

An aerial night photograph of a city, likely Dubai, featuring a prominent highway interchange with multiple overpasses. The city lights are visible in the background, and the foreground shows the complex structure of the highway. Overlaid on the image are several bright, glowing white light trails that form a series of interconnected loops and arcs, suggesting movement and connectivity.

**DIGI**  
communications n.v.

# ANNUAL REPORT

For the year ended December 31, 2018

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## MESSAGE FROM THE CEO

Dear shareholders and investors,

We have concluded a financial year which meant for our company the achievement of an ambitious goal - exceeding the € 1 billion revenue threshold. For such a young company like ours, with a quarter century history in a challenging and dynamic industry, this success is the acknowledgement of our vision. For a brand almost unknown in Europe 10 - 15 years ago, as well as for the regional entrepreneurial environment this is indeed an achievement. In the past 6 years, we grew from a start-up cable operator in an emerging country of Southeastern Europe to a listed group with a regional presence, obtaining over €1 billion cumulated investments from international capital markets. We are connected unlimited to the aspirations of our customers and one step ahead of the competition in identifying opportunities that will bring us closer to the "digital society".



The recipe behind this achievement was to meet the commitments we've made. No matter how complex the market conditions may have seemed, we fulfilled our goals. The figures for 2018 are proof that our efforts and the mutual trust have been rewarded with results that we are proud of: an increase in revenues of 13% for consolidated segments and markets, a growth of 12% in total RGU's at the end of 2018, compared to the end of 2017, and an EBITDA progress of about 13%. Regardless of the service segment, we had increases ranging between 9% and 19% of the RGU's and we are tens of thousands of units closer to another symbolic threshold - 15 million RGU's - cumulated in the four markets (Romania, Hungary, Spain and Italy). With a consolidated CAPEX of approximately € 280 million, we maintained our technological advance beside competition, we carried on our network expansion and upgrading projects and managed to diversify our portfolio of services in Spain, one of the most mature European markets.

All of these developments have been possible thanks to infrastructure investments, both in the fiber optic networks in Romania and Hungary, as well as in the mobile network on our main market. We were the first company in Romania to successfully run a 5G network test, as well as the first pay-TV operator to offer 4K content through an Ultra HD TV channel for the Romanian market.

Last year did not lack challenges, especially on the capital market. We believe that the price evolution for Digi shares was not consistent with the constant results of our work. We are counting on 2018 financial results to capitalize on future opportunities, and we hope that next year will bring a more favorable regulatory framework for the business environment and for the development of the Romanian capital market.

We thank our customers for their loyalty, our employees for their contribution to the reported results, our partners for their support, and we are grateful to you, esteemed shareholders and investors, for your confidence!

Serghei Bulgac

Chief Executive Officer and Executive member of the Board of Directors



# **Key Figures. Objectives and strategic directions.**



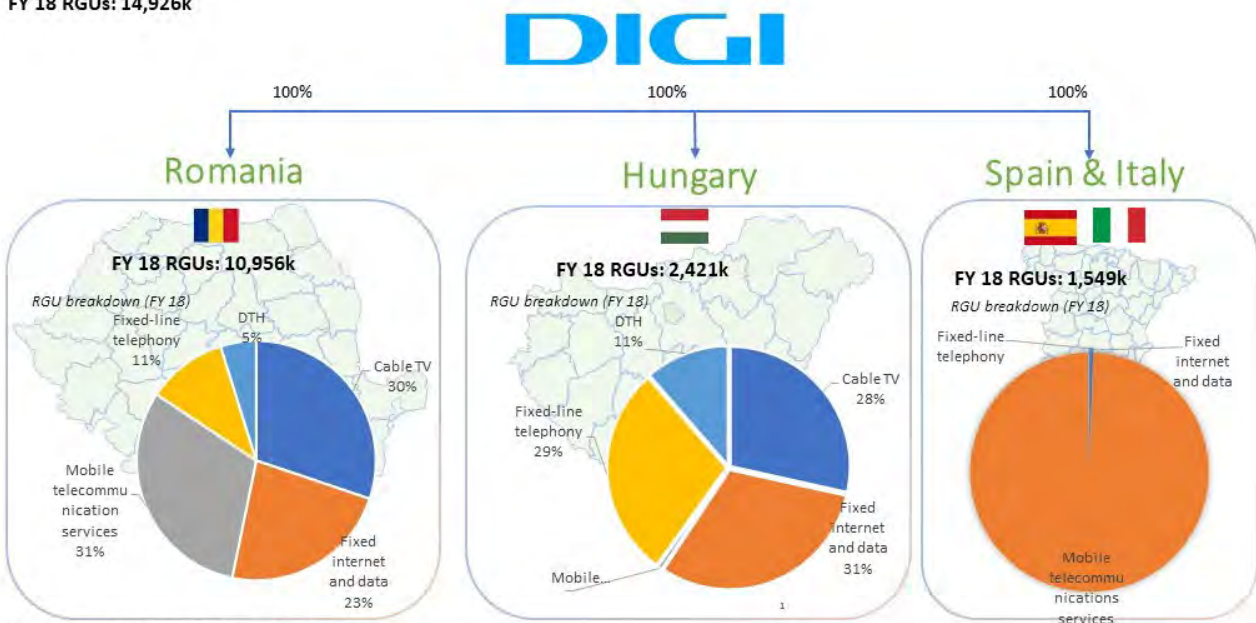
## KEY FIGURES FOR DIGI GROUP

We are a leading provider of telecommunication services in Romania and Hungary based on number of revenue generating units (“RGUs”). Our offerings in both countries include cable and DTH television services, fixed internet and data and fixed-line telephony. Our fixed telecommunication and entertainment services are offered through our technologically advanced fiber optic network, covering approximately 76% and 48% of households in Romania and Hungary, respectively, and both countries are entirely within the footprint of our DTH signal. Our cable and DTH television subscribers enjoy access to custom-made channels and pay-to-view services, which carry premium movies and sports content, as well as various third-party products. We also operate one of the most technologically advanced mobile networks in Romania, which shares the backbone of our fixed fiber optic infrastructure. In addition, we provide mobile telecommunication services as an Mobile Virtual Network Operator (“MVNO”) to the large Romanian communities in Spain and Italy and starting from September 2018, fixed internet and telephony services as resale products in Spain.

We have grown mainly organically from approximately 13.3 million RGUs as at December 31, 2017 to approximately 14.9 million RGUs as at December 31, 2018.

December 31, 2018, we had a total of approximately 3.9 million cable TV RGUs, approximately 3.3 million fixed internet and data RGUs, approximately 4.9 million mobile telecommunication services RGUs, approximately 1.9 million fixed-line telephony RGUs and approximately 0.9 million DTH RGUs.

**FY 18 RGUs: 14,926k**

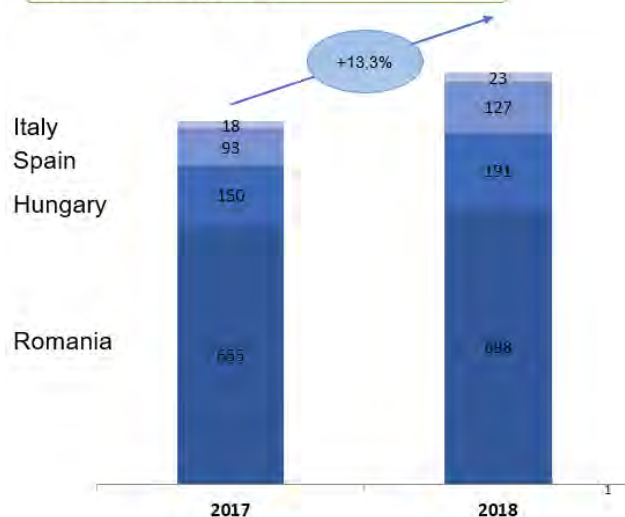


1. Resale of a Telenor mobile internet product

2. Invitel Távközlési Zrt (“Invitel”); Invitel’s RGUs as at December, 31 2018 are included in the graph

Source: Company data

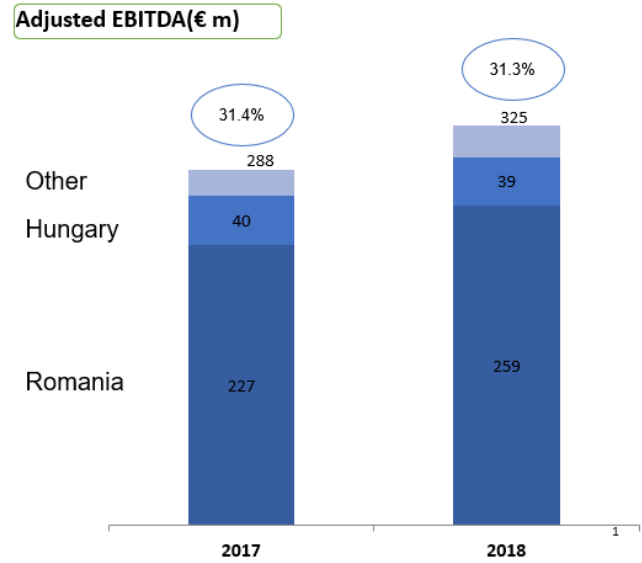
### Revenue by country (€ m)



We have consistently generated strong revenue streams. We generated €1,038.1 million in year ended December 31, 2018, an increase of 13.3% compared to prior period.

The Group's operations generated 325 million EBITDA in the year ended December 31, 2018, an increase of 12.9% compared to prior period.

The Adjusted EBITDA margin was 31.3% in the year ended December 31, 2018, relatively stable compared to prior period.



## OBJECTIVES AND STRATEGIC DIRECTIONS

### Strategy

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

- ▶ ***Continue to leverage our advanced fixed fiber network, offering high-quality service, while maintaining competitive prices.*** The current technological state of our Romanian and Hungarian fixed fiber networks allows us to offer a wide range of high-quality services to our customers at competitive prices, while maintaining low infrastructure operating expenses. We plan on leveraging our existing high speed networks to increase our cable TV and fixed internet and data subscribers, as our fiber network throughout Romania and Hungary (excluding the recently acquired Invitel's network) is faster and more cost-effective than traditional networks operated by our competitors. We also plan to continue expanding our fixed fiber networks in both countries (particularly, in rural areas) and to upgrade Invitel's Hungarian network to fiber, along with further upgrades to FTTH elsewhere.
- ▶ **Expand our mobile network in our core geographic segments and grow our mobile communication services business line.** As at December 31, 2018, our 3G and 4G mobile telecommunication services covered approximately 99.5% (outdoor voice coverage) and 65% of the Romanian population, respectively. In Hungary, we hold certain licenses entitling us to develop our own 4G mobile proposition and are currently developing the network that will support our service, with a view to launch in 2019. In both countries, we plan on expanding coverage while growing our mobile RGUs through competitive pricing and convergence offerings. We believe that our dense fiber network and existing licenses provide a solid foundation for future technological developments in the mobile telecommunication industry.
- ▶ **Focus on current markets and expanding market shares.** We intend to focus on Romania and Hungary, our core markets, while remaining open to opportunities in Spain and Italy. In the core jurisdictions, our advanced networks allow us to efficiently deliver multiple services in the areas they cover and we believe there is scope for increase in uptake of our services in these areas with relatively low additional investment. Our large and growing customer base creates significant economies of scale. For example, it allows us to make use of common infrastructure design and centralized facilities, as well as exploit centralized purchasing opportunities with respect to programming, equipment, TV broadcast rights and other assets and services. We also see potential for growth of our mobile telecommunication and internet and data services, as we believe that the core Romanian and Hungarian mobile markets still offer opportunities for us to expand. In addition, we remain open to attractive opportunities in Spain and Italy, such as our expansion into Spain's fixed telecommunications market with a resale offering through Telefónica's local network, which we launched in the Community of Madrid in September 2018. In February 2019 we have launched the service in four other areas: Guadalajara, Castellon, Almeria and Zaragoza. We expect to develop this offering in further parts of the country.
- ▶ **Continue to grow our RGU base through product cross-selling, increased penetration of our services and opportunistic acquisitions.** Our goal is to achieve continued organic RGU growth by cross-selling our services to existing and prospective customers and increasing the penetration of our cable TV, fixed internet and data, mobile telecommunication, fixed-line telephony and DTH services in Romania and Hungary through multiple service offers. In addition to organic growth, we seek to explore acquisition opportunities in our core Romanian and Hungarian markets on an opportunistic basis in line with, or complementary, to our current businesses. Our acquisition of Invitel was a recent example of such opportunistic growth.
- ▶ **Offer premium and/or exclusive content to increase the attractiveness of our product offerings.** We intend to maintain and increase the attractiveness of our cable TV and DTH services by continuing to offer sports, film and other premium and exclusive content through our existing own channel line-up, which may be further developed or expanded in the future. Our large number of pay TV RGUs results in economies of scale enabling an attractive cost structure.





# **Management structure. Corporate Governance**



## Management Structure. Corporate Governance

### Introduction

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

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

### Compliance with the Corporate Governance Code of the Bucharest Stock Exchange

During 2018, we continued our efforts to comply with the “BSE CGC”.

The main principles of the BSE CGC that we did not implement<sup>1</sup> are the following:

1. the directors are appointed following a nomination made by the Class A Meeting, instead of a nomination proposal by the nomination committee established by the Board of Directors (the “**Board of Directors**”) and consisting of non-executive directors (the “**Non-executive Directors**”). The good corporate governance sought by the BSE CGC is achieved by applying this nomination procedure, as the Class A Meeting takes into account that the Board of Directors should be composed such that the requisite expertise, background, competences and – as regards certain of the Non-executive Directors – independence are present for them to carry out their duties properly;
2. the cash dividend distribution policy is approved by the General Meeting, rather than being approved at the level of the Board of Directors. This setup provides greater shareholder protection by escalating the decision to the General Meeting;
3. the president of the Audit Committee is not an independent director, as required by the BSE CGC. The good corporate governance sought by the BSE CGC is achieved by having the majority of committee members being independent and high standard terms of reference being applied to the work of the Audit Committee.

In addition to its commitments under the Dutch legislation that is primarily applicable to the Company, in accordance with the BSE CGC that applies to the Company by virtue of the listing of its Class B shares with the BSE, the Company is required to report its compliance with the BSE corporate governance requirements by filling in and attaching to its annual report the pre-established regulatory statement set by the BSE. The Company’s table is included in Annex 2 to this report.

### Complementary compliance with the Dutch Corporate Governance Code

We acknowledge the importance of good corporate governance. As the Company applies the BSE CGC, the Company will in general comply with the DCGC, with some exceptions. In particular, the Company does not comply with the following best practice provisions of the DCGC<sup>2</sup>:

- best practice provision 2.1.5 of the DCGC: the Company does not have a diversity policy in relation to the Board of Directors. This deviation from the DCGC exists since April 2017 and will last for an indefinite period. The desired expertise and background of the candidates are decisive when Board Members are appointed or reappointed. The members of the Board of Directors, as well as all employees of the Company and the Group companies are recruited and promoted primarily based on professional achievements, experience and performance within the Group, irrespective of gender, age, origin or any other personal or social feature. Although

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

<sup>2</sup> At the General Meeting of Shareholders on 21 April 2017 and in the Board of Directors meetings from 14 and 15 May 2017, the relevant corporate documentation and policies including these departures from the DCGC were put in vote and approved

the Company does not have in place a formal diversity policy, in practice, the Company has not and does not intend to discriminate between potential candidates for any available Board position.

- ▶ best practice provisions 2.1.7 and 2.1.8 of the DCGC: the Company has 5 Non-executive Directors, of which 3 do not meet the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Board of Directors. When appointing the non-executive members of the Board of directors, the general shareholders meeting from 21 April 2017 aimed to set-up a Board made up from selected individuals with most extensive experience and insight into the Group. Therefore, Mr. Teszari Zoltan was appointed as the Non-executive Board Director and as the President of the Board of Directors, while Mr. Sambor Ryszka (former co-General Manager of Digi Kft.<sup>3</sup>) and Mr. Marius Varzaru (current general manager of Digi Spain) were appointed as Non-executive members of the Board of Directors. Given the particularity of the business and operations of our Group companies and the need for business continuity and internal and industry awareness, the general shareholders meeting from 21 April 2017 gave priority to these functionality needs. However, the amended articles of association of the Company (the “Articles”) and the corporate governance documents of the Company establish clear and detailed rules regarding independent behavior and the management of any conflict of interest that any member of the Board of Directors, and particularly all Non-executive members of the Board of Directors are strictly required to comply with.
- ▶ best practice provision 2.1.9 of the DCGC: the president of the Board of Directors (the “President”) does not meet the independence criteria contained in the DCGC. Mr. Zoltan Teszari’s appointment as the President was voted by the general shareholders meeting of the Company from 21 April 2017 and will last during the entire period for which Mr. Teszari Zoltan will be a member of the Board of Directors. The President is the principal shareholder of the Company. The President is not a member of the Audit Committee.
- ▶ best practice provision 2.2.2 of the DCGC: the President of the Board of Directors may be reappointed for an indefinite number of terms. For details regarding the expected applicability period of and rationale for the deviation, please see the explanations from above.
- ▶ best practice provisions 2.2.4, 2.2.5 and 2.3.2 of the DCGC: the Company does not have a nomination committee. The Company has decided not to set up a nomination committee as referred to in the DCGC, since the Class A Meeting as a whole will perform the duties of a nomination committee. The Company has instead set up an Audit Committee and a Remuneration Committee.
- ▶ best practice provision 2.3.1 and 2.7.2 of the DCGC: there are no rules in place for the Non-executive Directors. However, Chapter VII from the Articles include detailed provisions and rules regarding the Board of Directors, including on the composition, remuneration, the allocation of tasks and duties among the executive Directors (the “Executive Directors”) and the Non-executive Directors, on the decision-making process and the management of any conflict of interest.
- ▶ best practice provision 2.3.4 of the DCGC: more than half of the members of the Remuneration Committee do not comply with the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Remuneration Committee. Explanations brought regarding the deviations from the best practice provisions 2.1.7 and 2.1.8 of the DCGC equally apply.
- ▶ best practice provisions 3.1.2 of the DCGC: if shares options are being awarded, share options can be exercised before three years have lapsed after they have been awarded (minimum term required by the DCGC).
- ▶ best practice provision 3.3.1 of the DCGC: Non-executive Directors receive the same fixed base salary as the Executive Directors receive and such fixed base salary is not related to the time spent by the Non-executive Directors and the specific responsibilities of their role as required by the DCGC. Non-executive Directors additionally sit in the Issuer’s Audit and Remuneration Committees. The remuneration conditions as adopted by the General Meeting

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<sup>3</sup> See footnote no 4 below



on April 21, 2017 and as laid down in the terms of reference of the Remuneration Committee and the Remuneration Policy will apply for an indefinite period until further amendment.

- ▶ best practice provision 3.3.2 of the DCGC: Non-executive Directors who are directors in other Group companies or employees of other Group companies may be awarded remuneration in the form of share options. Any such grant of shares as part of share option plans will need to be expressly decided by the Company's general shareholders resolutions.
- ▶ best practice provision 4.3.3 of the DCGC: which requires that a resolution of the General Meeting to cancel the binding nature of a nomination for the appointment of a Director or to remove such a Director, be passed with an absolute majority of the votes cast, representing at least one-third of the issued share capital. Instead, such resolution can be adopted by the General Meeting with the normal quorum and voting majority requirements. This deviation is provided within the Articles as approved by the Company's general shareholders resolutions from 21 April 2017. This deviation is meant to avoid vote inefficiencies or blockage upon the appointment or dismissal of any relevant Director.
- ▶ best practice provision 3.4.2 of the DCGC: the main elements of the agreement of an Executive Director with the Company has not been published on the Company's website. However, sufficient information was disclosed regarding the remuneration of Directors (see Management - Compensation for directors and managers).

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

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

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

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

Any other details on relevant corporate and governance information regarding the Company are available in the relevant sections of the share Prospectus from 26 April 2017, as well as of the additional notes Prospectus from 11 March 2019 (both available on the Company's official website: [www.digi-communications.ro](http://www.digi-communications.ro)).

## Management

### Board of directors

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

### Current Composition of the Board of Directors

As of April 2017, and until the date of this report, the Board of Directors is comprised of the Directors mentioned below.

Name	Age	Position
Zoltan Teszari	48	President (Non-executive Director)
Serghei Bulgac	42	Chief Executive Officer (Executive Director)
Valentin Popoviciu	44	Executive Director
Sambor Ryszka <sup>4</sup>	39	Non-executive Director
Marius Varzaru	39	Non-executive Director
Bogdan Ciobotaru	40	independent Non-executive Director
Piotr Rymaszewski	55	independent Non-executive Director

### Biographical Details of the Directors

#### Zoltán Teszári (President)

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

#### Serghei Bulgac (Chief Executive Officer)

Mr. Bulgac is a member of the Board of Directors and Chief Executive Officer. Mr. Bulgac was appointed the Chief Executive Officer of RCS & RDS in 2015. Prior to becoming Chief Executive Officer, he was Vicepresident of the Corporate Finance of RCS & RDS. Mr. Bulgac joined RCS & RDS in 2003. Prior to joining RCS & RDS, he worked as a corporate finance associate at EPIC (European Privatization and Investment Corporation) and as a research analyst at Eastbrokers, a brokerage company. Mr. Bulgac graduated from the Bucharest Academy of Economic Studies and holds an MBA degree from INSEAD. Mr. Bulgac has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

#### Valentin Popoviciu (Executive Director)

Mr. Popoviciu is an executive member of the Board of Directors. He is also a non-executive member and Vice-President of the board of directors of RCS & RDS, a position he has held since 2015. Prior to his appointment to the board of directors of RCS & RDS, Mr. Popoviciu had held the position of Business Development Manager of RCS & RDS since 1999, after joining the company in 1998 as a branch manager in the Constanta office. Mr. Popoviciu graduated from the economics faculty of the Constanta—Tomis University in 1997. Mr. Popoviciu has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

<sup>4</sup> As it has been outlined in the convocation notice with respect to the expected annual shareholders meeting for the approval of the annual 2018 results and management report, on 18 March 2019, Dr. Sambor Ryszka informed the Company in writing of the resignation of his position as Non-Executive Director of the Company with effect from 1 May 2019 (inclusive)



**Dr. Sambor Ryszka (Non-executive Director)**

Dr. Ryszka is a non-executive member of the Board of Directors. Dr. Ryszka has been a Managing Director of Digi Hungary during 2013-2018. Dr. Ryszka joined Digi Hungary in 2011 as General Counsel. Prior to that, Dr. Ryszka worked in the Budapest office of law firm Hogan Lovells. Dr. Ryszka graduated in 2004 from the Faculty of Law of ELTE University, Budapest. Dr. Ryszka has been a Board of Directors' member since 2017 and his term was due to expire in 2020<sup>5</sup>.

**Marius Varzaru (Non-executive Director)**

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

**Bogdan Ciobotaru (Independent Non-executive Director)**

Bogdan Ciobotaru is an independent, non-executive member of the Board. He is also a non-executive member of the board of directors of RCS & RDS, a position he has held since 2013. Prior to joining RCS & RDS, Mr. Ciobotaru held the position of Head of Financing for Central and Eastern Europe, Middle East & Africa at Renaissance Capital and the position of Executive Director in the Global Capital Markets, at Morgan Stanley in London, where he worked for over 10 years. Mr. Ciobotaru graduated from the Bucharest Academy of Economic Studies and holds an Executive MBA from Oxford University. Mr. Ciobotaru has been a board member since 2017 and his current term as a board member is due to expire in 2020.

**Piotr Rymaszewski (Independent Non-executive Director)**

Mr. Rymaszewski is an independent, non-executive member of the Board of Directors. Mr. Rymaszewski also holds the position of CEO of Octava Asset Management, a Polish real-estate portfolio management company, part of the Elliott Group, a position he has held since 2014. Since 2007, Mr. Rymaszewski has also served as the CEO and president of the board of directors of Octava S.A., a Polish public company active in real estate and part of the Elliott Group. Mr. Rymaszewski's experience in advisory and supervisory roles includes serving on the Board of Nominees of Fondul Proprietatea S.A., a Romanian publicly traded AIF since 2012. Mr. Rymaszewski holds a Bachelor's degree in Physics from the University of Pennsylvania and a JD degree in International and Commercial Law from Cornell Law School. Mr. Rymaszewski has been a Board of Directors' member since 2017 and his current term is due to expire in 2020.

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<sup>5</sup> See reference from footnote 4 above.

## Senior Management team

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

Name	Age	Position
Dan Ionita	40	Non-executive director and co-Chief Financial Officer of RCS&RDS and co-Chief Financial Officer of the Company
Mihai Dinei	49	Non-executive Director of RCS&RDS
Smaranda Streanga	39	Co-Chief Financial Officer of RCS&RDS and of the Company
Silviu Georgescu	42	Technical Director for IP fixed services, software and security of RCS&RDS
Emil Grecu	42	Technical Director for TV services and broadcasting of RCS&RDS
Catalin Neagoe	38	Head of Fixed and Mobile Telephony Unit of RCS&RDS
Emil Jugaru	45	Head of RCS & RDS Sales and Customer Care Business Unit
Ovidiu Bejan	47	Commercial Director for Mobile Communications of RCS&RDS
Mihaela Toroman	38	Accounts Manager and Treasurer of RCS&RDS
Dragos Spataru	42	Managing Director of Digi Hungary and Invitel
Dragos Chivu	47	Managing Director of Digi Italy

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

Set out below is a summary of certain provisions of Dutch corporate law as at the date of this report, as well as relevant information concerning the BSE CGC, the Board of Directors and certain provisions of the Articles concerning the Board of Directors, in force since April 2017<sup>6</sup>.

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

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

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

<sup>6</sup> These descriptions do not purport to give a complete overview and should be read in conjunction with and is qualified in its entirety by reference to the relevant provisions of Dutch law and the BSE Corporate Governance.



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

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

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

## Operation of the Board of Directors

### Rules regarding the meetings and the voting

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

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

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

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

During 2018 and until the date of this report, the Board of Directors adopted a number of twenty-one resolutions, in writing. These resolutions mainly regarded, amongst others, operational decisions (such as the appointment of the internal audit officer and of the Company’s compliance officer, the commissioning of third-party analysis and reviews), the approval of the quarterly, semester and annual financial statements and the approval of several financial agreements entered into by the Group companies, including the Company, the implementation of the multiple stock option plans and of the share buy-back programs, the amendment of existing corporate policies, the conversion of a number of Class A Shares into Class B Shares. With the few exceptional situations of particular objective conflict of interest, all Board of Directors decisions were adopted unanimously.

The Board of Directors is advised and supported by the Senior Management Team, formed by individuals playing key roles for the Company’s subsidiaries in Romania, Hungary, Spain and Italy, whom do not hold executive positions with the Company. The Senior Management Team is an operational decision-making body of the Company, which is responsible for operating performance of the business and making decisions on certain operational matters. The Senior Management Team comprises financial, accounting and legal specialists. The role of these specialists is to conduct the day-to-day operations and management of the Company, ensure compliance by the Company with applicable legal, financial, accounting, tax and any other relevant regulations, prepare the due filings and reporting incumbent on the Company, and advise the Board of Directors with respect

to the daily operations during the Board of Directors' decision-making process. The financial and legal members of the Senior Management Team with specific roles within the Company provide continuous support to the Audit Committee and have the duty to prepare and support the relationship and the meetings between the members of the Audit Committee and the external and internal auditors of the Company.

### Board committees

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

### Audit Committee – the Audit Committee's activity during 2018

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

### Terms of reference of the Audit Committee

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

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

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

During 2018, the Audit Committee also cooperated and met with the Company's external auditors and advised the Board of Directors and the Executive Directors in particular regarding the Company's half-yearly figures and quarterly trading updates.

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

The Audit Committee met four times during 2018, and once in 2019. Attendance during all meetings was of 100%, either in person or by telephone. During these meetings, the Audit Committee heard and debated on the main findings of the internal and external audit process in 2018, as well as on a number of operational matters meant at improving the Company's internal functions and activities. The Audit Committee met with the Company's external auditors four times during 2018. Attendance during all meetings was of 100%, either in person or by telephone. Also, during 2018 until the date of this report, the Audit Committee was called to decide on several particular matters that were dealt with in writing, such as conflict of interest issues for non-audit work, discussions with the appointed internal auditor.

## Remuneration Committee – the Remuneration Committee’s activity during 2018

The Remuneration Committee is composed of three members, Mr. Zoltán Tesári, Mr. Sambor Ryszka<sup>7</sup> and Mr. Piotr Rymaszewski, who are Non-executive Directors. The Remuneration Committee assists the Board of Directors with the implementation and development of remuneration and benefits policies, including bonuses for the Directors and employees.

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

### Terms of reference of the Remuneration Committee

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

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

- (a) drafting a proposal to the Non-executive Directors for the remuneration policy to be pursued, which policy shall be adopted by the General Meeting;
- (b) recommending to the Non-executive Directors and making a proposal for the remuneration of each Director, within the limits of the remuneration policy. Such proposal shall, in any event, deal with:
  - (i) the remuneration structure; and
  - (ii) the amount of the fixed remuneration, the shares and/or options to be granted and/or other variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the Company and its affiliated enterprise.

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

- (c) preparing the remuneration report;
- (d) making it aware of and advising the Board of Directors on any major changes in employee benefit structures throughout the Company or its subsidiaries; and
- (e) administering all aspects of any executive share scheme operated by or to be established by the Company.

During 2018, the Company continued to comply with the Remuneration Policy applicable to the Company’s Directors and employees as approved by the Company’s shareholders’ resolutions from 21 April 2017. Neither the Board of Directors nor the Remuneration Committee agreed for or implemented deviating rules or practices.

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

The members of the Remuneration Committee adopted a separate resolution from the rest of the Board of Directors in March 2019 when undertaking an analysis and preparing an overview on the remuneration standards, ratios and employment related regulatory requirements and conditions applicable at the level of the Company’s subsidiaries in Romanian, Hungary, Spain and Italy, which has been reported to the Board of Directors.

### Capital, shares and voting rights

As at December 31, 2018, the authorized share capital of the Company amounts to €1,000,000 (the “Authorized Share Capital”) and is divided into:

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

The Authorized Share Capital consists of Class A and Class B shares. Class A Shares have not been admitted to trading on the Bucharest Stock Exchange. Only Class B Shares are listed and were admitted to trading on the Bucharest Stock Exchange.

<sup>7</sup> See footnote no 4.



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

As at December 31, 2018, the issued share capital of the Company amounted to €6,918,042.52 divided into:

- ▶ 65,756,028 Class A Shares with a nominal value of €0.10 each in the share capital of the Company; and
- ▶ 34,243,972 Class B Shares with a nominal value of €0.01 each in the share capital of the Company.

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.

### Stock Option Plans

On April 21, 2017, the General Meeting of shareholders of the Company decided to grant certain stock options to the Company's Executive Directors (the "SOP 1"). The SOP 1 vested in May 2018. In total, 280,000 Class B Shares (which were held by the Issuer as treasury shares), representing 0.28% of the Company's issued share capital, were allocated in connection therewith.

On December 27, 2017, the Board of Directors decided to grant certain stock options to a number of directors and employees of the Group's companies in Romania (the "SOP 2"). Up to 1.6 million Class B Shares were designated for the purposes of the SOP 2, representing up to 1.6% of the Company's issued share capital. The SOP 2 will vest in 2018 and 2019. Up to the date of this report, an approximate number of 1,260,000 Class B shares representing 1.26% of the issued share capital were transferred to approximately 2,400 eligible employees.

On May 2, 2018, the General Meeting of shareholders of the Company decided to grant certain stock options to the Company's Executive and Non-Executive Directors (the "SOP 3"). 686,090 Class B Shares were designated for the purposes of the SOP 3, representing 0.686% of the Company's issued share capital. The SOP 3 will vest in 2019 and 2020.

On May 21, 2018, the Board of Directors decided to grant certain stock options to a limited number of key employees of the Company (the "SOP 4"). 500,000 Class B Shares were designated for the purposes of the SOP 4, representing 0.5% of the Company's issued share capital. The SOP 4 will vest in 2019.

On May 21, 2018, the Board of Directors decided to grant stock options to certain employees of DIGI Spain (the "SOP 5" and, together with the SOP 1, SOP 2, SOP 3 and SOP 4, the "Stock Option Plans"). 35,000 Class B Shares were designated for the purposes of the SOP 5, representing 0.035% of the Company's issued share capital. The SOP 5 will vest in 2019.

Stock-options will typically vest not earlier than one year from their grant date and will be exercisable immediately thereafter, but not later three months after the vesting date. Stock options granted to Directors of the Company were subject to performance criteria, such as: (i) duration of employment with the Group and (ii) growth in EBITDA and in RGUs. Stock options granted to employees and/or directors of Group companies (including Directors of the Company in their capacity as executives of other Group companies) are subject to performance criteria determined by the Board of Directors.

When a stock option is exercised pursuant to the terms thereof, we expect to deliver Class B shares of the Company, which will be either Class B shares held by the Issuer as treasury shares or Class B shares purchased on the open market, or a combination thereof. In this respect, from May, 2018 until the date of this prospectus we purchased the aggregate of 200,096 Class B shares of the Issuer on the open market, representing 0.2% of its issued share capital as at the date hereof. In addition, on January 14, 2019, we converted 1.2 million Class A shares of the Issuer that were held as treasury shares by the Company into the equal number of Class B shares. These converted Class B shares represent 1.2% of the Issuer's issued share capital.

### General Meeting

#### Annual General Meetings

An annual General Meeting must be held within six months from the end of the preceding financial year of the Company. The purpose of the annual General Meeting is to discuss, amongst other things, the Directors' report, the applied remuneration, the adoption of the annual accounts, allocation of profits (including the proposal to distribute dividends), release of the Executive Directors from liability for their management and the Non-

executive Directors from liability for their supervision thereon, filling of any vacancies and other proposals brought up for discussion by the Board of Directors.

### **Extraordinary General Meetings**

Extraordinary General Meetings may be held as often as the Board of Directors deems such necessary or when the Class A Meeting makes use of any of its rights under the Articles to make a proposal to the General Meeting. In addition, Shareholders representing alone or in aggregate at least 10% of the issued and outstanding share capital of the Company may request the Board of Directors that a General Meeting be convened, the request setting out in detail matters to be considered. If no General Meeting has been held within 56 days of the Shareholder(s) making such request, that/those Shareholder(s) may request in summary proceedings a Dutch District Court to be authorized to convene a General Meeting. In any event, a General Meeting will be held to discuss any requisite measures within three months of it becoming apparent to the Board of Directors that the shareholders' equity of the Company has decreased to an amount equal to or lower than one-half of the issued and paid-up part of the capital.

### **Place of General Meetings**

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

### **Convocation notice and agenda**

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

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

One or more Shareholders representing solely or jointly at least 3% of the Company's issued and outstanding share capital in value and the Class A Meeting are entitled to request the Board of Directors to include items on the agenda of the General Meeting. The Board of Directors must agree to such requests, provided that (a) the request was made in writing and (b) was received no later than the 60th calendar day before the date of the General Meeting. No resolutions will be adopted on items other than those which have been included in the agenda unless the resolution is adopted unanimously during a meeting where the entire issued capital of the Company is present or represented.

Shareholders who, individually or with other Shareholders, hold shares in the Company that represent at least 1% of the issued and outstanding share capital or a market value of at least €250,000, may request the Company to disseminate information that is prepared by them in connection with an agenda item for a General Meeting. The Company can only refuse disseminating such information, if received less than seven business days prior to the General Meeting, if the information gives or could give an incorrect or misleading signal or if, in light of the nature of the information, the Company cannot reasonably be required to disseminate it.

### **Admission and registration**

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

All Shareholders, and each usufructuary and pledgee to whom the right to vote on shares in the capital of the Company accrues, are entitled, in person or represented by a proxy authorized in writing, to attend and address the General Meeting and exercise voting rights pro rata to their shareholding. Shareholders may exercise their rights if they are the holders of shares in the Company on the record date as required by Dutch law, which is

currently the 28th day before the day of the General Meeting, and they or their proxy have notified the Company of their intention to attend the General Meeting in writing or by any other electronic means that can be reproduced on paper ultimately at a date set for that purpose by the Board of Directors which date may not be earlier than the seventh day prior to the General Meeting, specifying such person's name and the number of shares for which such person may exercise the voting rights and/or meeting rights at such General Meeting. The convocation notice shall state the record date and the manner in which the persons entitled to attend the General Meeting may register and exercise their rights.

### **Voting rights**

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

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

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

### **Dividend and distributions**

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

### **Principal shareholder**

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

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

On April 26, 2017, the Company, RCS Management and the Principal Shareholder entered into an agreement which will, conditional upon Admission, regulate the ongoing relationship between them (the "**Relationship Agreement**"). The principal purpose of the Relationship Agreement is to help ensure that the Company and its subsidiaries are capable of carrying on their business independently of RCS Management S.A. and/ or the Principal Shareholder, that transactions and relationships with RCS Management S.A. and/or the Principal



Shareholder (including any transactions and relationships with any member of the Group) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Company are maintained. The Relationship Agreement will continue for so long as (a) the Company is listed on the Regulated Spot Market of the Bucharest Stock Exchange and (b) RCS Management S.A. and/or the Principal Shareholder together with their associates are entitled to exercise or to control the exercise of 30% or more of the votes able to be cast on all or substantially all matters at General Meetings of the Company.

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

### **Conflict of interest**

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

### **Risk management, risks and internal control systems**

#### **Risk management**

Starting July 2018, the Company has established a formal enterprise risk assessment system consisting in the following activities:

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

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

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

#### **Internal audit**

The internal audit function for the Company and the Group's business activities is ensured by a team of professionals coordinated by an internal audit director appointed on April 1, 2018.

The internal control framework of the Company is structured on two levels, respectively the functions that present and manage risks (operational units) and the internal audit function that provides both the risk management and independent assessment. Thus, the first level is performed by the operational units which are responsible to ensure that at the level of each process/activity is created a control and prevention environment for the risk, as part of the daily operations, and the second level performed through internal audit function.

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

Based on the proposals made by the internal audit and the instructions from the Audit Committee, the general objective of the 2018 internal audit focused mainly on starting the process of formally identifying and suggesting improvement paths for the major enterprise risk management issues in connection with the activity of the Company. This process involved the assessment of the overall Company's internal control system, covering the entire range of risks. The processes addressed were assessed for risk based on a combination of two criteria: their importance to the Company and the likelihood of a material error occurring in the respective process, as well as from the respective of the risk levels (high, moderate, low).

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

The internal audit function also committed to the execution of the internal audit plan in parallel with the process of establishing a formal enterprise risk assessment system.

The internal audit function reports to the Company's Audit Committee, and administratively to the Group Chief Executive Officer. The function is composed of team members with appropriate level of professional qualification and a wide range of relevant experience.

The Audit Committee reviews the progress against the approved internal audit plan and the results of performed internal audit missions, with strong focus on highlighted risk areas. Internal Audit findings are analyzed by risks identified and affected processes, to highlight the improvements in the internal control environment and areas that require attention.

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

Management is responsible for ensuring that the issues raised by Internal Audit are addressed within agreed deadlines.

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

## **Risks**

In Annex 4 — Risk Factors from this report, as well as in the share and notes risk factors related Prospectuses issued by the Company during 2017 - 2019, the Company summarizes the potential overall risk exposure that could prevent the Company and the Group from achieving their objectives. Through its assessment process so far, the Board of Directors has identified up to 60 primary risk drivers systematized into 5 overall risk categories. The risk drivers refer to significant topics, such as regulatory compliance, legal and litigation risks, business operations or competitive factors.

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

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

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

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

A selective summary of main risks applicable for the year 2018 (and until the date of this report) is referenced below (however, for a complete and in-depth analysis with respect to the Company's risks and operational exposure, we kindly invite our investors and the market to read Annex 4 — Risk Factors from this report, as well as in the share and notes risk factors related Prospectuses issued by the Company during 2017 - 2019). The risk appetite of the Company is aligned with its strategy and priorities. Some of the risks and uncertainties the Company faces are outside its control, others may be influenced or mitigated. The Company has, with regards to certain of these risks, implemented or started implementing risk management procedures and protocols. This process is to a large extent ongoing and not finalized. The mentioning of these mitigating actions may not in any way be viewed as an implied or express guarantee that such mitigation will in practice be effective in limiting the risk exposure and/or the potential damage to the Company from any such risk materializing.

Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
Preliminary note applicable to all risks mentioned below: The Company is not reasonably able to give clear or exact estimations on the likelihood of occurrence of any of the below risks. However, if materialized, each of the below are medium to high risks from the perspective of the potential (either relatively important or highly significant) impact on the Group's business and operations.		
Risk relating to our business and industry, and related to the countries where we operate	<p>Strategic risks may affect the Company's strategic business plan performance targets and operational and development objectives.</p> <p>The strategic risks to which our operations are continuously exposed relate to, amongst others:</p>	<p>The Company aims to have a (reasonably) responsible appetite concerning strategic and operational risks. By reference to the complexity, unpredictability of such risks and the inability for the Company to prevent the occurrence or ensure complete or successful reaction, for the future, the Company will continue to aim for a reasonably responsible appetite.</p>
	<p>Competition pressure and changes in the client demand, client churn, technological changes, average revenue per unit (ARPU) decrease, opportunistic growth, intensive capital needs, risks exposures for our energy supply business;</p>	<p>From a strategic and management perspective, the Group has so far proven to be relatively efficient in managing its growth and development expectations. However, we cannot guarantee that the significant competition that we face in all our markets and business lines will not encourage the movement of customers to our competitors and thereby adversely affect our revenue and profitability. We cannot benefit from same competitive advantages that our principal competitors in our core Romanian and Hungarian markets enjoy, such as greater economies of scale, easier access to financing and more comprehensive product offerings in certain business lines.</p> <p>From a technological and development perspective, we invest significant amounts to implementing investments to upgrade our network offerings and increase the network coverage. However, there is no assurance that customers will accept these developments to the extent required to generate a rate of return that is acceptable to us. Additionally, our working capital needs have substantially increased in recent years and we may be required to limit our operations and expansion plans if, for any reason, we are unable to obtain adequate funding to meet these requirements.</p> <p>Our success is closely tied to general economic developments in</p>

<sup>8</sup> This table does not describe the particular risks relating to the Shares and the Notes or other particular tax risks that are explained in detail in the Annex 4 — Risk Factors of this report, as well as in the share and notes risk factors related Prospectuses issued by the Company during 2017 - 2019. This table particularly focuses on the below referenced main operational, strategic, financial, regulatory and legal risk categories.



Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
		Romania and Hungary and any negative developments may not be offset by positive trends in other markets, potentially jeopardizing our growth targets and adversely affecting our business, prospects, results of operations and financial condition. We did not put in place a mitigation system in this respect.
	<p>Rapid speed of disruptive innovations and/or new technologies within the industry may outpace the Company's ability to compete and/or manage the risk appropriately, without making significant changes to the business model.</p> <p>Failure to prioritize technology initiatives and effectively allocate resources in order to achieve the strategic Company's goals and objectives.</p> <p>The migration to new technologies is not sufficiently analyzed and documented in order to identify the compatibility with existing network elements. Thus, there may be a risk of network malfunctions and / or additional costs generated to fix the incompatibility.</p> <p>The rollout of 5G will require major investments in the future when the spectrum auction will take place.</p>	<p>The innovation, exploring the possibility to introduce new technologies and digitalization are front-and-center priorities of the Company.</p> <p>However, the capital constraints may adversely affect the Company's ability to innovate and reduce the pace of introducing new technologies.</p> <p>The Company implemented internal flows for analyzing and testing the proposals for new network development technologies to ensure compatibility with existing network elements.</p> <p>The Company has a competitive advantage as the percentage of core fiber coverage is high and it will not require material investments.</p>
	the general internal, European and international economic, political and social context, instability of the credit markets, currency risks, our credit rating, general tax matters;	Given its business profiles and presence on a reduced number of countries (Romania, Hungary Spain and Italy), the Company's exposure to these country, market and industry risks cannot be at all times reasonably anticipated or mitigated.
	system failure / shutdown, termination of main supplier agreements, failure to get sufficient / appropriate managerial resources, insufficient insurance coverage, failure of billing, credit control and other operational systems, health risks affecting the mobile site architecture and development, personal data leakage, logistics, quality control, labor relations, information technology, force majeure.	<p>Customary contractual agreements are put in place to protect the Group. The Company aims to look for alternative supplies and partnership options. However, in some cases, the Company might not be able to have access to sufficient or substitute alternatives.</p> <p>The Group is actively recruiting talent and is actively making use of experienced middle-management. However, given the high specialization of the industry and know-how of skilled professionals, replacing or increasing several functions might not be a timely or successful process.</p>

Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
	<p>IT risks relating to malfunction or disruption in the operational and accounting systems, or cyber-security breaches, could adversely impact the Company's ability to compete in a very active market.</p> <p>The risk of cyber-attacks will continue to trend as one of high to medium operational risks for the Company given the dependence on IT systems and technologies.</p> <p>Failure to protect customer data and ensure service availability could have an adverse impact on customer experience and may lead to financial, reputational and regulatory risks.</p>	<p>The Company invests heavily in IT infrastructure and is actively recruiting highly specialized IT professionals.</p> <p>The majority of software applications were developed internally, this offering the possibility to rapidly react to environment changes which ensure a competitive advantage. Additionally, lower prevalence of external business software and applications ensure control over application source.</p> <p>The Company constantly implements appropriate technical and organizational measures for ensuring a strong level of security to address the current cybersecurity threats.</p> <p>One of the main objectives is to ensure ongoing integrity, availability and resilience of data processing systems.</p> <p>The Company has a specialized Information Security Department responsible for regularly testing the efficiency of the IT systems. The Company monitors the security incidents and security control effectiveness. An incident response procedure was designed and implemented.</p> <p>Nevertheless, we draw attention that such systems cannot provide absolute assurance considering the complex environment of cyber security threats and knowing that cyber fraudster continuously working to develop new and unusual ways to siphon money from Companies.</p>
	<p>Loss of mobile base stations, fixed stations, data center and other technologies used in providing services to customers could result in a material adverse impact on customers, revenues and reputation.</p> <p>Our mobile base stations are subject to possible complaints from other residents from the area which may lead to possible fines from local authorities and the risk of being compelled to move the mobile base station to other location resulting in additional costs and possible adverse impact on service coverage.</p>	<p>The Company implemented resilience and redundancy levels for the technologies used in providing services to customers. Ongoing monitoring systems are implemented in order to increase the resilience levels and to identify improvements opportunities based on lessons learned from past incidents.</p> <p>There are designed internal procedures and controls to ensure that all agreements required by the laws and regulations are obtain before mobile base station construction.</p> <p>Nevertheless, there may be situations when the Company will face complaints from other residents.</p>

Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
	<p>There should be considered the stringent environmental regulations to reduce radiation from base station may impede with infrastructure development.</p>	
	<p>Reliance on suppliers for sourcing equipment, network devices, and other components and materials needed for infrastructure development may increase the concentration of risk and conduct to delays in rolling out plans. Additionally, poor supply chain management and inefficiencies in managing the suppliers' financing may adversely impact the relations with critical suppliers.</p>	<p>The Company negotiates agreements with alternative suppliers for reducing the reliance on a single supplier for critical equipment.</p> <p>The cash flow management is closely monitored. Nevertheless. There may be instances when the payment terms are not fully observed.</p>
<p>Risk relating to legal and regulatory matters and litigation</p>	<p>Compliance risks cover unanticipated failures to comply with applicable laws, regulations, policies and procedures.</p> <p>The telecommunications and media sectors are under constant scrutiny by national competition regulators in the countries in which we operate and by the European Commission. We have been in the past, and may continue to be, the subject of competition investigations and claims in relation to our behavior in the markets of the jurisdictions where we operate.</p> <p>Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as ongoing compliance with, among other things, telecommunications, audiovisual, environmental, health and safety, labor, building and urban planning, personal data protection and consumer protection laws, regulations and standards. Any increase in governmental regulation of our operations could increase our costs and could have a material adverse impact on our business, prospects, results of operations and financial condition.</p> <p>A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operation. Additionally, we are not in full compliance, and</p>	<p>The Company has an adverse risk appetite with respect to legal and compliance risks and requires full compliance. The Company will continue to keep the same (and work to enhance the) adverse risk appetite with respect to these risks.</p> <p>The Company aims to take appropriate measures in the event of a breach of applicable laws or the Company's corporate governance regulations.</p> <p>The Group endeavors to stay abreast of changes to legislation and to ensure compliance. The legal in-house teams at the level of all Group companies and the collaborations with independent legal counsels have been constantly increasing for the past years. The Group pursues to strengthen its legal and regulatory team, and to increase in-house and partner education on applicable compliance expectations.</p>



Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
	<p>from time to time may not be in full compliance, with applicable laws and regulations regarding permitting the construction of various components of our network. We have experienced, and may continue to experience, difficulties in obtaining some of these approvals and permits.</p> <p>Certain agreements we have entered into for the purposes of developing our networks, including some of the agreements entered into with electricity distribution companies and public authorities for the lease of the majority of the poles that support our above-ground fixed fiber optic networks, have been entered into with persons whose title to the leased assets or authority and capacity to enter into such agreements were not fully verifiable or clear at the time they entered into the agreement. Additionally, certain agreements for the lease of poles from third parties are and continue to be arranged on an undocumented basis, creating a risk that they could be discontinued in the future. Termination or cancellation of the agreements may result in additional costs for re-execution of such agreements or for the implementation of an alternative solution or, in the worst case, in a loss of business.</p> <p>The telecommunications industry in the markets in which we operate is characterized by the existence of a large number of patents and trademarks. Objections to the registration of new trademarks by third parties and claims based on allegations of patent and/or trademark infringement or other violations of intellectual property rights are common. We may also be subject to claims for defamation, negligence, copyright or other legal claims relating to the programming content or information that we broadcast through our network or publish on our websites.</p>	
	<p>The Company is subject to insider trading risks and potential violations of financial supervision laws due to unauthorized sharing of price sensitive information. In the event that any person involved with the Group (whether</p>	<p>The Group has implemented an insider trading policy and has concluded trainings for the handling of price sensitive information. The Company endeavors to increase awareness of applicable insider trading prohibitions through dedicated non-disclosure</p>

Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
	internal or external) is (alleged of being) involved in insider trading, this might cause significant reputational damage to the Group.	agreement and acknowledgement correspondence.
	The Group's employees or any other independent partners or consultants may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could have a material adverse effect on the Group's business. If any actions for violation of regulatory standards are instituted against the Group, and the Group is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of significant fines or other sanctions, and its reputation. If allegations of fraudulent conduct are made against the Group this may significantly impact the Group's reputation.	The Company and the Group subsidiaries have been working during 2018 and until the date of this report to implement procedures to support compliance with these regulatory standards and requirements, including a code of conduct, a whistleblower policy and various other operational procedures. This process is ongoing. The Company has been training its employees from critical functions in "Conflict of Interest, Anti-Corruption and Anti-Money Laundering"; the training programs help in setting the ethical culture across the Company and ensures employees understand their role in ensuring compliance.
	Inadequate information classification standards may lead to security, privacy and data protection issues and failure to comply with GDPR requirements and to adhere to customer permission requirements.	The Company enhanced the internal framework for classifying, processing the personal data in order to ensure that the data is collected, processed and stored in line with applicable laws and regulations.
Risk relating to our financial position	Financial risks include uncertainty of financial return and the potential for financial loss due to capital structure imbalances, inadequate cash flows, asset impairments and the volatility of financial instruments related to foreign exchange and interest rate exposure. Main risk financial risk drivers relate to: our substantial leverage and debt servicing obligations, applicable restrictive debt covenants, impairment of the ability to draw funds under the existing facilities agreements, ability to generate sufficient cash to service our debt, (in)ability to refinance maturing debt on favorable terms, exposure from derivative transactions.	The Company has a prudent risk appetite with respect to financial risks. The Company's desire is to keep the prudent risk appetite. The management aims to constantly monitor leverage ratios according to the covenants of the Group's facilities commitments and the Notes / Indenture documentation. The risk management systems described herein provide reasonable assurance that the financial reporting does not contain any material inaccuracies. Based on the current state of affairs, it is justified that the financial reporting is prepared on an ongoing concern basis. The management aims to constantly monitor the optimal financing alternatives for its business plans. The Company has started implementing periodical cash management controls and reconciliations in order to ensure an efficient utilization for daily business needs. The management aims to constantly monitor the efficiency of the derivative instrument and the associated risks.

Risk type / category <sup>8</sup>	Description of main risk drivers	Risk appetite. Available mitigations, if any
		<p>The Company's financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Company's financial reporting includes those policies that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with management's approval or oversight. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.</p>

## Code of Conduct

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

## Insider trading policy

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

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## Corporate and Social Responsibility (Non-Financial Reporting Section)

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

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

We summarize below the main focus efforts that the Group subsidiaries have undertaken during 2018 and until the date of this report with respect to main corporate and social responsibility areas:

### Environmental matters

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

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

- *Procedure on the identification of the environmental aspects and the associated impacts* that mainly focuses on exhaustively identifying the environment aspects that are related to the ongoing activities of operations, on collecting data about any relevant environmental aspect, setting up proper documentation and mechanism to enhance compliance and conducting internal investigations to verify compliance. RCS & RDS has drawn up and adopted an Environmental Management Program under which were established objectives regarding the reduction of the impact of the company’s activity on the environment. Based on this program the company is monitoring the environmental aspects. During 2018, the Board did not identify any significant environmental aspects;



- *Procedure on the Emergency Situations and the Capacity to Respond to Emergency Situations* that identifies the critical points that are able to generate harmful impact over the environment, by reference to the environmental challenges identified through the Procedure on the identification of the environmental aspects and the associated impacts;
- *Procedure on waste management and removal* that mainly focuses on identifying significant waste that connects to our activities and instructing our employees to follow the approved Plan for the waste management. Based on this procedure, equipment that are no longer in use and returned by our customers are gathered and handed over for recycling. RCS & RDS also notifies on a monthly basis the National Environmental Fund Administration in Romania the quantity of equipment that we market, as well as the several notifiable categories of ancillary packaging.

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

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

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

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

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

#### Employee statistics and diversity. Health and safety at work

As at December 31, 2018, we had 16,918 employees. Most of our workforce consists of full-time employees. The following table provides an overview of our employees by country:

As at December 31,		
Country	2017	2018
Romania	11,900	13,723
Hungary	1,821	2,715
Spain	187	395
Italy	63	77
The Netherlands	5	8
<b>Total</b>	<b>13,976</b>	<b>16,918</b>

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

As at December 31,		
Department	2017	2018
Customer Service	2,457	2,857

Administrative, Purchasing, Logistics	1,686	1,899
Technical	6,665	7,862
Sales and marketing	1,931	3,057
TV	1,237	1,243
<b>Total</b>	<b>13,976</b>	<b>16,918</b>

### Employee diversity and professional development

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

Considering the technical profile of our business, we are working hard to ensure an appropriate workforce distribution based on gender, thus women now represent more than 33.3 % of the total number of employees. The percentages are pretty similar in terms of managerial positions with a distribution of about 30% of female gender managers. During 2018, we have also increased the percent of top managerial positions occupied by women like, for example, the head of Internal Audit, Human Resources and Communication departments are female. There are functions dominated by male employees like the technical ones, but also areas where the female employees are majoritarian, like support functions: legal, human resources, finance, marketing.

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

In order to help deprived persons to integrate into the workplace, we initiated this year a partnership with the "Ateliers without Borders" Association (<https://www.atelierefarafrontiere.ro/>) for which we provided suitable jobs, their interest remaining in the internship area.

We have also been growing diversity in our early entrant programmes like annual internship programme – for which we offer the students from any University the opportunity to learn from our senior specialists, most of the time this process ending by hiring those people.

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



Regarding people with disabilities, we currently have 33 employees in this situation – which although not being a significant number, we deem it is relevant that 10% of them were hired during 2018, and we continue to focus on this. In terms of inclusion, we always look for the proper workplace for each of our employees who face different kind of difficulties, so that the rate of dismissal for medical or other type of issues to be reduced to its maximum. More to this, during 2018 we have undergone several internal campaigns to support some of our employees who had to manage critical personal problems.

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

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

In terms of opportunities to grow internally, during 2018 nearly 35 % of open positions were occupied by internal employees as a result of internal recruitment processes. This is one of the most valuable characteristics of our employer brand - the multiple and various internal opportunities. We also focused on the flexibility of

internal application conditions and more visibility so we have built the structure of the HR page on the new Intranet which is supposed to be implemented during the first quarter of 2019.

We have also started an integrated performance management process by running training sessions on management performance for all management employees. This extensive learning program has been running since the last quarter in 2019 and is designed to take place until early 2019.

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

## Health and safety

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

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

Based on existing internal procedures, we have worked to prevent labour incidents by closely monitoring the management of exposed operations and activities such as fixed and mobile network development and servicing departments. For the past years, the number of severe labour incidents has been lower, while the detected incidents have not resulted in significant liability for our Group companies. There have been three fatalities until 2017. As reported in the annual report of the Company for the year ended 31 December 2017, all these situations have been solved with no fault for the regarded Group company. There were no fatalities or other substantial incidents, such as material injuries, fires, property damage or other type of substantial occupation diseases during 2018.

We are also satisfied to report that, as a result of our continuous efforts to ensure proper and safe working conditions, the time spent on medical care and recovery of our employees due to work events and accidents has been in 2017 three times shorter as compared to 2015 and this decreasing trend of the time spent on medical care and recovery continued during 2018.

## Anti-Corruption and Anti-Money Laundering Matters

### Compliance framework

We have put in place and continue to seek to improve an internal compliance framework, which includes the following policies and procedures (collectively, the “**AC and AML Policies**”) designed to identify, prevent or combat potential corruption or money laundering offences and ensure the overall integrity of our business:

the Code of Conduct adopted in May 2017 (the “**Code of Conduct**”), which sets out the principles and standards for any of the Group’s activities;

the Terms of Reference of the Audit Committee of the Issuer’s Board of Directors adopted in May 2017 (the “**Terms of Reference**”), which set out the guidance for the Audit Committee’s considerations of any related matters; and

the Whistleblowing Policy adopted in May 2017 (the “**Whistleblowing Policy**”), which sets out the framework under which an employee or other stakeholder can report concerns or complaints about any activity of a general, operational or financial nature, which in his opinion (i) is in violation of applicable law, regulation or any generally accepted Group practice; and (ii) may have significant negative impact on the operations of the Group.

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

In order to help ensure that no Group employee, director or individual subcontractor acts in violation of the AC and AML Policies we, among other things:

have established a designated global compliance function;

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

require that interactions with government officials be monitored by our global compliance and legal functions; and

seek to carefully account for, and monitor, any incoming and outgoing payments (including seeking to ensure that all such payments are properly documented).

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

### **Anti-corruption and Business Ethics Procedure**

We continue to refine our AC and AML Policies and aspire to constantly strengthen our anti-corruption and anti-money laundering compliance efforts.

For example, the Group has been working on a detailed Anti-corruption and Business Ethics Procedure (the **"Anti-corruption and Business Ethics Procedure"**), that we expect to put in place in 2019. Once adopted, we expect that the Anti-corruption and Business Ethics Procedure will be applicable to all entities within the Group and mandatory for all our employees and directors and we also plan to strongly recommend that all our business partners adhere to its principles. It is expected to be designed to incorporate, and build on, the requirements of otherwise applicable relevant legislation and will provide for a set of common internal rules and principles of professional conduct and ethical behaviour to be followed by our directors, employees and service providers.

Among other things, the Anti-corruption and Business Ethics Procedure is expected to provide for: (a) ethical behaviour standards for our directors, employees and service providers; (b) avoiding conflicts of interests and addressing conflicts when they arise; (c) the prohibition of bribery and money laundering; (d) the prohibition of inappropriate charitable and social activities and political contributions; (e) where appropriate, the inclusion of anti-corruption clauses in agreements with and diligence on Group customers and business partners; (f) the prohibition of non-competitive arrangements; (g) the prohibition of the unlawful use of inside information; and (h) maintaining the confidentiality of sensitive information.

The Anti-corruption and Business Ethics Procedure is expected to require any individual within the Group to report any suspected violations thereof to the head of the relevant department or business unit who, in turn, is expected to be required to escalate to the Group's compliance function. In 2018, employees from several key procurement departments within the Company received training designed to ensure that they understand the requirements of the AC and AML Policies and the draft Anti-corruption and Business Ethics Procedure that we are working to adopt.

Employee mismanagement and deviations at the level of the Group companies are detected and sanctioned by the management of each Group company. From time to time, the management identifies specific risk areas where immediate improvement is reached through clearer and stricter policies and more enhanced control mechanisms. However, while we are committed to doing business in accordance with applicable anti-corruption laws, we face the risk that members of the Group or their respective officers, directors, employees, agents or business partners may take actions or have interactions with persons that violate such anti-corruption laws and may face allegations that they have violated such laws. For example, the DNA in connection with our joint venture with Bodu S.R.L. entered into in 2009 and related allegations. See *"Business—Litigation and Legal Proceedings—Investigation by the Romanian National Anti-Corruption Agency"* and *"Risk Factors—Risks relating to legal and regulatory matters and litigation—Failure to comply with anti-corruption or money laundering laws, or allegations thereof, could have a material adverse effect on our reputation and business."* We strongly believe that our Group companies and their current and former officers have acted appropriately and in compliance with the law, and we restate that we will continue to defend against all the above allegations.

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

Responsibility, by definition, should be learnt from childhood, within the family. According to the studies available in Romania, 97% of Romanians consider themselves responsible persons, and 98% of them think that in order to be successful they have to be responsible ("Romania Responsible" Survey, conducted by Ipsos in the period 29 January-02 February 2018, on a national representative sample of 1,088 respondents, men and women over the age of 16.).

Corporate Social Responsibility is a vector for increasing added value in society. We believe that by our actions we contribute to the improvement of society and we want to get involved in projects that have an impact on specific categories of stakeholders.

The evolution of our Company reflects the development of Romanian society. From the beginning, by its business activity, the Company has helped to the increase of digitization and development of the country. That is why our mission is to continue this involvement by using strategic well-defined axes and implementing projects relevant to the community. The Company takes great responsibility in carrying its business activity, and the



proof of its responsibility are the investments made in infrastructure in order to provide the highest quality services to its customers, and in its own employees. The leadership, flexibility, innovation and team spirit are other defining features of our Company. They ensure our sustainability and nurture the aspirations of our teams, irrespective of the place where they operate - in the village or in town, in a small or big city, in Romania, Hungary, Italy or Spain.

We want to do more; social responsibility is a priority in our business strategy. Everything we do reflects the involvement of Digi | RCS & RDS in building a better society for us and for the future generations.

Ongoing as well as planned axes of DIGI | RCS & RDS Social Responsibility:

**Education #DigiEdu** – In Romania the school drop-out rate is of 18.3% according to UNICEF, in 2017. In rural areas the school drop-out rate is of 26.6% and in the major cities of 6.2%. Almost 40% of the students are socially and functionally illiterate. What is our plan?

To contribute to supporting children's access to education, we hope to reduce such alarming rates and put our shoulder to the building of a better society. Through our projects, we plan to get involved in supporting the access to school for all children from disadvantaged backgrounds, and also in reducing the school drop-out.

In this regard, we have already started to develop the collaboration with Save the Children Romania Organization (Salvați Copiii România) in order to get even more involved in supporting communities from disadvantaged backgrounds. We are focusing on reducing the illiteracy and school drop-out in the rural areas to balance the gap between the urban environment and the countryside.

In addition, by means of the Group's media division, we daily contribute to the education and information of our audience through our documentary channels and to our TV and radio stations that have an objective informative role. Through our shows: "Children's Journal", "Journal of Sciences", and also by media partnerships or educational events, we are bringing our contribution to the education of the future generations.

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

We are aware that the future means digitization and unlimited access to the electronic communications networks. We are making our contribution to a better positioning of Romania regarding the speed of broadband Internet, but we want Romanians to benefit more of this strength of our business activity.

The future of children is determined by the level of society digitization and by reducing the gaps between rural and urban areas regarding the access to information. We are concerned about how the future of Romania will look like and we are helping young people to achieve better knowledge by means of digital solidarity actions. The projects we have carried out are aimed at increasing the number of Romanians with digital skills. We are involved in supporting young people who want to overcome their current status; we sustain the education authorities in organizing school competitions, particularly in the science field (STEM). We sustain the learning in a more digitized way, and this is why we contributed to the technological upgrading of the Central University Library of Cluj by ensuring the broadband internet and indoor wi-fi coverage.

**Encouragement of Volunteering and the Spirit of Initiative #DigiBenefit** – 3 out of 10 Romanians are volunteering according to a Hunters report, Unlock Market Research. 43% of Romanians recognize the trend of living in a cleaner environment and admit that they feel guilty if they do nothing about it.

DIGI | RCS & RDS is keen on leadership and initiative spirit. In their turn, our employees are dedicated persons and opened to volunteer actions also due to the intra-corporate culture, which has been practiced over the years, and which is one of the foundation stones of the Company's overall success.

We believe that we need to invest in a better world and take care of everything that surrounds us. We are also responsible for the resources we use in our activity and we try to reduce, as much as possible, their impact on the environment and society, as a whole.

Our work on this axis means both stimulating our employees to volunteer and supporting them to come up with volunteer project ideas in which they are willing to invest time and energy.

**Health and Well-Being #DigiWell** – The main cause of mortality in Romania is cardiovascular diseases. 60% of Romanians are dying annually from this cause. 20% of Romanians suffer from mental disorders. Among them, anxiety and depression affect over 2 million people. In Romania, more than 9,000 women are diagnosed with breast cancer every year, and every three hours a woman dies of such disease.

Through our projects we want to inform and encourage people to see a doctor and to support the prevention of any diseases. We want to help to improve the lives of Romanians.

We encourage our employees to participate in sports activities meant to help the people suffering from any disease. An example is Casiopeea, the Pink Race, where our employees ran for those women suffering from breast cancer. From the funds donated by the company, breast prostheses have been purchased for the women undergoing mastectomy. At the same time, by enrolling our employees in the Corporate Games, we ensure that they maintain their good health by exercise.

Internally, the Company has been involved in supporting special cases (employees or members of their families) by making donations. We organize wellbeing conferences where our employees may receive information from specialists and are counselled to enjoy a healthy life, and to get involved in helping other people. The Company has also been involved in the development of a Medical Imaging and Health Centre to provide free services in the county of Bihor. The company has sustained Man Foundation from Oradea to set up "Maria" Medical Health and Medical Imaging Centre and donated state-of-the-art imaging and medical imaging equipment.

The Company has continuously invested in the technological advancement and in people. In over 25 years of activity, our growth has always been based on the confidence of our customers and the desire to be at the forefront of the electronic communications technology. We are an open, transparent and responsible company and a credible partner for customers, suppliers, partners, community, and industry as a whole.

# Share Capital Structure and Shares



## SHARE CAPITAL STRUCTURE AND SHARES

The issued and paid-up capital as at 31 December 2018 in amount of EUR 6,918,042.52, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (€0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (€0.01) each). For details, please see section *Corporate Governance-Capital, Shares and Voting Rights*, included in this Annual report.

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

31 December 2018	
<b>Class A:</b>	
Ordinary Shares – Issued and Paid (No.)	65,756,028
Ordinary Shares – Unissued (No.)	34,243,972
Nominal Value	0.10 EUR per share
<b>Class B:</b>	
Ordinary Shares – Issued and Paid (No.)	34,243,972
Ordinary Shares – Unissued (No.)	65,756,028
Nominal Value	0.01 EUR per share
Share Capital Value (EUR)	6,918,043

At 31 December 2018, the shareholders of DIGI are as follows:

31 December 2018		
Shareholder name	No. of shares	%
<b>Class A:</b>		
RCS Management S.A.	57,866,545	57.87%
Teszari Zoltan	2,280,122	2.28%
DIGI-treasury shares	5,609,361	5.61%
<b>Total class A</b>	<b>65,756,028</b>	
<b>Class B:</b>		
Shares listed on BVB	33,339,354	33.34%
DIGI - treasury shares	904,618	0.90%
<b>Total class B</b>	<b>34,243,972</b>	
<b>TOTAL</b>	<b>100,000,000</b>	

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



# Dividend Policy



## DIVIDEND POLICY

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

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

At the Annual General Meeting of Shareholders, to be held on 30 April 2019, a gross dividend of RON 0.50 per share will be proposed in respect of 2018. For the calculation of dividends, treasury shares of the Company were not treated as outstanding ordinary shares and were excluded from the number of issued ordinary shares.

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



# Group Overview



## BUSINESS

### Overview

#### Introduction

We are a European leader in geographically-focused telecommunication solutions, based on the number of RGUs (*Sources: Group and peer reporting*). We are a leading provider of telecommunication services in our core Romanian and Hungarian markets and are also active in Spain and, to a lesser extent, Italy.

- Romania. Our offerings in Romania include cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH. Our technologically-advanced fixed fiber-optic network covered 76% of households as at December 31, 2018, according to our estimates. We also operate a technologically-advanced mobile network, which shares the backbone of our fixed infrastructure. In addition, Romania is entirely within the footprint of our DTH signal.
- Hungary. We provide cable TV, fixed internet and data, fixed-line telephony and DTH services in Hungary. Our fixed telecommunication and entertainment products are offered through a technologically-advanced fixed fiber-optic network (excluding the recently acquired Invitel's network, which we are currently upgrading to fiber), which covered 48% of households as at December 31, 2018 (*Source: Hungarian Central Statistical Office*). In addition, we are in the advanced stage of our own mobile network's development and currently expect to launch our services in 2019. The country is entirely within the footprint of our DTH signal.
- Spain. We provide mobile telecommunication services as an MVNO through the mobile network of Telefónica, primarily to the large local Romanian community. Following its launch, we now also offer fixed internet and data and fixed-line telephony services as a reseller through Telefónica's fixed line network.
- Italy. We provide mobile telecommunication services as an MVNO through the mobile network of TIM, primarily to the large local Romanian community.

For the year ended December 31, 2018, our four geographies accounted for the following portions of our revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations): Romania for €697.8 million, or 67.2%; Hungary for €190.9 million, or 18.4%; Spain for €126.6 million, or 12.2%; and Italy for €22.8 million, or 2.2%.

As at December 31, 2018, we had a total of approximately 14.9 million RGUs, of which approximately 4.0 million were cable TV RGUs, approximately 3.3 million were fixed internet and data RGUs, approximately 5.0 million were mobile telecommunication services RGUs, approximately 1.9 million were fixed-line telephony RGUs and approximately 0.8 million were DTH RGUs. Our acquisition of Invitel in May 2018 contributed approximately 718,000 RGUs to those numbers (see "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Trends and Other Key Factors Impacting our Results of Operations—Acquisitions and disposals*").

We have historically generated strong revenue streams. Our revenue of continuing operations (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) amounted to €1,038.1 million for the year ended December 31, 2018.

In recent years we invested heavily in the development of our mobile business in Romania and more recently in the development of our mobile network in Hungary. We have reported Adjusted EBITDA and Adjusted EBITDA margins for continuing operations of €324.6 million and 31.3%, respectively, for the year ended December 31, 2018.




We offer five principal types of services:


- **Cable TV** is our original line of business. As at December 31, 2018, we had approximately 3.3 million Romanian and approximately 689,000 Hungarian RGUs for cable TV services. Cable TV services accounted for 24.1% of our revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) for the year ended December 31, 2018.







- ▶ We offer **fixed internet and data** services through our fixed fiber networks in Romania and Hungary (excluding the recently acquired Invitel's network, which we are currently upgrading to fiber) and, since September 2018, as a reseller through Telefónica's fixed line network in Spain. As at December 31, 2018, we had approximately 2.5 million, approximately 747,000 and approximately 8,000 fixed internet and data RGUs in Romania, Hungary and Spain, respectively. Fixed internet and data services accounted for 22.9% of our revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) for the year ended December 31, 2018.


- ▶ We provide **mobile telecommunication services** using our own 3G and 4G networks in Romania, as a reseller using a third-party network in Hungary and as an MVNO in Spain and Italy primarily targeting local Romanian communities. As at December 31, 2018, we had approximately 3.4 million mobile telecommunication services RGUs in Romania, approximately 15,000 RGUs in Hungary (which related to the resale of mobile internet and data of Telenor's local network), approximately 1.3 million RGUs in Spain and approximately 195,000 RGUs in Italy. In addition, we are in advanced stages with our own mobile network's development in Hungary and currently expect to launch our services in 2019. Mobile telecommunication services accounted for 31.8% of our revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) for the year ended December 31, 2018.


- ▶ We offer **fixed-line telephony** services through our fixed fiber networks in Romania and Hungary (excluding the recently acquired Invitel's network, which we are currently upgrading to fiber) and, since September 2018, as a reseller through Telefónica's fixed line network in Spain. As at December 31, 2018, we had approximately 1.2 million Romanian fixed-line telephony RGUs, approximately 694,000 Hungarian fixed-line telephony RGUs and approximately 3,000 Spanish fixed-line telephony RGUs. Fixed-line telephony services accounted for 3.7% of our revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) for the year ended December 31, 2018.


- ▶ Our **DTH satellite television** services are offered in Romania and Hungary. As at December 31, 2018, we had approximately 529,000 DTH RGUs in Romania and approximately 276,000 DTH RGUs in Hungary. DTH services accounted for 6.2% of our revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) in the year ended December 31, 2018.



## Key Strengths

We consider our key strengths to include the following:

- ▶ **Attractive local markets with stable structural growth.** We focus our telecommunication offerings primarily on two core geographic segments, Romania and Hungary. Both economies have been experiencing strong positive developments in recent years, outperforming the EU's overall GDP growth rate, and their respective telecommunication services markets have been growing steadily. Our operations in Romania and Hungary accounted for approximately 67% and 18%, respectively, of our consolidated revenue for the year ended December 31, 2018.
- ▶ **Market leadership in core business lines and robust RGU growth.** We are the leading provider of pay TV services in Romania and Hungary, by number of RGUs. We also lead Romania's fixed internet and data market, while being second in Hungary as at December 31, 2018. In addition, we are the second-largest provider of fixed-line telephony services in Romania and are second in Hungary as at December 31, 2018. Finally, we are the fourth-largest provider of mobile telecommunication services in Romania as at December 31, 2018. We are focused on increasing market penetration in our existing markets by further expansion and cross-selling multiple service offerings to our current and prospective subscribers. Capitalizing on our high-quality technical infrastructure, competitive pricing and attractive content we have achieved substantial mainly organic growth; which led to a total number of RGUs across all business lines to approximately 14.9 million as at December 31, 2018

- ▶ **Advanced infrastructure, including nationwide fiber networks in Romania and Hungary and fast growing, in terms of RGUs, mobile network in Romania.** Our fixed fiber-optic networks in Romania and Hungary are technologically advanced and cover 76% and 48%, respectively, of households in those countries as at December 31, 2018 (*Sources: Group reporting; Hungarian Central Statistical Office*). We have upgraded more than 90% of our Romanian and Hungarian (excluding the recently acquired Invitel's network, which we are currently upgrading to fiber) fixed fiber-optic networks to GPON or comparable technology and are currently able to offer transmission speeds of up to 1,000 Mbps for internet and data services, the fastest available to residential users in those markets. As at December 31, 2018, our 3G and 4G mobile telecommunication services in Romania covered approximately 99.5% (outdoor voice coverage) and 65% of the population, respectively, and were provided via approximately 4,500 base stations (approximately 3,100 of which were used to provide 4G connectivity).
- ▶ **Leading commercial proposition for customers.** Our technical capabilities, wide network coverage and multiple service offerings, including mobile services, enable us to provide our customers with a wide range of services at competitive prices. Our ability to offer multiple services is a central element of our strategy and allows us to attract new customers who wish to benefit from our varied product offerings, to expand the uptake of our service offerings within our existing customer base and increase customer loyalty by offering multiple services at cost-effective prices. For example, we offer flexible packages in Romania, which include a comprehensive cable TV offering (including analog and digital packages with optional add-ons for HBO, MAXPAK, Adult, Film NOW and DIGI 4K), our superfast fixed internet and data (at speeds of 300 Mbps, 500 Mbps or 1,000 Mbps), fixed-line telephony and mobile packages (with solutions offering various call minutes allowances and generous mobile traffic of up to 50 GB per month at 4G speeds).
- ▶ **Robust financial performance.** Our business has consistently generated strong revenue streams. For the years ended December 31, 2017 and 2018, our revenue of continuing operations (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) was €16.6 million and €1,038.1 million, respectively. We have historically had robust Adjusted EBITDA and a disciplined approach to capital expenditure. Our Adjusted EBITDA of continuing operations was €287.5 million and €324.6 million for the years ended December 31, 2017 and 2018, respectively. Our total capital expenditure was €243.2 million and €279.3 million (excluding the cost of Invitel acquisition) for the same periods, respectively. This represented 26.5% and 26.9%, respectively, of our revenue of continuing operations, for the years ended December 31, 2017 and 2018. In addition, we have historically maintained prudent capital and liquidity structures with a leverage ratio of 2.7x and 2.8x for the years ended December 31, 2017 and 2018.
- ▶ **Highly experienced management team.** Our senior management team is made up of professionals who have, on average, more than 19 years of experience in the telecommunication industry and the Group. Our controlling shareholder, Mr. Zoltán Tészári, has been, and continues to be, involved in all key management decisions in relation to the Group since its foundation in 1992. Our Chief Executive Officer, Mr. Serghei Bulgac, joined the Group in 2003 as its Chief Financial Officer and became the Chief Executive Officer in 2015. The majority of our experienced management team members have been with us for more than 10 years and made significant contributions to our transformation from a small cable TV business to a leading provider of telecommunication services in our core markets. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable them to continue a successful execution of our strategy.

## Areas of Operations

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

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

	Cable TV	Fixed Internet and Data	Mobile Telecommunication services	Fixed-line Telephony	DTH
Romania	✓	✓	✓	✓	✓
Hungary	✓	✓	✓ <sup>(1)</sup>	✓	✓
Spain		✓ <sup>(2)</sup>	✓ <sup>(3)</sup>	✓ <sup>(2)</sup>	
Italy			✓ <sup>(3)</sup>		

(1) Data only, as a reseller through Telenor's local network.

(2) As a reseller through Telefónica's network.

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

Our core geographic segments are Romania and Hungary.

## Products and Services

### Business Lines

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

To customers in Romania and Hungary whose homes or businesses are covered by our fixed fiber-optic network, we offer our branded cable TV, fixed internet and data and fixed-line telephony products (and in Hungary, we now also offer certain Invitel-branded products), either individually or in combination. Since September 19, 2018, we have also offered fixed internet and data and fixed-line telephony services in Spain as a reseller through Telefónica's network.

We offer mobile telecommunication services in Romania. In Hungary, we resell our branded mobile internet and data on Telenor's local network. We also offer mobile telecommunication services in Spain and Italy as an MVNO.

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

The table below sets out the number of RGUs per business line and per geographic segment as at December 31, 2018:

	Romania	Hungary <sup>(5)</sup>	Spain	Italy	Total RGUs per service (thousands)
Cable TV	3,305	689	—	—	3,994
Fixed Internet and Data	2,528 <sup>(1)</sup>	747	8 <sup>(4)</sup>	—	3,283
Mobile Telecommunication Services	3,406	15 <sup>(2)</sup>	1,343 <sup>(3)</sup>	195 <sup>(3)</sup>	4,959
Fixed-line Telephony	1,188 <sup>(1)</sup>	694	3 <sup>(4)</sup>	—	1,885
DTH	529	276	—	—	805
<b>Total RGUs per country</b>	<b>10,956</b>	<b>2,421</b>	<b>1,354</b>	<b>195</b>	<b>14,926</b>

(1) Includes both residential and business lines.

(2) Data only, as a reseller through Telenor's local network.

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

(4) As a reseller through Telefónica's network.

(5) RGUs for Hungary include Invitel's RGUs.

## Cable TV Services



Our cable TV services consist of distributing local and international programming content through our cable TV networks. We offer cable TV services in Romania and Hungary, where we are the largest pay TV operator, by number of RGUs (*Source: Group and peer reports, ANCOM, NMHH*), in each case, as at December 31, 2018.

As at December 31, 2018, we had approximately 3.3 million cable TV RGUs in Romania and approximately 689,000 in Hungary. As at the same date, we served approximately 7.8 million homes passed in the two countries. Since 2009, we have been expanding our services into areas that were already covered by cable TV networks of our competitors or were not covered by cable TV or internet and data networks at all. This

has generated most of our growth in this period as our competitive prices, our multiple-service offerings, the quality of our services provided through technologically advanced networks and our ability to offer premium programming content have proved to be attractive to customers. In addition, our acquisition of Invitel contributed approximately 171,000 RGUs in Hungary as at December 31, 2018.

Our cable TV services have historically generated stable revenue, have low maintenance and other operational costs due to our recent investment in the fixed-fiber network and provide a stable and growing base of customers. For the year ended December 31, 2018, cable TV services generated revenue of €250.4 million, representing 24.1% of total revenue.

### Cable TV product packages

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

In Romania, we offer two main packages—an analog package and a digital package. Each package has two further versions: a standard version, which is addressed to all customers; and a reduced version, which is addressed to customers in rural areas. As at December 31, 2018, approximately 56% of our cable TV customers were subscribed to the analog package and approximately 44% of our cable TV customers were subscribed to the digital package. We believe that our standard packages are attractive to customers in terms of content offered for the price and as they provide access to our own channels (other than Film NOW and DIGI 4K, our premium pay TV channels) for no additional fee. In combination with the standard version of the digital package, we offer premium movie channels such as Film NOW, HBO and MAXPAK at competitive prices. This product structure is available in all of our cable TV markets in Romania, with certain local variations regarding the number and composition of channels included in each package.

In Hungary, we offer three packages of cable TV services, each for a monthly fee. Firstly, due to local “must carry” regulations, we offer a limited package, including all the channels we are required to carry under the “must carry” regulations, with a minimum of four national channels, plus local channels of public interest. Secondly, we offer a “Mini” package consisting of up to 20-25 channels. Thirdly, we offer the basic package “DIGITV,” which is made up of over 100 local and international solely digital channels, out of which over 30 are HD channels. We believe that our “DIGITV” package is attractive to customers in terms of content offered for the price and as they provide access to our own 3 DIGI Sport channels for no additional fee. In combination with the “DIGITV” package, we offer premium movie channels such as Film NOW, HBO and MAXPAK at competitive prices. This product structure is available in all of our cable TV markets in Hungary, with certain local variations regarding the number and composition of channels included in each package.

### Fixed Internet and Data



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



As at December 31, 2018, we had approximately 2.5 million fixed internet and data RGUs in Romania (including business subscribers), approximately 747,000 such RGUs in Hungary (approximately 241,000 of which were contributed by Invitel) and approximately 8,000 fixed internet and data RGUs in Spain. Business subscribers represent an important part of our fixed internet and data business in Romania, as they generate a significant part of our revenue, although they are much fewer in number than residential subscribers. As at December 31, 2018, we had approximately 158,000 business internet and data RGUs in Romania.

We consider our fixed internet and data offering to be a premium service and a potential major growth driver for our overall business. For the year ended December 31, 2018, fixed internet and data services generated revenue of €237.5 million, representing 22.9% of total revenue.

### Fixed internet and data product packages

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

We offer the following packages to residential customers:

- ▶ “Fiberlink 300,” “Fiberlink 500” and “Fiberlink 1,000” are our main residential fixed internet and data offerings in Romania. “Fiberlink 300” allows unlimited traffic at speeds of up to 300 Mbps. “Fiberlink 500” and “Fiberlink 1,000” allow unlimited traffic at speeds of up to 500 Mbps and 1,000 Mbps, respectively, the fastest internet service currently offered to residential users in Romania. We also offer the “Fiberlink Popular” package to certain of our rural customers. It allows unlimited traffic at speeds of up to 300 Mbps.
- ▶ “DIGINet 100” and “DIGINet 500” are our main residential fixed internet and data offerings in Hungary. “DIGINet 100” allows unlimited traffic at speeds of up to 100 Mbps, “DIGINet 500” allows unlimited traffic at speeds of up to 500 Mbps. In addition, we offer “DIGINet 1,000” (our fastest internet service in Hungary) which allows unlimited traffic at speeds of up to 1,000 Mbps.
- ▶ Since September 19, 2018, we offer fixed internet and data in Spain under “*Digi Fibra 30 MB*” and “*Digi Fibra 500 MB*” packages. We offer this service as a reseller using Telefónica’s network. We originally launched the service to customers from the Community of Madrid in September 2018. In February 2019 we have launched the service in four other areas: Guadalajara, Castellon, Almeria and Zaragoza. We expect to expand the offering to other provinces of Spain in the future.

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

### Mobile Telecommunication Services

**Digi Mobil**

**4G**



As at December 31, 2018, we were one of four licensed providers of mobile services in Romania. We provide mobile telecommunication services, which include both voice and data services, using our 3G and 4G networks in Romania, and as an MVNO primarily focused at large Romanian communities in Spain and Italy. In Hungary, we resell certain third-party mobile data services to our customers through Telenor’s local network. Also in Hungary, we hold certain licenses entitling us to develop our own mobile network and we are currently developing the network that will support our service, with a view to being in the position to launch in 2019.

As at December 31, 2018, our 3G and 4G networks coverage extended to approximately 99.5% (outdoor voice coverage) and 65% of Romania’s population, respectively. We have frequency blocks in the bandwidths of 900 MHz; 2,100 MHz; 2,600 MHz and 3,700 MHz in the country. We are the leader in inbound number porting in mobile, with 1.7 million numbers ported between 2008 and December 31, 2018. In 2018, there were approximately 278,000 mobile numbers were ported to us, the largest share of approximately 857,000 mobile telephony numbers ported in Romania during this period (*Source: ANCOM*).

As at December 31, 2018, we had approximately 3.4 million mobile telecommunication services RGUs in Romania, approximately 15,000 such RGUs in Hungary, approximately 1.3 million such RGUs in Spain and approximately 195,000 such RGUs in Italy.

We intend to continue increasing the coverage of our mobile telecommunication service and achieve growth in subscriber numbers and revenue. For the year ended December 31, 2018, mobile telecommunication services generated revenue of €330.0 million, representing 31.8% of total revenue.

### Mobile telecommunications product packages in Romania and Hungary

We offer mobile telecommunication product packages structured to meet the needs of our subscribers. The service plans offer flat rates allowing either generous or unlimited number of minutes of voice communications across the main networks, as well as mobile internet traffic up to 50 Gigabytes (“GB”) per month at 4G speeds.

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

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

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

Our current mobile telecommunication services offerings in Hungary as a reseller are insignificant and have been decreasing over the last few years in terms of RGUs in anticipation of the expected launch of our own service.

### Mobile telecommunications product packages in Spain and Italy

We offer voice and data mobile services in Spain under the brand name “Digi Mobil” using Telefónica’s network. The service is primarily targeted at the large local Romanian community. We offer prepaid and post-paid tariff packages for voice, SMS and mobile data. Starting from March 2018, we introduced new tariffs, which include unlimited voice traffic bundles, more data volume and very competitive prices. These products were, we believe, very well received by the market.

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

### Fixed-line telephony



As at December 31, 2018, we were the second largest fixed-line telephony operator in Romania and the second largest operator in Hungary (*Source: Group, peer reports, ANCOM, NMHH*). Since late September 2018, we also offer fixed-line telephony services in Spain as a reseller through Telefónica’s local network.

As at December 31, 2018, we had approximately 1.2 million fixed-line telephony RGUs in Romania, approximately 694,000 such RGUs in Hungary (approximately 293,000 of which were contributed by Invitel) and 3,000 fixed-line telephony RGUs in Spain.

For the year ended December 31, 2018, fixed-line telephony services generated revenue of €38.7 million, representing 3.7% of total revenue.

### Fixed-line telephony product packages

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

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

- ▶ **“Digi Tel Family.”** Digi Tel Family is our basic package that targets customers who prefer a lower monthly fee. It includes unlimited free minutes for calls with our other fixed-line and 3G

mobile telecommunication subscribers and 100 minutes for calls to other national fixed networks.

- **“Digi Tel National.”** Digi Tel National is a package that includes a fixed-line telephony subscription and unlimited free minutes for calls with our other fixed-line and 3G mobile telecommunication subscribers, as well as other national fixed-line telephony networks and 100 minutes for calls to other national mobile operators.

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

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

In Spain, we offer “Digi Tel 1” and “Digi Tel 5” packages as a reseller through Telefónica’s network. Initially, the service was available to customers from the Community of Madrid in September 2018. In February 2019 we have launched the service in four other areas: Guadalajara, Castellon, Almeria and Zaragoza. We expect to expand the offering to other provinces of Spain in the future.

## DTH



Our DTH services consist of distributing programming content via satellite transmission primarily to rural or small town residential subscribers who receive our services through satellite dish receivers and set-top boxes installed in their homes. To provide this service in Romania and Hungary, we lease from Intelsat Global Sales & Marketing Ltd (“Intelsat”) certain transponders installed on satellites operated by Intelsat and Telenor, which had leases extended in 2017 for a further period of five years.

As at December 31, 2018, we had approximately 529,000 DTH RGUs in Romania and approximately 276,000 such RGUs in Hungary.

We are a leading DTH operator in Romania and Hungary and both countries are entirely within the footprint of our signal. For the years ended December 31, 2018, DTH services generated revenue of €64.3 million, representing 6.2% of total revenue.

## DTH product packages

Our product offerings include four types of packages (“Popular,” “Basic,” “Extra 1” and “Extra 2”) for Romania and two types of packages (“Digimini” and “DigiTV”) for Hungary. As part of these packages, we offer premium movie channels such as Film NOW, HBO, MAXPAK and an Adult option. In addition, our offers have certain local, country-specific variations regarding the number and composition of channels included in each package. These variations are mainly driven by local demand and competition.

## Content



## Own TV channels

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

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

All of our own channels are broadcast in standard definition and HD (except Music Channel and Hora TV, which are only broadcast in standard definition and DIGI 4K, which is broadcast in ultra HD). Our premium

sports channels own exclusive rights for Romania and Hungary over certain major sports competitions, such as Serie A, Ligue 1, UEFA Europa League, Women's Tennis Association ("WTA") and Association of Tennis Professionals ("ATP") 1000 Masters Series and Finals. Furthermore, we are one of the few providers with co-exclusive rights to broadcast the following events in Romania: UEFA Champions League, UEFA Super Cup, Romanian Football League 1 and Cup, Romanian Football League 2, La Liga, Bundesliga, European Handball Federation ("EHF") Champions League, Formula One, ATP 500 Masters Series and Romanian Basketball League. We also have co-exclusive rights for the basketball EuroLeague in Romania and Hungary.

