additions in the period ending 30 September 2018 relate to the additions of property, plant and equipment of Invitel, as a result of Invitel's acquisition.

Right of use assets

Starting from 1 January 2019, IFRS 16 was adopted. All our operating leases previously recognised under IAS 17, which were in scope of IFRS 16, are recognised starting 1 January 2019 as right of use assets in the consolidated statement of financial position. As at 30 September 2019, the right of use assets from previous operating leases is in amount of EUR 167,434. The remaining amount up to EUR 182,060 represents the carrying amount of the previous finance leases recognised up to 31 December 2018, in accordance with IAS 17.

Acquisitions in the current period include additions to right of use assets from previously financial leasing assets recognised under IAS 17 for vehicles in amount of EUR 4,179, customer premises equipment of EUR 2,001 and equipment and devices of EUR 334.

5. NON-CURRENT INTANGIBLE ASSETS, CURRENT PROGRAMME ASSETS

a) Intangible assets

Acquisitions

Non-current intangible assets
During the nine-month period ended 30 September 2019, the Group acquired non-current intangible assets with a cost of EUR 59,810 (30 September 2018: EUR 63,530).

The additions were as follows:
- Software and licences in amount of EUR 17,594 (30 September 2018: EUR 16,319);
- Customer relationships by acquiring CATV and fixed internet subscribers in amount of EUR 16,537, (30 September 2018: EUR 22,420);
- Costs to obtain contracts with customers (Subscriber Acquisition Costs "SAC") in amount of EUR 25,679 (30 September 2018: EUR 22,192); SAC represents third party costs for acquiring and connecting customers of the Group;
- Goodwill did not increase through new additions in the first nine months of 2019. (30 September 2018: EUR 2,667).

(all amounts in EUR '000, unless specified otherwise)

5. NON-CURRENT INTANGIBLE ASSETS AND PROGRAMME ASSETS (CONTINUED)

Goodwill

(i) Reconciliation of carrying amount	
Cost	
Balance at 1 January 2018	**76,089**
Additions	2,667
Effect of movement in exchange rates	(1,023)
Balance at 30 September 2018	**77,733**
Balance at 1 January 2019	**82,903**
Additions	-
Effect of movement in exchange rates	(2,080)
Balance at 30 September 2019	**80,823**

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 2019.

b) Programme assets

During the nine-month period ended 30 September 2019, additions of programme assets in the amount of EUR 34,457 (30 September 2018: EUR 35,095) represent broadcasting rights for sports competitions for 2019/2020 season and related advance payments for future seasons, and also rights for movies and documentaries.

6. EQUITY

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

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

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

The class B shares resulting from the conversion will be used by the Company (in addition to the existing treasury class B shares and to the class B shares repurchased through the ongoing buy-back program) for the purpose of the several ongoing Company's subsidiaries employees and managers' stock option plans which vested in 2019 or will vest in 2020.

On 15 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 granted in 2018. 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 25 May 2019 Mr. Mihai Dinei, Board Member of RCS & RDS S.A. has exercised his stock option, which has vested in accordance with the provision of the company's stock option plan granted in 2018. In accordance with this stock option plan, Mr. Mihai Dinei was granted 100,000 shares.

As at 30 September 2019, the Company had 5.4 million treasury shares.

The GSM from 30 April 2019 approved the distribution of a gross dividend of 0.50 RON (EUR 0.11) per share, for 2018.

7. INTEREST-BEARING LOANS AND BORROWINGS

Included in long term interest-bearing loans and borrowings are bonds of EUR 552,615 (December 2018: EUR 349,490), bank loans EUR 269,330 (December 2018: EUR 363,125).

Included in short term interest-bearing loans and borrowing are bank loans of EUR 43,750 (December 2018: EUR 44,240), short portion of long term interest-bearing loans of EUR 36,247 (December 2018: EUR 112,580) and interest payable amounting to EUR 15,288 (December 2018: EUR 7,415).

Starting 1st of January, the Group adopted IFRS 16. At 30 September 2019, "Lease liabilities" are in amount of EUR 181,279. As at 31 December 2018, financial leasing liability in amount of EUR 7,966 was presented under "Interest-bearing loans and borrowings" and was included in EUR 884,818.

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023, with a 5% coupon (tap on the existing Senior Secured Notes due in 2023). The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) RON 250.0 million under the 2016 SFA Facility A1 and A2 (EUR 53,603 equivalent); (ii) RON 120.0 million under Facility B (EUR 25,730 equivalent); (iii)HUF 17,835 million (EUR 55,472 equivalent) for SFA 2018 A1; (iv) RON 87.7 million (EUR 18,800 equivalent) for SFA B1 and (v) EUR 25,641 for SFA 2018 B2.