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

Sport	Competition	Romania	Hungary	Period
Football	Romanian Football Championship "League 1"	✓		2015 – 2019
Football	UEFA Champions League and UEFA Super Cup	✓		2018 – 2021
Football	UEFA Europa League	✓	✓	2018 – 2021
Football	Spanish Football Championship "La Liga"	✓		2018 – 2021
Football	Italian Football Championship "Serie A"	✓	✓	2018 – 2021
Football	French Football Championship "Ligue 1"	✓	✓	2018 – 2021
Football	German Football Championship "Bundesliga"	✓		2018 – 2021
Football	Romanian Football Championship "League 2"	✓		2018 – 2021
Football	Romanian Football Cup "Cupa Romaniei"	✓		2018 – 2021
Handball	EHF Champions League	✓		2018 – 2020
Racing	Formula One	✓		2018 – 2019
Tennis	ATP 1000 Masters Series and Finals	✓	✓	2017 – 2019
Tennis	ATP 500 Masters Series	✓		2017 – 2019
Tennis	WTA	✓	✓	2017 – 2021
Basketball	Euroleague	✓	✓	2015 – 2019
Basketball	Romanian Basketball League	✓		2018 – 2020

The aggregate value of the licensing fees under these agreements is €131.5 million as at December 31, 2018. In addition to licensing fees, some of these agreements require us to bear certain technical costs, such as costs related to up-and down-linking.

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

#### Own radio channels



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

#### Third-party content

Separately from the channels that we own, we acquire the rights to distribute channels from local and international programming content providers. In the case of all international and most local providers, we down-link and retransmit these channels as originally packaged (or with subtitles or dubbed), while with certain local providers we receive the channel via terrestrial fiber-optic transmission. As at December 31, 2018, we had distribution agreements in place with 72 content providers. In Romania and Hungary we were entitled to retransmit 295 pass-through channels. Our pass-through channel providers assume full responsibility for programming content and ensuring compliance with applicable rules, including those on the protection of minors. We retransmit leading local channels and international channels (in most cases with subtitles, or dubbed, depending on market practice). The programming content generally consists of films, sports, general entertainment, documentaries, children's programs, news and music.

Content is generally purchased on a per-subscriber basis or on a flat-fee basis. Prices paid for these channels are sometimes subject to minimum guaranteed fees that are based on a specified minimum subscriber level, with a



number of agreements providing for volume discounts in the fee per subscriber as the total number of subscribers increases.

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

### Multiple Offerings



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

As the geographical coverage of our mobile network has increased, so has the number of customers who subscribe to multiple services. In Romania, the average number of services per one residential customer (excluding DTH customers) was 2.3 and the percentage of network customers using more than one service was approximately 74%, in each case, as at December 31, 2018. In Hungary, the average number of services per one network customer was 2.3 and the

percentage of network customers using more than one service was approximately 78% as at the same date.

The table below sets out the percentage of network customers that subscribe to multiple services in Romania and Hungary, as a percentage of our base subscribers as at December 31, 2018:

	Romania	Hungary
Single-play	26%	22%
2 or more	74%	78%
<i>Of which 3 or more</i>	39%	53%
<i>Of which quad-play</i>	13%	0.2%

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

### Electricity generation and supply



Since 2012, we have acquired several developmental stage solar energy projects as a means to reduce or partially offset our costs for electricity. As at December 31, 2018, these projects have an aggregate installed capacity of 15.72 MW, all of them being fully operational.

Under incentives promulgated by the Romanian government, producers of electricity from renewable sources (e.g., solar) that are accredited by the Romanian energy regulator are entitled to receive green certificates that can be subsequently sold to suppliers and other entities that have a legal obligation to acquire them. As at December 31, 2018, we accumulated €4.7 million of green certificates generated by

our solar energy production activities. We intend to sell those green certificates when they become tradable.

In 2015, we started operating an electricity supply business, initially targeting business customers. In 2016, it was extended to residential customers. Our electricity supply business consists of us buying electricity on centralised wholesale trading platforms (in line with applicable legal provisions which forbid “over the counter” agreements) and selling it to our customers. In general, our customer contracts are fixed price for up to one year and have no limits on the amount of electricity the customer can require us to supply. In the year ended December 31, 2018, we purchased electricity on both forward electricity market, as well as spot market.

Electricity supply is not a core activity for us. By the end of 2016, we decided to significantly reduce our exposure to business customers in this business, so that we are less dependent on seasonality and factors, such as unexpected weather conditions, which have significantly affected these operations in the past. To that end, starting from 2017, we have been decreasing volumes traded with our business customers. See “*Risk Factors—Risks Relating to Our Business and Industry—The results of our energy supply business are dependent on the price at which we are able to acquire electricity from third parties. Volatility in the cost of electricity may negatively impact our financial condition and results of operation.*”

## Operations

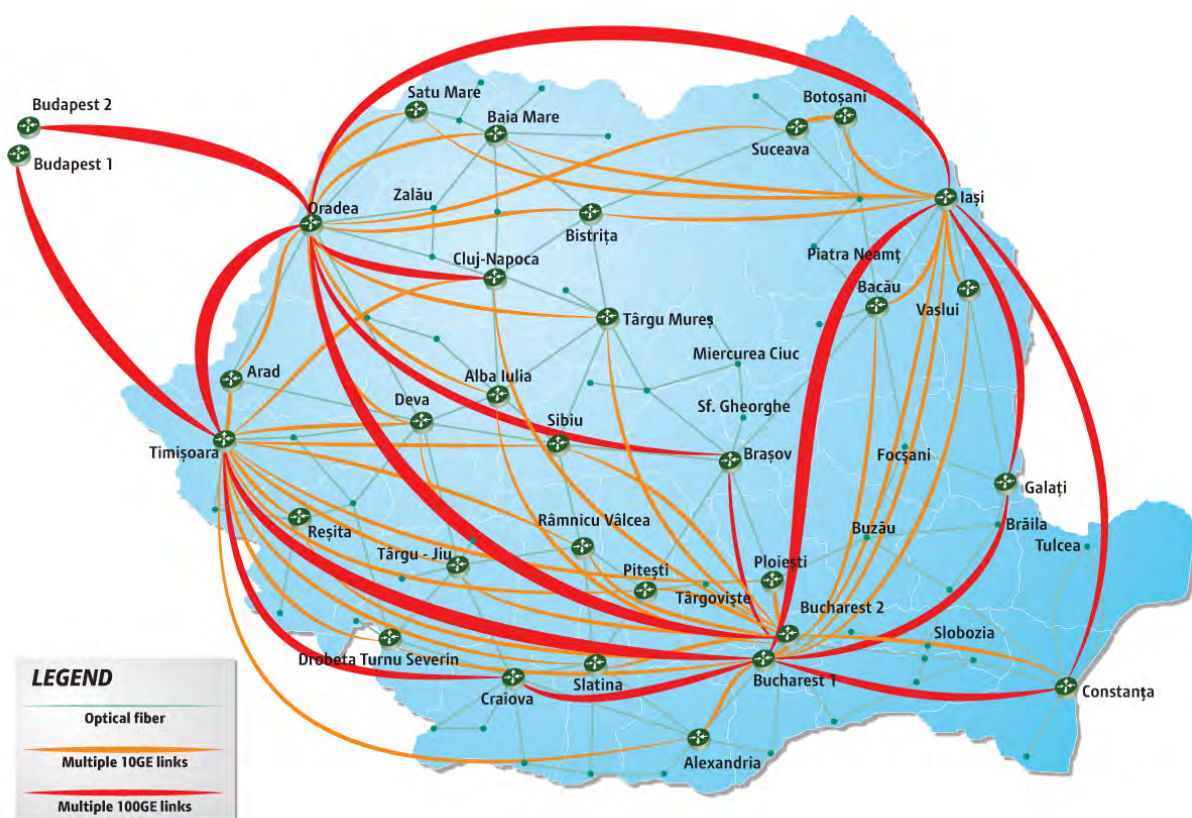
### Fixed Fiber Networks

#### Romania

In Romania, we own and operate an advanced, fully digitalized and two-way capable fixed fiber-optic network. The network architecture provides approximately 90% FTTB/FTTH coverage based on GPON or comparable technology, with the rest (located in rural areas composed primarily of single family homes) being hybrid fiber-coaxial networks, giving us the highest fiber share among similar cable operators in Europe.

We have an intercity backbone network of approximately 28,500 kilometers. Our backbone network covers, in addition to the capital city of Bucharest, all 41 county capital cities and numerous smaller cities and towns. Our fixed-fiber network in Romania passed a total of approximately 5.7 million homes as at December 31, 2018. In addition to residential customers, we service business customers in all counties and major cities of Romania. As at December 31, 2018, approximately 75% of this network was aerial, with the remaining approximately 25% underground. Most of our intercity aerial network is built along the power lines of the national electricity distribution and public transportation companies on the basis of leases. For our metropolitan networks we lease poles or underground rights of way from private or state-owned transportation companies (such as Metrorex Bucuresti S.A., the Bucharest underground operator, and certain overground municipal transportation operators in various locations of the country). Starting in 2011 (and earlier in certain towns and cities), Romanian authorities implemented a series of regulatory measures which led to a virtual prohibition on building aerial networks in certain cities on public property (in particular, in urban areas) and imposed pressure to move our existing aerial networks there. Although in recent years urban regulations were partially relaxed so as to allow above-ground infrastructure building in rural areas, this regulatory trend is continuing and may lead to forced change in network building practices, as well as to obligations to change existing network locations.

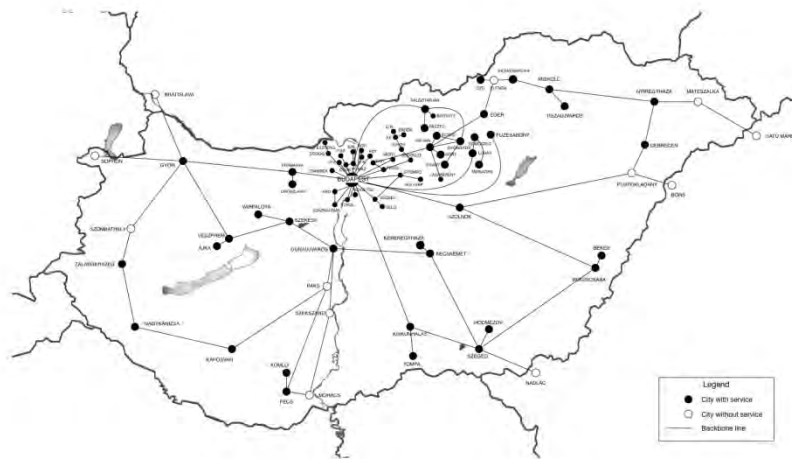
The map below sets out our fixed fiber backbone network in Romania as at December 31, 2018:



## Hungary

In Hungary our FTTB/FTTH network has similar technical capabilities to our Romanian network. Our Hungarian fixed fiber network (which currently includes Invitel's network) passes approximately 2.1 million homes. We use approximately 8,936 km of backbone fixed fiber-optic network, approximately 57% of which is owned by us, approximately 35% is subject to long-term leases and the remaining approximately 8% is subject to regular lease contracts.

The map below sets out our fixed fiber backbone in Hungary as at December 31, 2018:



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

	As at December, 31	
	2017	2018
<b>Romania</b>		
Number of homes passed (millions)	5.0	5.7
Percentage of homes covered <sup>(1)</sup>	68%	76%
<b>Hungary</b>		
Number of homes passed (millions)	1.2	2.1 <sup>(2)</sup>
Percentage of homes covered <sup>(1)</sup>	27%	48%

(1) Calculated based on the total number of households from Eurostat for Romania and [www.ksh.hu](http://www.ksh.hu) for Hungary.

(2) Includes homes covered by Invitel's network

In Romania and Hungary we continue to pursue technological improvements of our network as well as expansion of our coverage. Due to these efforts and our acquisition of Invitel, the increase in the number of homes passed as at December 31, 2018 compared with December 31, 2017 was significantly higher than in prior periods. We believe that our network provides the opportunity to market attractive fixed internet and data and fixed-line telephony services, offering significant growth opportunities in terms of subscribers and revenue with limited additional investment. Nevertheless, we plan to continue to expand our FTTB/FTTH network to areas not covered by our cable TV operations and to upgrade Invitel's network to fiber, as well as to upgrade smaller networks in Romania to FTTB/FTTH standard using GPON technology to allow higher penetration of fixed internet and data and fixed-line telephony services.

### Set-top boxes and routers

No set-top boxes are required for analog TV customers connected to our fixed networks, and we offer digital set-top boxes and standard conditional access modules ("CAM") for our digital TV customers. The first set-top box rental is included in the digital TV tariff, with additional boxes requiring a supplemental fee; though customers can also opt to purchase rather than rent the boxes. We currently source set-top boxes from Kaon, Humax, and EKT.

The set-top boxes have the ability to connect an external hard drive to record content to create a personal video recorder ("PVR") functionality, which provides customers with a more efficient setup as they are usually not willing to pay for expensive high-speed PVRs. Additionally, customers get access to our proprietary electronic program guide.



Routers that are able to offer speed of more than 900 Mbps over Ethernet and over 400 Mbps over Wi-Fi (depending on the receiving device's capability), are provided to our fixed internet and data customers. In case of technical issue, we can access rented routers, which allows remote troubleshooting.

#### *Spain*

We offer fixed line services in Spain as a reseller on the basis of a wholesale indirect access NEBA agreement with Telefónica.

### **Mobile Telecommunication Services Networks**

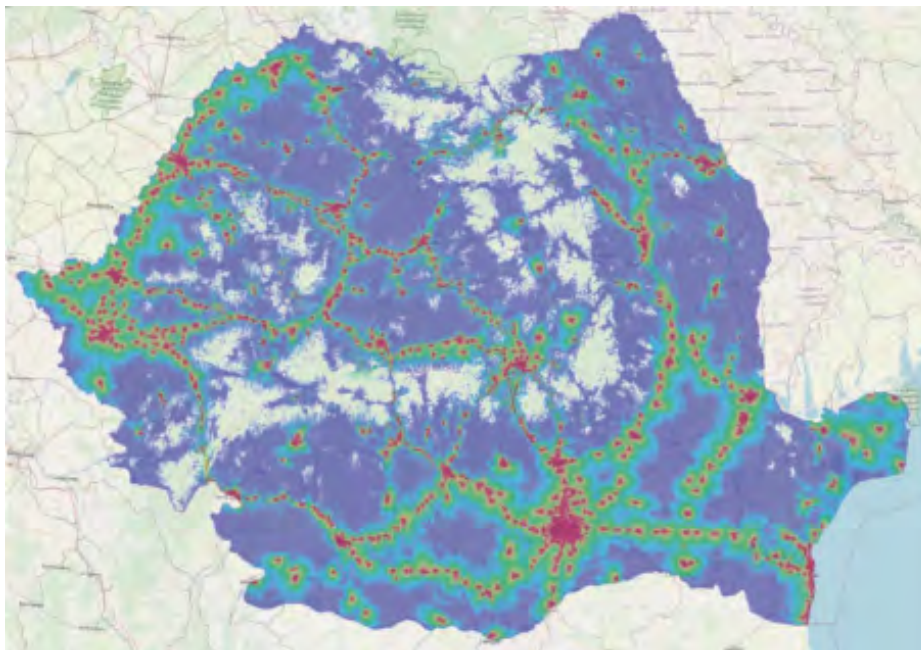
#### *Romania*

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

As at December 31, 2018, our 3G and 4G mobile telecommunication services covered approximately 99.5% (outdoor voice coverage) and 65% of the Romanian population, respectively. As at the same date, our mobile telecommunication services were provided through approximately 4,500 base stations (approximately 3,100 of which were used to provide 4G connectivity).

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

The map below sets out the territorial coverage of our own 3G and 4G mobile telecommunication network in Romania as at December 31, 2018:



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

In November 2016, we entered into a frame agreement to acquire an IP Multimedia System ("IMS") which enabled Voice over LTE ("VoLTE")/4G, Voice over WiFi ("VoWiFi") and Voice over broadband ("VoBB") on our 4G networks. The service was launched in 2017 and as at December 31, 2018, we had approximately 224,000 VoLTE users and approximately 35,000 VoWiFi users.

In December 2017, we entered into an arrangement with Ericsson to install its 5G and NB-IoT equipment on our network, in preparation for a future launch our own 5G offerings backed by IoT technologies.



## *Hungary*

In Hungary, we hold certain licenses entitling us to develop our own mobile telecommunication network and we are currently developing the network that will support our service, with a view to being in the position to launch in 2019.

### **MVNO operations in Spain and Italy**

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

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

### **Fixed-line Telephony**

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

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

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

In Spain, we offer fixed-line telephony services as a reseller on the basis of a wholesale indirect access NEBA agreement with Telefónica.

### **DTH Operations**

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

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

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

### **Satellites and transponders**

As at December 31, 2018, we use nine high-powered transponders: two on the Intelsat satellite and six on the Telenor satellite to transmit our DTH signal; and one additional transponder on the Intelsat satellite to transmit non-DTH signals. The lease agreement with Intelsat (which covers all transponders that we use) was extended in 2017 for a further five-year period. The number of television channels that can be broadcast to subscribers is dictated by the amount of transponder space available. Currently, we are using nearly all of our available transponder capacity. We also use simulcrypt agreements.

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

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

## Disaster recovery facilities

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

## Set-top boxes and encryption

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

## Distribution and Sales



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

As at December 31, 2018, we had 412 sales and collection points and a sales force of 2,673 individuals in Romania; 84 sales and collection points and a sales force of 216 individuals in Hungary; approximately 3,900 external sales and collection points in Spain and approximately 2,200 external sales and collection points in Italy.

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

## Customer Service and Retention



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

As at December 31, 2018, our customer service department in Romania consisted of 1,962 employees spread across our physical service centers and six call centers (servicing our Romanian, Spanish and Italian clients). As at the same date, our customer service department in Hungary consisted of 736 employees spread across our physical service centers and six call centers. In Spain, our customer service department consisted of 159 employees and one call center.

As at December 31, 2018, our customer service department had 1,163 call center employees, of whom 810 were based in Romania, 221 in Hungary and 132 in Spain.

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

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



## Marketing

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

and “DIGI 24” for our TV channels, “DIGI FM” for our radio channels and “DIGI Online” for our online platform.

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

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

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

### **Billing**

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

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

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

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

### **Equipment Suppliers**

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

In our fixed-line telephony business line, our main supplier is Nokia (using Alcatel switches; Alcatel is currently part of Nokia).

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

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

### **Service Suppliers**

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

Our main suppliers for global internet interconnection and IP transit services are the leading industry operators: Telia Company and NTT Communications.

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

Our supplier of DTH satellite services is Intelsat.

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

### Intellectual Property

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

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

We are generally not party to any license agreements in connection with any of the trademarks we own. As an exception, we provided licenses for the use of our trademarks by third parties as a post-closing covenant at the disposal of our subsidiaries in Croatia, Slovakia and the Czech Republic. Each such temporary arrangement was limited to the exited territory(ies), with no impact on our business in the countries where we have continued to operate. The license agreement applicable to the trademarks used in the Czech Republic is in force until April 2020, while the Croatian trademark agreement has expired. In addition, in Slovakia, we entered into a new trademark license agreement in 2016, which was subsequently extended until December 2019.

### Insurance

We maintain an insurance policy in respect of our critical communications equipment in data centres in Bucharest and certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. This insurance policy has an aggregate coverage of up to approximately €6.8 million equivalent as at December 31, 2018. We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. In Hungary, we maintain mandatory third-party liability and casual and collision insurance for our car fleet, as well as an insurance policy for our equipment. Additionally, we have liability insurance for our directors.

We consider such insurance coverage to be adequate and in accordance with customary industry practice in the markets where we operate. However, we currently do not have coverage for business interruption and loss of key management personnel and a substantial part of our assets is not insured.

### Properties

We lease most of the principal properties upon which we operate our activities. We own some of our original headquarters in Romania, as well as the premises we use as production studios for certain of our own channels. Outside Romania, we lease our principal premises. See also “—Operations—Fixed Fiber Networks—Romania,” “—Operations—Fixed Fiber Networks—Hungary” and “—Operations—Fixed Fiber Networks—Spain” for a discussion of rights related to our networks.

The following table sets out our key properties:

Country	Location	ID	Primary Function	Owned/ leased	Size (sqm)
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	owned	4,538
Romania	Bucharest	Forum 2000	Administrative, Head End, NOC, Teleport	lease-back	4,493
Romania	Bucharest	Oltenitei	Administrative, Call Center	leased	2,726
Romania	Bucharest		Administrative, Warehouse	leased	3,257
Romania	Bucharest	Panduri	TV Studios	owned	2,244
Romania	Bucharest	Panduri	TV Studios	leased	7,532
Romania	Timisoara		Administrative, Head End, NOC, TV Studios	owned	470



Country	Location	ID	Primary Function	Owned/ leased	Size (sqm)
Romania	Craiova		Administrative, HeadEnd, NOC, Call Center, TV Studios	owned	3,551
Romania	Arad		Administrative, Head End, NOC, Call Center	owned	804
Romania	Iasi		Administrative, Head End, TV Studios	owned	850
Romania	Iasi		Administrative, Head End, NOC, Call Center	owned	438
Romania	Constanta		Administrative, Head End, NOC, TV Studios	owned	1,156
Romania	Oradea		Administrative, NOC, Call Center, TV Studios	owned	3,806
Romania	Oradea		Administrative, Head End	owned	200
Romania	Brasov		Administrative, Head End, NOC, Call Center, TV Studios	owned	2,078
Romania	Brasov		Administrative	owned	588
Romania	Targu Mures		Administrative, Head End, Noc	owned	325
Romania	Galati		Administrative, Head End, NOC, TV Studios	owned	1,601
Romania	Resita		Administrative, Head End, Warehouse	owned	1,041
Romania	Slatina		Administrative, Head End	owned	743
Romania	Dr. Turnu Severin		Administrative, Head End	owned	850
Romania	Pitesti		Administrative, HeadEnd, NOC, Call Center	owned	1,308
Romania	Cluj-Napoca		TV Studios	leased	831
Romania	Cluj-Napoca		Administrative, Call Center	leased	791
Romania	Cluj-Napoca		Administrative	owned	2,164
Romania	Baia-Mare		Administrative	owned	1,415
Romania	Ramnicu Valcea		Administrative	owned	930
Romania	Timisoara		Administrative	owned	4,489
Romania	Arad		Administrative	owned	1,016
Romania	Bucharest		Administrative	owned	4,829
Hungary	Budapest		Headquarter	leased	1,235
Hungary	Budapest		Administrative	leased	779
Hungary	Budapest		Land	owned	1,955
Hungary	Budapest		Data center	owned	600
Hungary	Budapest		Land	owned	1,379
Hungary	Budapest		Administrative	owned	1,381
Hungary	Budapest		Land	owned	2,828
Hungary	Budapest		Administrative	owned	850
Hungary	Nagytarcsa		Warehouse	owned	2,000
Hungary	Nagytarcsa		Land	owned	10,146
Spain	Madrid		Administrative	leased	1,800
Spain	Madrid		Warehouse	leased	1,045
Spain	Madrid		Warehouse	leased	985
Italy	Milan		Administrative, Sales, Warehouse	leased	498
Italy	Milan		Warehouse	leased	410

## Employees

As at December 31, 2018, we had 16,918 employees. Most of our workforce consists of full-time employees. The table below sets out an overview of our employees by country:

Country	As at December 31,	
	2017	2018
Romania	11,900	13,723
Hungary	1,821	2,715
Spain	187	395
Italy	63	77
The Netherlands	5	8
<b>Total</b>	<b>13,976</b>	<b>16,918</b>

The table below sets out the allocation of our employees per department as at the dates specified:

Department	As at December 31,	
	2017	2018
Customer Service	2,457	2,857
Administrative, Purchasing, Logistics	1,686	1,899
Technical	6,665	7,862
Sales and Marketing	1,931	3,057
TV	1,237	1,243
<b>Total</b>	<b>13,976</b>	<b>16,918</b>

Our employees are not members of any trade union.

## Environmental Matters

We do not believe that our activities generally have a significant environmental impact. However, we are subject to a large number of environmental laws and regulations. These laws and regulations govern, among other things, the management and disposal of hazardous materials, air emissions and water discharge, the clean-up of contaminated sites and health and safety matters. We are also required to obtain environmental permits, licenses and/or authorizations or provide prior notification to the appropriate authorities when building parts of our network, importing electronic equipment or opening new shops. Some of our sites also store small amounts of diesel fuel for back-up power generator use and/or have a history of previous commercial operations. As a result of these activities or operations at our sites, we could incur significant costs, including fines, penalties and other sanctions, clean-up costs and third-party claims for property damage or personal injuries, as a result of violations of or liabilities under environmental laws and regulations. See *“Risk Factors—Risks Relating to Legal and Regulatory Matters and Litigation—Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial fines, additional compliance costs or various sanctions or court judgments.”* We believe that the principal environmental considerations arising from our operations also include the potential for electromagnetic pollution. We use various network infrastructure strategies in order to achieve radiation emission ranges that are lower than the maximum levels permitted by applicable Romanian regulations. Where requested under the relevant planning certificates, we have also obtained or are in the process of obtaining certificates from the public health authorities of each county where we install mobile telecommunication base stations that we are complying with accepted electromagnetic radiation standards in our mobile telecommunication activity.

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

## Litigation and Legal Proceedings

For details regarding Litigation and Legal Proceedings please see Note 26 from the Annual Consolidated Financial Statements for the year ended 31 December 2018 included in this Annual report.

# Financial Results



339 970  
56 969  
817  
58  
6

373 967  
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1 296 731  
1 859 317  
2 499 808  
3 227 076  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of the Group should be read in conjunction with the consolidated financial statements of the Group as of December 31, 2018.

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

### Overview

We are a European leader in geographically-focused telecommunication solutions, based on the number of RGUs (*Sources: Group and peer reporting*). We are a leading provider of telecommunication services in our core Romanian and Hungarian markets and are also active in Spain and, to a lesser extent, Italy.

- ▶ Romania. Our offerings in Romania include cable TV, fixed internet and data, mobile telecommunication services, fixed-line telephony and DTH. Our technologically-advanced fixed fiber-optic network covered 76% of households as at December 31, 2018, according to our estimates. We also operate a technologically-advanced mobile network, which shares the backbone of our fixed infrastructure. In addition, Romania is entirely within the footprint of our DTH signal.
- ▶ Hungary. We provide cable TV, fixed internet and data, fixed-line telephony and DTH services in Hungary. Our fixed telecommunication and entertainment products are offered through a technologically-advanced fixed fiber-optic network (excluding the recently acquired Invitel's network, which we are currently upgrading to fiber), which covered 48% of households as at December 31, 2018 (Source: Hungarian Central Statistical Office). In addition, we are in the advanced stage of our own mobile network's development and currently expect to launch our services in 2019. The country is entirely within the footprint of our DTH signal.
- ▶ Spain. We provide mobile telecommunication services as an MVNO through the mobile network of Telefónica, primarily to the large local Romanian community. Following its launch, we now also offer fixed internet and data and fixed-line telephony services as a reseller through Telefónica's fixed line network.
- ▶ Italy. We provide mobile telecommunication services as an MVNO through the mobile network of TIM, primarily to the large local Romanian community.

For the year ended December 31, 2018, we had revenue (excluding intersegment revenue, other income and gain/(loss) from sale of discontinued operations) of €1,038.1 million, net profit of €18.0 million and Adjusted EBITDA of €324.6 million.

### Recent Developments

#### *Trading update*

For 2019, we expect our RGUs to increase, primarily as a result of growth in our cable TV in Romania, fixed internet and data services in Romania and Spain and in our mobile telecommunication services in Spain.

We expect our capital expenditures in the year end December 31, 2019 to be moderate.

We have made a decision to increase prices to Romanian customers by, on average, approximately 5.0% and to our Hungarian customers by, on average, approximately 4.3%, in both cases effective March 1, 2019.

#### *Financial arrangements*

On 12 February 2019 the Company issued additional EUR 200.0 million senior secured notes due 2023. The proceeds of the Offering were used to partially prepay the 2018 and 2016 Senior Facilities. For details please see "*Financial Obligations*" from this chapter.



On February 11, 2019, Digi Spain entered into a leasing contract with Caixa for equipments in total amount of up to 1,2 million € for a 24 months maturity and a leasing contract with Caixa as well, for vehicles in total amount of 0,3 million € for a 36 months maturity.

#### ***Share buy-backs and conversion***

From December 31, 2018 until the date of this report we have purchased an aggregate number of 12,632 Class B shares of the Company on the market.

On January 14, 2019, we converted 1.2 million Class A shares of the Company that were held as treasury shares by the Company into an equal number of Class B shares.

The repurchased and converted Class B shares will be used for the purposes of the Stock Option Plans.

#### ***Romanian emergency legislation***

On December 29, 2018, the Romanian Government issued the emergency ordinance GEO 114/2018 (the "December Ordinance"). The December Ordinance became effective on January 1, 2019 and introduced certain measures that may have a significant impact on various sectors of the Romanian economy, including telecommunication and energy companies. In particular, it (i) increased ANCOM's annual monitoring fee to 3.0% of total turnover of a telecommunications operator for the preceding year; (ii) increased ANRE's annual fee to 2.0% of total turnover of an energy company for the preceding year generated by licensed electricity-related activities; (iii) conditioned any extension of an existing mobile communication license on the payment of a fee equivalent to 4.0% of the total turnover of Romania's mobile telephony market for the year preceding the requested extension date, multiplied by the number of years for which the extension is requested (which will be applicable, for example, to our 2,100 MHz license that is up for renewal in 2022; (iv) conditioned any issuance of new mobile communication licenses on the payment of fees equivalent to 2.0% or 4.0% (depending on the frequency band for which the license is requested) of the total turnover of Romania's mobile telephony market for the year preceding the issuance date, multiplied by the number of years for which the new license is requested; and (v) significantly increased penalties for breaches of applicable regulations. While the parts of the December Ordinance establishing increased penalties are somewhat unclear as to exact methods of calculation, it provides for fines of up to 10% of a company's turnover in the year prior to the decision to impose such penalties. Although we are closely monitoring the developments relating to the December Ordinance (including market reaction), the exact impact thereof on our business is currently difficult to estimate. We believe that, should there be any negative impact on our business, it may be mitigated, in part and among other things, by our recent decision to increase prices to our Romanian and Hungarian customers.

#### ***Litigations and other proceedings***

For details regarding our current litigations please see *Note 26 from the Consolidated Financial Statements as at December 31, 2018*.

#### ***Changes in our senior management team***

On February 5, 2019, Mr. Ioan Bendei resigned from his position as a director of RCS & RDS S.A.. Mr. Bendei will continue to serve as a director of certain non-material subsidiaries of the Group (including Integrasoft S.R.L.) until we find suitable replacements and relevant formalities are complied with. Also on February 5, 2019, Mr. Dan Ionita was appointed the interim director of the Company.

#### **Presentation of Revenue and Operating Expenses**

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

The revenue for each of our geographic segments (excluding intersegment revenue, other income and gain from sale of discontinued operations) for the years ended December 31, 2017 and 2018 was as follows:

	For the year ended December 31,	
	2017	2018
	(€millions)	
Romania	655.2	697.8
Hungary	150.4	190.9
Spain	92.7	126.6
Other <sup>(1)</sup>	18.3	22.8
<b>Total revenue</b>	<b>916.6</b>	<b>1,038.1</b>

(1) Includes revenue from operations in Italy.

The operating expenses for each of our geographic segments (excluding intersegment operating expenses, but including depreciation, amortization and impairment) for the years ended December 31, 2017 and 2018 were as follows:

	For the year ended December 31,	
	2017	2018
	(€millions)	
Romania	429.6	440.4
Hungary	110.7	151.9
Spain	66.1	94.9
Other <sup>(1)</sup>	22.8	26.4
Depreciation, amortization and impairment of tangible and intangible assets	171.8	211.5
<b>Total operating expenses</b>	<b>800.8</b>	<b>925.0</b>

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

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

### Revenue and Expenses structure of our principal lines of business

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

#### Cable TV

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

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

programming agreements for third-party channels link programming fees paid to content owners to the number of our subscribers in the relevant territory.

### Fixed internet and data

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

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

### Mobile telecommunication services

The revenue that we receive for mobile telephony services in Romania consists of flat-rate monthly subscription fees, per-minute telephone charges and, to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers, as well as charges for text and video messages to, or from, third party numbers. The revenue that we receive for mobile internet and data services in Romania consists principally of flat-rate monthly subscription fees.

In Spain and Italy, we generate revenue from mobile telephony services and mobile internet and data via sale of pre-paid packages as an MVNO. Such revenue consists of pre-paid telephone, text and video charges and, to a lesser extent, interconnection fees that we receive from other service providers whose customers call our customers. We also re-sell mobile internet and data services through Telenor’s network in Hungary under our DIGI brand. This revenue is insignificant and we are preparing to launch our own mobile network in the country in 2019.

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

Mobile telephony interconnection fees	For the year ended December 31,	
	2017	2018
	(eurocents/minute)	
Romania	0.96	0.84
Spain	1.09	0.70 <sup>(1)</sup>
Italy	0.98	0.98

(1) Starting from January 2019, the interconnection fees in Spain decreased to 0.67 eurocents/minute.

Our expenses also include rental of sites necessary for the operation of our mobile network in Romania, energy consumed by the network, personnel expenses and related expenses of our maintenance and customer service staff, radio spectrum fees payable to communications authorities in Romania and Hungary (where we have acquired licenses that authorize us to develop a mobile network), service carry fees that we pay to TME in Spain and, in Italy, to TIM.

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

### Fixed-line telephony

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

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

## DTH

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

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

## Other operations

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

We have also invested in certain solar energy generating facilities to meet our electricity needs and operate an electricity supply business, by which we acquire electricity and sell to our customers (residential and business) on the Romanian wholesale trading platforms. By the end of 2016, we decided to significantly reduce our exposure to business customers in the electricity supply business, so that we are less dependent on seasonality and factors, such as unexpected weather conditions, which have significantly affected these operations in the past. To that end, starting from 2017, we have been decreasing volumes traded with our business customers. As at the date of this report, we do not have significant exposure to such operations.

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

## Trends and Other Key Factors Impacting Our Results of Operations

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

### General economic environment in our key markets

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

Some of the markets in which we operate were materially and adversely impacted by the most recent global economic crisis and sovereign debt crisis in Europe. However, after a few years of recovery, the core markets in which we operate have shown significant economic growth. In particular, Romania, which accounted for 67% of our consolidated revenue for the year ended December 31, 2018 had one of the highest real gross domestic product (“GDP”) growth rates, according to Eurostat.

The effect of the last global economic downturn on our business was primarily related to the impact of the depreciation of our main functional currencies in relation to the euro, our presentation currency. However, in the periods under review the exchange rates of the euro to both the Romanian leu and the Hungarian forint have been largely stable. Our exposure to the U.S. dollar is limited. See “—Exchange Rates” and “—Quantitative and Qualitative Disclosures About Market Risks—Currency Risk.”

Another negative effect of the last global downturn was a number of distress taxes and other governmental measures aimed at curtailing the economic turmoil and compensating for the decrease in revenue to state budgets in the jurisdictions where we operate. In Romania, a series of special taxes were introduced in 2014, of which only the tax on special construction assets (including telecommunication networks) was in effect in 2016 at the rate of 1% of gross book value of relevant assets. This tax was discontinued in January 2017.

In Hungary, special infrastructure, financial transactions, and certain other taxes applicable to us were introduced in 2012, amounted to approximately 2% of our revenue in both 2016 and 2017 from Hungarian operations. VAT decreased in Romania from 20% to 19% from January 2017. In Hungary VAT for internet services decreased from 27% to 18% from January 2017 and from 18% to 5% from January 2018.



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

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

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

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

Our EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin for the years ended December 31, 2017 and 2018:

	For the year ended December 31,	
	2017	2018
	(€millions, unless otherwise stated)	
<b>Revenue<sup>(1)</sup></b>	<b>916.6</b>	<b>1,038.1</b>
Operating profit	115.4	102.0
Depreciation, amortization and impairment	171.8	211.5
<b>EBITDA<sup>(2)</sup></b>	<b>287.2</b>	<b>313.5</b>
(Gain from sale of discontinued operations)	-	-
(Other income) <sup>(3)</sup>	(2.5)	(8.9)
Other expenses <sup>(4)</sup>	2.8	20.0
<b>Adjusted EBITDA</b>	<b>287.5</b>	<b>324.6</b>
<b>Adjusted EBITDA Margin (%)</b>	<b>31.4%</b>	<b>31.3%</b>

(1) Excludes intersegment revenue.

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

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

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

The change in our Adjusted EBITDA and Adjusted EBITDA Margin from €287.5 million and 31.4%, respectively, for the year ended December 31, 2017 to €324.6 million and 31.3% respectively, for the year ended December 31, 2018 was primarily due to the rapid development of our mobile business line in Romania and the stable contribution and steady growth of the fixed services. This resulted in a decrease in our operating profit from €115.4 million for the year ended December 31, 2017 to €102.0 million for the year ended December 31, 2018 primarily due to increase of other expenses, triggered by the non-cash expense related to the Stock Option Plans.

## Technical capabilities and limitations of our networks

### Fixed offerings

We offer cable TV, fixed internet and data and fixed-line telephony through our fiber optic networks in Romania and Hungary, which covered approximately 76% and 48% of households in those countries as at December 31, 2018 (*Sources: Group reporting; Hungarian Central Statistical Office*). Our ability to expand our reach, attract new customers and migrate existing customers to higher levels of service depends on the capabilities and limitations of these networks. In the periods under review, we have continued to pursue a network expansion

strategy and have also focused on upgrading our networks in principal coverage areas to GPON or comparable technology. As of the date hereof we have completed an upgrade of more than 90% of our networks (excluding Invitel's networks) and are currently able to offer communication speeds of up to 1Gbps in both countries, higher than any competing product. As a result of those upgrades, we anticipate that our own fixed fiber-optic network in both countries (excluding Invitel's networks) will require relatively low maintenance capital expenditure over the near and medium term. We believe that growth from cable TV, fixed internet and data and fixed-line telephony services will principally come from increasing penetration in the areas that we already cover, expanding our fixed fiber-optic networks to areas not currently covered, cross-selling services to existing customers and migrating our existing customers to higher levels of service. Also, on May 30, 2018, we acquired Invitel in Hungary and we may continue to make acquisitions in the future if attractive opportunities arise and adequate financing is available. See “—*Acquisitions and disposals*” below. Such growth by acquisition would contribute to increases in our number of RGUs.

In addition to our fixed line operations in the core markets of Romania and Hungary, in September 2018, we launched fixed internet and data and fixed-line telephony services in Spain as a reseller on the basis of a wholesale indirect access new broadband Ethernet service (“**NEBA**,” *Nuevo Servicio Ethernet de Banda Ancha*) agreement with Telefónica through their local FTTH GPON network. We originally launched the service to customers from the Community of Madrid. In February 2019 we have launched the service in four other areas: Guadalajara, Castellon, Almeria and Zaragoza. We expect to expand the offering to other provinces of Spain in the future and therefore continue growing our RGU numbers.

## Mobile offerings

### *Romania*

We launched 3G mobile telephony offerings in Romania based on a 2,100 MHz license in 2007. Unlike some of our competitors in the mobile telecommunication services business, our mobile network generally shares the backbone of our existing advanced fixed fiber optic network. To further enhance our 3G capabilities we acquired a 900 MHz license in 2012 (with an entitlement to exploit its benefits starting from 2014) and have continued to gradually expand the area covered by our 3G services in order to reach more potential subscribers and meet the coverage obligations under our 3G licenses. As at December 31, 2018, we had approximately 4,500 mobile network base stations covering approximately 99.5% (outdoor voice coverage) of the country's population. In 2015, we acquired a 2,600 MHz license and a 3,700 MHz license and launched a 4G mobile offering in Romania. 4G coverage is available through our existing mobile network in the country's most populous cities and along major roads to satisfy our customers who use the latest mobile devices. 4G is offered in parallel with our 3G coverage. As at December 31, 2018, we had approximately 3,100 4G base stations and our 4G offering covered approximately 65% of the country's population. We intend to continue the roll-out of our mobile networks in Romania.

### *Hungary*

We currently hold a 1,800 MHz mobile telephony license and a 3,800 MHz mobile telephony license in Hungary. These licenses entitle us to develop our own 4G mobile network in the country and we are currently developing the network that will support our service, with a view to being in a position to launch it in 2019. The mobile network that we develop in Hungary is based on our existing fixed fiber-optic network in that country, which would allow us to capitalize on resulting synergies.

### *Spain and Italy*

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

## DTH

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

## Exchange rates

### *Conversion into euros for presentation in the Financial Statements*

Our operating subsidiaries in Romania and Hungary generate revenue and record their financial results in the Romanian leu and the Hungarian forint, respectively. However, our consolidated financial results are reported in euros. See “—*Basis of Financial Presentation—Functional Currencies and Presentation Currency.*” Therefore, a significant depreciation of one of our functional currencies in relation to the euro could significantly reduce our financial results as reported in euros and could have a significant negative impact on our financial position and cash flows. See “*Risk Factors—We are subject to currency translation risks associated with exchange rate fluctuations.*”

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

In addition, we have significant exposure to the euro as a significant portion of our outstanding financial debt is denominated in that currency, and we also have certain limited exposure to the U.S. dollar, in which we purchase certain content for our cable TV and DTH businesses and certain CPE. As at December 31, 2018, we had €489.9 million of obligations denominated in euros and US\$68.1 million of obligations denominated in U.S. dollars, (2017: €421.0 million and US\$70.2 million). See “—*Liquidity and Capital Resources—Financial Obligations.*” Our euro exposure is partially mitigated by euro-denominated revenue from our MVNO operations in Spain and Italy, which, together with revenue collected in local functional currencies, but denominated in euros, accounted for 37.6% of our total revenue for the year ended December 31, 2018. See “*Business Description—Mobile Telecommunication Services (voice and data)—MVNO operations in Spain and Italy.*” However, we still pay a significant portion of our euro- and U.S. dollar-denominated expenses out of revenue generated in our principal functional currencies. See “*Risk Factors—We are subject to transactional currency risks associated with exchange rate fluctuations.*”

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

In the periods under review the Romanian leu and the Hungarian forint have remained stable relative to the euro, with declines of approximately 1.7% and approximately 3.1%, respectively. Our obligations denominated in U.S. dollars are significantly smaller, so the appreciation of the U.S. dollar did not have a major effect on the Group. See “—*Quantitative and Qualitative Disclosures About Market Risks—Currency Risk.*”

The following table sets out, where applicable, the period end and average exchange rates for the years ended December 31, 2017 and 2018 of the euro against each of our principal functional currencies and the U.S. dollar:

Value of one euro in the relevant currency	As at and for the year ended December 31,	
	2017	2018
<b>Romanian leu (RON)<sup>(1)</sup></b>		
Period end rate	4.66	4.66
Average rate	4.57	4.65
<b>Hungarian forint (HUF)<sup>(2)</sup></b>		
Period end rate	310.14	321.51
Average rate	309.30	318.83
<b>U.S. dollar (USD)<sup>(1)</sup></b>		
Period end rate	1.20	1.15
Average rate	1.13	1.18

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

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

In the year ended December 31, 2018, we had a net foreign exchange loss of €4.7 million (year ended December 31, 2017: net loss of €4.3 million). In each of those periods, our net foreign exchange loss was primarily due to the depreciation of the leu against the euro and the U.S. dollar. See “—*Liquidity and Capital Resources—Financial Obligations.*” Borrowings in foreign currencies are recorded in the functional currency of the relevant entity at the rate of exchange prevailing on the date of the transaction and re-evaluated to reflect changes in the exchange rate each month.

### Competition

Our results of operations are affected by competition, as we operate in intensely competitive industries and compete with a growing number of companies that provide a broad range of communications products and services and entertainment, news and information content to consumers. See “*Risk Factors—We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenue and profitability.*”

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

### Growth in business, RGUs and ARPU

Our revenue is most directly a function of the number of our RGUs and ARPU. Neither of these terms is a measure of financial performance under IFRS, nor have these measures been reviewed by an outside auditor, consultant or expert. Each of these measures is derived from management estimates. As defined by our management, these terms may not be comparable to similar terms used by other companies. We use RGU to designate a subscriber account of a customer in relation to one of our services. RGUs are measured at the end of the relevant period. As our definition of RGU is different for our different business lines, you should use caution when trying to compare RGUs and ARPU between our business lines. We calculate ARPU in a business line, geographic segment or the Group as a whole, for a period by dividing the total revenue of such business line, geographic segment or the Group, for such period, (a) if such period is a calendar month, by the total number of relevant RGUs invoiced for services in that calendar month; or (b) if such period is longer than a calendar month, by (i) the average number of relevant RGUs invoiced for services in that period and (ii) the number of calendar months in that period. In our ARPU calculations we do not differentiate between various types of subscription packages or the number and nature of services an individual customer subscribes for. ARPU is a measure we use to evaluate how effectively we are realising potential revenues from customers.