(all amounts in EUR '000, unless specified otherwise)

7. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

On 30 July 2019, RCS & RDS S.A. as borrower and original guarantor, DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság as borrower and original guarantor, the Company, as borrower, original guarantor and parent, Invitel Távközlési Zrt, as original guarantor, Citibank, N.A., London Branch, ING Bank N.V. and Unicredit Bank S.A., as mandated lead arrangers, Unicredit Bank S.A., as original issuing bank, and ING Bank N.V. as the agent of the other finance parties and several other financial institutions as original lenders, have concluded a syndicated multicurrency facility agreement consisting of two facilities in RON, EUR and HUF(the „2019 Bridge Facility Agreement"). The Facility is granted for 12 months, with the possibility of extension up to 24 months from the execution date of the Agreement. The value of the Syndicated Facility Agreement is EUR 150,000 and may be increased up to EUR 250,000 (or its equivalent in other currencies). The Syndicated Facility Agreement is meant to be used by the Company and its subsidiaries for the purpose of investments. Up to year end, there are amounts blocked from the facility for the purpose of letters of guarantees issuance.

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

	Carrying amount
Balance as of 1 January 2019	**884,818**
Effect of IFRS 16 adoption	
Reclassification of financial leasing liabilities (IAS 17) into Lease Liability (IFRS 16)	(7,966)
New drawings	
Proceeds from bank loans and proceeds from Bond	230,996
Interest for the period	38,945
Repayment	
Repayment of borrowings	(193,053)
Current year interest paid	(29,769)
Additional financing costs	968
Effect of movements in exchange rates	(7,710)
Balance as of 30 September 2019	**917,230**

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 114,279.

8. RELATED PARTY DISCLOSURES

		30 September 2019	31 December 2018
Receivables from Related Parties			
Ager Imobiliare S.R.L.	(ii)	758	743
RCS Management S.A.		1	1
Other		9	9
Total		**768**	**753**

		30 September 2019	31 December 2018
Payables to Related Parties			
RCS Management S.A.	(i)	10,810	5,756
Mr. Zoltan Teszari		244	8
Other		703	720
Total		**11,757**	**6,484**

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

(all amounts in EUR '000, unless specified otherwise)

8. RELATED PARTY DISCLOSURES (CONTINUED)

On 12 May 2017, RCS&RDS entered into a short term loan with RCS Management, for a principal amount of EUR 5,000. The loan bears a 5.5% per annum interest rate, the repayment date was extended to May 2020. As at 30 September 2019 the outstanding amount is EUR 101.

In May 2019, RCS & RDS declared dividends in amount of 50,000 RON, equivalent of EUR 10,508 from 2018 profit.

8. RELATED PARTY DISCLOSURES (CONTINUED)

Compensation of key management personnel of the Group

	Nine months ended 30 September 2019	Nine months ended 30 September 2018
Short term employee benefits –salaries	2,614	3,525

The amount above include employer contributions to State pension plan.

In May 2017 and May 2018, share option plans were approved by the General Shareholders' Meeting for members of the Company's Board of Directors. For details, please see Note 14.

(all amounts in EUR '000, unless specified otherwise)

9. REVENUES

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

	Nine months ended 30 September 2019	Nine months ended 30 September 2018
a) Revenues from contracts with costumers		
Cable TV		
Romania	161,124	141,737
Hungary	50,096	43,221
	211,220	**184,958**
Internet and data		
Romania	144,484	134,257
Hungary	57,919	39,942
Spain	5,772	-
	208,175	**174,199**
Telephony		
Romania	161,388	149,352
Hungary	15,579	11,588
Spain	131,336	89,916
Italy	16,408	17,125
	324,711	**267,981**
DTH		
Romania	23,287	24,764
Hungary	22,054	24,121
	45,341	**48,885**
Other revenues		
Romania	55,566	56,873
Hungary	17,919	16,100
Spain	306	72
Italy	20	64
	73,811	**73,109**
a) Other revenues		
Romania	11,386	7,236
Total revenues	**874,644**	**756,368**

Other revenues from contracts with costumers as at 30 September 2019 include mainly revenues from sale of handsets and other CPE, as well as advertising revenues.

(all amounts in EUR '000, unless specified otherwise)

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

Timing of revenue recognition	**Nine months ended 30 September 2019**	**Nine months ended 30 September 2018**
Goods transferred at a point in time	26,152	28,487
Services transferred over time	848,492	727,881
Total revenues	**874,644**	**756,368**

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.

(all amounts in EUR '000, unless specified otherwise)

10. OPERATING EXPENSES

	Nine months ended 30 September 2019	Nine months ended 30 September 2018
Depreciation of property, plant and equipment	100,965	92,263
Amortization of programme assets	30,714	28,484
Amortization of non-current intangible assets	38,654	30,656
Amortisation of right of use assets	46,309	-
Salaries and related taxes	149,526	135,201
Contribution to pension related fund	4,762	3,855
Programming expenses	79,718	68,431
Telephony expenses	151,834	123,917
Cost of goods sold	23,598	26,417
Invoicing and collection expenses	16,422	14,321
Taxes to authorities and penalties	17,241	16,144
Utilities	19,474	14,361
Copyrights	8,894	7,045
Internet connection and related services	8,158	2,953
Impairment of receivables, net of reversals	6,383	7,537
Impairment of property, plant and equipment	2,111	1,275
Impairment of non-current intangible assets	107	5
Other materials and subcontractors	7,839	7,436
Other services	21,021	23,529
Rent and other expenses	32,864	64,338
Total operating expenses	**766,594**	**668,169**

In 2019, share option plans' expenses accrued in the period are included in the caption "Salaries and related taxes". For details, please see Note 14.

For the nine month period ended 30 September 2018, the rent expenses were presented on the Rent and other expenses line. For the nine month period ended 30 September 2019, expenses from rent contracts are recognized in accordance with IFRS 16 and the impact is shown in Note 2. For details of the impact of the adoption of IFRS 16, please see Note 2 Accounting Policies (para 2.3).

(all amounts in EUR '000, unless specified otherwise)

11. NET FINANCE COSTS

	Nine months ended 30 September 2019	Nine months ended 30 September 2018
Financial revenues		
Interest from banks	3,351	220
Other financial revenues	8,182	3,599
Foreign exchange differences (net)	-	-
	11,533	**3,819**
Financial expenses		
Interest expense and amortization of borrowing cost	(41,488)	(33,546)
Interest expense for lease liability	(6,779)	-
Net gain/(loss) on derivative financial instruments	(7)	(685)
Foreign exchange differences (net)	(19,252)	(4,652)
Other financial expenses	(9,651)	(6,124)
	(77,177)	**(45,007)**
Net Financial Cost	**(65,644)**	**(41,188)**

The fair value of the embedded derivative options attached to our EUR 350,000 Senior Secure Notes as at 31 December 2018 was in amount of EUR 31,115.

As at 30 September 2019, the fair value of the embedded derivative options attached to our EUR 550,000 Senior Secure Notes is in amount of EUR 41,908. The fair value movement of EUR 8,124 was recognised in other financial revenues in the period and EUR 3,240 represents fair value at inception date of embedded derivative of bond tap, at February 2019, recognized against the bond liability.

12. BUSINESS COMBINATIONS

Acquisition of Invitel Távközlési Zrt ("Invitel")

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

The transaction was closed on 30 May 2018 for a total consideration of approximately EUR 135.4 million. Control was transferred at the same date. There are certain conditions regarding divesting part of the Invitel business in certain areas that need to be fulfilled.

In accordance with the requirements of IFRS 3 "Business Combinations", the Purchase Price Allocation ("PPA") analysis for the Invitel acquisition of shares started in view of consolidating the Invitel's assets, liabilities and results. As at 30 September 2018, the PPA assessment was in a preliminary phase. The PPA was undertaken by an external independent valuator.

The Final PPA report included in the 2018 Annual Consolidated Financial Statements differs from the preliminary PPA assessment (comparatives reported as at 30 September 2018), as a result of the following updates:
- update of depreciation included in the proforma for the computation of Customer Relationship, as a result of updated useful life of the acquired fixed assets;
- revision of the Present Value Factor used in the Customer relationship estimation of the present value of excess earnings generated by the Customer relationship assets;

(all amounts in EUR '000, unless specified otherwise)

12. BUSINESS COMBINATIONS (CONTINUED)

- the deferred tax liability previously recorded at the preliminary PPA, which comprised mainly the tax effect of the temporary differences generated by the PPA adjustments, was netted off with the deferred tax asset which was recognised for the unused tax losses carried forward only to the extent that they matched the respective taxable temporary differences.

All of the above updates resulted in notable changes in Customer Relationship and Goodwill and smaller revisions of the other components when compared to the preliminary version.

For comparative purpose, the unaudited interim condensed consolidated financial statements as at 30 September 2018 include the consolidated results of Invitel starting from 1 June 2018 and the preliminary valuation of the fair value of identifiable assets and liabilities of Invitel as at the date of acquisition.
The final PPA assessment was available in Q4 2018. The consolidated group results and consolidated Group assets and liabilities as at 31 December 2018 include the impact of the final PPA. The comparatives in these interim condensed consolidated financial statements are not restated.

The Final version of PPA assessment included in the YE Financials differs from the preliminary PPA assessment (comparatives reported as at 30 September 2018) as a result of the following updates:
- update of the depreciation included in the proforma for the computation of Customer Relationship as a result of updated useful life of the acquired fixed assets.
- revision of the Present Value Factor used in the Customer relationship estimation of the present value of excess earnings generated by the Customer relationship assets.
- the deferred tax liability previously recorded at the preliminary PPA, which comprised mainly the tax effect of the temporary differences generated by the PPA adjustments, was netted off with the deferred tax asset which was recognised for the unused tax losses carried forward only to the extent that they matched the respective taxable temporary differences.