Our total RGU base has grown from 13.3 million RGUs as at December 31, 2017 to 14.9 million RGUs as at December 31, 2018, representing an increase of 12%.

The increase in RGUs during that period was principally due to the increase in mobile customers, the expansion of our fixed fiber-optic network coverage and increased penetration in areas already covered and cross-selling, as well as RGUs contributed through the acquisition of Invitel. Growth in RGUs is the primary driver of growth in revenue and is dependent on further network development, capitalizing on existing customer relations by cross-selling and investments made for subscriber acquisition. These investments consist of CPE (such as GPON terminals, set-top boxes, mobile data devices and fixed-line phone handsets, satellite dishes and satellite receivers, and smartcards), as well as expenses related to the network’s development, upgrades and installation.



The following table shows our RGUs and monthly ARPU by geographic segment and business line as at and for the years ended December 31, 2017 and 2018:

	As at and for the three months ended December 31,		As at and for the year ended December 31,	
	2017	2018	2017	2018
	(RGUs: thousands; ARPU: €period)		(RGUs: thousands; ARPU: €period)	
RGUs/ARPU				
Group				
RGUs	13,273	14,926	13,273	14,926
ARPU	5.4	5.5	5.3	5.4
Romania				
Cable TV				
RGUs	3,030	3,305	3,030	3,305
ARPU	5.2	4.9	5.2	5.0
Fixed internet and data				
RGUs				
Residential	2,144	2,370	2,144	2,370
Business	140	158	140	158
ARPU				
Residential	5.0	4.7	5.0	4.8
Business	29.4	27.0	31.9	28.0
Mobile telecommunication services <sup>(1)</sup>				
RGUs	3,391	3,406	3,391	3,406
ARPU	4.3	4.7	4.1	4.4
Fixed-line telephony				
RGUs				
Residential	1,128	1,055	1,128	1,055
Business	132	133	132	133
ARPU				
Residential	1.3	1.3	1.3	1.3
Business	3.5	3.4	3.5	3.3
DTH				
RGUs	593	529	593	529
ARPU	4.9	4.8	4.9	4.8
Hungary <sup>(5)</sup>				
Cable TV				
RGUs	500	689	500	689
ARPU	8.3	8.4	8.2	8.3
Fixed internet and data				
RGUs	467	747	467	747
ARPU	7.5	7.8	7.6	7.6
Mobile telecommunication services <sup>(2)</sup>				
RGUs	12	15	12	15
ARPU	6.9	5.3	7.1	5.9
Fixed-line telephony				
RGUs	379	694	379	694
ARPU	1.2	2.8	1.4	2.4
DTH				
RGUs	291	276	291	276
ARPU	9.2	9.0	9.2	9.1

	As at and for the three months ended December 31,		As at and for the year ended December 31,	
	2017	2018	2017	2018
	(RGUs: thousands; ARPU: €period)		(RGUs: thousands; ARPU: €period)	
Spain				
Fixed internet and data				
RGUs	-	8	-	8
ARPU	-	20.8	-	20.8
Mobile telecommunication services <sup>(1) (3)</sup>				
RGUs	896	1,343	896	1,343
ARPU	10.1	9.5	10.5	9.4
Fixed-line telephony				
RGUs	-	3	-	3
ARPU	-	4.2	-	4.2
Other <sup>(4)</sup>				
Mobile telecommunication services <sup>(1) (3)</sup>				
RGUs	170	195	170	195
ARPU	10.6	9.4	10.6	9.6

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

(2) Includes mobile internet and data services offered as a reseller through the Telenor network under our "Digi" brand.

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

(4) Includes Italy.

(5) For the three months and the year ended December 31, 2018, RGUs and ARPUs for Hungary include the consolidated RGUs and ARPUs for Digi Hungary and Invitel

Our total revenue may not always grow in direct proportion with the increase in our RGUs. In part, these variations reflect the fact that ARPU differs from business line to business line. We try to increase profitability in each business line by careful management of expenses through negotiation of content fees, interconnection costs and similar expenses, use of newer technologies for improved results of operations and, where possible, by conducting certain operations and investment related activities in-house to achieve cost efficiencies. In all our business lines we have focused, and continue to focus, on increasing the number of RGUs by acquiring new customers and by cross-selling more services to our existing customers while maintaining our Adjusted EBITDA Margin. Our approach reflects the relatively wide range of our business and our ability to offer multiple services to our customer base. For example, as at December 31, 2018, each of our residential customers in Romania (excluding DTH customers) subscribed to an average of 2.3 services (as compared with an average of 2.3 as at December 31, 2017).

The following table shows the evolution of our total RGUs by business line for 2017 and 2018:

	As at December 31,	
	2017	2018 <sup>(1)</sup>
	(thousands)	
Cable TV	3,530	3,994
Fixed internet and data	2,751	3,283
Mobile telecommunication services	4,469	4,959
Fixed-line telephony	1,639	1,885
DTH	884	805
<b>Total</b>	<b>13,273</b>	<b>14,926</b>

(1) RGUs for Hungary include Invitel's RGUs.

### Depreciation, amortization and impairment of assets

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

The following table shows the evolution of our depreciation, amortization and impairment of assets expenses for the years ended December 31, 2017 and 2018:

	For the year ended December 31,	
	2017	2018
	(€millions)	
Depreciation of property, plant and equipment	96.0	125.0
Amortization of non-current intangible assets	31.6	43.1
Amortization of programme assets	41.6	40.7
Impairment of property, plant and equipment and non-current intangible assets	2.6	2.6
Revaluation impact <sup>(1)</sup>	-	-
<b>Total</b>	<b>171.8</b>	<b>211.5</b>

### Changes to our estimated useful lives

The Company depreciates its property, plant and equipment and amortizes its intangible assets on a straight-line basis using estimated useful lives. Under IFRS, the Company is required to reassess these estimated useful lives at least at each financial year-end.

Please see “*Depreciation of property, plant and equipment*” and “*Amortization of intangible assets*” from below.

As at 31 December 2018, management completed its annual review of the estimated useful lives of property, plant and equipment and useful lives were considered adequate for the type of asset and pattern of use.

### Churn

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

- *Cross-selling.* We believe that customers who subscribe to multiple services are less likely to leave our services. In Romania, our average number of services per residential customer was 2.3 (excluding DTH) and the percentage of customers using more than one service was approximately 74% as at December 31, 2018. In Hungary, our average number of services per network customer was 2.3 (excluding DTH) and the percentage of customers using more than one service was approximately 78% as at the same date.
- *Quality of offerings and pricing.* Our attractive pricing and relatively advanced technology compared to our competitors in Romania and Hungary and our premium content offerings often make it unattractive to replace our services with those offered by our competitors.

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

### Capital expenditure

Historically, we have pursued an ambitious growth strategy that required us to undertake substantial capital expenditure. The primary focus of our investment spending over the periods under review has been (i) the upgrade and expansion of our fixed fiber optic network in Romania and Hungary; (ii) the expansion of our 3G&4G mobile network in Romania and the building of a 4G mobile network in Hungary; (iii) continuous acquisitions of sports and films rights; (iv) the expansion of our MVNO services in Spain and Italy; and (v) subscriber acquisition costs in all our business lines. Consequently, our capital expenditures have been significant. In the year ended December 31, 2018, we had capital expenditure of €279.3 million, which was lower than our Adjusted EBITDA by €45.3 million and represented 26.9% of our revenue for this period. In the year ended December 31, 2017, we had capital expenditure of €243.2 million, which was lower than our Adjusted EBITDA by €44.3 million and represented 26.5% of our revenue for this period.

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

- further expansion of our fixed fiber optic networks in Romania and Hungary;
- further development of our mobile network in Romania and Hungary as permitted by our existing licenses;
- payments for the acquisition of television content rights and licenses;
- the acquisition of CPE, including certain network equipment such as ONT terminals (which may not generally be treated as CPE by other members of our industry), and other equipment such as set-top boxes, satellite dishes, satellite receivers and smartcards; and
- payments under telecommunication licenses.

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

### **Payments to third-party service and content providers**

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

We carry both our own channels and channels produced by third-parties over our DTH and cable TV services. Fees paid for channels produced by third parties consist primarily of per subscriber fees and are accounted for as operating expenses. Fees paid for content carried on our own channels is accounted for as capital expenditure and consist primarily of flat fees for the right to broadcast the relevant content. We believe that our large market share in cable TV and DTH services in Romania and Hungary places us in a strong position when negotiating for the acquisition of sports and film content for our own channels.

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

Our current contract with Intelsat has been renewed to operate until 30 November 2022. As at December 31, 2018, under the agreement with Intelsat, we leased 9 transponders to transmit our DTH signal (and used an additional transponder for transmitting non-DTH signals). The contract allows us to further reduce the number of dedicated transponders.

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

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

### **Acquisitions and disposals**

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").



Invitel Távközlési Zrt is one of Hungary's telecommunication services provider. Invitel offers entertainment and multimedia, digital and HD television, broadband internet and telephone services in different villages and townships and the served areas include nearly 1.1 million households.

The transaction was closed on 30 May 2018 for a total consideration of approximately 135.4 million EUR, after receiving the approval from the Hungarian Competition Authority ("**Initial Decision**"). The acquisition was primarily financed with funds drawn under the 2018 Senior Facilities Agreement. 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. On November 14, 2018, the GVH withdrew its approval of our acquisition of Invitel. However, the GVH's withdrawal of its original approval did not undermine our ownership of Invitel pending the GVH's further decision, which it has specifically confirmed. See "Business—Litigation and Legal Proceedings—Further investigation by the GVH of our acquisition of Invitel."

Invitel's results are consolidated into the results of the Group from June 1, 2018. For the period from June 1, 2018 until December 31, 2018, Invitel contributed €45.4 million, or 4.4%, of our revenue for the twelve months ended December 31, 2018, and increased our RGUs in Hungary by 30.0%.

At the same time, operating expenses relating to managing Invitel's business, excluding depreciation and amortization, contributed €28.5 million, or 3.9%, of our operating expenses for the twelve months ended December 31, 2018. We also recorded €2.5 million of one-off costs in relation to this acquisition.

This transaction allows Digi Group to consolidate its position on the Hungarian telecommunications market, to expand its customer reach and experience, as well as to create better operational synergies.

During the periods under review we also acquired a number of small telecommunication operators in Romania and Hungary. See "*Liquidity and Capital Resources—Historical cash flows—Cash flows used in investing activities.*"

## Historical Results of Operations

### Results of operations for the years ended December 31, 2017 and 2018.

#### Revenue

Our revenue (excluding intersegment revenue, other income and gain from sale of discontinued operations) for the year ended December 31, 2018 was €1,038.1 million, compared with €916.6 million for the year ended December 31, 2017, an increase of 13.3%. Had Invitel's revenue not been consolidated into the Group's total revenue from June 1, 2018, our revenue (excluding intersegment revenue and other income) for the twelve months ended December 31, 2018 would have been €92.7 million, compared with €92.7 million for the twelve months ended December 31, 2017, an increase of 8.3%.

The following table shows the distribution of revenue by geographic segment and business line for the years ended December 31, 2017 and 2018:

	For the year ended December 31,		% change
	2017	2018 <sup>(6)</sup>	2017 v 2018
	(€millions)		
<b>Romania</b>			
Cable TV	182.4	189.9	4.1%
Fixed internet and data	171.6	179.7	4.7%
Mobile telecommunication services <sup>(2)</sup>	164.2	180.2	9.7%
Fixed-line telephony	23.4	21.9	-6.4%
DTH	36.1	32.6	-9.7%
Other revenue <sup>(1)</sup>	77.6	93.5	20.5%
<b>Total</b>	<b>655.2</b>	<b>697.8</b>	<b>6.5%</b>
<b>Hungary</b>			
Cable TV	47.7	60.5	26.8%
Fixed internet and data	40.8	57.5	40.9%
Mobile telecommunication services <sup>(3)</sup>	1.1	1.0	-9.1%
Fixed-line telephony	6.3	16.7	165.1%
DTH	33.5	31.7	-5.4%
Other revenue <sup>(1)</sup>	21.1	23.5	11.4%
<b>Total</b>	<b>150.4</b>	<b>190.9</b>	<b>26.9%</b>
<b>Spain</b>			
Fixed internet and data	-	0.3	-
Mobile telecommunication services <sup>(2)(4)</sup>	92.5	126.1	36.3%
Fixed-line telephony	-	0.0	-
Other revenue <sup>(1)</sup>	0.2	0.1	-50.0%
<b>Total</b>	<b>92.7</b>	<b>126.6</b>	<b>36.6%</b>
<b>Other<sup>(5)</sup></b>			
Mobile telecommunication services <sup>(2)(4)</sup>	18.2	22.7	24.7%
Other revenue <sup>(1)</sup>	0.1	0.1	0.0%
<b>Total</b>	<b>18.3</b>	<b>22.8</b>	<b>24.6%</b>
<b>Total revenue</b>	<b>916.6</b>	<b>1,038.1</b>	<b>13.3%</b>

(1) Includes sales of CPE (primarily mobile handsets and satellite signal receivers and decoders), own content to other operators, advertising revenue from own TV and radio channels and sundry penalties invoiced to subscribers, as the case may be.

(2) Includes mobile telephony and mobile internet and data revenue.

(3) Represents mobile internet and data revenue generated as a reseller through Telenor's local network.

(4) Represents mobile telephony and internet and data revenue from our MVNO operations.

(5) Includes revenue from operations in Italy.

(6) Invitel's results are consolidated into the Group's results from June 1, 2018.

**Revenue in Romania** for the year ended December 31, 2018 was €697.8 million, compared with €655.2 million for the year ended December 31, 2017, an increase of 6.5%. Revenue growth in Romania was primarily driven by an increase in our cable TV and fixed internet and data RGUs and an increase in our mobile telecommunication services ARPU. Our cable TV RGUs increased from approximately 3.03 million as at December 31, 2017 to approximately 3.31 million as at December 31, 2018, an increase of approximately 9.1%.

and our fixed internet and data RGUs increased from approximately 2.28 million as at December 31, 2017 to approximately 2.53 million as at December 31, 2018, an increase of approximately 10.7%. These increases were primarily due to our investments in expanding of our fixed fiber-optic network and to our attractive fixed internet and data packages. Mobile telecommunication services RGUs increased slightly from approximately 3.39 million as at December 31, 2017 to approximately 3.41 million as at December 31, 2018, an increase of approximately 0.4%, mainly as a result of the change in the handset offering, as well as mobile internet sticks, sales of which are generally decreasing. ARPU from mobile telecommunication services also increased in the year ended December 31, 2018 to an average €4.4/month from an average €4.1/month in the year ended December 31, 2017, an increase of 7.3%, primarily as a result of customers subscribing to higher value packages and customers generating more voice and internet and data traffic. Other revenues include mainly sales of equipment, but also contains services of filming sport events and advertising revenue. Sales of equipment includes mainly mobile handsets and other equipment. Growth in our cable TV, fixed internet and data, mobile telecommunication services and other revenue was partially offset by a decrease in revenue generated by our DTH and fixed-line telephony businesses as a result of decreases in RGUs in both business lines. DTH RGUs decreased from approximately 593,000 as at December 31, 2017 to approximately 529,000 as at December 31, 2018, a decrease of approximately 10.8%. This decrease was primarily driven by DTH subscribers who terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services. Residential fixed-line telephony RGUs decreased from approximately 1.13 million as at December 31, 2017 to approximately 1.06 million as at December 31, 2018, a decrease of approximately 6.5% , as a result of the general trend away from fixed-line telephony and towards mobile telecommunication services.

**Revenue in Hungary** for the year ended December 31, 2018 was €190.9 million, compared with €150.4 million for the year ended December 31, 2017, an increase of 26.9%. This increase was primarily due to our acquisition of Invitel on May 30, 2018. Our cable TV RGUs increased from approximately 500,000 as at December 31, 2017 to approximately 689,000 as at December 31, 2018, an increase of approximately 37.8% (out of which DIGI Hungary's cable TV RGUs, excluding Invitel, increased by 3.6%). Our fixed internet and data RGUs increased from approximately 467,000 as at December 31, 2017 to approximately 747,000 as at December 31, 2018, an increase of approximately 60.0% (out of which DIGI Hungary's fixed internet and data RGUs, excluding Invitel, increased by 8.4%), and our fixed-line telephony RGUs increased from approximately 379,000 as at December 31, 2017 to approximately 694,000 as at December 31, 2018, an increase of approximately 83.1% (out of which DIGI Hungary's fixed-line telephony RGUs, excluding Invitel, increased by 5.8%). In addition to our acquisition of Invitel, these RGU increases were driven by our investments in expanding and upgrading our fixed fiber-optic network in Hungary. Our DTH RGUs decreased from approximately 291,000 as at December 31, 2017 to approximately 276,000 as at December 31, 2018, a decrease of approximately 5.2% due to DTH subscribers who terminated their contracts, moved to our competitors or migrated from our DTH services to our cable TV services. Had Invitel's revenue not been consolidated into the Group's total revenue from June 1, 2018, our revenue in Hungary (excluding intersegment revenue and other income) for the twelve months ended December 31, 2018 would have been €145.5 million, compared with €150.4 million for the twelve months ended December 31, 2017, a decrease of 3.3%. That decrease would have been principally due to the impact of the Hungarian forint's depreciation relative to the euro and, to a lesser extent, due to promotions and discounts offered to new and existing customers to increase DIGI Hungary's RGUs.

**Revenue in Spain** for the year ended December 31, 2018 was €126.6 million, compared with €92.7 million for the year ended December 31, 2017, an increase of 36.6%. The increase in revenue was principally due to an increase in the number of our mobile telecommunication services RGUs from approximately 896,000 as at December 31, 2017 to approximately 1.34 million as at December 31, 2018, an increase of 49.9%. This was primarily due to new customer acquisitions as a result of more attractive and affordable mobile and data offerings. Fixed internet and fixed telephony services were launched by DIGI Spain towards the end of September 2018, as a resale product on Telefónica's network, and generated revenue of €0.3 million for the period ended December 31, 2018.

**Revenue in Other** represented revenue from our operations in Italy and for the year ended December 31, 2018 and was €22.8 million, compared with €18.3 million for the year ended December 31, 2017, an increase of 24.6%. The increase in our revenue in Italy was primarily due to the increase in mobile telecommunication services RGUs from approximately 170,000 as at December 31, 2017 to approximately 195,000 as at December 31, 2018, an increase of 14.7%. This was primarily due to new customer acquisitions as a result of more attractive mobile and data offerings.

## Total operating expenses

Our total operating expenses (excluding intersegment expenses and other expenses, but including depreciation, amortization and impairment) for the year ended December 31, 2018 were €25.0 million, compared with €800.8 million for the year ended December 31, 2017, an increase of 15.5%.

## Operating expenses

The table below sets out our expenses (excluding intersegment expenses, other expenses and depreciation, amortization and impairment) per geographic segment for the years ended December 31, 2017 and 2018.

	For the year ended December 31,			
	2017		2018	
	(€millions)	(% of revenue)	(€millions)	(% of revenue)
Romania	429.6	65.6%	440.4	63.1%
Hungary	110.7	73.6%	151.9	79.5%
Spain	66.1	71.3%	94.9	75.0%
Other <sup>(1)</sup>	22.8	124.6%	26.4	116.0%
<b>Total</b>	<b>629.0</b>		<b>713.6</b>	

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

**Operating expenses in Romania** for the year ended December 31, 2018 were €440.4 million, compared with €429.6 million for the year ended December 31, 2017, an increase of 2.5%. The main increases in the period reported were due to increase in salaries, cost of goods sold, provisions and programming expenses.

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

**Operating expenses in Hungary** for the year ended December 31, 2018 were €151.9 million, compared with €110.7 million for the year ended December 31, 2017, an increase of 37.2%. This trend was principally due to Invitel's acquisition (costs associated with the development of the mobile network, increase in direct costs associated with increases in RGUs, mainly programming expenses, as well as increase in salaries).

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

**Operating expenses in Spain** for the year ended December 31, 2018 were €94.9 million, compared with €66.1 million for the year ended December 31, 2017, an increase of 43.6%. The main increases in the period were due to interconnection expenses, invoicing and collection expenses and salary expenses, as a result of business increase.

**Operating expenses in Other** represented expenses of our operations in Italy and expenses of the Company and for the year ended December 31, 2018 were €26.4 million, compared with €22.8 million for the year ended December 31, 2017, an increase of 15.8%. The increase was primarily due to increased salary expenses in Digi Communications.

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

The table below sets out information on depreciation, amortization and impairment of our tangible and intangible assets for the years ended December 31, 2017 and 2018.

	For the year ended December 31,	
	2017	2018
	(€millions)	
Depreciation of property, plant and equipment	96.0	125.0
Amortization of non-current intangible assets	31.6	43.1
Amortization of program assets	41.6	40.7
Impairment of property, plant and equipment	2.6	2.6
<b>Total</b>	<b>171.8</b>	<b>211.5</b>



### **Depreciation of property, plant and equipment**

Depreciation of property, plant and equipment was €125.0 million for the year ended December 31, 2018, compared with €96.0 million for the year ended December 31, 2017, an increase of 30.2%. This increase was primarily due to the investments made in the mobile network in Hungary and Romania.

### **Amortization of non-current intangible assets**

Amortization of non-current intangible assets for continuing operations was €43.1 million for the year ended December 31, 2018, compared with €31.6 million for the year ended December 31, 2017, an increase of 36.4%, mainly as a result of the increase of amortization of cost to obtain.

### **Amortization of program assets**

Amortization of program assets for continuing operations was €40.7 million for the year ended December 31, 2018, compared with €41.6 million for the year ended December 31, 2017, a decrease of 2.2%.

### **Other income/expense**

We recorded €20.0 million of Other expenses in the year ended December 31, 2018, compared to €2.8 million in the year ended December 31, 2017. Other expenses represent accrued expenses for the period related to the share option plan approved in 2017 and 2018 which are estimated to be one off events of €12.7 million, provision related to ongoing litigations of €4.7 million, as well as Invitel's acquisition related costs in amount of €2.5 million.

We recorded €8.9 million Other income in the year ended December 31, 2018, compared to nil in the year ended December 31, 2017. This reflected mark-to-market unrealized gain from fair value assessment of energy trading contracts.

### **Operating profit**

For the reasons set forth above, our operating profit was €102.0 million for the year ended December 31, 2018, compared with €115.4 million for the year ended December 31, 2017.

### **Net finance income/(expense)**

We recognized net finance expense of €63.1 million in the year ended December 31, 2018, compared with net finance expense of €35.9 million in the year ended December 31, 2017, an increase of 75.7%.

In the year ended December 31, 2018, we recorded a net loss from foreign exchange differences in the current period of €4.7 million, compared to a net loss from foreign exchange differences in amount of €4.2 million in the previous period. We have recorded lower net losses for derivative instruments (IRS) of €0.7 million in the current period compared to €3.4 million in the previous period. We have recorded lower losses from other financial expenses of €1.1 million as compared to €1.9 million in the previous period due to the costs recognized in 2017 for the Bridge Facility, which expired in February 2018, when the SFA 2018 was signed. Included in the €1.1 million are additional losses on the fair value movement of the embedded derivative at December 31, 2018 of €2.1 million as compared to a gain of €9.9 million at December 31, 2017, included in other financial revenues. We have recorded interest expenses of €47.0 million in the current period compared to €36.3 million in the previous period. We have incurred higher interest expenses mainly because of the ROBOR fluctuations in the current period and additional interest expense for drawings under the new SFA 2018 signed in February 2018 and under overdrafts.

### **Profit/(Loss) before taxation**

For the reasons set forth above, our profit before taxation was €38.8 million for the year ended December 31, 2018, compared with a profit of €79.5 million for the year ended December 31, 2017.

### **Income tax credit/(expense)**

An income tax expense of €20.8 million was recognized in the year ended December 31, 2018 compared to a tax expense of €17.4 million recognized in the year ended December 31, 2017.

### Profit/(loss) for the year

For the reasons set forth above, our net profit for the year ended December 31, 2018 was €18.0 million, compared with a profit of €62.0 million for the year ended December 31, 2017.

### LIQUIDITY AND CAPITAL RESOURCES

Historically, our principal sources of liquidity have been our operating cash flows as well as debt financing. Going forward, we expect to fund our cash obligations and capital expenditures primarily out of our operating cash flows, the Senior Facilities Agreements, the ING Facilities Agreement, the Citi Facilities Agreement (as defined below), other letter of guarantee facilities and other credit agreements. We believe that our operating cash flows will continue to allow us to maintain a flexible capital expenditure policy.

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

We have made and intend to continue to make significant investments in the growth of our businesses by expanding our mobile telecommunication network and our fixed fiber optic networks, acquiring new and renewing existing content rights, procuring CPE which we provide to our customers and exploring other investment opportunities on an opportunistic basis in line with our current business model. We believe that we will be able to continue to meet our cash flow needs by the acceleration or deceleration of our growth and expansion plans.

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

### Historical cash flows

The following table sets forth, for the years ended December 31, 2017 and 2018, our consolidated cash flows from operating activities, cash flows used in investing activities and cash flows from (used in) financing activities.

	For the year ended December 31,	
	2017	2018
	(€millions)	
<b>Cash flows from operations before working capital changes</b>	<b>295.5</b>	<b>325.7</b>
Cash flows from changes in working capital <sup>(1)</sup>	(4.3)	2.5
<b>Cash flows from operations</b>	<b>291.2</b>	<b>328.2</b>
Interest paid	(33.4)	(43.6)
Income tax paid	(10.2)	(6.3)
<b>Net cash flows from operating activities</b>	<b>247.6</b>	<b>278.4</b>
<b>Net cash flows used in investing activities</b>	<b>(242.3)</b>	<b>(411.1)</b>
<b>Net cash flows from (used in) financing activities</b>	<b>(3.9)</b>	<b>130.5</b>
Net increase/(decrease) in cash and cash equivalents	1.4	(2.2)
Cash and cash equivalents at the beginning of the period	14.6	16.1
Effect of exchange rate fluctuation on cash and cash equivalent held	0.0	0.0
<b>Cash and cash equivalents at the closing of the period</b>	<b>16.1</b>	<b>13.8</b>

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

Cash flows from operations before working capital changes were €325.7 million in the year ended December 31, 2018 and €295.5 million in the year ended December 31, 2017. The increase from 2017 to 2018 were due to the reasons discussed in “—Historical Results of Operations—Results of operations for the years ended December 31, 2017 and 2018.”

The following table shows changes in our working capital:

	For the year ended December 31,	
	2017	2018
	(€millions)	
Decrease/(increase) in trade receivables, other and contract assets	(2.4)	(49.1)
Increase in inventories	8.5	(7.2)
(Decrease)/Increase in trade payables and other current liabilities	(7.0)	48.2
(Decrease) in deferred revenue/contract liabilities	(3.4)	10.5
<b>Total</b>	<b>(4.3)</b>	<b>2.5</b>

We had a positive working capital of €2.5 million in the year ended December 31, 2018. The very small delta is the result of the fluctuation in receivables which was netted by the fluctuation in payables and fluctuation in inventories which is netted of by fluctuation in contract liabilities (deferred revenues as at 31 December 2017). As main reasons for the above variations we can mention the acquisition of Invitel and the overall expansion of our operations both on receivables and payables. Other reasons are the recognition of revenues from postponed green certificates, an increase in deferred revenues as a result of last year's change in VAT regulations for Hungarian territory which caused the delay in our invoicing process for one month.

**Cash flows from operating activities** were €78.4 million in the year ended December 31, 2018 and €47.6 million in the year ended December 31, 2017. Included in these amounts are deductions for interest paid and income tax paid, which were €49.8 million in the year ended December 31, 2018 and €43.6 million in the year ended December 31, 2017. Interest paid was €43.6 million in the year ended December 31, 2018, compared with €33.4 million in the year ended December 31, 2017, mainly due to the ROBOR fluctuations in the current period and additional interest expense for drawings under the new SFA 2018 signed in February 2018 and under overdrafts. Income tax paid was €6.3 million in the year ended December 31, 2018, compared with €10.2 million in the year ended December 31, 2017 mainly as a result of lower payments made by Digi communications, RCS & RDS and Digi Hungary. The increase in cash flows from operating activities in the year ended December 31, 2018, as compared to the year ended December 31, 2017, was due to an increase in our subscribers base and the improved performance of certain business lines.

**Cash flows used in investing activities** were €111.1 million in the year ended December 31, 2018, €42.3 million in the year ended December 31, 2017.

The following table shows our capital expenditures by category for the years ended December 31, 2017 and 2018:

	For the year ended December 31,	
	2017	2018
	(€millions)	
Network and equipment <sup>(1)</sup>	134.0	174.5
Customer Premises Equipment (CPE) <sup>(2)</sup>	32.0	40.5
Program assets—content for our own channels <sup>(3)</sup>	34.1	39.9
License and software <sup>(4)</sup>	20.7	13.8
Customer relationships <sup>(5)</sup>	3.8	4.0
Other additions to tangible assets <sup>(6)</sup>	27.5	26.9
Other additions to intangible assets <sup>(7)</sup>	19.7	28.8
<b>Total additions to tangible and intangible assets</b>	<b>271.8</b>	<b>328.4</b>
Differences between capital expenditures for tangible and intangible assets and additions to tangible and intangible assets <sup>(8)</sup>	(30.3)	(49.4)
<b>Capital expenditures for the acquisition of tangible and intangible assets</b>	<b>241.5</b>	<b>279.0</b>
Acquisitions of shares <sup>(9)</sup>	1.7	132.4
<b>Total</b>	<b>243.2</b>	<b>411.4</b>

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2018, we acquired tangible and intangible assets for €328.4 million. We had €174.5 million in additions to our network and equipment, primarily to expand and upgrade our fixed fiber optic and mobile networks in Romania and Hungary. We had €39.9 million in additions to our program assets, primarily reflecting recognition of costs related to rights to broadcast certain sports competitions for contracts entered into in this and prior years. We had €13.8 million in additions to our intangible assets, primarily to recognize software licenses for equipment for our mobile networks in Romania and Hungary. In addition, we had additions of €40.5 million to acquire CPE, primarily set-top boxes and GPON terminals and for our cable TV customers. We also had minor additions to customer relationships of €4.0 million, reflecting amounts incurred for the acquisition of customers from other cable and internet providers in Romania. Capital expenditures for the acquisition of tangible and intangible assets were €49.9 million lower than additions to tangible and intangible assets in the year ended December 31, 2018. This was primarily due to longer payment terms, especially for part of the network, as well as equipment and CPE additions. Payments made for acquisition of shares in amount of €132.4 million are related mainly to acquisitions of Invitel shares. Additions presented above exclude additions acquired through business combinations of €132.0 million of property, plant and equipment and €29.4 million of intangibles.

**Cash flows used in financing activities** were a €130.5 million inflow for the year ended December 31, 2018. During 2018 we have drew the entire available amounts from SFA 2018 up to €176.8 million equivalent. We have purchased back T-shares of €1.2 million. We also paid dividends of €3.1 million, settlement of derivative transactions of €0.9 million and installments under our finance leases of €4.5 million.



## Planned Cash Requirements and Capital Expenditure Plan

We anticipate that our cash requirements in the near to medium term will consist principally of expenditures to service our debt, to upgrade and build expansions to our fixed fiber optic and mobile networks, to further develop our mobile telecommunication services business and to purchase further broadcasting rights for our premium TV channels. In addition, we will consider from time to time purchasing cable TV or internet and data services operations in Romania and Hungary. The following discussion sets out our principal cash needs based, among other things, on our existing capital expenditure plan, our outstanding bank loans and other contractual commitments.

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

- ▶ expansion of our fixed fiber optic network;
- ▶ expansion and further development of our mobile network;
- ▶ acquisition of additional sports, film and other broadcasting rights;
- ▶ renewal of certain existing broadcast rights;
- ▶ costs associated with CPE and the acquisition of new customers;
- ▶ investments associated with our electrical energy activities and
- ▶ payments under telecommunication licenses.

As at December 31, 2018, our commitments to incur additional capital expenditures (consisting primarily of payments for content rights, and commitments to purchase of equipment and CPE) amounted to approximately €82.3 million.

## Contractual obligations

Our principal contractual obligations consist of our obligations in respect of financial indebtedness that is owed under our credit facilities, rent for network pillars, the annual radio spectrum fees for our mobile telecommunication licenses in Romania and Hungary, the remaining payments for certain broadcasting rights, operational leasing arrangements (including for our radio stations), and finance leasing arrangements.

The table below sets out the maturities of our financial liabilities and other contractual commitments, including estimated interest payments and excluding the impact of netting agreements as at December 31, 2018, based on the agreements in place as at that date. We expect that our contractual commitments may evolve over time in response to current business and market conditions, with the result that future amounts due may differ considerably from the expected amounts payable set out in the table below.

	Carrying amount as at December 31, 2018	Contractual cash flows as at December 31, 2018	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
(€millions)							
<b>Non-derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds <sup>(1)</sup>	876.9	1,010.9	102.5	100.9	114.5	693.0	-
Finance lease liabilities <sup>(1)</sup>	8.0	8.3	2.3	2.3	1.9	1.9	-
Trade and other payables and other liabilities <sup>(2)</sup>	480.1	480.7	394.2	51.9	27.0	7.7	-
Capital expenditure and operating expenditure contractual commitments <sup>(3)</sup>	281.3	281.3	52.7	52.7	88.3	49.2	38.5
<b>Derivative financial liabilities</b>							
Energy trading mark to market	10.6	10.8	6.0	4.8	-	-	-
<b>Total</b>	<b>1,656.9</b>	<b>1,792.1</b>	<b>557.7</b>	<b>212.6</b>	<b>231.6</b>	<b>751.8</b>	<b>38.5</b>

(1) Includes estimated interest. Interest was estimated by using 3-month ROBOR or a fixed rate as at December 31, 2018 for all future periods. Interest for the 2016 Bonds does not include the estimated WHT charge of approximately €3.3 million per year.

(2) Includes trade payables, other long-term liabilities and income tax.

(3) Includes mainly payments for premium content, satellite usage, spectrum fee payments, open orders for purchases of equipment and obligations under agreements to lease real property or movable property that are enforceable and legally binding and that specify all significant terms (e.g., object of the lease, pricing terms and duration).

## Financial obligations

### The 2016 Notes

On October 26, 2016 the Company issued the 2016 Notes with a value of €350.0 million falling due in 2023. The Original Notes have the benefit of guarantees from the Company (provided on the Original Notes Issue Date), DIGI Hungary (acceded on June 8, 2017) and Invitel (acceded on June 28, 2018). The 2016 Notes are secured by (i) subject to certain exclusions, all present and future movable assets of RCS & RDS, including bank accounts, trade receivables, intragroup receivables, insurance receivables, inventories, movable tangible property (including installation, networks, machinery, equipment, vehicles, furniture, and other similar assets), intellectual property rights, insurance and proceeds related to any of the foregoing; (ii) all shares of certain of material subsidiaries of RCS & RDS and (iii) certain assets of the Company, including all shares it holds in the RCS & RDS, certain bank accounts and rights under the proceeds loan agreement dated November 4, 2013 (originally entered into in relation to the 2013 Notes) as amended and extended between the Company, as lender, and RCS & RDS, as borrower (collectively, the “Collateral”). The collateral is shared with the 2018 Senior Facilities Agreement, the 2016 Senior Facilities Agreement, the Citi Facilities Agreement, the ING Facilities Agreement, the BRD Agreements and certain hedging obligations on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

### 2016 Senior Facilities Agreement (“2016 SFA”)

On October 7, 2016, the Company, as original guarantor, and RCS & RDS, as borrower, entered into the 2016 Senior Facilities Agreement. The 2016 Senior Facilities Agreement is currently also unconditionally guaranteed by DIGI Hungary and Invitel on a senior secured basis and shares in the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The Senior Facilities Agreement consists of (i) the SFA Facility A1; (ii) the SFA Facility A2; and (iii) the SFA Facility B. The SFA Facility A1 was drawn for the purposes of funding the refinancing of the 2015 Senior Facilities Agreement and capital expenditure requirements of the Group. The SFA Facility A2 was drawn for the purpose of funding the refinancing of the 2013 Notes. The SFA Facility B was drawn for general corporate purposes and to finance the working capital requirements of the Group.

In October 2016, the Company drew SFA Facility A1 (RON930.0 million) and SFA Facility A2 (RON600.0 million) in full. During 2017 Facility B was fully drawn as well (RON157 million).

As at December 31, 2018 the outstanding principal amounts for SFA A1 was RON744.0 million (€159.5 million equivalent), for SFA A2 was RON480.0 million (€102.9 million equivalent) and for SFA B was RON157.0 million (€33.7 million equivalent).

The interest rate under the 2016 Senior Facilities Agreement is floating at a margin of 2.65% per annum plus ROBOR. Interest is payable every three months, unless a longer period is agreed with the facility agent acting per instructions of all lenders.

On 12 February 2019 the Company issued an additional €200 million senior secured notes due 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 (€53.6 million equivalent) and (ii) RON 120.0 million under Facility B (€25.7 million equivalent). The outstanding principal amounts after the repayment for SFA A1 is RON 592.0 million (€126.9 million equivalent) and for SFA A2 is RON 382.0 million (€81.9 million equivalent).

Facility B is due to be repaid in full in October 2019. The remaining amount to be paid after the prepayment on 12 February 2019 is RON 37.0 million (€7.9 million equivalent).

The repayment schedule for any principal amount drawn under the 2016 SFA Facility A1/A2, after the prepayment on 12 February 2019 is as follows:

Data rambursarii	Repayment installment A1- RON	Repayment installment A1- echivalent EUR *)	Repayment installment A2- RON	Repayment installment A2- echivalent EUR *)
Oct-19	10.789.216	2.313.346	6.960.784	1.492.481
Apr-20	81.375.000	17.447.844	52.500.000	11.256.674
Oct-20	81.375.000	17.447.844	52.500.000	11.256.674
Apr-21	81.375.000	17.447.844	52.500.000	11.256.674
Oct-21	337.125.000	72.283.925	217.500.000	46.634.791
<b>Total</b>	<b>592.039.216</b>	<b>126.940.804</b>	<b>381.960.784</b>	<b>81.897.293</b>

\*)year end exchange rate

#### 2018 Senior Facilities Agreement (“2018 SFA”)

On 1 February 2018, RCS & RDS S.A. (the Company’s subsidiary in Romania – „RCS&RDS”), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.’s subsidiary in Hungary – „Digi Kft.”), as the borrowers, entered into the 2018 Senior Facilities Agreement. The 2018 Senior Facilities Agreement is unconditionally guaranteed by the Company and Invitel on a senior secured basis and shares in the Collateral on a pari passu basis pursuant to the terms of the Intercreditor Agreement. All facilities were fully drawn in May and October 2018 to finance the acquisition of Invitel and for general corporate purposes of the Group.

The facilities under the 2018 Senior Facilities Agreement has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

As at December 31, 2018 the outstanding principal amounts for SFA 2018 A1 was HUF31,230 million (€7.3 million equivalent), for SFA 2018 B1 was RON153.9 million (€33.0 million equivalent) and for SFA 2018 B2 was €45.0 million.

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023. The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) HUF 17,835 million (EUR 55.4 million equivalent) for SFA 2018 A1; (ii) RON 87.7 million (EUR 18.8 million equivalent) for SFA B1 and EUR 25.6 million for SFA 2018 B2.

The outstanding amounts under the SFA 2018 after the repayment are: (i) HUF 13,465 million (EUR 41.9 million equivalent) for A1 Facility ; (ii) RON 66.2 million (EUR 14.2 million equivalent) for B1 Facility and (iii) EUR 19.4 million for Facility B2.

The repayment schedule for any principal amount drawn under the SFA Facility A1/B1/B2, after the prepayment, is as follows:

<b>Data rambursarii</b>	<b>Repayment installment A1- HUF</b>	<b>Repayment installment A1- echivalent EUR *)</b>	<b>Repayment installment B1- RON</b>	<b>Repayment installment B1- echivalent EUR *)</b>	<b>Repayment installment e B2- EUR</b>
15 dec 2022	945.200.888	2.939.880	4.647.028	996.382	1.358.922
14 aprilie 2023	12.519.940.000	38.941.059	61.553.600	13.197.882	18.000.000
<b>Total</b>	<b>13.465.140.888</b>	<b>41.880.940</b>	<b>66.200.628</b>	<b>14.194.264</b>	<b>19.358.922</b>

\*)year end exchange rate

### ING Agreements

On November 4, 2013, the RCS & RDS entered into the ING Facilities Agreement with ING Bank N.V., Bucharest Branch, in order to consolidate the Group's existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. RCS & RDS's obligations under the ING Facilities Agreement are guaranteed by the Company. The ING Facilities Agreement shares in the Collateral, on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement

The ING Facilities Agreement consists of multipurpose facility to be used as overdraft and for issuance of letters of guarantee. As at December 31, 2018, the Company had nill drawn under the overdraft facility and out of the uncommitted facility for letters of guarantee, total amount of the letters of guarantee issued is €0.04 million and RON 10.9 million.

On February 3, 2017, RCS & RDS contracted a short-term loan from ING Bank N.V., Bucharest branch, for financing working capital needs in the amount of RON7 million which was fully repaid in August 2017.

### Citi Facilities Agreement

On October 25, 2013, RCS & RDS entered into the Citi Facilities Agreement with Citibank, N.A., London Branch, to consolidate the Group's existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes. On October 25, 2013, RCS & RDS entered into a personal guarantee agreement with Citibank, N.A., London Branch pursuant to which it provides Citibank, N.A., London Branch with a guarantee for the due performance of the Citi Facilities Agreement by the Group. The Citi Facilities Agreement shares in the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

The Citi Facilities Agreement consists of uncommitted overdraft, bank guarantee and letters of guarantee facilities. The overdraft facility was extended in 2018 with an additional amount of RON 50 million.

As at December 31, 2018, (i) the cash overdraft facility had an outstanding balance of €22.6 million, and (ii) we had letters of guarantee issued in the amount of €13.9 million, USD 0.7 million and RON1.7 million.

### BRD Letters of Guarantee and Letters of Credit Facilities

On July 13, 2015, RCS & RDS entered into the BRD Letters of Guarantee Facility. As at December 31, 2018, we had letters of guarantee issued by BRD with a value of €0.5 million.

On 20 September 2017, RCS & RDS entered into the BRD Letters of Credit Facility. As at December 31, 2018, the outstanding amount for these facilities is EUR 8.4 million equivalent. On 23 May 2018, the Company entered into the BRD Credit Facility for the aggregate amount of RON35.0 million repayable in 24 months for the purpose of (i) financing the acquisition of certain real estate property in Bucharest; and (ii) refinancing the acquisition of certain real estate property in Bucharest. As at 31 December 2018, an aggregate principal amount of EUR 5,812 was outstanding under the BRD Credit Facility.

The BRD Agreements share in the Collateral on a *pari passu* basis pursuant to the terms of the Intercreditor Agreement.

### Unicredit Agreements

On December 15, 2015, RCS & RDS entered into an agreement with UniCredit Bank for an uncommitted overdraft/bank guarantee facility. As at December 31, 2018 the outstanding amount was €2.0 million.



### **Libra Loan Agreement**

On February 25, 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON32.0 million repayable in 5 years with Libra Bank (the “**Libra Loan Agreement**”). We drew RON31.6 million under the Libra Loan Agreement and used the funding to acquire certain real property in Bucharest, which has been mortgaged in favor of Libra Bank as security for the Libra Loan Agreement. As at December 31, 2018 RON 15.0 million (€3.2 million equivalent) was outstanding under the Libra Loan Agreement.

### **RCS Management loan**

On 12 May 2017, RCS&RDS entered into a short term loan with RCS Management, for a principal amount of €5 million. The loan bears a 5.5% per annum interest rate, the repayment date was extended to May 2019. As at December 31, 2018 the outstanding amount is €1.1 million.

### **Santander Facility**

On 19 October 2018 Digi Spain entered into a short term facility agreement with Banco Santander for €3 million due on October 20, 2019. As at 31 December 2018, the balance drawn under the Santander Facility was €2.9 million.

At 31 December 2018, Digi Spain had letters of guarantees from Banco Santander in amount of €0.4 million.

### **Caixa Facility**

On 6 February 2014, Digi Spain entered into a facility agreement with Caixabank, S.A. (the “Caixa Facility”), containing an overdraft and a reverse factoring option. The Caixa Facility Agreement was amended on January 30, 2015, July 28, 2015 and January 17, 2017. The term of the Caixa Facility is indefinite and the maximum amount which can be used is € 1 million. As at 31 December 2018, the balance drawn under the Caixa Facility overdraft was €0.4 million.

As at 31 December 2018, Digi Spain had letters of guarantees from Caixa in amount of €0.5 million.

### **BBVA Letter of Guarantee & Facility**

As at 31 December 2018, Digi Spain had letters of guarantee issued by BBVA with a value of €0.9 million.

On March 2018, Digi Spain entered into a short-time loan with BBVA for an amount of €3.0 million with maturity until August 2019. On October 2018, Digi Spain entered into a short-time loan with BBVA for an amount of €2.0 million with maturity until September 2019. As at 31 December 2018, the outstanding amount is €4.5 million.

### **OTP Bank Hungary Loan Agreement**

In December 2016, Digi Hungary entered into a short term loan of HUF 1,300 million (December 31, 2018: €4.0 million equivalent) with OTP Bank plc in Hungary. In 2018 the maturity of the loan was extended until May 2019. As at December 31, 2018, the entire amount is outstanding.