All of the above updates resulted in notable changes in Customer Relationship and Goodwill and smaller revisions of the other components when compared to the preliminary version

	Preliminary FV on acquisition as at 30 Sep 2018	Final FV recognized on acquisition as at 31 December 2018	Variation
Purchase consideration paid	**135,576**	**135,512**	**(64)**
Assets acquired			
Intangible assets	30,337	21,747	(8,590)
Tangible assets	130,926	132,046	1,120
Financial assets	45	45	-
Net working capital	(5,670)	(5,670)	-
Total assets	**155,638**	**148,168**	**(7,472)**
Long term liabilities	(9,867)	(572)	9,295
Current Liabilities	(2,923)	(2,923)	-
Cash pooling		(9,295)	(9,295)
Provisions	(781)	(781)	-
Accrued expenses and deferred income	(10,045)	(10,045)	-
Total liabilities	**(23,616)**	**(23,616)**	**-**
Cash and bank accounts	3,349	3,349	-
Net debt	**(20,267)**	**(20,267)**	-
Deferred tax assets/ liabilities	(2,462)	-	2,462
Net assets, excluding Goodwill	**132,911**	**127,901**	**(5,010)**
Minority interest, @ 0.001605%	2	2	-
Goodwill	**2,667**	**7,613**	**4,946**

13. 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. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low. Although collection of receivables could be influenced by macro-economic factors, management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The credit exposure for derivatives is limited, as there will be no incoming cash-flow arising from the embedded derivatives.
Cash and cash equivalents are placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

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

(b) Liquidity risk

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

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

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 September 2019, the Group had net current liabilities of EUR 427,666 (31 December 2018: EUR 459,872). As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities. Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

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

(c) Market risk

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

Exposure to currency risk

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

Exposure to electricity price risk

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

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 7.

13. 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.

14. SHARE-BASED PAYMENT

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

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

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

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

The Company also granted on 24 May 2018 conditional stock options to a limited number of Romanian directors and employees. The number of options of class B shares granted to such directors and employees amounts to a total of 250,000 stock options. This option plan vested in 2019.

The Company approved in June 2018 the implementation of a stock option plan to the benefit of the officers and employees of Digi Spain S.L.U., the Company's subsidiary in Spain. The maximum number of options of class B shares allocated to this plan amounts to 35,000. This option plan vested in 2019

For the nine month period ended 30 September 2019, the related share option expense of EUR 2,043 (nine month period ended 30 September 2018: 12,409), out of which EUR 478 (nine month period ended 30 September 2018: 2,309) is included in the Consolidated statement of profit or loss and other comprehensive income included under the line item Operating expenses, within salaries and related taxes (Note 10), and the amount of EUR 1,564 (nine month period ended 30 September 2018: 10,101) is excluded from adjusted EBITDA because the related share option plans are estimated to be one-time events.

(all amounts in EUR '000, unless specified otherwise)

15. 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 30 September 2019, 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 30.1), adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

Sensitivity analysis for financial assets at fair value through OCI

A change a 10% in share price at the reporting date would have an impact as follows:

	Share price	
	10% increase	10% decrease
30-Sep-19		
Financial assets at fair value through OCI	3,666	(3,666)
31-Dec-18		
Financial assets at fair value through OCI	3,195	(3,195)

Embedded derivatives

As at 31 December 2018, the fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a "plain vanilla" bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus, the model directly provides a separate price for the entire optionality of the bonds. The fair value was obtained from a third party financial institution.

As at 30 September 2019, the yields used as input in the Option Adjusted Spread (OAS) model presented some anomalies. Therefore, alternatively, a discounted cash flow valuation technique was used in order to estimate the option-free value at this date. The fair value was obtained from an independent valuation specialist. For details regarding gains recognised in Consolidated Condensed Interim Profit and Loss Account please see Note 11.

A change of 100 basis points in discount factor, at the reporting date would have increased (decreased) profit or loss before tax by:

	Profit or loss	
	100 basis points increase	100 basis points decrease
30 September 2019		
Variable discount factor instruments	(3,501)	3,501

Electricity trading assets and liabilities

During previously reporting periods, the Company used discounted cash flow valuation technique to measure the fair value of the term electricity sale and acquisition contracts. Starting 2019, the Group applies the "own use" exemption and does not account for the fair valuation of term electricity sale and acquisition contracts at the reporting date.

As at 30 September 2019 the Group had derivative financial assets in amount of EUR 41,908 (31 December 2018: EUR 33,287), which included:

• Embedded derivatives of EUR 41,908 (31 December 2018: EUR 31,115) related to the bond (the Bonds include several call options as well as one put option). The fair value of the Bond Tap of EUR 200,000 was also assessed at inception date, in February 2019, in amount of EUR 3,240 and recognized as embedded derivative asset with a corresponding increase of the bond liability.
• From January 2019 the fair value of term electricity contracts is no longer assessed (31 December 2018: 2,052, being mark to market gain from fair valuation of electricity trading contracts).

As at 30 September 2019 the Group had derivative financial liabilities in amount of EUR 34 (31 December 2018: EUR 1,106), which included:
• From January 2019 the fair value of term electricity contracts is no longer assessed (31 December 2018: 1,106, being mark to market loss from fair valuation of electricity trading contracts).
• Interest rate swaps liabilities in amount of EUR 34 (31 December 2018: asset in amount of EUR 120). On May 22, 2015 and in January 2016 RCS & RDS concluded interest rate swaps for the entire term loan facility and Accordion term loan facility under the 2015 SFA, through which RCS&RDS hedged against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e.: ROBOR). Under the interest rate swaps RCS&RDS pays fixed and receives variable cash flows on the same dates on which is settles the interest on its hedged borrowings. Hedged cash flows occur periodically, on the settlement of the interest on hedged loans, and impact profit or loss throughout the life of the loan, through accrual. Given that critical terms of the hedging instrument match the critical terms of the hedged cash flows, there is no significant ineffectiveness. The interest rate swaps remain valid until the maturity of the agreement in 2020.

(all amounts in EUR '000, unless specified otherwise)

15. DERIVATIVE 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
30 September 2019				
Financial assets at fair value through OCI	-	-	36,671	**36,671**
Interest rate swaps	-	-	(34)	**(34)**
Embedded derivatives	-	-	41,908	**41,908**
Total	-	-	**78,545**	**78,545**
31 December 2018				
Financial assets at fair value through OCI	-	-	32,058	**32,058**
Interest rate swaps	-	-	120	**120**
Embedded derivatives	-	-	31,115	**31,115**
Electricity trading assets (term contracts)	-	-	2,052	**2,052**
Electricity trading liabilities (term contracts)	-	-	(1,106)	**(1,106)**
Total	-	-	**64,239**	**64,239**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the period ended 30 September 2019 is as follows:

	Financial assets at fair value through OCI (Notes 7, 13)	Embedded derivatives	Interest rate swaps	Trading assets	Trading liabilities
1 January 2019	**32,058**	**31,115**	**120**	**2,052**	**(1,106)**
Gains or (losses) recognised in profit or loss for the year	-	8,124	(14)	(2,052)	1,106
Gains or (losses) recognised in other comprehensive income	4,613	3,240	(128)	-	-
Purchases	-	-		-	-
Settlements	-	-		-	-
Effect of movements in exchange rates	-	(571)	(12)	-	-
30 September 2019	**36,671**	**41,908**	**(34)**	**-**	**-**

The fair value of long term loans and their corresponding carrying amount (excluding the interest accrued at 30 September 2019 and 31 December 2018) and fair value measurement hierarchy are presented in the table below:

			30 September 2019
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 14)	**858,936**	**878,101**	
Bonds*	552,615	566,236	Level 1
2016 Senior Facilities	225,244	226,999	Level 3

(all amounts in EUR '000, unless specified otherwise)

2018 Senior Facilities	70,181	73,973	Level 3
Other	10,895	10,893	

			31 December 2018
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 14)	**825,195**	**848,138**	
Bonds*	349,490	366,625	Level 1
2016 Senior Facilities	293,007	296,794	Level 3
2018 Senior Facilities	173,710	175,709	Level 3
Other	8,988	9,010	

** Fair value of bonds is disclosed at mid-market price, which includes the embedded derivative asset*

16. GENERAL COMMITMENTS AND CONTINGENCIES

(a) Contractual commitments

Commitments are presented on a discounted basis, using an interest rate of 3M LIBOR + 5.59% p.a., 3M EURIBOR + 5.59% p.a. or 3M ROBOR + 5.59% p.a.

As at 30 September 2019, contractual commitments for capital expenditure amounted to approximately EUR 86,550 (31 December 2018: EUR 82,325) and contractual operating commitments amounted to approximately EUR 99,333 (31 December 2018: EUR 199,022).

(b) Letters of guarantee

As of 30 September 2019, there were bank letters of guarantee and letters of credit issued in amount of 95,235 EUR mostly in favour of content and satellite suppliers and for participation to tenders (31 December 2018: EUR 19,639).

There are cash collateral agreements for issuance of letters of counter guarantees. As at 30 September 2019 we had letters of guarantee issued in amount of EUR 719 (31 December 2018: EUR 719). These agreements are secured with moveable mortgage over cash collateral accounts.

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

(c) Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements. Specifically, for the litigations described below the Group did not recognize provisions (except for limited amounts in limited cases) as management assessed that the outcome of these litigations is not more likely than not to result in significant cash outflows for the Group.

Pecuniary claim filed by the National Cinematography Centre

On 4 November 2016, the National Cinematography Centre filed before the Bucharest Tribunal a claim for payment with respect to a value of EUR 1,200, including principal and accessories as royalty tax due by law to this claimant. In March 2019, the Bucharest Court of Appeal admitted the National Cinematography Centre's claim in part by granting to the claimant RON 3,900,000 (by maintaining the first court solution). This amount has been recorded as a provision on the statement of financial position. Although already enforceable, this decision is not final and we filed an appeal in this case.

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

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

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

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

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

On 2 May 2017, certain individuals (William Hawkins, Eric Keller, Kristof Gabor, Justin Panchley, and Thomas Zato) (collectively, the "Plaintiffs") filed in the United States District Court for the Eastern District of Virginia – Alexandria Division (the "**US Court**") a motion to enforce a default judgment (the "**Motion**") that was issued in favour of the Plaintiffs by the US Court in the Civil Action No. 1:05-cv-1256 (LMB/TRJ) in February 2007 (the "**Default Judgment**") against Laszlo Borsy, Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. (the predecessor to i-TV Digitális Távközlési Zrt.) (the "**Defendants**") jointly and severally. Additionally, the Motion sought to extend the enforcement of the Default Judgment against the following entities that were not parties to the original proceedings and not named in the Default Judgment: i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., and the Company.