### **Financial leasing agreements**

As at December 31, 2018, we had leasing agreements in place with a total outstanding value of approximately €8.0 million.

### **Romania**

One of these leasing agreements is a sale-leaseback arrangement entered into on May 11, 2009 for part of our headquarters in Bucharest with ING Lease Romania IFN SA, which subsequently sold its interest to Raiffeisen Leasing IFN SA. In December 2015 this sale-leaseback arrangement was refinanced for €4.3 million. As at December 31, 2018, the outstanding amount under this sale-leaseback agreement was €0.6 million.

We also entered into a leasing agreement for a parcel of land in Poiana Brasov city, Brasov County, with a financed amount of €3.2 million (excluding VAT). As at December 31, 2018, the outstanding amount under this leasing agreement was €1.6 million.

The lease agreements with UniCredit Leasing IFN for a building in Arad ended in November 2018, and we have purchased the building at the beginning of 2019.

In March 2018, RCS & RDS entered into a new leasing agreement for autovehicles with UniCredit for a total amount of €2 million. The leasing agreement will end in 2019.

In April 2018, RCS & RDS entered into a leasing agreement for IT equipments with BRD for a total amount of €0.2 million. The remaining length of the lease contract is 16 months.

As at December 31, 2018 we also hold leasing contracts for vehicles and equipment with total outstanding value of €1.7 million.

### **Hungary**

In Hungary, we lease mainly vehicles and equipment. As at December 31, 2018 the total outstanding value was of €1.2 million equivalent.

On May 30, 2018 we had additions from business combinations (Invitel Acquisition) of €0.7 million. As at 31 December 2018 the outstanding amount was €0.7 million.

### **Spain**

In February 2018, Digi Spain entered into a leasing agreement for equipment with Caixabank for an amount up to €1.5 million. In November 2018, Digi Spain entered into a leasing agreement for equipment with Santander for an amount up to €1.5 million. In May and June 2018, Digi Spain entered into two leasing agreements for equipments and vehicles with BBVA for a total amount of up to €1.5 million. Leasing agreements for equipments have a maturity of 2 years and the agreement for vehicles has a maturity of 3 years. The outstanding value as at December 31, 2018 was €2.1 million.

### **IFRS 16**

Starting for annual periods beginning on or after 1 January 2019, IFRS 16 “Leases”, a new reporting standard will become effective. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

We have made an assessment of the impact of IFRS 16 on the consolidated financial statements. The application of IFRS 16 will have a significant impact on the consolidated statement of financial position, as the Group will recognize new assets and liabilities for most of its operating leases. In profit or loss statement, depreciation expense and interest expense will be reported instead of lease expense.

IFRS 16 will not have any impact on calculations we are required to make under the Indenture for the purposes of ensuring compliance therewith, as those will continue to be made in accordance with the IFRS in effect as at the issue date of the Original Notes, although it is likely to lead to certain divergence between some financial metrics that we report on a regular basis (including Adjusted EBITDA of continuing operations) and related or similarly titled metrics under the Indenture and for covenant purposes.

### **Pension obligations**

Under the regulatory regimes applicable in our countries of operation, employers are required to make payments to a national social security fund for the benefit of employees. Other than these social security payments, we do not maintain any pension plans for employees and incur no pension obligations.

### **Contingent obligations**

Apart from the commitments described above and in “Risk Factors”, we have no material contingent obligations.

## MAIN VARIATIONS OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2018

Main variations for the consolidated financial position captions as at December 31, 2018 are presented below (for details, please see *Consolidated Financial Statements for the year ended 31 December 2018* included in this Annual report):

### ASSETS

#### *Financial assets at fair value through OCI*

The available for sale financial assets of €32.1 million as at December 31, 2018 (December 31, 2017: €42.1 million) comprise of shares in RCSM obtained as result of the Share swap contracts between the Company and minority shareholders which were enforced during the reported period. In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment at year end was made based on the quoted price/share as of the valuation date, which is a relevant method of estimating the market value of a minority ownership in its equity.

For details, please see *Note 23 from the Consolidated Financial Statements as at December 31, 2018*.

#### *Inventories*

As at December 31, 2018 inventories were €16.6 million (December 31, 2017: €10.1 million). The increase in inventories is mainly the result of the acquisition of Invitel and our increasing business activities.

#### *Trade and other receivables and contract assets*

As at December 31, 2018 trade and other receivables were €60.0 million and contract assets were €44.0 (December 31, 2017: €82.5 million). The increase is primarily due to the acquisition of Invitel and increase in normal course of business.

#### *Other assets*

As at December 31, 2018 other assets were €12.4 million (December 31, 2017: €11.0 million). The increase is mainly the result of higher advances paid to suppliers.

#### *Derivative financial assets*

As at December 31, 2018 derivative assets included embedded derivative assets for the 2016 Senior Notes measured at fair value, in amount of €31.1 million (December 31, 2017: €33.3 million) and electricity trading assets (term contracts) of €2.1 million being mark to market gain from fair valuation of electricity trading contracts (December 31, 2017: €1.6 million). For details, please see *Note 25 from the Consolidated Financial Statements for year ended December 31, 2018*.

### LIABILITIES

#### *Interest bearing loans and borrowings*

As at December 31, 2018 the non-current portion of the interest bearing loans and borrowings were in amount of €16.2 million (December 31, 2017: €48.0 million) and the current portion was in amount of €168.6 million (December 31, 2017: €82.0 million) including the effect of borrowing costs. The total increase in non-current and current portion of interest bearing loans and borrowings is due to the additional drawings under Senior Facility Agreement 2018 of €176.8 million and new facility from BRD of €3.0 million. Total repayments under Senior Facility Agreement 2016 were in amount of approximately €41.1 million. The remaining difference is explained by variations in overdrafts and short term borrowings from Spain and other payments for Libra and BRD borrowings. For details, please see caption "Financial obligations" from above.

#### *Derivative financial liabilities*

As at December 31, 2018 derivative liabilities included electricity trading liabilities (term contracts) of €1.1 million being mark to market loss from fair valuation of electricity trading contracts (December 31, 2017: €9.5 million). For details, please see *Note 25 from the Consolidated Financial Statements for year ended December 31, 2018*.

## OFF-BALANCE SHEET ARRANGEMENTS

Other than commitments included under the caption “—*Financial Obligations*” we do not have any material off-balance sheet arrangements.

Following a detailed consultation period which began in July 2006, the IASB released IFRS 16 on lease accounting which will replace IAS 17 “Leases” and which will be effective for financial reporting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. In profit or loss statement, depreciation expense and interest expense will be reported instead of lease expense.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to the following risks from the use of financial instruments: credit risk, liquidity risk and market risk (including currency risk and interest rate risk).

For more details please see *Note 23 from the Consolidated Financial Statements for the year ended 31 December 2018* presented in this Annual report.

## ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND DISCRETION

We prepare our financial statements in accordance with IFRS as adopted by the EU and Title 9, Book 2 of the Dutch Civil Code. Certain financial reporting standards under IFRS require us to make judgments or to use our discretion in determining the values to be recorded, as described in the notes to our audited financial statements included elsewhere in this Report.

For more details please see *Note 2 from the Consolidated Financial Statements for the year ended 31 December 2018* included in this Annual report.

## FINANCIAL INDICATORS

Below are presented consolidated financial indicators for the year ended 31 December 2018:

Financial Indicator	As at 31 December 2017	As at 31 December 2018
Current ratio		
Current assets/Current liabilities	0.38	0.31
Debt to equity ratio		
Long term debt/Equity x 100 (where Long term debt = Borrowings over 1 year)	480%	490%
Long term debt/Capital employed x 100 (where Capital employed = Long term debt+ Equity)	83%	83%
Trade receivables turnover		
Average receivables/Revenues	37.60 days	32.35 days
Non-current assets turnover (Revenues/Non-current assets)	0.79	0.73



## BOARD OF DIRECTORS' STATEMENTS

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

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

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

- a. for information on the capital structure of the Company, the composition of the issued share capital and the existence of the two classes of shares, please refer to [Corporate Governance](#) in this annual report. For information on the rights attached to the Class A Shares, please refer to the Articles which can be found on the Company's website. For information on the rights attached to the Class B Shares, please refer to the Articles which can be found on the Company's website. As at 31 December 2018, the issued share capital of the Company amounted to €6,918,042.52 and consisted of 65,756,028 Class A Shares, representing 65.76% of the total issued share capital and 34,243,972 Class B Shares representing 34.24% of the total issued share capital. At the date of this report, as a result of the share conversion from January 14, 2019, the issued share capital of the Company currently amounts to €6,810,042.52 divided into 64,556,028 Class A Shares representing 64.56% of the total issued share capital and 35,443,972 Class B Shares representing 35.44% of the total issued share capital.
- b. except for the restriction imposed on RCS Management S.A. and Mr. Zoltan Tetzari in the Relationship Agreement (whereby any such shareholder can only convert any of the Class A shares into Class B shares prior to, or concurrently with, their delivery to the counterparty where such transfer: (i) does not trigger a mandatory tender offer; and (ii) is not in connection with a joint venture, share swap, merger, acquisition or similar strategic transaction), the Company has imposed no limitations on the transfer of Class A Shares and Class B Shares. The Company is not aware of any depository receipts having been issued for shares in its capital.
- c. for information on participations in the Company's capital in respect of which pursuant to Sections 5:34, 5:35 and 5:43 of the Dutch Financial Supervision Acts (*Wet op het financieel toezicht*) notification requirements apply, please refer to [Corporate Governance](#) of this annual report. There you will also find a list of shareholders who are known to the Company to have holdings of 3% or more.
- d. Mr. Zoltán Tetzári directly and indirectly, exercises control over 100% of the Company's Class A Shares. Mr. Zoltán Tetzári owns 2.4% of the Class A Shares directly and controls the rest of the Class A Shares through his 87.1% share ownership of RCS Management S.A. The Class A Shares have special rights in the Company. For information on the special rights attached to the Class A Shares, please refer to the Articles which can be found on the Company's website. To summarize, each Class A Share confers the right to cast 10 votes, members of the Board of Directors are appointed and dismissed on nomination of the meeting of holders of Class A Shares, the meeting of holders of Class A Shares holds the right to make proposals to the general meeting of shareholders for remuneration of members of the Board of Directors in the form of shares, certain decisions of the Board of Directors concerning disposal or encumbrance of assets requires the approval from the meeting of holders of Class A Shares and amendment of the Articles of association of the Company which affect the rights of the Class A Shares, require the prior approval of the meeting of holders of Class A Shares.
- e. current equity incentive plans adopted by the Company are administered by the Remuneration Committee.
- f. no restrictions apply to voting rights attached to shares in the capital of the Company, nor are there any deadlines for exercising voting rights. The Articles do not allow the Company to cooperate with the issue of depository receipts for shares.
- g. except for the Relationship Agreement referred to at letter b) from above, the Company is not aware of the existence of any agreements with shareholders which may result in restrictions on the transfer of shares or limitation of voting rights.
- h. the rules governing the appointment and dismissal of members of the Board of Directors of the Company are stated in the Articles of the Company. All members of the Board of Directors are appointed by the general meeting of shareholders upon a binding nomination by the meeting of holders of Class A Shares. The general meeting of shareholders has the power to dismiss any member of the

Board of Directors at any time. The rules governing an amendment of the Articles are stated in the Articles and require a resolution of the general meeting of shareholders which can only be passed pursuant to a prior proposal of the Board of Directors of the Company. Any amendment of the Articles which affect the rights of the Class A Shares, requires the prior approval of the meeting of holders of Class A Shares.

- i. the general powers of the Board of Directors are stated in the Articles of the Company which can be found on the Company's website. The Board of Directors does not hold the authority to resolve upon the issuance of shares. The Board of Directors is authorized to acquire shares in the capital of the Company for no consideration. Further rules governing the acquisition of shares by the Company in its own share capital are set out in article 5 of the Articles.
- j. the Company is not a party to any significant agreements which will take effect, will be altered or will be terminated upon a change of control of the Company as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), provided that certain financing and bonds agreements entered into by the Company do contain provisions that, as is customary for such documentation, may require early repayment or termination in the event of a change of control of the Company which in fact would mean that Mr. Zoltán Teszári would cease to control the Company Class A Shares. The Company's subsidiaries are also parties to a number of agreements concluded in the ordinary course of business that contain customary change of control clauses able to lead to the termination of the respective agreements.
- k. the Company is not a party to any agreement with a Director or employee providing for payments upon termination of directorship or employment as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*)

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

- the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis;

the report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report.



# Consolidated Financial Statements for the year ended 31 December 2018





**DIGI COMMUNICATIONS N.V.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION**

**For the year ended 31 December 2018**



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## **GENERAL INFORMATION**

### **Directors:**

Serghei Bulgac

Bogdan Ciobotaru

Valentin Popoviciu

Piotr Rymaszewski

Sambor Ryszka

Marius Catalin Varzaru

Zoltan Teszari

### **Registered Office:**

#### **Digi Communications N.V.**

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

### **Auditors:**

Ernst & Young Accountants LLP.

**DIGI COMMUNICATIONS N.V.****Consolidated Statement of Financial Position****as at 31 December 2018, after result appropriation.***(all amounts are in thousand EUR, unless specified otherwise)*

	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	1,138,992	900,691
Intangible assets	6a	245,852	215,248
Financial assets at fair value through OCI	7	32,058	42,146
Investment in associates		970	784
Long term receivables		5,584	2,018
Other non-current assets		4,629	-
Deferred tax assets	20	2,659	2,828
<b>Total non-current assets</b>		<b>1,430,744</b>	<b>1,163,715</b>
<b>Current assets</b>			
Inventories	9	16,586	10,063
Programme assets	6b	21,379	22,250
Trade and other receivables	10	60,002	82,472
Contract assets	17,10	44,076	
Income tax receivable		547	1,727
Other assets	11	12,419	11,046
Derivative financial assets	25	33,287	34,883
Cash and cash equivalents	12	13,832	16,074
<b>Total current assets</b>		<b>202,128</b>	<b>178,515</b>
<b>Total assets</b>		<b>1,632,872</b>	<b>1,342,230</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	6,918	6,918
Share premium		3,406	3,406
Treasury shares		(14,527)	(13,922)
Reserves		(18,583)	1,248
Retained earnings		168,825	138,869
<b>Equity attributable to equity holders of the parent</b>		<b>146,039</b>	<b>136,519</b>
Non-controlling interest		7,306	6,029
<b>Total equity</b>		<b>153,345</b>	<b>142,548</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings, including bonds	14	716,193	648,040
Deferred tax liabilities	20	60,652	45,517
Decommissioning provision		6,082	5,409
Other long term liabilities	15.2	34,600	36,738
<b>Total non-current liabilities</b>		<b>817,527</b>	<b>735,704</b>
<b>Current liabilities</b>			
Trade and other payables	15.1	461,463	358,074
Interest-bearing loans and borrowings	14	168,625	82,009
Income tax payable		543	-
Derivative financial liabilities	25	1,106	10,131
Provisions		7,225	2,497
Deferred revenue		-	11,267
Contract liabilities	17	23,038	-
<b>Total current liabilities</b>		<b>662,000</b>	<b>463,978</b>
<b>Total liabilities</b>		<b>1,479,527</b>	<b>1,199,682</b>
<b>Total equity and liabilities</b>		<b>1,632,872</b>	<b>1,342,230</b>

The financial statements were authorized for issue by the Board of Directors on 19 March 2019 and were signed on its behalf by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius Catalin Varzaru,	Zoltan Teszari,
<i>CEO</i>	<i>Independent Non-executive Director</i>	<i>Executive Director</i>	<i>Independent Non-executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>President</i>

**DIGI COMMUNICATIONS N.V.****Consolidated Statement of Profit or Loss and Other Comprehensive Income  
for the year ended as at 31 December 2018***(all amounts are in thousand EUR, unless specified otherwise)*

		2018			2017		
	Notes	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Revenues	17	1,038,121	-	1,038,121	916,551	-	916,551
Other income	28	8,873	-	8,873	2,509	-	2,509
Operating expenses	18	(925,032)	-	(925,032)	(800,841)	-	(800,841)
Other expenses	28	(18,917)	(1,070)	(19,987)	(2,820)	-	(2,820)
<b>Operating profit</b>		<b>103,045</b>	<b>(1,070)</b>	<b>101,975</b>	<b>115,399</b>	<b>-</b>	<b>115,399</b>
Finance income	19	357	-	357	19,977	-	19,977
Finance expenses	19	(63,495)	-	(63,495)	(55,903)	-	(55,903)
<b>Net finance costs</b>		<b>(63,138)</b>	<b>-</b>	<b>(63,138)</b>	<b>(35,926)</b>	<b>-</b>	<b>(35,926)</b>
<b>Profit / (loss) before taxation</b>		<b>39,907</b>	<b>(1,070)</b>	<b>38,837</b>	<b>79,473</b>	<b>-</b>	<b>79,473</b>
Income tax	20	(20,815)	-	(20,815)	(17,442)	-	(17,442)
<b>Net profit / (loss) for the year</b>		<b>19,092</b>	<b>(1,070)</b>	<b>18,022</b>	<b>62,031</b>	<b>-</b>	<b>62,031</b>
<b>Other comprehensive income</b>							
<i>Items that are or may be reclassified to profit or loss, net of income tax</i>							
Foreign operations – foreign currency translation differences		(4,547)	-	(4,547)	(601)	-	(601)
Change in fair value available for sale asset	7	-	-	-	(3,667)	-	(3,667)
Cash Flow hedge reserves		366	-	366	3,603	-	3,603
<i>Items that will not be reclassified to profit or loss</i>							
Revaluation of equity instruments measured at fair value through OCI	7	(10,088)	-	(10,088)	-	-	-
<b>Other comprehensive income for the year, net of income tax</b>		<b>(14,269)</b>	<b>-</b>	<b>(14,269)</b>	<b>(665)</b>	<b>-</b>	<b>(665)</b>
<b>Total comprehensive income for the year</b>		<b>4,823</b>	<b>(1,070)</b>	<b>3,753</b>	<b>61,366</b>	<b>-</b>	<b>61,366</b>



**DIGI COMMUNICATIONS N.V.**
**Consolidated Statement of Profit or Loss and Other Comprehensive Income  
for the year ended as at 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*

		2018			2017		
	Notes	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
<b>Profit / (Loss) attributable to:</b>							
Equity holders of the parent		17,601	(1,001)	16,600	58,268	-	58,268
Non-controlling interest		1,491	(69)	1,422	3,763	-	3,763
<b>Net profit / (loss) for the year</b>		<b>19,092</b>	<b>(1,070)</b>	<b>18,022</b>	<b>62,031</b>	<b>-</b>	<b>62,031</b>
<b>Total comprehensive income attributable to:</b>							
Equity holders of the parent		3,570	(1,001)	2,569	57,419	-	57,419
Non-controlling interests		1,253	(69)	1,184	3,947	-	3,947
<b>Total comprehensive income for the year</b>		<b>4,823</b>	<b>(1,070)</b>	<b>3,753</b>	<b>61,366</b>	<b>-</b>	<b>61,366</b>
<b>Earnings per share (in EUR) attributable to equity holders</b>	8						
<b>Net profit/(loss)</b>		<b>17,601</b>	<b>(1,001)</b>	<b>16,600</b>	<b>58,268</b>	<b>-</b>	<b>58,268</b>
<b>Basic earnings/(loss) per share (EUR/share)</b>		<b>0.188</b>	<b>(0.012)</b>	<b>0.178</b>	<b>0.625</b>	<b>-</b>	<b>0.625</b>
<b>Diluted earnings/(loss) per share (EUR/share)</b>		<b>0.185</b>	<b>(0.012)</b>	<b>0.175</b>	<b>0.624</b>	<b>-</b>	<b>0.624</b>

The financial statements were authorized for issue by the Board of Directors on 19 March 2019 and were signed on its behalf by:

Sergei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius Catalin Varzaru,	Zoltan Teszari,
<i>CEO</i>	<i>Independent Non-Executive Director</i>	<i>Executive Director</i>	<i>Independent Non-Executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>President</i>
_____	_____	_____	_____	_____	_____	_____

**DIGI COMMUNICATIONS N.V.****Consolidated Statement of Cash Flows****for the year ended 31 December 2018***(all amounts are in thousand EUR, unless specified otherwise)*

	Notes	2018	2017
<b>Cash flows from operating activities</b>			
<b>Profit before taxation</b>		<b>38,837</b>	<b>79,473</b>
<b>Adjustments for:</b>			
Depreciation, amortization and impairment	5, 6	211,480	171,812
Interest expense, net	19	46,993	36,368
Impairment of trade and other receivables	18	11,538	9,368
Losses/(gains) on derivative financial instruments	23	(6,023)	(16,159)
Equity settled share-based payments expense	24	15,970	1,642
Unrealised foreign exchange loss/(gain)		2,338	13,322
Gain on sale of assets		(117)	(342)
Provisions		4,729	-
<b>Cash flows from operations before working capital changes</b>		<b>325,745</b>	<b>295,484</b>
<b>Changes in:</b>			
Decrease/(increase) in trade receivables and other assets and contract assets		(49,070)	(2,393)
Decrease/(increase) in inventories		(7,157)	8,489
(Decrease)/increase in trade payables and other current liabilities		48,217	(6,965)
(Decrease)/increase in deferred revenue/contract liabilities		10,510	(3,416)
<b>Cash flows from operations</b>		<b>328,245</b>	<b>291,199</b>
Interest paid		(43,577)	(33,419)
Income tax paid		(6,252)	(10,172)
<b>Net cash flows from operating activities</b>		<b>278,416</b>	<b>247,608</b>
<b>Cash flow used in investing activities</b>			
Purchases of property, plant and equipment	5,15	(206,073)	(169,828)
Purchases of intangibles	6,14	(72,948)	(71,706)
Acquisition of subsidiaries, net of cash and acquisition of NCI	22	(132,371)	(1,666)
Proceeds from sale of property, plant and equipment		269	948
<b>Net cash flows used in investing activities</b>		<b>(411,123)</b>	<b>(242,252)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(3,122)	(21,289)
Cash outflows from acquisition of treasury shares		(1,195)	(2,459)
Proceeds from borrowings	14	203,456	56,966
Repayment of borrowings	14	(60,476)	(27,290)
Financing costs paid	14	(2,673)	(4,546)
Settlement of derivatives		(970)	(3,764)
Payment of finance lease obligations		(4,560)	(1,566)
<b>Net cash flows (used in)/from financing activities</b>		<b>130,460</b>	<b>(3,948)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,247)</b>	<b>1,408</b>
Cash and cash equivalents at the beginning of the year	12	<b>16,074</b>	<b>14,625</b>
Effect of exchange rate fluctuations of cash and cash equivalents held		5	41
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b>13,832</b>	<b>16,074</b>

*\*Included is the consideration paid for the acquisition of Invitel in the amount of EUR 135.4 million paid by Digi Kft. for the completion of transaction on 30 May 2018. For details, please see Note 22 Business Combination.*

**DIGI COMMUNICATIONS N.V.**
**Consolidated Statement of Changes in Equity  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non- controlling interest	Total equity
<b>Balance at 1 January 2018</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>(29,957)</b>	<b>35,120</b>	<b>(3,667)</b>	<b>(248)</b>	<b>138,869</b>	<b>136,519</b>	<b>6,029</b>	<b>142,548</b>
<b>Comprehensive income for the year</b>											
Profit/(loss) for the year	-	-	-	-	-	-	-	16,600	<b>16,600</b>	1,422	<b>18,022</b>
Foreign currency translation differences	-	-	-	(4,285)	-	-	-	-	<b>(4,285)</b>	(262)	<b>(4,547)</b>
Revaluation of equity instruments measured at fair value through OCI (Note 7)	-	-	-	-	-	(10,088)	-	-	<b>(10,088)</b>	-	<b>(10,088)</b>
Cash flow hedge reserves	-	-	-	-	-	-	342	-	<b>342</b>	24	<b>366</b>
Transfer of revaluation reserve (depreciation)	-	-	-	-	(5,800)	-	-	5,800	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,285)</b>	<b>(5,800)</b>	<b>(10,088)</b>	<b>342</b>	<b>22,400</b>	<b>2,569</b>	<b>1,184</b>	<b>3,753</b>
<b>Transactions with owners, recognised directly in equity</b>											
<i>Contributions by and distributions to owners</i>											
Purchase of treasury shares (Note 13)	-	-	(1,195)	-	-	-	-	-	<b>(1,195)</b>	-	<b>(1,195)</b>
Equity-settled share-based payment transactions (Note 24)	-	-	590	-	-	-	-	14,593	<b>15,183</b>	787	<b>15,970</b>
Dividends distributed (Note 13)	-	-	-	-	-	-	-	(7,037)	<b>(7,037)</b>	(694)	<b>(7,731)</b>
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>(605)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,556</b>	<b>6,951</b>	<b>93</b>	<b>7,044</b>
<i>Changes in ownership interests in subsidiaries</i>											
<b>Total changes in ownership interests in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(605)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,556</b>	<b>6,951</b>	<b>93</b>	<b>7,044</b>
<b>Balance at 31 December 2018</b>	<b>6,918</b>	<b>3,406</b>	<b>(14,527)</b>	<b>(34,242)</b>	<b>29,320</b>	<b>(13,755)</b>	<b>94</b>	<b>168,825</b>	<b>146,039</b>	<b>7,306</b>	<b>153,345</b>

**DIGI COMMUNICATIONS N.V.**
**Consolidated Statement of Changes in Equity  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
<b>Balance at 1 January 2017</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(30,181)</b>	<b>42,996</b>	<b>-</b>	<b>(3,719)</b>	<b>40,474</b>	<b>41,165</b>	<b>1,438</b>	<b>42,603</b>
<b>Comprehensive income for the year</b>											
Profit/(loss) for the year	-	-	-	-	-	-	-	58,268	58,268	3,763	62,031
Foreign currency translation differences	-	-	-	(543)	-	-	-	-	(543)	(58)	(601)
Movements Fair Value reserves for AFS	-	-	-	-	-	(3,667)	-	-	(3,667)	-	(3,667)
Cash flow hedge reserves	-	-	-	-	-	-	3,361	-	3,361	242	3,603
Transfer of revaluation reserve (depreciation)	-	-	-	-	(6,765)	-	-	6,765	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(543)</b>	<b>(6,765)</b>	<b>(3,667)</b>	<b>3,361</b>	<b>65,033</b>	<b>57,419</b>	<b>3,947</b>	<b>61,366</b>
<b>Transactions with owners, recognised directly in equity</b>											
<i>Contributions by and distributions to owners</i>											
Increase of share capital through conversion of share premium and reserves	9,949	(8,247)	-	-	-	-	-	(1,702)	-	-	-
Conversion of class A shares to class B shares	(3,082)	-	-	-	-	-	-	3,082	-	-	-
Purchase of treasury shares	-	-	(2,459)	-	-	-	-	-	(2,459)	-	(2,459)
Swap of treasury shares against AFS (Note 7)	-	3,406	1,030	-	-	-	-	-	4,436	-	4,436
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	1,642	1,642	-	1,642
Dividends distributed (Note 13)	-	-	-	-	-	-	-	(6,000)	(6,000)	(416)	(6,416)
<b>Total contributions by and distributions to owners</b>	<b>6,867</b>	<b>(4,841)</b>	<b>(1,429)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,978)</b>	<b>(2,381)</b>	<b>(416)</b>	<b>(2,797)</b>
<i>Changes in ownership interests in subsidiaries</i>											
Swap of NCI against AFS (Note 7)	-	-	-	1,349	(1,955)	-	193	39,923	39,510	1,866	41,376
Swap of treasury shares against NCI (Note 22)	-	-	4,210	(582)	844	-	(83)	(3,583)	806	(806)	-
<b>Total changes in ownership interests in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>4,210</b>	<b>767</b>	<b>(1,111)</b>	<b>-</b>	<b>110</b>	<b>36,340</b>	<b>40,316</b>	<b>1,060</b>	<b>41,376</b>
<b>Total transactions with owners</b>	<b>6,867</b>	<b>(4,841)</b>	<b>2,781</b>	<b>767</b>	<b>(1,111)</b>	<b>-</b>	<b>110</b>	<b>33,362</b>	<b>37,935</b>	<b>644</b>	<b>38,579</b>
<b>Balance at 31 December 2017</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>(29,957)</b>	<b>35,120</b>	<b>(3,667)</b>	<b>(248)</b>	<b>138,869</b>	<b>136,519</b>	<b>6,029</b>	<b>142,548</b>



**1. CORPORATE INFORMATION**

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

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

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

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

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

The Group provides telecommunication services of Cable TV (television), Fixed and Mobile Internet and Data, Fixed-line and Mobile Telephony (“CBT”) and Direct to Home television (“DTH”) services in Romania, Hungary, Spain and Italy. The largest operating company of the Group is RCS&RDS. At the end of 2018, DIGI Group had a 16,918 total of employees (2017: 13,976 employees).

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

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 closed on 30 May 2018 for a total consideration of approximately 135.4 million EUR. For details, please see Note 22 Business Combination.

The consolidated financial statements were authorized for issue by the Board of Directors of DIGI on 19 March 2019.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES****2.1 BASIS OF PREPARATION****(a) Statement of compliance**

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

**(b) Consolidated financial statements**

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

**(c) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for buildings, land, network, equipment and devices and customer premises equipment measured at revalued amount, and except for financial assets at fair value through OCI and derivative financial instruments measured at fair value as described in the accounting policies under Note 2.2 below.

**(d) Going concern assumption**

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

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

Please refer to Note 23 for a discussion of how management addresses liquidity risks.

**(e) Functional and presentation currency**

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

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

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

- management analysis and reporting is prepared in EUR;
- EUR is used as a reference currency in telecommunication industry in the European Union;
- Senior Notes are denominated in EUR.

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

**(f) Significant estimates and judgments**

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

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

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

- Notes 2.2 (d): recognition and classification of programme assets;
- Notes 2.2 (c) and 5: recognition of customer premises equipment;
- Notes 7 and 22b: recognition and valuation of share swap contracts.

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

- Note 6: key assumptions used in discounted cash flow projections in relation to goodwill impairment testing;
- Note 2.2 (c) and Note 5: assessment of useful lives of property, plant and equipment;
- Notes 3a and 5: revaluation of buildings, network, equipment and devices and customer premises equipment;
- Note 23 i): assessment of allowance for expected credit losses;
- Notes 3 and 23 iv): determination of fair value of financial instruments, in particular financial assets at fair value through OCI (Note 3f and Note 7);
- Note 26: contingencies;
- Note 14 and 23 iv): determination of fair value of bonds embedded derivatives;
- Note 20: recognition and measurement of deferred tax assets.

**2.2 SIGNIFICANT ACCOUNTING POLICIES**

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

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****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 2018.

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (including clarifications) from January 1, 2018. The effects of these standards are described in the following paragraphs.

- **IFRS 9 Financial Instruments: Classification and Measurement**

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group adopted the new standard on the required effective date and utilized the option of simplified initial application. As the effect arising from transition to IFRS 9 was not material, the cumulative effect arising from the transition was recognized in the statement of comprehensive income for the period of initial application. Prior year comparative information was not restated and continues to be reported under IAS 39. The Group provides the explanation of the reasons for changes in items in the consolidated statement of financial position and the consolidated statement of comprehensive income.

*a) Classification and measurement*

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the 'SPPI criterion').

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The new classification and measurement of the Group's debt financial assets are at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, which are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

Other financial assets include equity instruments which are classified and subsequently measured as financial assets at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as Available for sale financial assets.

There are no significant factoring arrangements in place and no significant sales of receivables have occurred in the past. For these trade receivables the principal is deemed to be the amount resulting from a transaction in the scope of IFRS 15. The entity has determined that the trade receivables do not include a significant financing component and, hence, the time value of money component was considered immaterial and ignored in the SPPI assessment. All trade receivables of the Group are plain vanilla. Therefore, trade receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. There is no impact on the Group's classification and measurement of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The Group has not designated any financial liabilities as at fair value through profit or loss. The accounting for the Group's financial liabilities remains



**Notes to the consolidated Financial Statements  
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*(all amounts are in thousand EUR, unless specified otherwise)*

largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

In summary, upon the adoption of IFRS 9, the Group recorded the following required reclassifications as at 1 January 2018:

January 2018:			
	IFRS 9 measurement category		
	IAS 39 Amount	Amortised cost	Fair value through OCI
IAS 39 measurement category			
<i>Loans and receivables</i>			
Trade and other receivables	49,949	49,949	-
Contract assets	32,523	32,523	-
<i>Available for sale</i>			
Unquoted equity instruments	42,146	-	42,146
	<b>124,618</b>	<b>82,472</b>	<b>42,146</b>

b) Impairment

The new impairment model requires the recognition of impairment allowances based on forward-looking expected credit losses (ECL) rather than only incurred credit losses as it was the case under IAS 39. Financial assets measured at amortized cost will be subject to the impairment requirements of IFRS 9. Also, IFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. In general, the application of the expected credit loss model results in earlier recognition of credit losses and increases the amount of loss allowance recognized for the relevant items.

Upon adoption of IFRS 9, the Group computed the additional impairment as on the Group's Trade receivables and contract assets as at 1 January 2018. The additional impairment was not recorded in the opening balance of Retained earnings, as at 1 January 2018, given the fact that the amount was not material. With respect to cash and cash equivalent amounts, due to the fact that the Group's exposure is towards banks with very low probability of default there was no allowance to be recorded as the amounts are insignificant. The only impact on the financial statements of the Group due to the new requirements of IFRS 9 resulted from applying the probability of default as it results from historical patterns also to the trade and other receivables, as well as contract assets which are not yet due.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9. Re-measurements are mostly attributable to application of the expected credit losses model.

	Allowance for impairment under IAS 39 as at 31 December 2017	Re-measurement	Allowance for impairment under IFRS 9 as at 1 January 2018
Loans and receivables under IAS 39/Financial assets at amortised cost under IFRS 9	48,421	1,136	49,557
Loans and receivables under IAS 39/ Contract assets	-	106	106
<b>Total</b>	<b>48,421</b>	<b>1,242</b>	<b>49,663</b>

### Hedging

The Group applied the policy choice of continuing with hedge accounting requirements of IAS 39. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships.

Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's financial statements.

At the date of initial application, 1 January 2018, the Group applied the modified retrospective method and did not restate the comparative period, as permitted by IFRS 9.

### • **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 Revenue from contracts with customers using the modified retrospective method of adoption with initial date of application of 1 January 2018, limiting the application of the new standard to contracts that have not yet been completely fulfilled at the date of initial application. Contracts that have not been yet completely fulfilled as of 1 January 2018 are accounted for, as if the requirements of the new standard would have applied since the beginning of the contract. The Group did not apply any of the other available optional practical expedients.

The impact of initial application of IFRS 15 consist solely of reclassifications and a more disaggregated presentation of revenues by categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors (for details, please see the disaggregated presentation of revenues, included in Note 17).

Owing to the nature of the Group's revenues, which mainly consist of subscription revenues (both for residential customers as well as the majority of business customers), the impact of IFRS 15 compared to IAS 18 consists of the following:

- reclassifications between categories of revenues (cable, internet, telephony) due to re-allocation of promotions;
- reclassification between categories of revenues (cable, DTH, other) in respect of equipment in custody for which no rental fees are received;
- earlier recognition of revenues for sale of mobile phones, which is in part a reclassification of revenues (from telephony, cable, internet to other) and partly create a contract asset (which is included in the calculation of the expected credit losses under IFRS 9, as described above).

Thus, the cumulative effect arising from transition to be recognized as an adjustment to the opening balance of retained earnings in the year of initial application was not recognized, as it was not significant. Prior year comparatives were not adjusted in order to reflect the effect of reclassification in the consolidated statement of financial position. Instead, the Group presents the adjustments made to items in the consolidated statement of financial position as at 1 January 2018 attributable to IFRS 15.

**Impact on the consolidated statement of financial position at 31 December 2017**

	Carrying amount without adoption of IFRS 15 (in accordance with IAS 18)	Reclassification	Carrying amount in accordance with IFRS 15
<b>Current assets</b>			
Trade and other receivables	82,472	(32,523)	49,949
Contract assets	-	32,523	32,523
<b>Total</b>	<b>82,472</b>	<b>-</b>	<b>82,472</b>
<b>Current liabilities</b>			
Contract liabilities	-	11,267	11,267
Deferred income	11,267	(11,267)	-
<b>Total</b>	<b>11,267</b>	<b>-</b>	<b>11,267</b>

The overview presented above contains only those items of the consolidated statement of financial position that are affected by the first-time application of IFRS 15. The carrying amounts as of 1 January 2018 are shown before the effect of impairment losses on contract assets recognized in accordance with the initial application of IFRS 9. Please refer to the section above, for the impact of initial application of IFRS 9.

The reclassifications mainly concern the following items:

- the unbilled amounts in relation with equipment sold in installments to customers (such as TV sets, telephones and tablets), that, under IAS 18 were recognized under trade and other receivables, as of 31 December 2017, are reclassified as contract assets under IFRS 15; these represent the right to consideration in exchange for goods or services already transferred to the customer;
- the deferred income in relation with amounts collected in advance, from customers, which is recognized as contract liabilities under IFRS 15, being the obligation to transfer goods or services for which the Group has received consideration (or an amount of consideration is due) from the customer;

**Impact on the consolidated statement of comprehensive income for the year ended 31 December 2018**

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated statement of comprehensive income is:

<b>For the year ended 31 December 2018</b>			
	<b>Transactions without adoption of IFRS 15</b>	<b>Reclassifications</b>	<b>As reported</b>
Revenues	1,038,121	(1,038,121)	-
Revenues from contract with customers	-	1,028,437	1,028,437
Other revenues	-	9,684	9,684
<b>Total</b>	<b>1,038,121</b>	<b>-</b>	<b>1,038,121</b>

As shown in the table above, if transactions would have been reported in accordance with IAS 18, the Group's revenues would not have been materially different.

- IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

The Group has considered these clarifications when performing the analysis of the IFRS 15 implementation impact, as detailed above.

Additionally, the Group has adopted the following amended standards with a date of initial application of January 1, 2018:

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments did not have a significant impact on the consolidated financial statements.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The adoption of this interpretation did not have a significant impact on the consolidated financial statements.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. This improvement did not have a significant impact on the consolidated financial statements of the Group:
  - **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

**a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of DIGI and its subsidiaries and the Group's interest in associates as at 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using consistent accounting policies. Upon consolidation adjustments are recorded in order to align the few inconsistent accounting policies.

*Business combinations*

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

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

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

*Non-controlling interests*

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

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



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

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

*Subsidiaries*

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

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

*Loss of control*

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

*Investments in associates*

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

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

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

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

Investments in insignificant associates are accounted for at cost less any accumulated impairment losses.

*Transactions eliminated on consolidation*

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

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

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****b) Foreign currency***Foreign currency - Transactions and balances*

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

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

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

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

*Foreign operations - Translation to presentation currency*

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

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

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

Currency	2018			2017		
	Jan – 1	Average for the year	Dec – 31	Jan – 1	Average for the year	Dec – 31
RON per 1EUR	4.6597	4.6535	4.6639	4.5411	4.5681	4.6597
HUF per 1EUR	310.14	318.83	321.51	311.02	309.30	310.14
USD per 1EUR	1.1993	1.1815	1.1450	1.0510	1.1293	1.1993

**c) Property, plant and equipment**

Property, plant and equipment is carried:

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

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

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

Land is not depreciated.

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

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

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

Cost includes the cost of replacing part of the plant or equipment when that cost meets the recognition criteria. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred.

Property, plant and equipment includes customer premises equipment, such as direct to home ("DTH"), cable, Internet and mobile radio equipment in custody with customer, when the Group retains control over such assets.

The carrying values of property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying amount of customer premises equipment in custody of customers with suspended services as at the reporting date is fully impaired.

The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

Depreciation is calculated on a straight-line basis to write off recorded cost of the assets over their estimated useful lives.

The estimated useful lives applied are as follows:

	<b>Useful life</b>
Buildings	40-50 years
Fixed Network	up to 25 years
Mobile Radio Network (sites)	20 years
Equipment and devices	3-10 years
Customer premises equipment	5-10 years
Vehicles	5 years
Furniture and office equipment	3-9 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year when the asset is derecognized.

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in the profit or loss. A revaluation deficit is recognized in profit or loss, except where a deficit is directly offsetting a previous surplus on the same asset in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve is transferred to retained earnings as the assets are depreciated or upon disposal.

*Decommissioning*

The present value of the expected cost for the decommissioning of the mobile radio network sites after their use, is included in the cost of the respective assets if the recognition criteria for a provision are met.

**d) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortized over the useful economic life on a straight line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss.

*Customer relationships*

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies. Customer relationships acquired directly from other companies are recognized at the cost of acquisition, which is the fair value of the consideration paid. Customer relationships obtained by acquiring control of certain companies are recognized at their fair value at the date of the acquisition and are presented separately from any goodwill resulting in the acquisition.

Management determines the useful life used for the amortization of customer relationships based on management analysis and past experience. The useful life used for amortizing customer relationships is of 7 years (straight line method is used).

*Cost to obtain a contract*

Cost to obtain an contract (previously "Subscriber acquisition costs") represent the costs for acquiring and connecting new subscribers of the Group companies, consisting of commissions paid to third parties for contracting a new subscriber at the point at which the contract is signed with the customer. The Company capitalises as intangible assets the subscriber acquisition costs as they meet the requirements of IAS 38 for capitalization.

These are amortized over the related contract period, being a two year period, as in average a contract has a lock-up period of two years.

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

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.2 (a). Goodwill is subsequently measured at cost less accumulated impairment losses, being tested at least annually for impairment.

Where goodwill forms part of cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

*Programme assets*

The Group is concluding multi-annual contracts for the acquisition of broadcasting rights for national and international sports competitions ("sports rights"), as well as contracts for the acquisition of film and television broadcasting rights. When entering into such contracts, the rights acquired are classified as contractual commitments. They are recognised in the statement of financial position and classified as current intangible assets (programme assets) as follows:

- Sports broadcasting rights for the current season are recognized at their acquisition cost, at the opening of the broadcasting period of the related sports season. Sports rights are amortized over the broadcasting period on a straight line basis. Any rights not expected to be utilized are written off;
- Film and television broadcasting rights are recognised at their acquisition cost, when the programme is available for screening, and are amortised over their broadcasting period.

Advance payments for sports rights related to future seasons and for film and television rights are also presented as current intangible assets (programme assets).

The Group classifies the cash outflows for the purchase of programme assets as cash flows used in investing activities in the Consolidated Statement of Cash Flows, based on the long-term nature of the contribution of these assets to the subscriber acquisition, subscriber retention and consequent revenue generation, based on the comprehensive strategy of the Group.

*Other intangible assets*

Other intangible assets that are acquired by the Group (the 2100 MHz the 900 MHz, the 2600 MHz and the 3700 MH mobile telephony licenses in Romania, the 1800 MHz and 3800 MHz mobile telephony license in Hungary, software and other intangible assets) have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization of the mobile telephony licences is charged on a straight line basis over the period of each license.

Estimated useful lives for mobile telephony licenses are between 15-25 years.

Software licenses (including software related to telecommunication equipment) are amortized on a straight line over their estimated useful life which is generally 3 to 8 years. Other contractual intangible assets are amortized over their underlying contract period.



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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**(i) Financial assets****Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.1) Revenues.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**Classification**

The Group classifies non-derivative financial assets into the following categories: cash and cash equivalents, financial assets at amortised cost, financial assets designated at fair value through OCI (equity instruments) and financial assets at fair value through profit or loss.

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits at banks.

Cash and cash equivalents in the consolidated statement of cash flows comprise cash at bank and in hand and short-term deposits at banks with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

**Financial assets at amortised cost (debt instruments)**

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes, mainly, trade receivables which are classified and measured as Debt instruments at amortised cost beginning 1 January 2018.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)*****Financial assets designated at fair value through OCI (equity instruments)***

Upon initial recognition, the Group elected to classify irrevocably its unquoted equity investments as equity instruments designated at fair value through OCI. This category only includes equity instruments which the Group intends to hold for the foreseeable future. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets. Gains and losses on these financial assets are never recycled to profit or loss. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

**Derecognition**

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)*****ii) Financial liabilities*****Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as interest-bearing loans and borrowings, payables, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings, payables and other financial liabilities net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, issued bonds and derivative financial instruments.

**Subsequent measurement**

After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, please refer to Note 14.

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

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

***Derivative financial instruments*****Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, more specifically, interest rate swaps to hedge its interest rate risks. The Group applied the policy choice of continuing with hedge accounting requirements of IAS 39 and all the existing hedging relationships were eligible to be treated as continuing hedging relationships. On initial designation of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

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

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

***(iii) Share capital*****Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Transactions with the Company's A shares between shareholders are considered completed at the date when the transfer of ownership has been agreed upon by the parties in a written contract. Transactions with B shares are trading on the stock exchange and are considered completed at the transaction date.

**Repurchase, disposal and reissue of share capital (treasury shares)**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium, except for transactions with non-controlling interest, for which the resulting surplus or deficit on the transaction is credited or debited to retained earnings. When treasury shares are cancelled the excess of cost above nominal value is debited to retained earnings.

Share and repurchase agreements related to treasury shares do not result in derecognition of the respective treasury shares and do not affect their cost.