The Default Judgment, of which enforcement is sought before the US Court, awarded the Plaintiffs approximately USD 1,800,000 in damages resulting from alleged unpaid debts that appear to have been caused by Laszlo Borsy and several related entities. It also ordered that the ownership interest of Defendants Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. be distributed to the Plaintiffs in total percentage of 56.14%. Finally, it prohibited Defendants Laszlo Borsy, Mediaware Corp., MediaTechnik Kft., Peterfia Kft, and DMCC Kommunikacios Rt. from disposing of or dissipating any assets of the initial defendant entities or engaging in any corporate transactions without the consent of the Plaintiffs.

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

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

We deem the Motion, which requests payment from the Defendants, i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A. and the Company, jointly and severally, of USD 1,800,000, plus interest, as well as other compensation, damages, fees and expenses, as vexatious for numerous legal and factual reasons. Those reasons include, but are not limited to, the lack of any actual proof of fraud on behalf of either of i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company, the Plaintiffs' passivity for more than ten years, the lack of jurisdiction of the US Court over i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, S.A., RCS Management S.A., or the Company, as well as the fact that the Motion, if granted, would go against mandatory legal provisions of any of the jurisdictions where i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company operate.

On 8 February 2018, the US Court granted the Defendants' motion to vacate and dismissed the entire lawsuit for lack of subject matter jurisdiction. The US Court also vacated all prior orders entered in the case (the "**US Court's Decision**"). The Plaintiffs filed an appeal against the US Court's Decision with the United States Court of Appeals for the Fourth Circuit (the "**Appellate Court**"). The Defendants also filed a conditional cross-appeal that was to be considered only if the Appellate Court would have admitted the appeal filed by the Plaintiffs.

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.

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. Subsequently, the Plaintiffs challenged this decision also to the Supreme Court and until the Supreme Court will issue a decision, the judgement of the case on the merits at the US Court is suspended. Is to be retained that the practice of the Supreme Court has been in the last years pretty conservative with regards to the extension of the US jurisdiction outside US, therefore the chances of success of this new appeal initiated by the Plaintiffs are rather reduced.

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

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

In 2009, RCS&RDS entered into a joint venture with Bodu S.R.L. (the "JV") with respect to an events hall in Bucharest. This venue enjoys a good location in the city and is relatively close to our headquarters. We believed at the time that the property would have been very helpful to the development of our media business and, potentially, other businesses and desired to acquire the venue from Bodu S.R.L. However, Bodu S.R.L. only agreed to a joint venture arrangement, making certain representations concerning future economic benefits of its joint development, which we accepted in good faith. At the time when RCS&RDS entered into the JV, Bodu S.R.L. was owned by Mr. Bogdan Dragomir, a son of Mr Dumitru Dragomir, who served as the President of the Romanian Professional Football League (the "**PFL**").

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

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

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

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

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

On 15 January 2019, the Bucharest Tribunal dismissed the giving of bribe related allegations against RCS&RDS and its past and current directors on the basis that they had become time-barred, convicted RCS&RDS in connection with the offence of money laundering for which the court applied a criminal fine in the amount of RON 1,250,000. The Bucharest Tribunal’s decision also decided on the confiscation from RCS&RDS of an amount of EUR 3,100 plus RON 655,000 and it maintained the seizure over the two real estate assets first instituted by the DNA. Integrasoft S.R.L. was convicted in connection with the offence of accessory to money laundering for which the court applied a criminal fine of RON 700,000. Mr. Bendei Ioan was convicted to a 4 years imprisonment sentence in connection with the offence of accessory to money laundering resulting from his capacity of director of Integrasoft S.R.L.

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

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

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

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

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

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.

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 €2.1 million plus approximately €24,000 in default interest was due to Yolt Services s.r.o., which was significantly lower than the amounts they had claimed. The amounts awarded have been paid to the claimant in full.

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

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

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

The court of first instance reduced the fine imposed on DIGI HU by the GVH from HUF 90,000,000 to HUF 45,000,000. The court 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 the Initial Decision was adopted not only because of the company's conduct, but also based on the authority's failure to properly clarify the facts of the case. GVH filed an appeal and Digi HU filed a cross-appeal and currently we expect to be scheduled the first hearing in appeal.

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

Dispute with the Hungarian National Media and Telecommunication Authority („NMHH") relating to its refusal to allow the Company to participate in an auction for mobile telecommunication frequencies in Hungary

On September 13, 2019, the NMHH issued an order refusing to allow the Company to participate in a public auction for the acquisition of mobile telecommunication frequencies in Hungary, which we intended to use in the development of our mobile telecommunication network in the country.

The main argument of the NMHH was that the Company did not actually intend to participate in the auction procedure in good faith as, allegedly, its bid was merely a way to avoid potential disqualification had the bid been submitted by DIGI Hungary. In turn, as NMHH alleged, DIGI Hungary would not have been allowed to participate in the first place as a consequence of its alleged violations during Invitel's acquisition, a review of which is pending. The NMHH erroneously alleged that, had the bid been successful, the Company would not have been able to provide mobile telecommunication services in Hungary because it was not a registered service provider and did not have sufficient infrastructure and frequency bandwidth.

The Company challenged the NMHH's order to the President of NMHH. As it stated in the appeal, the NMHH's order had been rendered based on subjective allegations, rather than objective grounds and applicable procedural requirements. We believe that the Company met all applicable requirements of the auction documentation and there are no objective grounds to refuse its registration as a participant in the auction. The Company had acted in good faith and had not, and had no intention to, mislead the NMHH. Furthermore, we believe that even if the bid was submitted by DIGI Hungary, there were no formal grounds to deny its registration as a participant.

16. GENERAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

While our appeal to the President of the NMHH was pending, the auction procedure was suspended. On November 27, 2019, the appeal was rejected on similar reasoning stated in the initial order. On the same date, we appealed that decision to a competent Hungarian court. We also filed for injunctive relief to suspend the auction pending judicial review of our claims. On January 10, 2020, our appeal regarding the request for relief was rejected. On January 20, 2020, we filed a further appeal to the Supreme Court of Hungary. Although we believe that under applicable Hungarian law, the auction cannot proceed until the Supreme Court of Hungary makes a final determination regarding our appeal, the law is not entire clear on this issue and there is no assurance that the NMHH will adhere to our understanding. Additionally, we will shortly be applying for a further injunctive relief to have us admitted into the pool of bidders pending resolution by the Supreme Court of Hungary.

Dispute with the National Authority for Consumer Protection („NACP") in relation to 2019 increases of our tariffs in Romania

In the beginning of 2019, RCS&RDS increased certain tariffs charged to Romanian customers for electronic communication services. In April and May 2019, the NACP carried out a review of those increases (along with their review of prices charged by our competitors), as a result of which it issued a minutes sanctioning RCS&RDS with a fine of RON70,000 for allegedly having violated the law in so increasing the tariffs. According to the NACP, those increases were the result of RCS&RDS transferring to its customers the costs that had increased on account of the costs imposed by the law, the authority making reference to the emergency Government Ordinance no.114, dated December 28, 2018. The NACP also ordered RCS&RDS the termination of the allegedly unfair commercial practice which can result in the reverse of the price increases.

We believe that the NACP's minutes and order are entirely without merit as (i) the disputed tariff increases were in no way unlawful; and (ii) there were solid economic reasons therefor, which were not related to additional costs imposed by legislation changes. In particular, from 2009 to 2019 RCS&RDS did not increase the main prices for its electronic communication services; therefore the 2019 increases were the function of economic developments over the past 10 years (such as increases in operational costs (including wages), significant depreciation of the RON against the EUR and the USD, significant inflation and a series of changes in VAT rates, among others), as well as very significant investments by the RCS&RDS in the development of its services. As a private company operating in a competitive market environment, the RCS&RDS is entitled by law to direct its own pricing policy.

On June 14, 2019, RCS&RDS appealed the NACP's minutes to a Romanian court of the first instance (thereby suspending their application). The appeal was granted on November 18, 2019, under which the court cancelled the minutes. The NACP is entitled to appeal that judgment within 30 days following receipt of the full text thereof. Until present, the full text has not yet been communicated to the parties and therefore no such appeal has been filed.

On July 18, 2019, RCS&RDS filed for injunctive relief requesting that the NACP's order be suspended. The injunctive relief was granted on August 9, 2019, but was appealed by the NACP. The hearing of that appeal is yet to be scheduled. On September 26, 2019, RCS&RDS filed to a Romanian court of the first instance a substantive appeal against the NACP's order itself. The hearing of this appeal is currently scheduled for February 4, 2020. Should the NACP's order not be annulled by the court, or the NACP succeed in reversing our appeal against its minutes, that could result in us being forced to lower our tariffs in Romania (which in itself will represent a significant impediment to our revenue generation in the country) or pay our Romanian customers the difference between what they actually paid us since the date of the NACP's order based on new tariffs and what they would have paid us based on old tariffs, damage our reputation and otherwise have a material adverse effect on our business, prospects, results of operations or financial condition.

17. SUBSEQUENT EVENTS

On November 28, 2019, RCS&RDS ("**Assignee**") and Digital Cable Systems S.A., AKTA Telecom S.A., respectively ATTP Telecommunicatios S.R.L., (together as "**Assignors**"), concluded agreements (together the „**Agreements**") having as subject matter the operation by RCS&RDS of the assets used for providing telecommunication services to residential type customers. Additionally, through the agreement concluded with ATTP Telecommunicatios S.R.L., RCS&RDS will also become owner of assets consisting in infrastructure, clients etc, upon the fulfillment of the conditions precedents mentioned below.