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

### **Earnings per share**

The Group discloses both basic earnings per share and diluted earnings per share for continuing operations and discontinued operations:

- basic earnings per share are calculated by dividing net profit/(loss) for the year attributable to the equity holders of the Group, by the weighted average number of ordinary shares outstanding during the period;
- diluted earnings per share are calculated based on the net profit/(loss), adjusted by the dilutive effect of employee stock-options, net of the related tax effect.

Earnings per share are adjusted retrospectively for increases in the number of shares resulting from capitalisation, bonus issues or share splits, as well as for decreases resulting from reverse share splits, including when such changes occur subsequent to the reporting period but before the financial statements are authorized for issue.



**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****f) Impairment***i) Non-financial assets***Property, plant and equipment and intangible assets other than goodwill**

The carrying amount of the Group's property, plant and equipment and intangible assets other than goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An asset's or cash generating unit's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss, except for property, plant and equipment previously revalued where the revaluation was recognised in other comprehensive income. In this case the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless that asset is carried at revalued amount, in which case the reversal in excess of previous impairment loss recognised in profit or loss is treated as a revaluation increase.

After recording impairment losses or reversals the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**Goodwill**

Goodwill is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lower level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit or loss.

Impairment losses recognized for goodwill cannot be subsequently reversed.

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

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established two provision matrices that comprise of the grouping of customers, in accordance with similar loss patterns (by geography, type of service and type of customer, namely residential and business clients). The provision rates are initially based on the Group's observed historical credit loss experience and default rates, adjusted for forward-looking factors specific to the debtors and the economic environment. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed, if the case. Specifically, for the purpose of determining the credit losses, the Group computes the forward looking percentages of default based on the ratio of the monthly receivables in balance to the monthly amounts invoiced to clients, during the current year. Trade receivables overdue by more than 6 months are written off. The Group considers a financial asset in default when contractual payments are 60 days past due.

However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Trade and other receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a future write-off is later recovered, the recovery is recognized in profit or loss.

**g) Inventories**

Inventories are stated at the lower of cost and net realizable value.

Cost is determined on a first-in first-out basis, and it comprises all costs of purchase, costs of conversion and other costs in bringing the inventories to their current location and condition.

Net realizable value of the equipment sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**h) Employee benefits***Short-term employee benefits*

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses as services are rendered.

*Pensions and other post-employment benefits*

Under the regulatory regimes applicable in the countries where it operates, the Group is required to make payments to national social security funds for the benefit of its employees (defined contribution plans financed on a pay-as-you go basis). The Group has no legal or constructive obligation to pay future contributions if the state managed funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Its only obligation is to pay the contributions as they fall due and if it ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years.

Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

The Group does not operate any other pension schemes or post employment benefit plans.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)***Share based payment transactions*

Refer to paragraph q) below.

**i) Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as a finance cost.

*Decommissioning provision*

The Company records a provision for decommissioning costs of its telecom sites. Decommissioning costs are provided for at the present value of expected costs of dismantling using estimated cash flows and are recognized as part of the cost of the relevant asset. The cash flows are discounted at the risk-free rate. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the site and the expected timing of those costs.

The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

**j) Leases***The Group as a lessee*

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Contracts meeting these criteria are then evaluated to determine whether they are either an operating lease or finance lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalized leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Group will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Indefeasible Rights of Use (IRUs) represent the right to use a portion of the capacity of a terrestrial transmission cable granted for a fixed period. IRUs are recognized as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. Such assets are included in property, plant and equipment in the consolidated statement of financial position. They are depreciated over the shorter of the expected period of use and the life of the contract.

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

Leases, including IRU leases and lease of satellite transponders, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

When a sale and lease back transaction results in a finance lease, any excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term (no profit on disposal of the asset is recorded in profit or loss). No loss is recognized unless the asset is impaired. If no loss is recognised, the leased asset is recorded at the previous carrying amount and continues to be accounted as before the sale and leaseback transaction.

*The Group as a lessor*

The Group currently has no material arrangements as a lessor. The existing arrangements as a lessor, which are not material, are all operating leases.

For details regarding the estimated impact of the application of IFRS 16 starting from 1 January 2019, please see section 2.3 *Standards issued but not yet effective and not early adopted*.

**k) Contingencies**

Management applies its judgment to the fact patterns and advice it receives from its attorney, advocates and other advisors in assessing if an obligation is probable or not or remote. This judgment application is used to determine if the obligation is recognized as a liability or disclosed as a contingent liability.

Contingent liabilities are not recognized in the accompanying consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the accompanying consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

**l) Revenue and other income**

Revenue is measured based on the consideration specified in a contract with a customer. Revenue from contracts with customers is recognised when control of goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from sale of goods was recognized when the significant risk and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods and the amount of revenue could be measured reliably. Revenue from rendering of services was recognized in proportion to the stage of completion of the work performed at the reporting date, or at the time when the services are performed.

Below section summarize how and when revenue is recognized for each category of revenue.

*i) Revenue from services*

The Group's main sources of revenue from contracts with customers are:

- revenue from the provision of video, cable TV ("CATV") and direct-to-home ("DTH") TV, subscription services;
- revenue from the provision of internet and data communication subscription services (fixed and mobile);
- revenue from the provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.

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

- *Subscription fees and voice traffic services*

Video services subscriptions, pay TV fees, internet and data subscriptions, telephony subscriptions and voice minutes consumption revenues are recognised over time, based on the period when the services are provided. These revenues are collected through subscription fees that arise from the monthly billing of subscribers for these services and monthly billing of voice traffic. Revenue is recognized in the month the service is rendered. Voice traffic revenue is recognized in the profit or loss at a point in time, when the call is made. Revenue from interconnect fees is recognised at a point in time, when the services are performed.

- *Prepaid services*

Revenue from sale of prepaid cards, net of discounts allowed, included in the Group's prepaid services packages is recognised over time based on usage. Prepaid revenue is deferred until the customer uses the traffic or the card expires.

- *Customer loyalty programme*

Starting with 2016, the Group operates a loyalty programme in Romania which allows customers to receive vouchers on signing new or renewed contracts. The fair value of the consideration is deducted from the future subscription values and recognized as revenue when it is redeemed, or at expiration.

*(i) Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

***Equipment sales***

Revenue is recognized at a point in time, when the Group performs under the contract and the control of goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

***Sales of mobile, CTV and DTH devices***

The group recognizes revenue when a customer takes possession of the device. This usually occurs when the customer signs the contract. For devices sold separately (not in a bundled package), customers pay in full at the point of sale. For mobile devices sold in bundled packages, customers usually pay monthly in equal instalments, over a period of 12 months or 24 months.

***Bundled services***

Certain packaged offers comprise of the subscription service and the device. For bundled services, the Group accounts for individual products or services separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list price at which the Group sells the devices and the telecommunication, CATV, DTH services.

Where a promotional offer includes a period of free service, the respective discount is allocated proportionally to each distinct performance obligation. Payment terms are, usually, up to 30 days since the invoice is issued.

*i) Rental income*

Rental income comprising of the fair value of the consideration received or receivable arising from leases of assets is accounted over the lease term (unless another systematic basis is more representative of the pattern in which the usage benefit derived from the leased asset is diminished). Payment terms are, usually, up to 30 days since the invoice is issued.



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

**ii) Advertising**

Revenues obtained from publicity sales on our broadcasting channels (TV & radio) are recognized at a point in time, when the relating advertising is performed. Payment terms are, usually, up to 30 days since the invoice is issued.

**iii) Supply of electricity**

Realized results from trading of electricity are reported in the consolidated statement of profit or loss account on a net basis as part of Other income/ (Other expense). Mark-to-market results (unrealised) from fair value assessment of energy trading contracts are reported as Other income/ (Other expense) in the consolidated statement of profit or loss.

Revenues from electricity production are recognized in the period when these have been delivered into the Romanian national electric grid and / or to customers. Payment terms are, usually, up to 30 days since the invoice is issued.

Revenue from sale of green certificates granted under Romania's renewable energy support scheme is recognized at a point in time, when control is transferred to the customers. Deferred green certificates are recognized at fair value, which includes for the green certificates for which trading is deferred, the assessment of the related under-absorption risk.

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

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

***Trade receivables***

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

***Contract liabilities***

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

***Costs of obtaining the contract and/or costs to fulfil a contract/***

We recognise incremental costs of obtaining the contract and costs to fulfil, as contract assets, and we disclose these in the notes to the financial statements, as follows:

- **Costs to obtain a contract** are represented by the incremental costs, such as sales commissions, incurred to obtain a contract with a customer which would not have been incurred if the contract had not been obtained. The subscriber acquisition costs ("SAC") already met the criteria described in the new standard and continue to be accounted in accordance with IAS 38. These are presented as a separate class of intangible assets in the notes to the financial statements. The amortization period was also analysed and found to be compliant with IFRS 15 requirements, therefore no change was necessary following the implementation of the new standard. For details, please see Note 2 d) Intangible assets.
- **Costs to fulfil a contract** are considered to be direct costs which are mandatory for providing the service to customers, such as direct labour costs with the installation of equipment at customer premises, materials for CPEs installation, direct fuel expenses for CPE installation. These are capitalized, part of Property, plant and equipment category of assets and amortized over a period of up to 25 years. Costs to fulfil a contract are presented within the Networks category, in the notes to the financial statements. For details, please see Note 5. Property, plant and equipment.

***Principal versus agent***

Under IFRS 15, the principal versus agent assessment is based on whether the Group controls the specific goods or services before transferring to the customer, rather than whether it has exposure to significant risks and rewards associated with the sale of the goods or services. The Group has concluded that it is the principal in the majority of its revenue arrangements, because it controls the goods or services before transferring them to the customer.

Sales of electricity are often subject to fees or tariffs for facilitating the transfer of goods and services. When the Group does not control the services related to such fees and tariffs, before these are transferred to the customer, and when it is not involved in the rendering of the service nor does it control the pricing, the Group is only an agent in providing these services (e.g. electricity transport tariffs).

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

**m) Finance income and finance expense**

Finance income comprises interest income on funds invested, dividend income, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on derivative financial instruments that are recognised in profit or loss and reclassifications of net gains in hedging instruments previously recognised in other comprehensive income.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on derivative financial instruments that are recognised in profit or loss and reclassifications of net losses on hedging instruments previously recognised in other comprehensive income. Unamortised borrowing fees are expensed upon termination of related borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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

Parties are considered related when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties include individuals that are principal owners, management and members of the Board of Directors and members of their families, or any company that is related party to Group's entities.

**o) Income tax***Current tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

*Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or are recognized when their utilisation has become probable.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made.

**p) Dividends**

Dividends are recognized as distributions within equity in the period in which they are declared to shareholders (at the date of the approval by the shareholders). Dividends for the year are declared after the reporting date.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****q) Share-based payment transactions**

Certain members of the management team and certain employees of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date on which they are granted, as evidenced by their market price.

The cost of equity-settled transactions is recognized as "Salaries and related taxes" expense, together with a corresponding increase in retained earnings, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting period'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit to profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed by the Group as best estimate of the number of equity instruments that will ultimately vest. Performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service / performance conditions.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided that the original terms of the award are met. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately through profit or loss. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**r) Discontinued operations**

A discontinued operation is a component of the Group's business, operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.



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

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

**t) Subsequent events**

Post period-end events that provide additional information about the Group's position at the reporting date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes, when material.

**u) Segment reporting**

The information by operating segment is based on internal reporting to the Board of Directors, identified as "Chief Operating Decision-Maker", as defined by IFRS 8 *Operating Segments*. The Board of Directors reviews segment information on revenue and non-current assets on a monthly basis and segment EBITDA (earnings before interest, taxes, depreciation and amortization) on a quarterly basis.

The Group considers EBITDA, a non-IFRS measure, to be the key operating performance measure of its operating segments. The method used in calculating EBITDA and its reconciliation to the line items in the statement of comprehensive income is disclosed in Note 28. All other information included in the disclosure per segment is prepared under IFRSs as adopted by EU applicable to the consolidated financial statements.

The Chief Operating Decision-Maker has chosen to review geographical operating segments because the Group's risks and rates of return are affected predominantly by the fact that it operates in different countries.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.3 Standards issued but not yet effective and not early adopted**

The standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group does not plan to early adopt these standards. EU endorsement is still pending in some cases.

- **IFRS 16: Leases**

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

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

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

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

**Transition to IFRS 16**

The Group will transition to IFRS 16 in accordance with the modified retrospective approach, therefore the prior-year figures will not be adjusted.

The Group has started an assessment of the impact of IFRS 16 on its consolidated financial statements. The application of IFRS 16 is expected to have a material effect on components of the consolidated statements and the presentation of the net assets, financial position and results of operations.

The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. Low value contracts are defined by the Group as contracts with an annual value of less than EUR 5.

**Statement of financial position:** IFRS 16 requires lessees to adopt a uniform approach to the presentation of leases. In future, assets must be recognized for the right of use received and liabilities must be recognized for the payment obligations entered into for all leases. The Group will make use of the relief options provided for leases of low-value assets and short-term leases. In contrast, the accounting requirements for lessors remain largely unchanged, particularly with regard to the continued requirement to classify leases according to IAS 17. For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability will be recognized at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate at the time the standard is first applied. The right of use asset will generally be measured at the amount of the lease liability plus initial direct costs. Advance payments and liabilities from the previous financial year will also be accounted for. The preliminary results of the analysis indicate a probable significant increase in lease liabilities and total assets. The

Group's equity ratio will decline and the Net debt will rise accordingly due to the material increase in lease liabilities.

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

These changes will improve the profit from operating activities (EBIT).

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

To assess the impact of the application of IFRS 16, the Group performs an on-going analysis of its operational leases contracts as at 31 December 2018. To assess whether a contract is or contains a lease, the Group analyses if:

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

The remaining lease payments of the contracts, which were considered to be in the scope of IFRS 16, were discounted using the incremental borrowing rate which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Discount rates estimated considering lessee's incremental borrowing rate for each type of lease contracts reflects the specific risk of the lessee, country of operation and each sector for which funding would be needed.

The Group performs an on-going analysis to estimate the present value of the rent expenses which will represent the estimated additional impact on debt to be recognized in the consolidated financial position and the carrying amount of the Right of usage asset, which will be set at the same amount as the lease liability upon transition. The adoption of IFRS 16 has no impact on the financial covenants as our financing agreements have a "frozen GAAP clause" in the financial covenants computation. The Group estimates the depreciation expense for the asset recognized in the consolidated financial position and the estimated interest expense of the lease liability, based on maturity profiles. Following the adoption of IFRS 16, the Group's operating profit will improve, while its interest expense will increase. We expect the adoption of IFRS 16 from 1 January 2019 to have a significant impact on the above elements.

In addition, the following standards, interpretations and amendments were issued which are not expected to have any material effects on the Group's financial statements:

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

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. 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. The Group is currently assessing the impact of adopting this amendment on the consolidated financial statements and does not expect it to be significant.

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

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. 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. The Group is currently assessing the impact of adopting this interpretation on the consolidated financial statements and does not expect it to be significant.

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

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

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. 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. The Group is currently assessing the impact of adopting these amendments on the consolidated financial statements and does not expect it to be significant.

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

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. 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 Group is currently assessing the impact of adopting these amendments on the consolidated financial statements and does not expect it to be significant.

- **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. . These Amendments have not yet been endorsed by the EU.

- **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. The Group is currently assessing the impact of adopting these amendments on the consolidated financial statements and does not expect it to be significant.

- **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. The Group is currently assessing the impact of adopting these amendments on the consolidated financial statements, and does not expect it to be significant.

- **The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

- **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.

The Group is currently assessing the impact of adopting these annual improvements on the Group's consolidated financial statements, and it does not expect to be significant.

### **3. DETERMINATION OF FAIR VALUES**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods when applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### **a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination and of property, plant and equipment carried under the revaluation model is the estimated amount for which property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, on the date of acquisition and respectively on the revaluation date. The fair value of items of property, plant and equipment is based on the market approach and, where market approach cannot be used given the high degree of specialization of the asset being valued, cost approach. Market approach relies on quoted market prices for similar items when available, or on valuation models that use inputs observable or unobservable on the market (such as the income approach for certain buildings). The cost approach relies on the determination of the depreciated replacement cost. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

#### **b) Intangible assets**

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. Main assumptions used are the churn rate, EBITDA %, the discount rate.

#### **c) Derivatives**

The fair value of the derivative financial instruments is based on generally accepted valuation techniques. It reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Please refer to Notes 23 and 25 for additional disclosures regarding fair values of derivatives.



**3. DETERMINATION OF FAIR VALUES (continued)****d) Non-derivative financial assets and liabilities**

Non-derivative financial assets and liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

Please refer to Note 23 for additional disclosures regarding fair values of non-derivative financial instruments.

**e) Equity-settled share-based payment transactions**

The fair value of the options granted to employees is measured using a generally accepted valuation technique, in which the main input is the market price of shares at the grant date (please refer to Note 24 for additional details). Given the short life of the options and the low volatility in the market value of the Group's shares, management estimates that the time value of the share options is not significant.

Please refer to Note 24 for additional disclosures regarding share-based payments.

**f) Financial assets at fair value through OCI**

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment of the available for sale shares held in RCSM at 2017 and 2018 year ends was performed based on the quoted price/share of the shares of the Company as of the valuation date, adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

Please refer to Note 23 for additional disclosures regarding the fair valuation of financial assets at fair value through OCI.

**DIGI COMMUNICATIONS N.V.****Notes to the consolidated Financial Statements  
for the year ended 31 December 2018***(all amounts are in thousand EUR, unless specified otherwise)***4. SEGMENT REPORTING**

<b>31 December 2018</b>	<b>Romania</b>	<b>Hungary<sup>1</sup></b>	<b>Spain</b>	<b>Other</b>	<b>Eliminations</b>	<b>Reconciling item</b>	<b>Group</b>
Segment revenue	697,840	190,904	126,588	22,789	-	-	<b>1,038,121</b>
Inter-segment revenues	3,336	-	793	604	(4,733)	-	-
Segment operating expenses	(441,754)	(151,876)	(97,225)	(27,430)	4,733	-	<b>(713,552)</b>
<b>Adjusted EBITDA (Note 28)</b>	<b>259,422</b>	<b>39,028</b>	<b>30,156</b>	<b>(4,037)</b>	<b>-</b>	<b>-</b>	<b>324,569</b>
Depreciation, amortization and impairment of tangible and intangible assets	-	-	-	-	-	(211,480)	<b>(211,480)</b>
Other income (Note 28)	8,873	-	-	-	-	-	<b>8,873</b>
Other expenses (Note 28)	(17,468)	(2,519)	-	-	-	-	<b>(19,987)</b>
<b>Operating profit</b>							<b>101,975</b>
Additions to tangible non-current assets	174,872	191,506	7,532	70			<b>373,980</b>
Additions to intangible non-current assets	30,653	31,603	11,886	1,804			<b>75,946</b>
<i>Carrying amount of:</i>							
Property, plant and equipment	827,118	302,724	8,900	250			<b>1,138,992</b>
Non-current intangible assets	177,831	53,750	12,116	2,155			<b>245,852</b>
Investments in associates and financial assets at fair value through OCI	970	-	-	32,058			<b>33,028</b>

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

<sup>1</sup> As at 31 December 2018, Hungarian operations include the consolidated results of both Digi Hu and Invitel. For details, please see Note 22 c) Business combinations

**DIGI COMMUNICATIONS N.V.****Notes to the consolidated Financial Statements  
for the year ended 31 December 2018***(all amounts are in thousand EUR, unless specified otherwise)***4. SEGMENT REPORTING (continued)**

<b>31 December 2017</b>	<b>Romania</b>	<b>Hungary</b>	<b>Spain</b>	<b>Other</b>	<b>Eliminations</b>	<b>Reconciling item</b>	<b>Group</b>
Segment revenue and other income	655,172	150,424	92,691	18,264	-	-	<b>916,551</b>
Inter-segment revenues	3,125	-	1,205	572	(4,902)	-	-
Segment operating expenses	(431,332)	(110,673)	(68,063)	(23,863)	4,902	-	<b>(629,029)</b>
<b>Adjusted EBITDA (Note 28)</b>	<b>226,965</b>	<b>39,751</b>	<b>25,833</b>	<b>(5,027)</b>	<b>-</b>	<b>-</b>	<b>287,522</b>
Depreciation, amortization and impairment of tangible and intangible assets						(171,812)	<b>(171,812)</b>
Other income (Note 28)	156	-	-	2,353	-	-	<b>2,509</b>
Other expenses (Note 28)	(217)	-	-	(2,603)	-	-	<b>(2,820)</b>
<b>Operating profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,399</b>
Additions to tangible non-current assets	150,134	39,926	2,835	213	-	-	<b>193,108</b>
Additions to intangible non-current assets	35,311	1,030	5,351	2,878	-	-	<b>44,570</b>
<i>Carrying amount of:</i>							
Property, plant and equipment	752,698	144,083	3,662	248	-	-	<b>900,691</b>
Non-current intangible assets	177,628	29,610	5,603	2,407	-	-	<b>215,248</b>
Investments in associates and available for sale financial assets	784	-	-	42,146	-	-	<b>42,930</b>

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

**Notes to the consolidated Financial Statements  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*
**5. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
<b>Cost</b>									
<b>At 31 December 2017</b>	<b>21,763</b>	<b>86,716</b>	<b>644,460</b>	<b>85,417</b>	<b>104,825</b>	<b>318,706</b>	<b>41,529</b>	<b>27,198</b>	<b>1,330,614</b>
Additions	3,804	5,799	11,869	199,058	6,161	9,091	5,752	400	241,934
Acquired through business combinations (Note 22)	723	10,506	87,315	9,854	9,927	13,151	528	42	132,046
Transfer from construction in progress ("CIP")/reallocation (assets taken into use)	-	4,208	63,458	(138,919)	25,648	39,850	3,477	2,278	0
Disposals	-	(140)	-	(375)	(27)	(256)	(917)	(29)	(1,744)
Effect of movements in exchange rates	(206)	(309)	(4,625)	(1,521)	(592)	(3,625)	(327)	(226)	(11,431)
<b>At 31 December 2018</b>	<b>26,084</b>	<b>106,780</b>	<b>802,477</b>	<b>153,514</b>	<b>145,942</b>	<b>376,917</b>	<b>50,042</b>	<b>29,663</b>	<b>1,691,419</b>
<b>Depreciation and impairment</b>									
<b>At 31 December 2017</b>	-	<b>11,029</b>	<b>187,860</b>	<b>124</b>	<b>16,578</b>	<b>167,585</b>	<b>28,146</b>	<b>18,601</b>	<b>429,923</b>
Depreciation charge	-	6,044	58,351	-	20,049	31,427	5,412	3,685	124,968
Impairment	-	-	917	-	1,721	-	-	-	2,638
Disposals	-	(51)	-	-	(27)	(256)	(917)	(29)	(1,280)
Effect of movements in exchange rates	-	(70)	(1,400)	-	(136)	(1,873)	(197)	(146)	(3,822)
<b>At 31 December 2018</b>	-	<b>16,952</b>	<b>245,728</b>	<b>124</b>	<b>38,185</b>	<b>196,883</b>	<b>32,444</b>	<b>22,111</b>	<b>552,427</b>
<b>Net book value</b>									
<b>At 31 December 2017</b>	<b>21,763</b>	<b>75,687</b>	<b>456,600</b>	<b>85,293</b>	<b>88,247</b>	<b>151,121</b>	<b>13,383</b>	<b>8,597</b>	<b>900,691</b>
<b>At 31 December 2018</b>	<b>26,084</b>	<b>89,828</b>	<b>556,749</b>	<b>153,390</b>	<b>107,757</b>	<b>180,034</b>	<b>17,598</b>	<b>7,552</b>	<b>1,138,992</b>

**Notes to the consolidated Financial Statements  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*
**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
<b>Cost</b>									
<b>At 31 December 2016</b>	<b>17,803</b>	<b>78,052</b>	<b>566,836</b>	<b>93,945</b>	<b>74,431</b>	<b>274,159</b>	<b>38,367</b>	<b>24,334</b>	<b>1,167,927</b>
Additions	4,416	3,004	14,176	156,884	4,825	6,634	1,633	1,536	193,108
Transfer from construction in progress ("CIP")/reallocation (assets taken into use)	-	8,246	77,557	(163,186)	28,051	43,612	3,897	1,823	-
Disposals	-	(438)	-	(582)	(23)	(151)	(1,513)	(5)	(2,712)
Effect of movements in exchange rates	(456)	(2,148)	(14,109)	(1,644)	(2,459)	(5,548)	(855)	(490)	(27,709)
<b>At 31 December 2017</b>	<b>21,763</b>	<b>86,716</b>	<b>644,460</b>	<b>85,417</b>	<b>104,825</b>	<b>318,706</b>	<b>41,529</b>	<b>27,198</b>	<b>1,330,614</b>
<b>Depreciation and impairment</b>									
<b>At 31 December 2016</b>	-	<b>6,762</b>	<b>149,782</b>	<b>127</b>	-	<b>143,097</b>	<b>26,626</b>	<b>15,544</b>	<b>341,938</b>
Depreciation charge	-	4,580	42,238	-	14,847	27,468	3,522	3,381	96,036
Impairment	-	-	-	-	2,040	-	-	-	2,040
Disposals	-	(8)	-	-	(19)	(118)	(1,385)	(5)	(1,535)
Effect of movements in exchange rates	-	(305)	(4,160)	(3)	(290)	(2,862)	(617)	(319)	(8,556)
<b>At 31 December 2017</b>	-	<b>11,029</b>	<b>187,860</b>	<b>124</b>	<b>16,578</b>	<b>167,585</b>	<b>28,146</b>	<b>18,601</b>	<b>429,923</b>
<b>Net book value</b>									
<b>At 31 December 2016</b>	<b>17,803</b>	<b>71,290</b>	<b>417,054</b>	<b>93,818</b>	<b>74,431</b>	<b>131,062</b>	<b>11,741</b>	<b>8,790</b>	<b>825,989</b>
<b>At 31 December 2017</b>	<b>21,763</b>	<b>75,687</b>	<b>456,600</b>	<b>85,293</b>	<b>88,247</b>	<b>151,121</b>	<b>13,383</b>	<b>8,597</b>	<b>900,691</b>



**5. PROPERTY, PLANT AND EQUIPMENT (continued)***Property, plant and equipment additions*

The most significant portion of increase in additions in the period relate to the additions of property, plant and equipment of Invitel, as a result of Invitel's consolidation. For details regarding the Invitel's tangible assets included in consolidation at the acquisition date, please see details in Note 22 Business Combinations.

Most of the other additions in 2018 and 2017 relate to the triple play network, as the Group has continued to invest in expanding to new areas but also has continued the upgrade of the existing network. Other additions relate to continued investment in the mobile radio network coverage in Romania and the set-up of the mobile radio network in Hungary, and equipment investments.

*Property, plant and equipment in leasing*

The carrying amount of property, plant and equipment includes an amount of EUR 11,906 as of 31 December 2018 (31 December 2017: EUR 12,251) representing land and buildings as assets held under finance leases. The ownership title of these assets should be transferred to RCS&RDS at the end of the leasing agreements (refer to Note 14 (xv)).

For details regarding the estimated impact of the adoption of IFRS 16, please see Note 2.3.

*Revaluation of land and buildings*

The Group revalued its land and buildings as of 31 December 2016. In terms of the buildings, only the owned buildings in Romania were subject to the fair value appraisal. Improvements to rented buildings from Romania and Hungary were excluded from the fair value appraisal.

The fair value was determined by reference to market-based evidence, using the market comparable method, the cost and income approach. The valuation techniques are selected by the independent appraiser, in accordance with International Valuation Standards. There were no changes in the valuation techniques compared to the previous revaluation.

If land was measured using the cost model, the carrying amounts would be as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Cost</b>	<b>28,028</b>	<b>23,533</b>
<b>Fair value</b>	<b>26,084</b>	<b>21,763</b>

If buildings were measured using the cost model, the carrying amounts would be as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Cost	110,626	90,363
Accumulated depreciation	(24,461)	(18,742)
<b>Net carrying amount</b>	<b>86,165</b>	<b>71,621</b>
<b>Fair value</b>	<b>89,828</b>	<b>75,687</b>

As at 31 December 2018, management completed its annual review on the valuation of land and buildings and based on market circumstances concluded that no further revaluation is required.

**5. PROPERTY, PLANT AND EQUIPMENT (continued)***Revaluation of network, equipment and devices and customer premises equipment*

Network, equipment and devices, and customer premises equipment were revalued as of 31 December 2012 on the basis of their depreciated replacement cost calculated by the Group's personnel (fair value is classified as Level 3 in the fair value measurement hierarchy, since this valuation was performed using a non-observable input). Replacement cost was determined as follows:

- for materials and equipment, based on price quotations from suppliers and prices of the most recent acquisitions;
- for personnel costs, based on the historical salaries multiplied by the Group's salary growth rate;
- for subcontractor costs, based on historical fees multiplied by the consumer price indices for services.

As of 31 December 2016 management has assessed that the replacement cost of network, equipment and devices which are not fully amortized did not vary significantly from the 31 December 2012 revaluation and respectively their acquisition cost for additions during 2013-2016. Given the new technologies used by the Group no significant instances of technological obsolescence were identified.

Customer premises equipment were revalued as of 31 December 2016 on the basis of their depreciated replacement cost calculated by the Group's personnel (fair value is classified as Level 3 in the fair value measurement hierarchy, since this valuation was performed using non-observable inputs). Replacement cost was determined based on price quotations from suppliers and prices of the most recent acquisitions. Additionally, a ceiling was applied in the revaluation process by reference to the original acquisition prices (in RON equivalent at the applicable exchange rates as of 31 December 2016) and applying a yearly discount for the typical price decreases in telecommunications' industry. Given the new technologies used by the Group no significant instances of technological obsolescence were identified.

Network, equipment and devices, and customer premises equipment are part of cash generating units containing goodwill, which are tested annually for impairment (refer to Note 6).

If network, equipment and devices, and customer premises equipment were measured using the cost model, the carrying amounts would be as follows:

*Network*

	31 December 2018	31 December 2017
Cost	879,025	711,729
Accumulated depreciation	(343,679)	(289,753)
<b>Net carrying amount</b>	<b>535,346</b>	<b>421,976</b>
<b>Fair value</b>	<b>556,749</b>	<b>456,600</b>

*Equipment and devices*

	31 December 2018	31 December 2017
Cost	489,501	427,933
Accumulated depreciation	(312,997)	(282,819)
<b>Net carrying amount</b>	<b>176,504</b>	<b>145,114</b>
<b>Fair value</b>	<b>180,034</b>	<b>151,121</b>

**5. PROPERTY, PLANT AND EQUIPMENT (continued)***Customer premises equipment*

	<b>31 December 2018</b>	<b>31 December 2017</b>
Cost	590,085	548,534
Accumulated depreciation	(494,513)	(468,198)
Impairment		(8,625)
<b>Net carrying amount</b>	<b>95,572</b>	<b>71,711</b>
<b>Fair value</b>	<b>107,757</b>	<b>88,247</b>

As at 31 December 2018, management completed its annual review on the valuation of network, equipment and devices and customer premises equipments and based on market circumstances concluded that no further revaluation is required.

*Costs to fulfil the performance obligations*

Costs to fulfil the performance obligations under the contracts with customers in amount of EUR 943 were capitalized during the year ended at 31 December 2018 in relation to fixed services offered by Digi Spain.

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

*Impairment*

In addition to the compulsory impairment test for the CGUs which include goodwill, an assessment of impairment indicators has been made for the CGUs which do not include goodwill (such as the renewable energy production), as well as for specific assets (such as abandoned construction-in-progress).

*Commitments for property, plant and equipment*

For details regarding commitments for property, plant and equipment please see Note 26.

**Notes to the consolidated Financial Statements  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*
**6. INTANGIBLE ASSETS**
**a) Non-current intangible assets**

	Goodwill	Customer relationships	Trade marks	Costs to obtain a contract	Licences and software	Total non-current intangible assets
<b>Cost</b>						
<b>At 31 December 2017</b>	<b>76,089</b>	<b>77,148</b>	<b>2,816</b>	<b>97,616</b>	<b>190,122</b>	<b>443,791</b>
Additions	-	3,997	-	28,802	13,788	<b>46,587</b>
Additions from acquisitions of subsidiaries (Note 22)	7,613	10,269	5,689	1,939	3,849	<b>29,359</b>
Disposals	-	-	-	-	(28)	<b>(28)</b>
Effect of movement in exchange rates	(799)	(371)	(2)	(930)	(1,512)	<b>(3,614)</b>
<b>At 31 December 2018</b>	<b>82,903</b>	<b>91,043</b>	<b>8,503</b>	<b>127,427</b>	<b>206,219</b>	<b>516,095</b>
<b>Depreciation</b>						
<b>At 31 December 2017</b>	<b>-</b>	<b>71,831</b>	<b>1,687</b>	<b>78,578</b>	<b>76,447</b>	<b>228,543</b>
Amortization	-	6,265	601	21,042	15,220	<b>43,128</b>
Impairment	-	-	-	5	-	<b>5</b>
Disposals	-	-	-	-	-	<b>-</b>
Effect of movement in exchange rates	-	(262)	(2)	(797)	(372)	<b>(1,433)</b>
<b>At 31 December 2018</b>	<b>-</b>	<b>77,834</b>	<b>2,286</b>	<b>98,828</b>	<b>91,295</b>	<b>270,243</b>
<b>Net Book Value</b>						
<b>At 31 December 2017</b>	<b>76,089</b>	<b>5,317</b>	<b>1,129</b>	<b>19,038</b>	<b>113,675</b>	<b>215,248</b>
<b>At 31 December 2018</b>	<b>82,903</b>	<b>13,209</b>	<b>6,217</b>	<b>28,599</b>	<b>114,924</b>	<b>245,852</b>

## 6. INTANGIBLE ASSETS (continued)

	Goodwill	Customer relationships	Trade marks	Subscribers acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
<b>Cost</b>						
<b>At 31 December 2016</b>	<b>77,178</b>	<b>75,301</b>	<b>2,883</b>	<b>78,814</b>	<b>174,968</b>	<b>409,144</b>
Additions	267	3,839	-	19,731	20,733	44,570
Disposals	-	-	-	-	(1,938)	(1,938)
Effect of movement in exchange rates	(1,356)	(1,992)	(67)	(929)	(3,641)	(7,985)
<b>At 31 December 2017</b>	<b>76,089</b>	<b>77,148</b>	<b>2,816</b>	<b>97,616</b>	<b>190,122</b>	<b>443,791</b>
<b>Depreciation</b>						
<b>At 31 December 2016</b>	<b>-</b>	<b>66,615</b>	<b>1,307</b>	<b>65,354</b>	<b>69,056</b>	<b>202,332</b>
Amortization	-	6,871	416	13,549	10,781	31,617
Impairment	-	-	-	546	-	546
Disposals	-	-	-	-	(1,848)	(1,848)
Effect of movement in exchange rates	-	(1,655)	(36)	(871)	(1,542)	(4,104)
<b>At 31 December 2017</b>	<b>-</b>	<b>71,831</b>	<b>1,687</b>	<b>78,578</b>	<b>76,447</b>	<b>228,543</b>
<b>Net Book Value</b>						
<b>At 31 December 2016</b>	<b>77,178</b>	<b>8,686</b>	<b>1,576</b>	<b>13,460</b>	<b>105,912</b>	<b>206,812</b>
<b>At 31 December 2017</b>	<b>76,089</b>	<b>5,317</b>	<b>1,129</b>	<b>19,038</b>	<b>113,675</b>	<b>215,248</b>



**6. INTANGIBLE ASSETS (continued)****(i) Customer relationships**

Customer relationships represent the cost incurred by the Group when acquiring customer contracts from other companies directly or by acquiring control of those companies.

The main additions of Customer relationships in the period relate to the additions resulted from the consolidation of Invitel. For details regarding the Invitel's intangible assets included in consolidation at the acquisition date, please see details in Note 22 Business Combinations.

**(ii) Impairment testing for cash-generating units containing goodwill**

The Group defines cash-generating units (CGUs) based on three criteria:

1. country;
2. infrastructure used in providing the services; and
3. bundling of services affecting independence of cash flows.

Since a significant percentage of customers buy bundled services of CBT (cable, broadband and telephony), mobile telephony services, in countries where the Group is providing CBT, mobile telephony services and DTH services, the Group identified separate CGUs for CBT, mobile telephony services and DTH respectively. Television production does not represent separate CGUs in Romania due to the RCS&RDS strategy, structure of subscribers and revenues generated. Mobile telephony in Hungary does not represent separate CGUs from the fixed line as Digi Hungary strategy's doesn't look at it separately. The analysis of the services performed by Invitel was made together with the CBFT CGU from Hungary as they operate a similar structure of services – fixed line services and operate in the same geographical segment – Hungary.

In addition, solar electricity production companies are also considered distinct CGUs.

Goodwill acquired through business combinations has been allocated among cash generating units for the purposes of impairment testing as follows:

- CBT Romania;
- CBT Hungary;
- Mobile Spain.

<b>Goodwill</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>CBT</b>	<b>82,425</b>	<b>75,583</b>
Romania	54,458	54,483
Hungary	27,967	21,100
<b>Mobile</b>	<b>228</b>	<b>228</b>
Spain	228	228
<b>DTH</b>	<b>250</b>	<b>278</b>
Romania	250	278
<b>Total</b>	<b>82,903</b>	<b>76,089</b>

Goodwill increased due to the consolidation of the Invitel acquisition, which was completed in May 2018. For details, please see Note 22 Business Combination.

Recoverable amounts for the CGUs have been determined on the basis of fair value less costs to sell calculations using cash flow projections based on financial budgets approved by senior management covering a five-year period (level 3 on fair value hierarchy).

**6. INTANGIBLE ASSETS (continued)***Key assumptions used in the calculations of the recoverable amounts*

Key assumptions used in the calculation of the recoverable amounts are revenues, EBITDA margins, discount rate, terminal value growth rate and capital expenditure.

*Discount rate (post –tax)*

- for the Romanian territory 9.55% p.a. (2017: 8.23%);
- for the Hungarian territory 9.50% p.a. (2017: 8.91%).

*Discount rate (pre –tax)*

- for the Romanian territory 9.79% p.a. (2017: 8.47%)
- for the Hungarian territory 9.65% p.a. (2017: 9.18%)

The discount rate applied to the cash flows of each CGU is based in the Group's Weighted Average Cost of Capital (WACC). WACC is the average cost of sources of financing (debt and equity), each of which is weighted by its respective use in the market.

Key inputs to the WACC calculation are the risk free rate, beta (reflecting the risk of the Group relative to the market as a whole) as well as assumptions regarding the spread for credit risk and the market risk premium for the cost of equity. Group WACC is adjusted for risk relative to the country in which the CGU operates.

*Terminal growth rates*

- for Romanian CBT CGU 2% p.a. (2017: 2%);
- for Hungarian CBT CGU 2% p.a. (2017: 2%).

The growth rate in perpetuity has been determined based on the long-term compounded annual growth rate in EBITDA estimated by management considering market maturity and market share in Romania and Hungary, being also in line with publicly available market expectations.

*EBITDA margins*

For the Romanian CBT CGU, budgeted EBITDA is based on past experience and incremental increase in future years generated from incremental increase in revenues from new subscribers to our cable Tv, internet and mobile telephony business; budgeted EBITDA for the Hungarian CBT CGU is based on past experience and growth expectation from tighter cost control and additional revenue from new subscribers connected to the fixed network.

The Company does not disclose information regarding prospective EBITDA margins and revenue growth rates for the budgeted period, given the fact that reasonable EBITDA changes do not impact significantly the fair value.

*Capital expenditure*

Budgeted capital expenditure (tangible and intangible assets including programme assets) is based on past experience, forecasted growth of subscribers (new subscribers connected to the fixed network) and other business drivers.

Management believes that as of 31 December 2018 no reasonable possible change in the main assumptions could result in an impairment charge (31 December 2017: no reasonable change).

**(iii) Costs to obtain contracts with customers (Subscriber acquisition costs "SAC")**

Cost to obtain the contracts with customers represents third party costs for acquiring and connecting customers of the Group. In 2018 SAC was generated in relation with contracting customers in Romania (EUR 17,312), Spain (EUR 8,840), Hungary (EUR 2,843) and Italy (EUR 1,746). In 2017, SAC was generated in relation with contracting customers in Romania (EUR 12,069), Spain (EUR 5,287), Hungary (EUR 258) and Italy (EUR 2,117).

**(iv) Licences and software***2100 MHz license (Romania)*

**6. INTANGIBLE ASSETS (continued)**

In January 2007 the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") granted to RCS&RDS a 2100 MHz license for a period of 15 years which may be extended at the request of the Company for another 10 years, for a total consideration of EUR 27,056 (equivalent of USD 35,000), entirely paid as of 31 December 2014. The cost of the 2100 MHz license was EUR 23,110 and was determined at inception date by discounting the future payments using effective interest method at the date the license was granted to RCS&RDS (interest rate used was 7.6% p.a., similar to interest rate on other long term borrowings contracted by RCS&RDS). The carrying amount of the 2100 MHz license as of 31 December 2018 is EUR 5,532 (2017: EUR 5,961).

*900 MHz license (Romania)*

In September 2012 IGCTI granted to RCS&RDS 1 spectrum block in the 5 MHz broadband to be used starting with April 2014 for a period of 15 years, for a total consideration of EUR 40,000 out of which EUR 26,000 was paid in 2012. The remaining amount of EUR 14,000 was paid in June 2013. The carrying amount of the 900 MHz license as of 31 December 2018 is EUR 26,199 (2017: EUR 28,781).

The obligations assumed in relation to the 900 MHz license are: allow access to MVNOs (mobile virtual network operators), coverage of a number of small cities in Romania presently without coverage until 5 April 2016, coverage for voice services of 98% of the population until 5 April 2019, coverage for data services of 60% of population until 5 April 2021. We fulfilled our license obligations, as reviewed by ANCOM.

*1800 MHz license (Hungary)*

In September 2014 NMHH granted to Digi Hungary 1 spectrum block in the 5 MHz for a period of 15 years, for a total consideration of HUF 10 billion (EUR 32,600) which was fully paid in October 2014. The carrying amount of the 1800 MHz license as of 31 December 2018 is EUR 24,666 (2017: EUR 27,189). The license has no coverage obligations assumed.

*2600 MHz license (Romania)*

In August 2015 the purchase of a 2600 MHz license from 2K Telecom for a total consideration of EUR 6,600 was approved by the Romanian General Inspectorate for Communication and Information Technology ("IGCTI"). The carrying amount of the 2600 MHz license as of 31 December 2018 is EUR 4,996 (2017: EUR 5,278).

*3700 MHz license (Romania)*

In October 2015 RCS&RDS has participated in an auction and acquired from the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") a 3700 MHz license for a total consideration of EUR 1,880. The license was granted and came into effect starting with December 2015 and its carrying amount as of 31 December 2018 is EUR 1,255 (2017: EUR 1,435).

*3800 MHz license (Hungary)*

The 3800 MHz license obtained for a total consideration of EUR 820 by Digi Hungary has a carrying amount as of 31 December 2018 of EUR 693 (2017: EUR 765).

*FM Radio frequency licenses (Romania)*

In 2015 RCS&RDS obtained the right of use of several audiovisual licences, through a transfer of licenses approved by the National Audiovisual Council of Romania. These licences are currently used to broadcast the Digi FM, Pro FM, Dance FM and Music FM radio stations.

*Other*

Included in "Licenses and software" category is also the software required for the operation and maintenance of communication equipment.

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

**6. INTANGIBLE ASSETS (continued)****b) Current intangible assets - programme assets**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Balance at 1 January</b>	<b>22,250</b>	<b>30,312</b>
Additions	39,890	34,122
Amortization	(40,741)	(41,573)
Effect of movement in exchange rates	(20)	(611)
<b>Balance at 31 December</b>	<b>21,379</b>	<b>22,250</b>

Included in "Additions" is an amount of EUR 34,433 representing broadcasting rights for sports competitions for 2018/2019 season (2017: EUR 28,540 for 2017/2018 season) and related advance payments for future seasons, the difference representing movies and documentaries rights. Contractual obligations related to future seasons are presented as commitments in Note 26.

**7. Financial assets at fair value through OCI**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Balance at 1 January</b>	<b>42,146</b>	<b>-</b>
Additions	-	45,813
Fair value adjustment - OCI	(10,088)	(3,667)
<b>Balance at 31 December</b>	<b>32,058</b>	<b>42,146</b>

The above financial assets at fair value through OCI comprise shares in RCSM (which is the parent of the Company). As at 31 December 2018 the percentage of ownership of DIGI in RCSM is 10%, similar to previous period. For additional disclosures on the fair values of the financial assets at fair value through OCI refer to Note 23 (iv).

On 9 March 2017 three share swaps agreements were concluded between the Company and three minority shareholders of RCSM, through which the minority shareholders of RCSM exchanged 16,582 shares of RCSM for 17,367,832 shares in RCS&RDS, which became effective on 7 April 2017. Given the fact that the fair value of RCSM shares as of the transaction date was not determined, the most objective measure for the cost of the shares was assessed to be the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed in Note 3f). The difference between the value of the non-controlling interest that was the consideration given for the RCSM shares, which is represented by the percentage of interest from the consolidated net asset value of RCS&RDS Group as of 31 March 2017, namely EUR 1,866, and the fair value through OCI of the financial asset shares acquired was credited to retained earnings.

On 24 March 2017 another swap agreement was concluded between the Company and a minority shareholder of RCSM, through which the minority shareholder of RCSM exchanged 1,778 shares of RCSM for 255 shares of the Company (before the split of the shares performed in preparation of the IPO), which became effective on 7 April 2017. Given the fact that the fair value of RCSM shares as of the transaction date was not determined, the most objective measure for the cost of the shares was assessed to be the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed in Note 3f). The difference between cost of the treasury shares that were the consideration given for the RCSM shares, namely EUR 1,030, and the fair value through OCI of the financial asset shares acquired was credited to share premium.

As of 31 December 2017 and 31 December 2018, the fair value of the RCSM shares was determined as detailed in Note 3f.

**8. EARNINGS PER SHARE (EPS)**

	<b>2018</b>	<b>2017</b>
<b>Net profit/(loss) for the year</b>	18,022	62,031
Non-controlling interests	(1,422)	(3,763)
<b>Net profit/(loss) attributable to equity holders of the parent</b>	<b>16,600</b>	<b>58,268</b>
<b>Weighted average number of ordinary shares outstanding – basic*</b>	<b>93,439,753</b>	<b>93,226,786</b>
Share option plan	1,646,505	172,337
<b>Weighted average number of shares outstanding – diluted*</b>	<b>95,086,258</b>	<b>93,399,123</b>
<b>Earnings/(loss) per share (EUR/share) basic</b>	<b>0.178</b>	<b>0.625</b>
<b>Earnings/(loss) per share (EUR/share) diluted</b>	<b>0.175</b>	<b>0.624</b>
<b>Earnings/(loss) per share (EUR/share) basic (discontinued)</b>	<b>(0.012)</b>	<b>-</b>
<b>Earnings/(loss) per share (EUR/share) diluted (discontinued)</b>	<b>(0.012)</b>	<b>-</b>

\* The number of outstanding shares excludes treasury shares

In February 2017, the general meeting of shareholders of the Company has unanimously resolved among others to amend the articles of association pursuant to which, inter alia, two classes of shares will be created being: class A shares with a nominal value of ten eurocent (EUR 0.10) each and in respect of which for each share A, ten (10) votes may be cast and class B shares with a nominal value of one eurocent (EUR 0,01) each and in respect of which for each share B one (1) vote may be cast. The weighted average number of shares outstanding was retrospectively adjusted for the comparative period. For details about the share split and bonus issuance of shares, please see Note 13.

During 2017 and 2018, several share option plans have been implemented for management and employees. These share options have a dilutive effect on earnings. For details, please see Note 24.



**9. INVENTORIES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Merchandise and equipment	4,746	3,366
Materials and consumables	11,840	6,697
<b>Total inventories</b>	<b>16,586</b>	<b>10,063</b>

*Merchandise and equipment*

This category includes terminal equipment sold to the customers. Such equipment includes mostly mobile phones.

*Materials and consumables*

This category includes mainly inventory used in the development and maintenance of the telecommunications networks, such as fiber optic cables, nodes and amplifiers.

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

**10. TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Trade receivables	54,229	75,304
Contract assets	44,076	-
Receivable from related parties (refer to Note 14)	753	779
Other taxes receivable	813	349
Other receivables	4,207	6,040
<b>Total trade and other receivables</b>	<b>104,078</b>	<b>82,472</b>

For details regarding credit risk please refer to Note 23.

*Collateral*

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

**11. OTHER ASSETS**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Advances to suppliers	6,659	4,051
Prepayments	5,760	6,995
<b>Total other assets</b>	<b>12,419</b>	<b>11,046</b>

For details regarding credit risk please refer to Note 23.

**12. CASH AND CASH EQUIVALENTS**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Bank accounts	13,411	15,800
Petty cash	421	274
<b>Total cash and cash equivalents</b>	<b>13,832</b>	<b>16,074</b>

Cash and cash equivalents as at 31 December 2018 includes cash equivalents in amount of EUR 2,911.

*Collateral*

For details on the pledges placed on the Group assets and restricted cash please refer to Note 14 (xiv).

**13. EQUITY**

In February 2017, the general meeting of shareholders of the Company has unanimously resolved the following:

- to amend the articles of association pursuant to which, inter alia, two classes of shares will be created being: class A shares with a nominal value of ten eurocent (EUR 0.10) each and in respect of which for each share A ten (10) votes may be cast and class B shares with a nominal value of one eurocent (EUR 0.01) each and in respect of which for each share B one (1) vote may be cast;
- a conversion and split of each currently issued ordinary share in the Company with a nominal value of EUR 1 into ten (10) class A shares with a nominal value of EUR 0.10 each;
- the increase of the share capital by issuing up to 100 million class A shares pro-rata to the shareholdings, subject to availability of reserves.

These resolutions took effect 11 April 2017.

In April 2017 the Board of DIGI was authorized to issue a number of 99,494,060 class A shares at a total nominal value of EUR 9,949,406 through incorporation of share premium and reserves (bonus issuance, based on the shareholders' resolutions from February 2017).

Therefore, as at 31 December 2017 and 31 December 2018, the authorized capital of the company amounts to EUR 11,000,000. The authorized capital is divided into shares as follows:

- (a) one hundred million (100,000,000) class A shares, with a nominal value of ten eurocents (EUR 0.10) each; and  
(b) one hundred million (100,000,000) class B shares, with a nominal value of one eurocent (EUR 0.01) each.

The issued and paid-up capital as at 31 December 2017 and 31 December 2018 is in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Class A:</b>		
Ordinary Shares – Issued and Paid (No.)	65,756,028	65,756,028
Ordinary Shares – Unissued (No.)	34,243,972	34,243,972
Nominal Value	0.10 EUR per share	0.10 EUR per share
<b>Class B:</b>		
Ordinary Shares – Issued and Paid (No.)	34,243,972	34,243,972
Ordinary Shares – Unissued (No.)	65,756,028	65,756,028
Nominal Value	0.01 EUR per share	0.01 EUR per share
Share Capital Value (EUR)	6,918	6,918,

The rights attaching to the class B shares are uniform in all respects except for the voting rights to the class A shares.

**13. EQUITY (continued)**

At 31 December 2018, the shareholders of DIGI are as follows:

Shareholder name	31 December 2018		31 December 2017	
	No. of shares	%	No. of shares	%
<b>Class A:</b>				
RCS Management S.A.	57,866,545	57.87%	57,866,545	57.87%
Zoltan Teszari	2,280,122	2.28%	2,280,122	2.28%
DIGI-treasury shares	5,609,361	5.61%	5,609,361	5.61%
<b>Total class A</b>	<b>65,756,028</b>		<b>65,756,028</b>	
<b>Class B:</b>				
Shares listed on BVB	33,339,354	33.34%	33,246,818	33.25%
DIGI - treasury shares	904,618	0.90%	997,154	1.00%
<b>Total class B</b>	<b>34,243,972</b>		<b>34,243,972</b>	
<b>TOTAL</b>	<b>100,000,000</b>		<b>100,000,000</b>	

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

*Treasury shares buy-back*

In June 2018, the Board of Directors of the Company decided upon the initiation of the class B shares buy-back program in accordance with the resolutions of the general shareholders meeting of the Company from 2 May 2018 (the AGM), to be used for the purpose of the several stock option programs. Up to 31 December 2018, a total of 187,464 class B shares were repurchased through the buy-back program. Please also see Note 24 for Stock Option Plan vested in 2018.

*Proposed appropriation of the result*

The board of directors proposed to add the result for the year to retained earnings. The proposal has been reflected in the statement of financial position. At the annual general meeting in 2019, the board of directors shall propose to pay-out from retained earnings a dividend per share of RON 0.50, totaling EUR 10,156 (using 31 December 2018 fx rate). This dividend payment shall only be reflected in the statement of financial position when it is approved by the annual general meeting.

*Dividends*

The profit available for distribution is the profit for the year and retained earnings recorded in the IFRS stand-alone statutory financial statements, which differs from the result in these financial statements.

The AGM from 2 May 2018 approved the distribution of a gross dividend of RON 0.35 per share (EUR 0.075 per share) for 2017. The dividend was distributed on 30 May 2018.

In April 2017 the Company declared dividends of EUR 6,000 for year ended 31 December 2016, which were paid in May 2017; the related amount of dividend per share was EUR/share 0.063.

*Nature and purpose of reserves**Translation reserve*

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

*Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of financial assets designated at fair value through other comprehensive income.

*Cash flow hedges*

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument. For the amount that was reclassified in Profit or Loss, please see Note 23.

*Revaluation reserve*

The revaluation reserve relates to the revaluation of property, plant and equipment.

**14. INTEREST BEARING LOANS AND BORROWINGS**

Long term portion		Nominal interest rate	31 December 2018	31 December 2017
2016 Bonds	(i)	5% p.a.	349,490	349,384
2016 Senior Facilities Agreement*	(ii)	3M ROBOR + 2.65%p.a.	203,067	293,079
2018 Senior Facilities Agreement*	(iii)	3M ROBOR/EURIBOR/BU BOR + 2.65%p.a.	156,566	-
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	3,579	2,395
Other	(iv,v)		3,491	3,182
<b>Total long term portion</b>			<b>716,193</b>	<b>648,040</b>

Current portion		Nominal interest rate	31 December 2018	31 December 2017
2016 Senior Facilities Agreement*	(ii)	3M ROBOR + 2.65%p.a.	89,182	40,091
2018 Senior Facilities Agreement*	(iii)	3M ROBOR/EURIBOR/BU BOR + 2.65%p.a.	17,144	-
Overdrafts	(x-xiii)	Variable linked to EURIBOR/ROBOR/ LIBOR+ respective margin	33,067	25,062
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	4,388	1,814
Other	(iv)- (ix)		24,844	15,042
<b>Total current portion</b>			<b>168,625</b>	<b>82,009</b>

\*Both of SFA 2018 and SFA 2016 were fully drawn as at 31 December 2018.



**Notes to the consolidated Financial Statements  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*
**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

For details regarding cash inflows and outflows for interest bearing borrowings please see the table below:

	Long term loans	Bonds	Short term loan	Interest	Total
<b>Balance as at 1 January 2018</b>	<b>337,675</b>	<b>349,384</b>	<b>32,394</b>	<b>6,387</b>	<b>725,840</b>
Proceeds from borrowings	189,839	-	13,618		<b>203,457</b>
Acquired through business combinations	-	-	9,295	-	<b>9,295</b>
Repayment of borrowings	(49,597)	-	(10,879)		<b>(60,476)</b>
Interest expense				41,310	<b>41,310</b>
Interest paid				(40,291)	<b>(40,291)</b>
New finance cost*	(1,926)	-			<b>(1,926)</b>
Amortisation of deferred finance costs and inception value of embedded derivative	1,413	106			<b>1,519</b>
Effects of movements in exchange rates	(1,699)	-	(187)	11	<b>(1,875)</b>
<b>Balance as at 31 December 2018</b>	<b>475,705</b>	<b>349,490</b>	<b>44,241</b>	<b>7,417</b>	<b>876,853</b>

*\*New finance cost presented above in amount of EUR 1,926 includes additional borrowing cost during the period. In the Cashflow statements, the amount of EUR 2,673 represents finance cost paid in 2018 related to Groups's borrowings.*

	Long term loans	Bonds	Short term loan	Interest	Total
<b>Balance as at 1 January 2017</b>	<b>338,274</b>	<b>349,636</b>	<b>10,708</b>	<b>5,197</b>	<b>703,815</b>
Proceeds from borrowings	33,693	-	23,273	-	<b>56,966</b>
Repayment of borrowings	(24,626)	-	(2,664)	-	<b>(27,290)</b>
Interest expense	-	-	-	35,203	<b>35,203</b>
Interest paid	-	-	-	(33,419)	<b>(33,419)</b>
New finance cost*	(864)	(357)	-	-	<b>(1,221)</b>
Amortisation of deferred finance costs and inception value of embedded derivative	1,072	93	-	-	<b>1,165</b>
Effects of movements in exchange rates	(9,874)	12	1,077	(594)	<b>(9,379)</b>
<b>Balance as at 31 December 2017</b>	<b>337,675</b>	<b>349,384</b>	<b>32,394</b>	<b>6,387</b>	<b>725,840</b>

*\*New finance cost presented above in amount of EUR 1,220 includes additional borrowing cost during the period. In the Cashflow statements, the amount of EUR 4,546 represents finance cost paid in 2017 related to 2016 borrowings.*

**(i) 2016 Bonds**

On 26 October 2016 the Company issued Bonds with a value of EUR 350,000 with a 5% coupon yield falling due in October 2023.

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

*Arrangement fees*

The total cost of concluding the 2016 Bonds is amortised using the effective interest method over the life of the Bonds. As of 31 December 2018 the unamortized balance of bond issuance related fees was EUR 6,207 (2017: EUR 7,498).

*Drawing*

As of 31 December 2018, the nominal balance is EUR 350,000 (EUR 349,490 presented net of borrowing fees and including bifurcation of fair value of embedded derivative at inception).

*Pledges*

Details on pledges are presented further in section (xiv) of the Note 14.

*Covenants*

The Group has agreed to certain covenants with respect to the Bonds, including, among other things, limitations on its ability to: incur or guarantee additional indebtedness; make investments or other restricted payments; sell assets and subsidiary stock; enter into certain transactions with affiliates; create liens; consolidate, merge or sell all or substantially all of our assets; enter into agreements that restrict our restricted subsidiaries' ability to pay dividends; sell or issue capital stock of restricted subsidiaries; engage in any business other than a permitted business; and impair the security interests with respect to the Collateral. Each of these covenants is subject to certain exceptions and qualifications. Certain of these covenants may also be suspended in the event that the Bonds receive investment grade ratings from the relevant credit rating agencies.

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

In accordance with the terms of the Bonds, the Group is required to compute the Consolidated Leverage Ratio if certain events take place. The Consolidated Leverage Ratio means the ratio of (i) the aggregate amount of Consolidated Total Indebtedness outstanding on such date to (ii) the aggregate amount of EBITDA (computed in accordance with the terms of the Bonds, being adjusted with certain items such as share option plan expense and net fixed assets sale) for the most recent four full consecutive fiscal quarters for which internal consolidated financial statements of the Company are available at the time of such determination. The Consolidated Leverage Ratio should not exceed 3.75 to 1. Please see Note 23 vii).

On 8 August 2017, the 2016 Senior Secured Bonds, were admitted to trading on the Main Securities Market of the Irish Stock Exchange. In connection with this listing, DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (the Hungarian subsidiary of RCS & RDS S.A., the Company's subsidiary) acceded as an additional guarantor under to the Indenture and the Intercreditor Agreement dated 26 October 2016 relating to the Bonds, as well as under the Senior Facility Agreement dated 7 October 2016.

The Group is in compliance with all the covenants under the 2016 Bonds as at 31 December 2018.

**(ii) 2016 Senior Facilities Agreement ("2016 SFA")**

On 7 October 2016, RCS & RDS, as borrower, entered into the Senior Facilities Agreement with, among others, BRD-Groupe Société Générale S.A., Citibank, N.A., London Branch, ING Bank, and Unicredit Bank, as lead arrangers. The Senior Facilities Agreement consists of (i) the SFA Facility A1; (ii) the SFA Facility A2; and (iii) the SFA Facility B. The SFA Facility A1 was drawn for the purposes of funding the refinancing of the 2015 Senior Facilities Agreement and capital expenditure requirements of the Group. The SFA Facility A2 was drawn for the purpose of funding the refinancing of the 2013 Bonds. The SFA Facility B was drawn for the general corporate and working capital purposes of the Group. Facilities A1 and A2 mature in October 2021. Facility B matures in 2019.

*Drawing*

On 26 October 2016, the Company drew (a) RON 930.0 million under the SFA Facility A1 and repaid the 2015 Senior Facilities Agreement in full; and (b) RON 600.0 million under the SFA Facility A2. During 2017 Facility B was fully drawn for the general corporate and working capital purposes of the Group, amounting to RON 157 million.

As at 31 December 2018 the outstanding principal amounts for SFA A1 was RON 744.0 million (EUR 159,523 million equivalent), for SFA A2 was RON 480.0 million (EUR 102,918 million equivalent) and for SFA B was RON 157.0 million (EUR 33,663 million equivalent). As at 31 December 2017 the outstanding principal amounts for SFA A1 was RON 860.3 million (EUR 184,626 million equivalent), for SFA A2 was RON 555.0 million (EUR 119,106 million equivalent) and for SFA B was RON 157.0 million (EUR 33,693 million equivalent).

The interest rate under the Senior Facilities Agreement is floating at a margin of 2.65% per annum plus ROBOR. Interest is payable every three months. The interest rate swaps concluded for the 2015 Senior Facilities Agreement remained valid and the hedging relationship continues to apply, up to 2019.

The interest rate under the 2015 Senior Facilities Agreement was floating at a margin of 2.5% per annum plus ROBOR. On May 22, 2015 RCS&RDS concluded an interest rate swap for the entire initial term loan facility through which interest is fixed at 5.75% until maturity date. The interest rate swap is secured by the Collateral pursuant to the terms of the Intercreditor Agreement.

The interest rate for the additional amount drawn in December 2015 (the "Accordion" agreement) is floating at a margin of 2.5% per annum plus ROBOR for the term loan facility portion (the interest rate was fixed at 5.50% until maturity date, through an interest rate swap concluded in January 2016) and floating ROBOR + 2.5% for the revolver credit portion).

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)***Maturities and repayment schedule*

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023. The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) RON 250.0 million under the 2016 SFA Facility A1 and A2 (EUR 53,603 equivalent) and (ii) RON 120.0 million under Facility B (EUR 25,730 equivalent). The outstanding principal amounts after the repayment for SFA A1 is RON 592.0 million (EUR 126,941 equivalent) and for SFA A2 is RON 382.0 million (EUR 81,897 equivalent).

Facility B is due to be repaid in full in October 2019. The remaining amount to be paid after the prepayment on 12 February 2019 is RON 37.0 million (EUR 7,933 equivalent).

The repayment schedule for any principal amount drawn under the 2016 SFA Facility A1/A2, after the prepayment on 12 February 2019 is as follows:

<b>Repayment date</b>	<b>Repayment instalment A1 – RON</b>	<b>Repayment instalment A1 – EUR Equivalent *)</b>	<b>Repayment instalment A2 - RON</b>	<b>Repayment instalment A2 - EUR Equivalent *)</b>
Oct-19	10,789,216	2,313,346	6,960,784	1,492,481
Apr-20	81,375,000	17,447,844	52,500,000	11,256,674
Oct-20	81,375,000	17,447,844	52,500,000	11,256,674
Apr-21	81,375,000	17,447,844	52,500,000	11,256,674
Oct-21	337,125,000	72,283,925	217,500,000	46,634,791
<b>Total</b>	<b>592,039,216</b>	<b>126,940,804</b>	<b>381,960,784</b>	<b>81,897,293</b>

\*) at year end fx rate

*Arrangement fees*

The total cost of concluding the loan is amortised using the effective interest method over the remaining term of the Senior Facilities Agreement. As of 31 December 2018 the unamortized balance of borrowings related fees incurred in 2018 was EUR 1,930 (31 December 2017: EUR 2,664).

The Senior Facilities Agreement concluded on October 2016 was accounted for as a modification of the previous 2015 Senior Facilities Agreement therefore the unamortized borrowing costs of the 2015 Senior Facilities Agreement in amount of EUR 1,167 (31 December 2017: EUR 1,581) as at 31 December 2018 will continue to be amortised over the life of the 2016 Senior Facility Agreement using the effective interest method (please see also Note 19).

*Pledges*

The Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with the 2016 Bonds, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan and 2018 Senior Facility, pursuant to the terms of the Intercreditor Agreement.

*Covenants*

The Group has agreed under the Senior Facilities Agreement to comply with two financial ratio covenants regarding leverage ("total net debt to EBITDA ratio) and interest cover and certain qualitative covenants, mainly related to authorisations, compliance with corporate legislation in force, preservation of assets, negative pledge, limitations on disposals, mergers, acquisitions, arm's length transaction, change in nature of business, limitation on subsidiary indebtedness, events of default and others.

The financial ratio covenants included in Senior Facilities Agreement include maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 4.25. For a period of 18 months starting from the date of completion of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt (30 May 2018), the Consolidated Total Net Indebtedness to EBITDA ratio shall not be more than 3.75:1.

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

The Group is in compliance with all the covenants under the 2016 Senior Facility Agreement as at 31 December 2018.

**(iii) 2018 Senior Facilities Agreement (“2018 SFA”)**

On 1 February 2018, RCS & RDS S.A. (the Company’s subsidiary in Romania – „RCS&RDS”), DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (RCS & RDS S.A.’s subsidiary in Hungary – „Digi Kft.”), as the borrowers, the Company, as a guarantor, Citibank N.A., London Branch and ING Bank N.V. as the arrangers, ING Bank N.V. as the facility agent, and several other financial institutions as the lenders have concluded a syndicated loan providing for three facilities in HUF, RON and EURO currencies (the „2018 Syndicated Facility”).

The 2018 Syndicated Facility was used partially for the financing of the acquisition by Digi Kft. of the Hungarian telecommunications operator Invitel Tavkozlesi Zrt. The remainder was used for general corporate purposes and/or capital expenditures.

The 2018 Syndicated Facility has a maturity of 5 years. The interest rate is of 2.65% per annum plus the relevant applicable interbank offered rates.

*Drawing*

An amount of EUR 159.9 million equivalent from the Facility was drawn in May 2018 and the remaining available amount of EUR 16.9 million equivalent was drawn in October 2018.

As at December 31, 2018 the outstanding principal amounts for SFA 2018 A1 was HUF 31,230 million (EUR 97,353 equivalent), for SFA 2018 B1 was RON153.9 million (EUR 32,995 equivalent) and for SFA 2018 B2 was EUR45,000.

*Maturities and repayment schedule*

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023. The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) HUF 17,835 million (EUR 55,472 equivalent) for SFA 2018 A1; (ii) RON 87.7 million (EUR 18,800 equivalent) for SFA B1 and EUR 25,641 for SFA 2018 B2.

The outstanding amounts under the SFA 2018 after the repayment are: (i) HUF 13,465 million (EUR 41,881 equivalent) for A1 Facility; (ii) RON 66.2 million (EUR 14,194 equivalent) for B1 Facility and (iii) EUR 19,359 for Facility B2.

The repayment schedule for any principal amount drawn under the SFA Facility A1/B1/B2, after the prepayment, is as follows:

<b>Repayment date</b>	<b>Repayment instalment A1 - HUF</b>	<b>Repayment instalment A1 - EUR Equivalent *</b>	<b>Repayment instalment B1 - RON</b>	<b>Repayment instalment B1 - EUR Equivalent *</b>	<b>Repayment instalment B2 - EUR</b>
15-Dec-22	945,200,888	2,939,880	4,647,028	996,382	1,358,922
14-Apr-23	12,519,940,000	38,941,059	61,553,600	13,197,882	18,000,000
<b>Total</b>	<b>13,465,140,888</b>	<b>41,880,940</b>	<b>66,200,628</b>	<b>14,194,264</b>	<b>19,358,922</b>

\* at year end fx rate

*Arrangement fees*

The total cost of concluding the loan is amortised using the effective interest method over the remaining term of the Senior Facilities Agreement. As of 31 December 2018 the unamortized balance of borrowings related fees incurred in 2018 was EUR 1,637 (31 December 2017: nil).

*Pledges*

The 2018 Senior Facilities Agreement is unconditionally guaranteed by the Company on a senior secured basis, and shares in the Collateral, together with the 2016 Bonds, the ING Facilities Agreement, the Citi Facilities Agreement, the BRD Letters of Guarantee and Letters of Credit Facilities, RCS Management loan, and 2016 Senior Facility, pursuant to the terms of the Intercreditor Agreement.



**14. INTEREST BEARING LOANS AND BORROWINGS (continued)***Covenants*

The Group has agreed under the Senior Facilities Agreement to comply with two financial ratio covenants regarding leverage ("total net debt to EBITDA ratio) and interest cover and certain qualitative covenants, mainly related to authorisations, compliance with corporate legislation in force, preservation of assets, negative pledge, limitations on disposals, mergers, acquisitions, arm's length transaction, change in nature of business, limitation on subsidiary indebtedness, events of default and others.

The financial ratio covenants included in Senior Facilities Agreement include maintaining: (i) on the last day of each Accounting Quarter which ends during the period from the date of this Agreement to (and including) 30 June 2019, the ratio of Consolidated Total Indebtedness to EBITDA for the Testing Period ending on that day is not more than 3.75:1; and on the last day of each Accounting Quarter which ends during the period from (and including) 1 July

2019, the ratio of Consolidated Total Net Indebtedness to EBITDA for the Testing Period ending on that day is not more than 3.25:1. Interest cover: the ratio of EBITDA to Net Total Interest for each Testing Period is not less than 4.25:1.

The Group is in compliance with all the covenants under the 2018 Senior Facility Agreement as at 31 December 2018.

**(iv) Libra Loan Agreement**

On 25 February 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON 32,000 thousand repayable in 5 years with Libra Bank (the "Libra Loan Agreement"). RCS&RDS drew RON 31,555 thousand and used the funding to acquire certain real property in Bucharest, which has been mortgaged in favour of Libra Bank as security for the Libra Loan Agreement. As at 31 December 2018 RON 15,016 thousand (EUR 3,220 equivalent using exchange rate as at 31 December 2018) was outstanding under the Libra Loan Agreement (31 December 2017: EUR 4,529).

**(v) BRD Credit Facility**

On 23 May 2018, the Company entered into the BRD Credit Facility for the aggregate amount of RON 35.0 million repayable in 24 months for the purpose of (i) financing the acquisition of certain real estate property in Bucharest; and (ii) refinancing the acquisition of certain real estate property in Bucharest. As at 31 December 2018, an aggregate principal amount of EUR 5,812 was outstanding under the BRD Credit Facility.

**(vi) OTP Bank Hungary Loan Agreement**

In December 2016, Digi Hungary has entered into a short term loan of HUF 1,300 million with OTP bank in Hungary. Out of this loan, as at 31 December 2016 HUF 500 million was drawn and outstanding. The remaining amount was drawn in January 2017. In 2018 the maturity of the loan was extended until May 2019. As at 31 December 2018, the outstanding amount under the agreement is EUR 4,043 equivalent (31 December 2017: EUR 4,192)

**(vii) Santander Facility**

On 19 October 2018 Digi Spain renewed its short term facility agreement with Banco Santander for EUR 3,000 due on 20 October 20, 2019. As at 31 December 2018, the balance drawn under the Santander Facility was EUR 2,960 (31 December 2017: EUR 1,950).

At 31 December 2018, Digi Spain had letters of guarantees from Banco Santander in amount of EUR 359 (31 December 2018: EUR 359).

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)****(viii) Caixa Facility**

On 6 February 2014, Digi Spain entered into a facility agreement with Caixabank, S.A. (the “Caixa Facility”), containing an overdraft and a reverse factoring option. On January 30, 2015, the agreement was renewed and on July 28, 2015 an amendment to lower interest rates was agreed. On 17 January 2017, the agreement has been renewed again. The term of the Caixa Facility is indefinite and the maximum amount which can be used is EUR 1,000. As at 31 December 2018, the balance drawn under the Caixa Facility overdraft was EUR 428 (31 December 2017: EUR 391).

As at 31 December 2018, Digi Spain had letters of guarantees from Caixa in amount of EUR 548 (31 December 2017: EUR 14).

**(ix) BBVA Letter of Guarantee & Facility**

As at 31 December 2018, Digi Spain had letters of guarantee issued by BBVA with a value of EUR 904. (31 december 2017: EUR 872)

On March 2018, Digi Spain entered into a short-time loan with BBVA for an amount of EUR 3,000 with maturity until August 2019. On October 2018, Digi Spain entered into a short-time loan with BBVA for an amount of EUR 2,000 with maturity until September 2019. As at 31 December 2018, the outstanding amount is EUR 4,500 (31 December 2017: EUR 1,556)

**(x) 2013 ING Facilities Agreement**

On 1 November 2013, RCS&RDS entered, into the ING Facilities Agreement with ING Bank N.V. in order to consolidate the Group’s existing credit facilities with ING Bank N.V. into a single facility for working capital purposes. The existing facilities with ING Bank N.V. were fully repaid and terminated on November 4, 2013 using the proceeds of the Bond and the New Senior Facilities Agreement. The ING Facilities Agreement entered into force thereafter. The ING Facilities Agreement is sharing in the Collateral, pursuant to the terms of the Intercreditor Agreement.

The ING Facilities Agreement consists of multipurpose facility to be used as overdraft and for issuance of letters of guarantee.

*Drawings*

As of 31 December 2018 the outstanding amount under the overdraft facility was null. (31 December 2017: EUR 4,291). In addition EUR 49 and RON 10.9 million Letters of Guarantee were issued under the letters of guarantee facility (31 December 2017: EUR 2,034 and RON 2.9 million).

**(xi) Citi Facilities Agreement**

On 25 October 2013, RCS&RDS entered into the Citi Facilities Agreement with Citibank, to consolidate its existing uncommitted credit facilities with Citibank into a single uncommitted facility for working capital purposes.

On 25 October 2013, the RCS&RDS entered into a personal guarantee agreement with Citibank pursuant to which it provides Citibank with a personal guarantee for the due performance of the Citi Facilities Agreement by the Group. The Citi Facilities Agreement share the Collateral, pursuant to the terms of the Intercreditor Agreement.

On 4 November 2013 RCS&RDS repaid the Citi Facilities Agreement using the proceeds from the Bond and the New Senior Facilities Agreement.

The Citi Facilities Agreement consists of uncommitted overdraft, bank guarantee and letters of guarantee facilities.

As of 31 December 2018, the overdraft was utilised in amount of EUR 22,658 equivalent (31 December 2017: 10,903) and bank letters of guarantee were issued in amount of EUR 13,936, USD 0.7 million and RON 1.7 million (31 December 2017: EUR 13,282 and RON 9.2 million).

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)****(xii) Unicredit agreements**

On 5 October 2010, RCS&RDS entered into a cash collateral agreement with UniCredit Tiriak Bank S.A., for EUR 59 for issuance of a letter of counter guarantee, which expired in August 2017 (the “Unicredit Cash Collateral Agreement”).

On 15 December 2015, RCS & RDS entered into an agreement with UniCredit Bank S.A. for an uncommitted overdraft/bank guarantee facility in amount of EUR 2,000. As at 31 December 2018 EUR 1,998 (31 December 2017: 1,996 EUR) were drawn under the overdraft facility.

**(xiii) BRD Letters of Guarantee Facility**

As of 31 December 2018 the Group had letters of guarantee issued by BRD with a value of EUR 500 (31 December 2017: EUR 500).

On 20 September 2017, RCS & RDS entered into the BRD Letters of Credit Facility. As at 31 December 2018, the outstanding amount for these facilities was EUR 8,411 equivalent (31 December 2017: EUR 7,872 equivalent).

**(xiv) Collateral for all facilities of RCS & RDS and DIGI**

The obligations of the Group under the Bonds, as well as their obligations under the Senior Facilities Agreement, under the ING Facilities Agreement and the Citi Facilities Agreement on a pari passu basis pursuant to the terms of the Intercreditor Agreement dated 4 November 2013 and amended on 26 October 2016, are secured by a first-ranking security interest in certain assets of RCS&RDS and DIGI, namely:

(a) Certain Capital Stock that DIGI holds in RCS& RDS, which as at 31 December 2018 accounted for 93.58% of the issued Capital Stock of RCS&RDS, as per Trade Register;

(b) All bank accounts of DIGI, including any new bank accounts;

(c) Receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by DIGI to its subsidiary, RCS&RDS on 4 November 2013 amended and restated on 26 October 2016 – currently EUR 350,000)

(d) 100% of the quota in DIGI T.S. Kft Hungary;

(e) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and

(f) All DIGI T.S Kft Hungary’s shares owned currently in Invitel representing 99.998395%.

(g) subject to certain exclusions, all present and future movable assets of RCS&RDS including bank account monies, trade and other receivables, intragroup receivables, inventories, movable tangible property (including networks, machinery, equipment, vehicles, furniture and other similar assets), intangible assets, intellectual property rights, insurance and proceeds related to any of the foregoing as described in the General Movable Mortgage Agreement between RCS&RDS and Wilmington Trust (London) Limited.

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

**(xv) Obligations under finance leases**

The Group financed the acquisition of certain assets (buildings, land, vehicles, etc.) through finance leases. As at 31 December 2018 there are several leasing contracts in place.

One leasing contract is with Raiffeisen Leasing (the initial contract was signed with ING Lease Romania, which sold its portfolio to Raiffeisen Leasing at the beginning of 2014) (in December 2015 this lease was refinanced in EUR) and another one is with Piraeus Leasing. The remaining length of these lease contracts is 6 months for Raiffeisen Leasing and 61 months for Piraeus Leasing.

In December 2015 the Group entered into a lease agreement with Unicredit Leasing IFN for one building in Arad. The contract ended in November 2018. At the beginning of 2019, the Company purchased the building.

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

In March 2018, RCS & RDS entered into a new leasing agreement for autovehicles with UniCredit for a total amount of EUR 2,000. The leasing agreement will end in 2019.

In April 2018, RCS & RDS entered into a leasing agreement for IT equipments with BRD for a total amount of EUR 195. The remaining length of the lease contract is 16 months.

In February 2018, Digi Spain entered into a leasing agreement for equipment with Caixabank for an amount up to EUR 1,500. In November 2018, Digi Spain entered into a leasing agreement for equipment with Santander for an amount up to EUR 1,500. In May and June 2018, Digi Spain entered into two leasing agreements for equipments and vehicles with BBVA for a total amount of up to EUR 1,500. Leasing agreements for equipments have a maturity of 2 years and the agreement for vehicles has a maturity of 3 years.

In Hungary, we lease mainly vehicles and equipment. As at 31 December 2018 the total outstanding value was of EUR 1,199. (31 December 2017: nil) equivalent.

On May 30, 2018 we had additions from business combinations (Invitel Acquisition) of EUR 718. As at 31 December 2018 the outstanding amount was EUR 771.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31 December 2018		31 December 2017	
	Net	Gross	Net	Gross
Within one year	4,391	4,557	1,814	1,956
Later than one but less than five years	3,546	3,750	2,015	2,252
More than five years	30	30	380	393
Less: future finance charges (interest)	-	(370)	-	(392)
<b>Total</b>	<b>7,967</b>	<b>7,967</b>	<b>4,209</b>	<b>4,209</b>

For details regarding the implementation of IFRS 16 starting with 1 January 2019 and the estimated impact for year ended 31 December 2018, please see Note 2.3.

**15. TRADE AND OTHER PAYABLES, OTHER LONG TERM LIABILITIES****15.1 TRADE AND OTHER PAYABLES**

	31 December 2018	31 December 2017
Trade payables and payables to fixed assets suppliers	313,650	260,590
Accruals	83,653	52,970
Value added tax ("VAT")	11,781	6,904
Other payables related to investments	1,723	5,741
Salary and related taxes	29,415	21,243
Amounts payable to related parties (Note 16)	1,421	3,842
Dividends payable (Note 16)	5,062	574
Other	14,758	6,210
<b>Total trade and other payables</b>	<b>461,463</b>	<b>358,074</b>

Included in payables to suppliers and accruals above is EUR 157,587 (31 December 2017: EUR 138,631) representing amounts due for property, plant and equipment and EUR 26,438 (31 December 2017: EUR 23,076) representing payment obligations for intangible assets.

Other payables related to investments refer mostly to scheduled payments for purchase of shares of newly acquired subsidiaries and non controlling interests, and payments for customer relationships.



**15.2 OTHER LONG TERM LIABILITIES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Other long term liabilities	34,600	36,738

Other long term liabilities include long term payables due to vendor financing agreements with our suppliers, according to which we have negotiated longer payment terms especially for network and equipment as well as customer premises equipment (CPE).

**16. RELATED PARTY DISCLOSURES**

The consolidated financial statements include the financial statements of DIGI and its subsidiaries (the main subsidiaries are included in Note 22(a)); RCSM is the Group's ultimate holding company.

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

<b>Receivables from related parties</b>		<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Party</b>			
Ager Imobiliare S.R.L.	(ii)	743	718
Digi Serbia	(ii)	-	-
Music Channel S.R.L.	(ii)	-	51
RCSM	(i)	1	1
Other		9	9
<b>Total</b>		<b>753</b>	<b>779</b>

<b>Payables to related parties</b>		<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Party</b>			
Related parties - shares	(ii)	-	-
RCSM*	(i)	5,756	3,825
Digi Serbia	(ii)	-	-
Mr. Zoltan Teszari	(iii)	8	-
Other		720	591
<b>Total</b>		<b>6,484</b>	<b>4,416</b>
<i>Of which: dividends payable (Note 15.1)</i>		<i>5,062</i>	<i>574</i>

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

Outstanding balances at the year-end are interest free. For details regarding the guarantees and pledges between Group's companies please refer to Note 14 (xiv). For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2017: nil).

**\*RCS Management loan**

Included in the EUR 5,756 payables to RCSM is the management loan entered into by RCS&RDS on 12 May 2017, for a principal amount of EUR 5,000. The loan bears a 5.5% per annum interest rate, the repayment date being extended until May 2019. As at 31 December 2018 the outstanding amount is EUR 1,089.

At the end of May 2018, Digi HU has granted Invitel a loan of HUF 2,963,900 thousand with a maturity of 5 years and an interest rate of 2.65% plus BUBOR per annum. In August 2018, Invitel has repaid this outstanding loan. In May 2018, RCS & RDS declared dividends in amount of RON 50 million, equivalent of EUR 10.8 million from 2017 profit.

For dividends distributed by the Company, please refer to Note 13.

**16. RELATED PARTY DISCLOSURES (continued)****Compensation of key management personnel of the Group**

	<b>2018</b>	<b>2017</b>
Gross Salary expense	4,225	2,235
Social security expense	33	94
State Pension expense	17	208
Other taxes	73	35
Share-based payments	4,512	1,541

In 2017 and 2018 several share option plans were implemented for certain members of management and employees. In May 2018, one of the share option plans for management vested. For details, please refer to Note 24.

	<b>2018</b>	<b>2017</b>
<b>Transactions with related parties</b>		
<b>Revenues</b>		
Selling shareholders IPO cost recovery (Note 28)	-	2,353
<b>Total</b>	<b>-</b>	<b>2,353</b>

	<b>2018</b>	<b>2017</b>
<b>Transactions with related parties</b>		
<b>Expenses</b>		
Interest	-	174
<b>Total</b>	<b>-</b>	<b>174</b>

	<b>2018</b>	<b>2017</b>
<b>Transactions of the Company with group entities</b>		
<b>Revenues</b>		
RCS&RDS SA - Dividend	10,122	10,340
RCS&RDS SA - Interest	19,617	20,284
RCS&RDS SA – Cost recovery	3,492	2,356
<b>Total</b>	<b>33,231</b>	<b>32,979</b>

	<b>2018</b>	<b>2017</b>
<b>Transactions of the Company with group entities</b>		
<b>Expenses</b>		
RCS&RDS SA – Cost recovery	1	485
RCS&RDS SA – Services	69	
<b>Total</b>	<b>70</b>	<b>485</b>

During 2017 the Group also had the following transactions with its shareholders:

- swaps of shares as described in Note 7 (4 minority shareholders)
- swap of shares as described in Note 22b
- purchase of 977,154 Company's class B shares (treasury shares) from one minority shareholder in April 2017, for an amount of EUR 2,459
- sale and repurchase agreement of Company's treasury shares between the Company and RCSM as part of the pre-IPO restructuring process.

During 2018, the Company distributed dividends to its shareholders. For details, please see Note 13.

## 17. REVENUES

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

	2018	2017
<b>a) Revenues from contracts with costumers</b>		
<b>Cable TV</b>		
Romania	189,907	182,374
Hungary	60,493	47,652
	<b>250,400</b>	<b>230,026</b>
<b>Internet and data</b>		
Romania	179,708	171,566
Hungary	57,456	40,822
Italy	-	-
Spain	321	-
	<b>237,485</b>	<b>212,388</b>
<b>Telephony Revenues</b>		
Romania	202,124	187,519
Hungary	17,727	7,397
Spain	126,172	92,466
Italy	22,709	18,163
	<b>368,732</b>	<b>305,545</b>
<b>DTH Revenue</b>		
Romania	32,562	36,116
Hungary	31,731	33,480
	<b>64,293</b>	<b>69,596</b>
<b>Other revenues</b>		
Romania	83,855	68,442
Hungary	23,496	21,073
Spain	94	225
Italy	82	100
	<b>107,527</b>	<b>89,840</b>
<b>b) Other revenues</b>		
Romania	9,684	9,156
<b>Total revenues</b>	<b>1,038,121</b>	<b>916,551</b>

Other revenues as at 31 December 2018 include mainly revenues from sale of handsets and other CPE, as well as advertising revenues.

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

<b>Timing of revenue recognition</b>	<b>2018</b>	<b>2017</b>
Goods transferred at a point in time	45,252	39,643
Services transferred over time	992,869	876,908
<b>Total revenues</b>	<b>1,038,121</b>	<b>916,551</b>

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

Revenues recognised in the period ended 31 December 2018, that were included in contract liability at the beginning of the period (of EUR 11,267) amounted to EUR 10,145. The amounts in balance as at 31 December 2018 are to be recognised gradually as revenues until 2020.

We receive payments from customers based on a billing schedule, as established in our contracts. Contract asset relates to our conditional right to consideration for our completed performance under the contract. Accounts receivable are recognised when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as (or when) we perform under the contract.

	<b>2018</b>	<b>2017</b>
Contract assets	44,076	-
Contract liabilities	23,038	-
Trade and other receivables	60,002	82,472

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are, as follow:

	<b>2018</b>	<b>2017</b>
<b>Unsatisfied performance obligations</b>	9,430	4,806
<b>Total</b>	<b>9,430</b>	<b>4,806</b>

The remaining performance obligations arise from promotion campaigns. All remaining performance obligations are expected to be recognised within two years.

For details regarding expected credit losses from Contract assets, please see Note 23.

In the year ended 31 December 2018, from the moment of consolidation, Invitel's revenues contributed with EUR 45,420 to the Group's consolidated revenues.

**18. OPERATING EXPENSES**

	2018	2017
Depreciation of property, plant and equipment (Note 5)	124,968	96,036
Amortization of programme assets (Note 6)	40,741	41,573
Amortisation of non-current intangible assets (Note 6)	43,128	31,617
Impairment of property, plant and equipment (Note 5)	2,638	2,040
Impairment of non-current intangible assets (Note 6)	5	546
Salaries and related taxes	185,473	141,318
Contribution to pension related fund	5,296	20,490
Programming expenses	94,274	83,301
Telephony expenses	170,126	154,886
Cost of goods sold	42,395	34,898
Rentals	67,331	56,934
Invoicing and collection expenses	19,435	15,094
Taxes and penalties	11,912	9,447
Utilities	19,205	17,188
Copyrights	9,523	9,068
Internet connection and related services	4,449	3,712
Impairment of receivables and other assets, net of reversals	10,891	9,368
Taxes to authorities	9,527	9,420
Other materials and subcontractors	10,460	9,214
Other services	32,446	22,613
Miscellaneous operating expenses	20,809	32,078
<b>Total operating expenses</b>	<b>925,032</b>	<b>800,841</b>

2017 and 2018 share option plans expenses accrued in the period are included in the caption “Salaries and related taxes”. For details, please see Note 24.

Expenses presented on line “Contribution to pension related fund” decreased in the period due to the legislative change enacted at the beginning of 2018, according to which pension contributions were transferred from the employer to the employee.

Salaries and related taxes capitalized for the development of network during the year ended 31 December 2018 amount to EUR 32,215 (2017: EUR 24,809).

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

In the year ended 31 December 2018, from the moment of consolidation, Invitel’s operating expenses, including depreciation, contributed with EUR 48,433 to the Group’s consolidated operating expenses.



**19. NET FINANCE COSTS**

	<b>2018</b>	<b>2017</b>
<b><i>Finance income</i></b>		
Interest from banks	289	59
Gain on derivative financial instruments and other financial revenue	68	19,918
	<b>357</b>	<b>19,977</b>
<b><i>Finance expenses</i></b>		
Interest expense	(46,993)	(36,368)
Loss on derivative financial instruments	(685)	(3,378)
Other financial expenses	(11,100)	(11,928)
Foreign exchange differences (net)	(4,717)	(4,229)
	<b>(63,495)</b>	<b>(55,903)</b>
<b>Net Finance Costs total</b>	<b>(63,138)</b>	<b>(35,926)</b>

Gain on derivative financial instruments and other financial revenues includes the fair value gain from embedded derivative asset related to the 2016 Bonds. For details, please see Note 25.

**20. INCOME TAX**

Up to 21 April 2017 the Company was a Dutch Tax resident. In the context of the IPO concluded on 16 May 2017, the Company became a tax resident in Romania. As from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania. The Company is a Romanian tax resident having its place of effective management in Bucharest, Romania, where all the strategic and commercial decisions are made, as well as the day-to-day management is carried out.

The statutory tax rate applied in Netherlands up to 21 April 2017 was 25%.

The statutory tax rate applied to Romanian entities during 2018 was 16% (2017: 16%).