Under these Agreements, RCS&RDS will operate the electronic communications networks of the Assignors and will provide electronic communications services to the clients, in exchange of the payment by RCS & RDS of a rent in the amount agreed by the parties. According to these Agreements, RCS&RDS will provide a number of approximatively 540 thousand internet access, cable television, fixed and mobile telephony services.

The Agreements are concluded for an initial duration of 3 years, which can be extended at the option of either party for a new term of 3 years. Upon the expiration of the Agreements (whether in three or six years from closing), the network owners will be entitled to require RCS & RDS to purchase, and the RCS & RDS will be entitled to require the network owners to sell, the 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 total amount due as rent or price by RCS&RDS under the Agreements are in maximum amount of EUR 77 million excluding VAT.

The operation of the networks, respectively the purchase of assets will take place if the following conditions precedent are met: (a) the approval of the transaction by the competition authority and (b) ATTP Telecommunications S.R.L. cumulatively acquiring (i) the required rights in order to transfer the use of the assets that are the subject matter of the agreement concluded between ATTP Telecommunications S.R.L. and RCS&RDS, (ii) the majority of the shares in Digital Cable Systems S.A. and (iii) the majority of the shares in AKTA Telecom S.A..

On October 4, 2019, we drew the remaining RON50.0 million that was available under revolving Facility B of the 2016 Senior Facilities Agreement. The amounts drawn were used for general corporate purposes.

On December 10, 2019, the Company purchased 7,718,832 shares in the share capital of RCS & RDS from certain third parties, representing approximately 2.0% of RCS & RDS's outstanding share capital, for approximately €13.7 million. The share purchase agreement includes a call option for the sellers over those shares, which is exercisable within three years from the date of sale.

On December 10, 2019, DIGI Hungary entered into an amendment to the Sberbank Facility Agreement increasing total available commitments from HUF640.0 million to HUF1.8 billion and drew all amounts available.

On December 16, 2019, DIGI Hungary repaid all amounts outstanding under the OTP Loan Agreement.

On December 17, 2019, we have entered into the €13.2 million 2019 UniCredit Equipment Financing Agreement and drew €10.8 million thereunder, which are due to be repaid on October 28, 2022. The 2019 Equipment Financing Agreement is unconditionally guaranteed by the Parent and is secured by the Collateral on a pari passu basis pursuant to the terms of the Intercreditor Agreement.

On January 9, 2020, we entered into a sale and purchase agreement for the disposal by Invitel to a third party of it operations in 14 Hungarian settlements and parts of its network in the Szeged settlement that overlapped with DIGI Hungary's own network there. That arrangement is part of our remedial package proposed to the GVH to ensure prompt final re-authorisation of our acquisition of Invitel. Closing of this transaction is subject to the GVH's approval, which is currently pending. The GVH's decision on the sale and our proposed remedial package generally is expected in the first half of 2020.

For details regarding the up-date of the litigations, please see Note 16 (c) above.

(all amounts in EUR '000, unless specified otherwise)

18. 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.

	Nine months ended 30 September 2019	**Nine months ended 30 September 2018**
Revenues and other income	**874,644**	**756,368**
EBITDA		
Operating profit	105,553	80,579
Depreciation, amortization and impairment	218,860	152,684
EBITDA	**324,413**	**233,263**
Other income	-	(9,729)
Other expenses	2,496	17,349
Adjusted EBITDA	**326,909**	**240,883**
Adjusted EBITDA (%)	*37.38%*	*31.85%*

Starting with January 1, 2019, the Company adopted the IFRS 16. Under IFRS 16, the Group was required to change the way it accounted for leases previously classified as operating lease under IAS 17, which were off-balance-sheet. The Group adopted IFRS 16 from January 1, 2019 using the modified retrospective method, but has not restated numbers previously reported for the period ended 30 September 2018, as permitted under the specific transitional provisions in the standard. The impact of adopting IFRS 16 on EBITDA was EUR 47,345 for the nine month period ended 30 September 2019.

For the nine months period ended 30 September 2019, other expenses include: (i) EUR 1,575 representing the accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events (for details, please see Note 14); and (ii) EUR 932 impact from the derecognition of the fair value assessment of energy trading contracts.

For the nine months ended 30 September 2018, EBITDA was adjusted to exclude Other income and Other expense. Other income represents mark to market gain from fair value assessment of the energy trading contracts. Other expense represents the accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events (for details, please see Note 14) and Invitel's acquisition related costs and provisions for litigations.

(all amounts in EUR '000, unless specified otherwise)

19. FINANCIAL INDICATORS

Financial Indicator	Value as at 30 September 2019
Current ratio	
Current assets/Current liabilities	0.36
Debt to equity ratio	
Long term debt/Equity x 100 (where Long term debt = Borrowings over 1 year)	590%
Long term debt/Capital employed x 100 (where Capital employed = Long term debt+ Equity)	86%
Trade receivables turnover	
Average receivables/Revenues x 270	35.47 days
Non-current assets turnover	
(Revenues/Non-current assets)	0.70

Bucharest, 27 January 2020,

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

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Serghei Bulgac,
CEO

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Valentin Popoviciu
Executive Director