*Other entities*

The statutory tax rate applied in the Romanian entities during 2018 was 16% (2017: 16%).

The statutory tax rate applied in Hungary during 2018 was 9% (2017: 9%).

The statutory tax rate applied in Spain during 2018 was 25% (2017: 25%).

The statutory tax rate applied in Italy during 2018 was 24% (2017: 31.4%).

**20. INCOME TAX (continued)**

Components of income tax expense for the periods ended 31 December 2018 and 2017 respectively were:

	2018	2017
Current income tax charge	5,388	7,154
Deferred income tax relating to origination and reversal of temporary differences	15,427	10,288
<b>Income tax expense/ (credit) recognised in profit or loss for continuing operations</b>	<b>20,815</b>	<b>17,442</b>
<i>Income tax expense/ (credit) recognised in profit or loss for discontinuing operations</i>	-	-

*Reconciliation of income tax expense*

Reconciliation of income tax expense at the statutory income tax rate applicable to the net result before tax to the income tax expense at the Group's effective income tax rate for the financial years 2018 and 2017 is as follows:

	2018	2017
<b>Net profit before income tax from continuing operations</b>	<b>39,907</b>	<b>79,473</b>
At statutory income tax rate of the Company	6,385	12,716
Effect of difference in tax rates applicable for foreign subsidiaries	3,007	1,150
Non-deductible expenses	11,423	4,621
Exit tax in the Netherlands for change of Company's fiscal domicile	-	449
Effect of fiscal profit of the Company in the Netherlands before moving fiscal domicile (including higher tax rate 20/25%)	-	225
Taxes in respect of prior years (RCS&RDS due to fiscal control, the Company due to rectifications in tax declarations)	-	1,374
Changes in tax rate (Hungary in 2017)	-	(3,093)
<b>Effective tax expense / (credit) from continuing operations</b>	<b>20,815</b>	<b>17,442</b>
<b>Effective tax expense/ (benefit) from discontinuing operations</b>	<b>-</b>	<b>-</b>

Deferred taxes in the consolidated statement of financial position are:

	31 December 2018	31 December 2017
Deferred tax assets	2,659	2,828
Deferred tax liabilities	(60,652)	(45,517)
	<b>(57,993)</b>	<b>(42,689)</b>

Movement of deferred taxes:

	2018	2017
<b>Deferred taxes recognized in the statement of financial position</b>	<b>(57,994)</b>	<b>(42,689)</b>
Difference from prior year balance	15,305	11,003
<i>Of which:</i>		
Recognized in profit or loss	15,357	10,288
Deferred tax liability related to interest rate swaps, recognised in other comprehensive income	70	683
Effect of movement in exchange rates	(123)	32

**Notes to the consolidated Financial Statements  
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**20. INCOME TAX (continued)**

The deferred tax (asset)/ liability for the financial year 2018 comprises the tax effect of temporary differences related to:

	Balance 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in business combinations(Note 22c))	Effect of movement in exchange rates	Balance 31 December 2018
Property, plant and equipment	48,561	7,800	-		(123)	<b>56,238</b>
Intangibles	7,800	1,579	-		150	<b>9,529</b>
Accounts receivable	3,149	1,051	-		32	<b>4,232</b>
Accounts payable	(2,225)	219	-		-	<b>(2,006)</b>
Long term borrowings	881	(173)	-		71	<b>779</b>
<b>Deferred tax liabilities</b>	<b>58,166</b>	<b>10,476</b>	<b>-</b>		<b>130</b>	<b>68,772</b>
Intangibles	-	(163)	-	-	(325)	<b>(488)</b>
Accounts receivable	(127)	(27)	-	-	4	<b>(150)</b>
Accounts payable		(182)	-	-	-	<b>(182)</b>
Interest expense postponed for deduction	(10,321)	10,321	-	-	-	<b>-</b>
Inventory	(1,189)	(1,531)	-	-	37	<b>(2,683)</b>
Cash Flow hedge reserves	(53)	-	70	-	-	<b>17</b>
Fiscal losses	(3,787)	(3,537)	-	-	32	<b>(7,292)</b>
<b>Deferred tax assets</b>	<b>(15,477)</b>	<b>4,881</b>	<b>70</b>	<b>-</b>	<b>(252)</b>	<b>(10,778)</b>
<i>Offsetting (refer to Note 2.2 o)</i>	<i>(12,649)</i>					<i>(8,119)</i>
<b>Recognition</b>						
Deferred tax liabilities	<b>45,517</b>					<b>60,653</b>
Deferred tax assets	<b>(2,828)</b>					<b>(2,659)</b>
Net deferred tax liability	<b>42,689</b>					<b>57,994</b>

**Notes to the consolidated Financial Statements  
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**20. INCOME TAX (continued)**

The deferred tax (asset)/ liability for the financial year 2017 comprises the tax effect of temporary differences related to:

	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	Balance 31 December 2017
Property, plant and equipment	45,502	2,895		164	<b>48,561</b>
Intangibles	4,972	2,789		39	<b>7,800</b>
Accounts receivable	1,110	2,038		1	<b>3,149</b>
Accounts payable	(1,336)	(889)		-	<b>(2,225)</b>
Long term borrowings	868	13		-	<b>881</b>
<b>Deferred tax liabilities</b>	<b>51,116</b>	<b>6,846</b>		<b>204</b>	<b>58,166</b>
Intangibles	160	-		(160)	-
Accounts receivable	-	(127)		-	<b>(127)</b>
Interest expense postponed for deduction	(12,516)	2,195		-	<b>(10,321)</b>
Inventory	(952)	(235)		(2)	<b>(1,189)</b>
Cash Flow hedge reserves	(736)	-	683	-	<b>(53)</b>
Fiscal losses	(5,386)	1,610		(11)	<b>(3,787)</b>
<b>Deferred tax assets</b>	<b>(19,430)</b>	<b>3,443</b>	<b>683</b>	<b>(173)</b>	<b>(15,477)</b>
<i>Offsetting (refer to Note 2.2 o)</i>	<i>(16,304)</i>				<i>(12,649)</i>
<i>Recognition</i>					
Deferred tax liabilities	<b>34,812</b>				<b>45,517</b>
Deferred tax assets	<b>(3,126)</b>				<b>(2,828)</b>
<b>Net deferred tax liability</b>	<b>31,686</b>				<b>42,689</b>

**20. INCOME TAX (continued)**

Deferred tax assets recognised for fiscal losses relate mainly to the Group's operations in Hungary. Such losses, in amount of EUR17,182 at 31 December 2018 (31 December 2017: EUR 6,658), are not subject to preapproval by tax authorities and can be carried forward until 2030.

Deferred tax asset in respect of the fiscal loss from Italy was recognised in amount of EUR 3,188, similar to previous year. Please also see Note 22 c) Business combination for Invitel's fiscal losses.

For statutory purposes, RCS&RDS has performed several revaluations of its property, plant and equipment in year ended 31 December 2016. Should the statutory revaluation reserves of RCS&RDS be distributed to its shareholders they would be taxed, i.e. they would generate a tax liability of EUR 6,051 (2017: EUR 7,174), for which a deferred tax liability is recognised.

The Company did not recognise deferred tax liabilities on taxable temporary differences arising from investments in direct subsidiaries (mainly RCS&RDS) due to the fact that it enjoys a participation exemption status. Uncertainties associated with the fiscal and legal system are disclosed in Note 26.

**21. DISCONTINUED OPERATIONS**

In April 2015, the Czech subsidiary, Digi Czech Republic sro was sold, which resulted into classification of discontinued operations. In 2016 we have recorded an additional provision regarding the sale transaction of the Czech subsidiary in net amount of EUR 674. This provision was updated in 2018 following the claim Yolt Services s.r.o filed against RCS&RDS (EUR 1,070).

**22. SUBSIDIARIES AND NON-CONTROLLING INTEREST****a) Subsidiaries**

The consolidated financial statements incorporate the financial information of the following main subsidiaries in each of the countries:

As of 31 December 2018 DIGI owns shares in RCS&RDS 93.58% (2017: 93.58%). Below are the presented the main subsidiaries of RCS&RDS (excluding inactive subsidiaries):

Subsidiary	Country of Incorporation	Field of activity	Legal Ownership	
			2018	2017
Digi T.S. Kft	Hungary	CATV, Internet, DTH, Telephony		100.00%
Invitel Távközlési Zrt	Hungary	CATV, Internet, DTH		99.99%
DIGI SPAIN TELECOM S.L.U.	Spain	Telephony		100.00%
DIGI ITALY SL	Italy	Telephony		100.00%
ITV.	Hungary	CATV		100.00%
CFO Integrator	Romania	Duct Rent		100.00%
ENERGIAFOTO SRL	Romania	Solar energy		100.00%
NOVITAS Electro	Romania	Solar energy		100.00%
DELALINA S.R.L.	Romania	Solar energy		100.00%



**22. SUBSIDIARIES AND NON-CONTROLLING INTEREST (continued)****b) Changes in ownership interests while retaining control**

In March 2017 a share swap agreement was concluded between Mr Teszari and the Company through which Mr Teszari exchanged a number of 7,500,000 shares of RCS&RDS for 1,042 shares of the Company (before the split of the shares performed in preparation of the IPO).

In the consolidated financial statements the transaction is between equity owners and was accounted as follows:

- a) the non-controlling interest decreased by the respective percentage of interest from the consolidated net asset value of RCS&RDS Group as of 31 March 2017, namely EUR 806
- b) the treasury shares value was decreased by the cost of the respective shares, namely EUR 4,210
- c) the difference between the value of the treasury shares given and the non-controlling interest acquired was debited to retained earnings.

In 2017 DIGI also acquired 100 shares in RCS& RDS for the amount of EUR 0.1.

**c) Business combination****Acquisition of Invitel Távközlési Zrt (“Invitel”)**

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

Invitel Távközlési Zrt is one of Hungary’s telecommunication services provider. Invitel offers entertainment and multimedia, digital and HD television, broadband internet and telephone services in different villages and townships and the served areas include nearly 1.1 million households.

The transaction was closed on 30 May 2018 for a total consideration of approximately 135.4 million EUR, after the Hungarian Competition Authority (Gazdasági Versenyhivatal – “GVH”) approved the transaction (the “Initial Decision”), with certain conditions regarding divesting part of the Invitel business in certain areas that need to be fulfilled.

Control was transferred at the same date, in form of a share sale purchase agreement, which confirms that the ownership title over the shares is transferred at the respective date together with all rights and obligations resulting from such transfer. The related purchase price was paid by the buyer to the seller at the same date.

On 14 November 2018, the GVH formally withdrew the Initial Decision and it opened a new investigation (“New Procedure”) for reassessing limited aspects and simultaneously decided to allow Digi HU to continue to exercise control over Invitel (“Exemption Decision”) before the issuance by the GVH of a new decision on the Transaction. Digi HU’s ownership and control over Invitel is not affected by the above-mentioned GVH’s decisions. The implementation by Digi HU of the Transaction is not affected by the GVH’s New Procedure, except for certain limited behavioural restrictions from the Initial Decision that were reinstated. For more details, please see Note 26.

The transaction is expected to allow Digi Group to consolidate its position on the Hungarian telecommunications market, to expand its customer reach and experience, as well as to create better operational synergies.

As per the SPA concluded between Digi HU acting as Purchaser and Ilford Holding Kft. and Invitel Technocom Távközlési Kft., acting as sellers on 21 July 2017, at the completion date of the transaction from 30 May 2018, the Sellers Debt due to Ilford Holding Kft. in amount of 27,280,548 HUF, (approximately EUR 85,000 equivalent, using foreign exchange rate as at the date of transaction was part of the purchase consideration settled by Digi HU. As a consequence, Digi HU has become the creditor for Invitel’s loan for a period of 5 years, with interest of 2.65% plus BUBOR per annum.

In accordance with the requirements of IFRS 3 “Business Combinations”, the Purchase Price Allocation (“PPA”) analysis for the Invitel acquisition of shares started in view of consolidating the Invitel’s assets, liabilities and results. The PPA is undertaken by an external independent evaluator. The purpose is to estimate the market value of the assets acquired and the liabilities assumed by Digi HU following the Transaction.

**22. SUBSIDIARIES AND NON-CONTROLLING INTEREST (continued)**

The valuation of assets and liabilities was performed in accordance with the Valuation Standards issued by ANEVAR in 2018, which incorporate the IVS based on three valuation approaches:

- Cost approach-based on the Depreciated Replacement Cost method;
- Market approach-estimates the market value of an asset based on market prices in actual transactions and on asking prices for assets currently available for sale;
- Income approach-market value is estimated based on the discounted cash flows that the asset is expected to generate or the costs avoided as a result of the ownership of the assets over the remaining useful life. The cash flows are discounted to present value at a rate of return (cost of capital) that considers the relative risk of achieving the cash flows and the time value of money.

The allocation of the purchase price to the assets acquired and liabilities assumed was performed according to IFRS 3.

The 31 December 2018 year ended consolidated financial statements include the consolidated results of Invitel starting from June 1st, 2018 and the valuation of the fair value of identifiable assets and liabilities of Invitel as at the date of acquisition.

The fair values of the identifiable assets and liabilities of Invitel as at the date of acquisition were:

	Fair Value recognized on acquisition
<b>Purchase consideration paid</b>	<b>135,512</b>
<b>Assets acquired</b>	
Intangible assets	21,747
Tangible assets	132,046
Financial assets	45
Net working capital	(5,670)
<b>Total assets</b>	<b>148,168</b>
Long term liabilities	(572)
Current Liabilities	(2,923)
Cash pooling	(9,295)
Provisions	(781)
Accrued expenses and deferred income	(10,045)
<b>Total liabilities</b>	<b>(23,616)</b>
Cash and bank accounts	3,349
<b>Net assets, excluding Goodwill</b>	<b>127,901</b>
Minority interest, @ 0.001605%	2
<b>Goodwill</b>	<b>7,613</b>

The fair value of trade receivables recognized at acquisition was EUR 4,472. The gross contractual amount for trade receivables due was EUR 6,328, of which EUR 1,864 was expected to be uncollectible.

At the acquisition date, Invitel recorded accumulated fiscal losses amounting to HUF 65,104 million for which no deferred tax asset was recognized. The identifiable intangible assets include the existing intangible assets of Invitel (licenses, software, etc), and new identified intangible assets (trademarks and customer relationships etc).

**22. c) BUSINESS COMBINATION (CONTINUED)**

The Final version of PPA assesment included in the YE Financials differs from the preliminary PPA assesment 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.

The identifiable tangible assets include land, buildings, network, plant & machinery, motor vehicles and assets in progress.

The implied goodwill was accounted for using the acquisition method and is included on line "Intangible assets" in the group's consolidated statement of financial position as at 31 December 2018.

<b>Net cash outflow on acquisition</b>	<b>At acquisition date</b>
Purchase consideration paid	<b>135,512</b>
Less: Cash on Invitel's balance sheet @31 May 2018	<b>(3,349)</b>
<b>Net cash outflow</b>	<b>132,163</b>

The identifiable net assets acquired do not include the Sellers Debt (including interest) due to Ilford Holding Kft with a nominal value of 27,280,548 HUF which were undertaken by Digi HU and repaid immediately on the acquisition date as part of consideration paid to the sellers. For purchase price allocation purposes such loans payable are considered to be part of the equity of the acquiree. Therefore, the purchase consideration, as disclosed above, includes the price paid both for the shares of the acquiree and for such loans settled with Ilford Holding Kft.

From the date of acquisition up to 31 December 2018, Invitel has contributed with EUR 45,420 of consolidated revenue and EUR 16,903 to the consolidated EBITDA of the Group. If the combination had taken place at the beginning of the year, Invitel would have contributed with EUR 80,274 of consolidated revenue.

The goodwill of EUR 7,613 comprises the value of expected synergies arising from the acquisition and intangible assets that did not qualify for separate recognition at acquisition date (e.g. the assembled workforce and related labor contracts). The group considers that the Invitel goodwill is a great asset for the group operations and will add great value to the Hungarian operations. Goodwill is allocated entirely to the Hungary segment, and it is not tax deductible.

At the acquisition date, Invitel recorded accumulated fiscal losses amounting to HUF 65,104 million for which no deferred tax asset was recognized.

Intivel's acquisition costs representing legal, financial and fiscal costs were in amount of EUR 2,519 and were included in Operating expenses. Since these represent non-recurring costs, they were adjusted from the Group's adjusted EBITDA as at 31 December 2018. For details please see Note 28 EBITDA.

## **23. FINANCIAL RISK MANAGEMENT**

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

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

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

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

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

**23. FINANCIAL RISK MANAGEMENT (continued)****(i) Credit risk****Credit risk exposure**

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

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

The maximum exposure to credit risk at the reporting date was:

***Derivative and non-derivative financial assets by category – exposure to credit risk***

	Note	31 December 2018	31 December 2017
Trade and other receivables	10	60,002	82,472
Contract assets	10	44,076	-
Other assets	11	12,419	11,046
Cash and cash equivalents	12	13,411	15,801
Derivative assets	25	33,287	34,883
Long term receivables		5,584	2,018
<b>Total</b>		<b>168,779</b>	<b>146,220</b>

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

**a. Cash & cash equivalents**

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2018	31 December 2017
Citibank	485	6,492
ING Bank	1,733	2,951
Banca Comerciala Romana	407	95
BRD Groupe Societe Generale	68	448
Unicredit Tiriack Bank	1,593	373
Other	9,125	5,442
<b>Total</b>	<b>13,411</b>	<b>15,801</b>

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.

**23. FINANCIAL RISK MANAGEMENT (continued)****b. Trade and other receivables and contract assets**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customers with similar loss patterns. The calculation reflects the reasonable and supportable information that is available at the reporting date about past events. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. At the end of the reporting date, for trade and other receivables and contract assets, given that these have a low credit risk, the Group assumed that no significant increases in credit risk have occurred.

The movement in allowance for expected credit losses in respect of trade receivables during the year was as follows:

	<b>2018</b>	<b>2017</b>
Balance at 1 January	48,420	45,058
Loss allowance recognized (Note 18)	10,891	9,368
Acquisition of a subsidiary	2,000	-
Amounts written off	(3,526)	(5,818)
Effect of movement in exchange rates	(763)	(188)
<b>Balance at 31 December</b>	<b>57,022</b>	<b>48,420</b>

There were no significant changes in the gross carrying amount of financial instruments during the year that contributed to changes in loss allowance. There were no changes in the estimation techniques or significant assumptions made during the reporting period.

As at 31 December 2018 impairment losses for Contract assets were EUR 986.

	<b>Gross carrying amount at default</b>	<b>Impairment losses</b>
Romania	104,031	41,047
Residential	32,572	28,007
Business	71,459	13,040
Hungary	19,544	5,215
Other	24,569	3,576
<b>Total</b>	<b>148,144</b>	<b>49,838</b>

**(ii) Liquidity risk**

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

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



**Notes to the consolidated Financial Statements  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*
**23. FINANCIAL RISK MANAGEMENT (continued)**

The following are the contractual maturities of financial liabilities, including estimated future interest payments and excluding the impact of netting agreements as at 31 December 2018:

<b>31 December 2018</b>							
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>
<b>Non derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds	<b>876,851</b>	<b>1,010,862</b>	102,523	100,928	114,450	692,961	-
Finance lease liabilities	<b>7,967</b>	<b>8,336</b>	2,281	2,273	1,875	1,907	-
Trade and other payables and other liabilities	<b>480,118</b>	<b>480,743</b>	394,185	51,862	26,967	7,729	-
<b>Derivative financial liabilities</b>							
Interest rate swaps used for hedging	-	-	-	-	-	-	-
Energy trading acquisitions	<b>10,598</b>	<b>10,765</b>	6,011	4,754	-	-	-
<b>Total</b>	<b>1,375,534</b>	<b>1,510,706</b>	<b>505,000</b>	<b>159,817</b>	<b>143,292</b>	<b>702,597</b>	<b>-</b>

The following are the contractual maturities of financial liabilities, including estimated future interest payments and excluding the impact of netting agreements as at 31 December 2017:

<b>31 December 2017</b>							
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>
<b>Non derivative financial liabilities</b>							
Interest bearing loans and borrowings, including bonds	<b>725,840</b>	<b>837,993</b>	76,414	37,866	123,341	600,372	-
Finance lease liabilities	<b>4,209</b>	<b>4,598</b>	994	961	1,162	1,088	393
Trade and other payables and other liabilities	<b>390,404</b>	<b>392,842</b>	314,431	41,617	32,587	4,207	-
<b>Derivative financial liabilities</b>							
Interest rate swaps used for hedging	<b>601</b>	<b>2,413</b>	799	650	804	161	-
Energy trading acquisitions	<b>22,461</b>	<b>22,866</b>	11,664	7,023	4,179	-	-
<b>Total</b>	<b>1,143,515</b>	<b>1,260,712</b>	<b>404,302</b>	<b>88,117</b>	<b>162,073</b>	<b>605,828</b>	<b>393</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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

At 31 December 2018, the Group had net current liabilities of EUR 459,872 (31 December 2017: EUR 285,462). As a result of the volume and nature of the telecommunication business current liabilities exceed current assets. A large part of the current liabilities is generated by investment activities. Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

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

**(iii) Market risk**

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

**Exposure to currency risk**

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

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

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

The Group's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	31 December 2018		31 December 2017	
	USD	EUR	USD	EUR
Trade and other receivables	3,502	6,452	3,638	5,984
Cash and cash equivalents	10	51	598	6,357
Interest bearing loans and borrowings, including bonds	-	(398,695)	-	(353,695)
Bank overdraft	(12,595)	(4,250)	(9,426)	(2,006)
Finance lease liabilities	-	(3,897)	-	(4,209)
Trade and other payables	(55,544)	(83,049)	(60,726)	(61,086)
<b>Gross exposure</b>	<b>(64,627)</b>	<b>(483,388)</b>	<b>(65,916)</b>	<b>(408,655)</b>

The following significant exchange rates applied for the year ended 31 December 2018:

	2018	2017
<b>Romania</b>		
USD	4.0736	3.8915
EUR	4.6639	4.6597
<b>Hungary</b>		
USD	280.94	258.82
EUR	321.51	310.14

**23. FINANCIAL RISK MANAGEMENT (continued)***Sensitivity analysis for currency risk*

A 10 percent strengthening of the currencies listed below against the functional currencies of the Parent and of the subsidiaries at 31 December would have decreased profit before tax/increased the loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Effect on profit before tax	Effect on profit before tax
	2018	2017
EUR	48,339	40,866
USD	5,645	5,505
<b>Total</b>	<b>53,984</b>	<b>46,371</b>

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Parent and of the subsidiaries at 31 December would have had the equal but opposite effect on profit or loss, on the basis that all other variables remain constant.

The effect in equity is the effect in profit or loss before tax, net of tax (16%) (excluding translation effect into presentation currency).

**Exposure to interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk (USD and EUR) through market fluctuations of interest rates. The interest rates of borrowings are disclosed in Note 14.

The Board of Directors performs from time to time ad-hoc analysis of exposure to variable rate borrowings and decides if it should change the structure of variable / fixed rate borrowings or whether to hedge through IRS.

At the reporting date the interest rate repricing profile of the variable rate interest-bearing financial instruments was:

	All reprice at 6 months or less	
	31 December 2018	31 December 2017
Interest bearing payables	66,440	10,986
Finance lease liabilities	7,967	1,875
Senior Facility Agreement	471,451	337,414
Interest rate swap	(120)	601
Other	54,029	29,592
<b>Total</b>	<b>599,767</b>	<b>380,468</b>

The Group has entered into fixed for floating interest rate swaps for the 2015 SFA (this Facility was refinanced through the 2016 SFA, but the IRS agreements are still in force until 2020), as follows:

- In May 2015 RCS&RDS concluded an interest rate swap for the entire initial term loan facility through which interest is fixed at 5.75%, and
- The interest rate for the "Accordion" agreement was fixed at 5.50% through an interest rate swap concluded in January 2016.

Consequently the interest rate of the combined instrument (loan and swap) was fixed until maturity on 30 April 2020 – more details are included in Note 14 (ii).

The 2016 Senior Facilities Agreement and 2018 Senior Facilities Agreement bear variable interest rate. The interest rate swaps concluded by the Group for the 2015 Senior Facilities Agreement are still valid under the same terms (amounts, maturities, interest rates etc) and apply only for the 2016 Senior Facility Agreement.

Except for the ones presented in the table above there are no other major interest bearing financial instruments.

**23. FINANCIAL RISK MANAGEMENT (continued)***Sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates, after taking into consideration the effect of the IRS, at the reporting date would have increased (decreased) profit or loss before tax by:

	<b>Profit or loss</b>	
	100 basis points increase	100 basis points decrease
<b>31 December 2018</b>		
Variable rate instruments, after IRS effect	(3,575)	3,575
	<b>Profit or loss</b>	
	100 basis points increase	100 basis points decrease
<b>31 December 2017</b>		
Variable rate instruments, after IRS effect	(1,929)	1,929

The effect in equity is the effect in profit or loss before tax, net of tax (16%).

**Exposure to electricity price risk**

The electricity production and commercial activity are not core activities for the Group. Through its electricity production and commercial trading activities, the Group is 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.

In the year ended 31 December 2017 we increased significantly the weight of electricity purchased from the forward electricity market in order to naturally hedge our exposure. Moreover, to reduce our exposure to price volatilities, from March 2017 we started to refocus our energy supply business on residential and mid-sized and smaller business customers and decrease the overall volume of electricity supplied to business customers.

In the year ended 31 December 2018 the same trend continued to apply.

*iv) Fair values*

The Group measures at fair value the following: financial assets at fair value through other comprehensive income, embedded derivatives, interest rate swaps, cross currency swaps, electricity trading assets (term contracts) and electricity trading liabilities (term contracts).

**Fair value hierarchy**

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation techniques with all significant inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: valuation techniques using significant inputs that are not observable or based on observable market data (i.e. unobservable inputs).

The significance of a valuation input is assessed against the fair value measurement in its entirety.

**23. FINANCIAL RISK MANAGEMENT (continued)****Recurring fair value measurements**

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements of financial instruments are categorised are as follows:

	Level 1	Level 2	Level 3	Total
<b>31 December 2018</b>				
Financial assets at fair value through OCI			32,058	<b>32,058</b>
Interest rate swaps			120	<b>120</b>
Embedded derivatives			31,115	<b>31,115</b>
Electricity trading assets (term contracts)			2,052	<b>2,052</b>
Electricity trading liabilities (term contracts)			(1,106)	<b>(1,106)</b>
<b>Total</b>			<b>64,239</b>	<b>64,239</b>
<b>31 December 2017</b>				
Available for sale financial assets			42,146	<b>42,146</b>
Interest rate swaps	-	-	(601)	<b>(601)</b>
Embedded derivatives	-		33,264	<b>33,264</b>
Electricity trading assets (term contracts)	-	-	1,619	<b>1,619</b>
Electricity trading liabilities (term contracts)	-	-	(9,530)	<b>(9,530)</b>
<b>Total</b>	-		<b>66,899</b>	<b>66,899</b>

Financial assets at fair value through OCI

As at 31 December 2017, the Company acquired financial assets at fair value through OCI through swap of shares. For details, please see Note 7. As at 31 December 2018, there were no changes in the number of financial assets at fair value through OCI. In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. As at 31 December 2018, the fair value assessment of the financial assets at fair value through other comprehensive income shares held in RCSM was consequently performed based on the quoted price/share of the shares of the Company as of the valuation date of RON/share 25.75 (31 December 2017: RON/share 37.4), adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

*Sensitivity analysis for financial assets at fair value through OCI*

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

	Share price	
	10% increase	10% decrease
<b>31-Dec-18</b>		
Financial assets at fair value through OCI	3,195	(3,195)
<b>31-Dec-17</b>		
Available for sale financial assets	4,180	(4,180)

Embedded derivatives

The fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a "plain vanilla" bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds. The fair value was obtained from a third party financial institution. The management has determined that such prices were developed in accordance with the requirements of IFRS 13.

**23. FINANCIAL RISK MANAGEMENT (continued)**Electricity trading assets and liabilities

The Company uses a discounted cash flow valuation technique to measure the fair value of the term electricity sale and acquisition contracts as these are not traded on active markets. The valuation model is based on the spot-forward parity formula and the significant inputs are represented by:

- the electricity spot price as estimated based on transaction on PZU market (OPCOM) around the valuation date. The spot price used for valuation as at 31 December 2018: RON/MWh 237.84 (31 December 2017 RON/MWh 111.03) , and
- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date (2018: 3.33%; 2017: 2.94%).

A change in electricity spot price or in the discount rate at the reporting date would have an impact as follows:

	spot price		discount rate	
	Average 10% increase	Average 10% decrease	0.5 percentage points increase	0.5 percentage points decrease
<b>31-Dec-18</b>				
Electricity trading assets	1,264	(1,264)	26	(26)
Electricity trading liabilities	(478)	478	(6)	6

	spot price		discount rate	
	Average 10% Increase	Average 10% decrease	0.5 percentage points increase	0.5 percentage points decrease
<b>31-Dec-17</b>				
Electricity trading assets	(270)	270	(9)	9
Electricity trading liabilities	1,293	(1,292)	67	(68)

Interest rate swaps

The fair value of derivatives acquired for risk management purposes was obtained from the counterparty financial institutions. The management has determined that such prices were developed in accordance with the requirements of IFRS 13. However the management has not performed a due diligence to understand in detail how the prices were developed, consequently the fair value was categorised in Level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2018 is as follows:

	Financial assets at fair value through OCI (Notes 7, 13)	Embedded derivatives	Interest rate swaps	Trading assets	Trading liabilities
<b>1 January 2018</b>	<b>42,146</b>	<b>33,264</b>	<b>(601)</b>	<b>1,619</b>	<b>(9,530)</b>
Gains or (losses) recognised in profit or loss for the year		(2,149)	(685)	433	8,424
Gains or (losses) recognised in other comprehensive income	(10,088)		436		
Purchases					
Settlements			970		
<b>31 December 2018</b>	<b>32,058</b>	<b>31,115</b>	<b>120</b>	<b>2,052</b>	<b>(1,106)</b>



## 23. FINANCIAL RISK MANAGEMENT (continued)

	Available for sale (Notes 7, 13)	Embedded derivatives	Interest rate swaps	Trading assets	Trading liabilities
<b>1 January 2017</b>	-	<b>13,908</b>	<b>(5,318)</b>	<b>3,141</b>	<b>(11,038)</b>
Gains or (losses) recognised in profit or loss for the year	-	19,356	(3,373)	(1,522)	1,508
Gains or (losses) recognised in other comprehensive income	(3,667)	-	4,326	-	-
Purchases	45,813	-	-	-	-
Settlements	-	-	3,764	-	-
<b>31 December 2017</b>	<b>42,146</b>	<b>33,264</b>	<b>(601)</b>	<b>1,619</b>	<b>(9,530)</b>

For electricity, the entire amount in balance at 2017 was realized in 2018. For the asset at FV through OCI and the embedded derivative, those are fully unrealized.

**Assets and liabilities not measured at fair value but for which the fair value is disclosed**

The fair value of long term loans and their corresponding carrying amount (excluding the interest accrued at 31 December 2018 and 2017) and fair value measurement hierarchy are presented in the table below:

			<b>31 December 2018</b>
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Hierarchy</b>
<b>Loans (Note 14)</b>	<b>825,195</b>	<b>848,138</b>	
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	

			<b>31 December 2017</b>
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Hierarchy</b>
<b>Loans (Note 14)</b>	<b>687,060</b>	<b>721,632</b>	
Bonds*	349,384	376,199	Level 1
2016 Senior Facilities	333,170	340,800	Level 3
Other	4,506	4,633	

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

The fair value of bonds is calculated on the basis of the market price while the fair value of the loans is based on contractual cash flows discounted using a market rate prevailing at the reporting date (latest EURIBOR/ROBOR reset rate, after giving effect to interest rate swaps, plus the market credit spread received by the Group for financial liabilities with similar features).

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

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, other interest bearing loans and borrowings, other long term liabilities and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (or recognized recently carrying values for other long term liabilities) and low transaction costs of these instruments.

**v) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. Management monitors "total net debt to EBITDA" ratio which is computed in accordance with the Senior Facilities Agreement. Currently the ratio is 2.8 (2017: 2.7), level which, as mentioned, is constantly monitored.

**24. SHARE-BASED PAYMENTS**

In February 2017, the Group implemented a share-based payment plan for certain members of the management team and key employees. The options vested if and when certain performance conditions, such as revenue, subscriber targets and other targets of the Group were met.

**24.1** On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions of the stock option plan for Class B Shares, applicable to the executive Board members of the Company. A total number of 280,000 class B shares were granted as part of the stock option plan, with vesting date in one year's time. Stock options granted to Executive Directors were subject to performance criteria which, for the year 2017, included the (i) successful closing of the Offer and Admission, (ii) duration of employment with the Company and (iii) growth in EBITDA and in RGUs. Fair value at granting date was EUR 2,435.

At vesting date, on 15 May 2018, the plan was settled in shares, at no cost for the executive Board members. On 15 May 2018 Mr. Serghei Bulgac, Chief Executive Officer and Executive Director of the Company and Mr. Valentin Popoviciu, Executive Director of the Company, have exercised their stock options, which have vested in accordance with the provisions of the Company's stock option plan granted in 2017. The average price at the vesting date was RON 32.925. In accordance with this stock option plan, Mr. Serghei Bulgac was granted 220,000 shares, while Mr. Valentin Popoviciu was granted 60,000 shares.

**24.2** In December 2017, the Board of Directors approved a stock option plan whereby a number of directors, officers and employees of certain subsidiaries of the Group in Romania were granted options to acquire for free class B shares of the Company, with up to 1.6% out from the total number of shares issued by the Company being allocated for this program. The beneficiaries will be able to exercise the stock option (the vesting) only after the lapse of one year from the grant date.

In 2017, 1.5 million shares were granted as options to eligible employees under the share based payment plan. A total number of 2,746 employees are included in the share based payment plan, which was a one-time event after the IPO. Fair value at granting date was EUR 12,387. At vesting date, the plan will be settled in shares.

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

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

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

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

As at 31 December 2018 the related share option expense of EUR 15,979 (31 December 2017: EUR 1,642), out of which EUR 3,241 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 18), and the amount of EUR 12,738 is excluded from EBITDA because the related share option plans are estimated to be one-time events. All share option plans will be settled in equity.

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2018 the Group had both derivative financial liabilities and derivative financial assets.

	31 December 2018		31 December 2017	
	Fair value	Notional	Fair value	Notional
<b>Derivative financial asset</b> (see also Note 23)	<b>33,287</b>		<b>34,883</b>	
Embedded derivatives	31,115	n/a	33,264	n/a
Interest rate swaps	120	n/a	-	n/a
Electricity trading assets (term contracts)	2,052	248 GWh	1,619	113 GWh

	31 December 2018		31 December 2017	
	Fair value	Notional	Fair value	Notional
<b>Derivative financial liability</b> (see also Note 23)	<b>1,106</b>		<b>10,131</b>	
Interest rate swaps	-	-	601	197,651
Electricity trading liabilities (term contracts)	1,106	94 GWh	9,530	542 GWh

As at 31 December 2018 the Group had derivative financial assets in amount of EUR 33,287 (31 December 2017: 34,883), which included:

- Embedded derivatives of EUR 31,115 related to the bond (31 December 2017: 33,264) (the 2016 Bond include several call options as well as one put option, for which the combined fair value of these embedded options was assessed through the Option Adjusted Spread model and recognized a separate embedded derivative asset).
- Electricity trading assets (term contracts) of EUR 2,052 being mark to market gain from fair valuation of electricity trading contracts (31 December 2017: 1,619).

As at 31 December 2018 the Group had derivative financial liabilities in amount of EUR 1,106 (31 December 2017: EUR 10,131), which included:

- Electricity trading liabilities (term contracts) of EUR 1,106 being mark to market loss from fair valuation of electricity trading contracts (31 December 2017: 9,530).
- Interest rate swaps asset in amount of EUR 120 (31 December 2017: liability in amount of EUR 601): On May 22, 2015 and in January 2016 RCS & RDS concluded interest rate swaps for the entire term loan facility and Accordion term loan facility under the 2015 SFA, through which RCS&RDS hedged against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e.: ROBOR). Under the interest rate swaps RCS&RDS pays fixed and receives variable cash flows on the same dates on which it settles the interest on its hedged borrowings. Hedged cash flows occur periodically, on the settlement of the interest on hedged loans, and impact profit or loss throughout the life of the loan, through accrual. Given that critical terms of the hedging instrument match the critical terms of the hedged cash flows, there is no significant ineffectiveness. The interest rate swaps remain valid until the maturity of the agreement in 2020.

**26. CONTINGENCIES AND COMMITMENTS****Uncertainties associated with the fiscal and legal system**

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

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

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

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

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

**26. CONTINGENCIES AND COMMITMENTS (continued)****Legal proceedings**

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

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

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

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

- a litigation where Antena Group is challenging the RCC’s dismissal of its claim alleging our abuse of dominant position in relation to their GSP TV channel (Antena Group’s claims were dismissed by the court of first instance, and termination hearing of the appellate court is currently scheduled for September 26, 2019); and
- a litigation where we are claiming damages from Antena Group for breach of certain contracts, to which Antena Group has filed certain counterclaims (termination hearing is expected to be scheduled following the transfer of this case to the Romanian High Court of Cassation and Justice).

**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 3.9 million. Although already enforceable, this decision is not final and we plan to challenge it once the court’s reasoning is communicated to us.

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 Distribuție Transilvania Nord in relation to a concession agreement between RCS&RDS and the Oradea municipality**

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

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

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

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

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

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

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

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

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

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

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



**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, a then 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. was indicted for the offence of accessory to money laundering, Mr. Mihai Dinei (member of the Board of directors of RCS&RDS), was indicted by the DNA in connection with the offences of accessory to bribery and accessory to money laundering. On 31 July 2017, Mr. Serghei Bulgac (Chief Executive Officer of RCS&RDS and General Manager and President of the Board of Directors of RCS&RDS), was indicted by the DNA in connection with the offence of money laundering.

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

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

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

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

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

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

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

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

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

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

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

The hearing in the arbitration proceeding took place in January 2019, and the parties are expected to submit additional documents and arguments within the next weeks.

#### **Competition Council GSP Tv Investigation**

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

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

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

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

The RCC’s decision was subjected to judicial review. Antena TV Group S.A.’s challenge against the RCC’s decision was rejected as ungrounded by the Bucharest Court of Appeal, but Antena TV Group S.A. filed a higher appeal against the first court’s award. The trial will be settled as per the Settlement Agreement.

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

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

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

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

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

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

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.

**Material 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.

*Operating leases*

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

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

Minimum lease payments under operating lease agreements (both non-cancellable and cancellable but which are not expected to be cancelled) are as follows:

	<b>2018</b>	<b>2017</b>
Less than one year	33,490	22,422
Between one and five year	47,288	51,526
More than five years	16,977	20,871
	<b>97,755</b>	<b>94,819</b>

For details about the analysis and the estimated impact of IFRS 16 as at 31 December 2018, please see Note 2.3

*Capital expenditure*

The capital expenditure the Group has assumed until 31 December 2018 is mostly made of commitments for the purchase of mobile and fixed network equipment amounting to approximately EUR 82,325 (31 December 2017: EUR 54,052).

**26. CONTINGENCIES AND COMMITMENTS (continued)***Satellite capacity expenses*

The Group has committed under the long term agreement with Intelsat, the satellite solution provider, to use until November 2022 the contracted services and to pay monthly equal fees cumulating to EUR 22,644 (31 December 2017: EUR 26,689).

*2100 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 2100 MHz radio spectrum license awarded until 31 December 2021 inclusively, amounting to a cumulated value of EUR 9,641 (31 December 2017: EUR 12,325).

*900 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 900 MHz radio spectrum license awarded starting with April 2014 until April 2029 inclusively, amounting to a cumulated value of EUR 17,315 (31 December 2017: EUR 17,928).

*1800 MHz spectrum fee*

The Group has committed to pay an annual fee to the Hungarian Communication Authority for the 1800 MHz radio spectrum license awarded until 31 October 2029 inclusively, amounting to a cumulated value of EUR 5,190 (31 December 2017: EUR 5,565).

*2600 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 2600 MHz radio spectrum license awarded until 31 April 2029 inclusively, amounting to a cumulated value of EUR 11,292 (31 December 2017: EUR 11,751).

*3700 MHz spectrum fee*

The Group has committed to pay an annual fee to the Romanian Communication Authority for the 3700 MHz radio spectrum license awarded until 31 November 2025 inclusively, amounting to a cumulated value of EUR 1,977 (31 December 2017: EUR 2,189).

*3800 MHz spectrum fee*

The Group has committed to pay an annual fee to the Hungarian Communication Authority for the 3800 MHz radio spectrum license awarded until June 2034 inclusively, amounting to a cumulated value of EUR 5,980 (31 December 2017: 5,874).

*Sports rights and TV films and documentaries*

As of 31 December 2018, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 42,645 (31 December 2017: EUR 23,425).

*Letters of guarantee and letters of credit*

As of 31 December 2018, there were bank letters of guarantee and letters of credit issued in amount of EUR 19,639 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2017: EUR 20,237).

**27. SUBSEQUENT EVENTS**

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

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

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

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

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023. The proceeds of the Offering were partially used to prepay the aggregate principal amount of (i) 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.

The outstanding principal amounts after the repayment for SFA A1 is RON 592.0 million (EUR 126,941 equivalent); for SFA A2 is RON 382.0 million (EUR 81,897 equivalent) and for B is RON 37.0 million (EUR 7,933 equivalent).

The outstanding amounts under the SFA 2018 after the repayment are: (i) HUF 13,465 million (EUR 41,881 equivalent) for A1 Facility; (ii) RON 66.2 million (EUR 14,194 equivalent) for B1 Facility and (iii) EUR 19,359 for Facility B2.

On February 11, 2019, Digi Spain entered into a leasing contract with Caixa for equipments in total amount of up to 1,2 million €, for a 24 months maturity and a leasing contract with Caixa as well, for vehicles in total amount of 0,3 million €, for a 36 months maturity.

For developments in legal proceedings in which the Group was involved (both as a plaintiff and a defendant), subsequent to 31 December 2018, please refer to Note 26.



**Notes to the consolidated Financial Statements  
for the year ended 31 December 2018**
*(all amounts are in thousand EUR, unless specified otherwise)*
**28. EBITDA**

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

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

	2018	2017
<b>Revenues</b>	<b>1,038,121</b>	<b>916,551</b>
Operating profit	101,975	115,399
Depreciation, amortization and impairment	211,480	171,812
<b>EBITDA</b>	<b>313,455</b>	<b>287,211</b>
Other income	(8,873)	(2,509)
Other expenses	19,987	2,820
<b>Adjusted EBITDA</b>	<b>324,569</b>	<b>287,522</b>
Adjusted EBITDA (% of revenue)	31.27%	31.40%

For breakdown of depreciation, amortization and impairment refer to Notes 5 and 6(a) and 6(b).

For the year ended 31 December 2018 and 31 December 2017, EBITDA was adjusted to exclude Other income and Other expense.

Other expenses include: (i) EUR 12,738 representing the accrued expenses for the period related to the share option plans from 2017 and 2018 which are expected to be one-time events (for details, please see Note 24); (ii) Invitel's acquisition related costs of EUR 2,519 and (iii) provisions for ongoing litigations of EUR 4,730 (for further details please see note 26). Mark-to-market gain from fair value assessment of energy trading contracts of EUR 8,873 is presented as Other income in the year ended 31 December, 2018.

During 2017 we recorded EUR 2,603 IPO related costs (presented as Other expenses) out of which EUR 2,353 were recovered from the selling shareholders in the IPO (presented as Other income). Mark-to-market loss from fair value assessment of energy trading contracts of EUR 217 is also presented as Other expenses in the year ended 31 December, 2017.

Other income includes the IPO related costs recovered from the selling shareholders as well as income from the disposal of Digi SAT d.o.o participation in amount of EUR 156.

For the year ended 31 December 2018, Invitel contributed with EUR 16,902 to the consolidated EBITDA of the group.

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

# **Stand-alone Financial Statements for the year ended 31 December 2018**



# **DIGI COMMUNICATIONS N.V.**

## **STAND-ALONE FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION**  
for the year ended 31 December 2018

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## **GENERAL INFORMATION**

### **Directors:**

Serghei Bulgac

Bogdan Ciobotaru

Valentin Popoviciu

Piotr Rymaszewski

Sambor Ryszka

Marius Catalin Varzaru

Zoltan Teszari

### **Registered Office:**

#### **DIGI Communications N.V.**

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

**DIGI Communications N.V.****Stand-alone Statement of financial position****for the year ended 31 December 2018, after result appropriation.***(all amounts are in thousand Euro, unless specified otherwise)*

	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets	3	58,251	45,992
Long-term loan receivable	4	355,851	358,474
Financial assets at fair value through OCI	5	32,058	42,146
<b>Total non-current assets</b>		<b>446,160</b>	<b>446,612</b>
<b>Current assets</b>			
Trade and other receivables	6	15,361	10,747
Short term loan receivable	7	4,655	4,804
Derivative financial assets	9	31,115	33,264
Cash and cash equivalents	10	56	31
<b>Total current assets</b>		<b>51,187</b>	<b>48,846</b>
<b>Total assets</b>		<b>497,347</b>	<b>495,458</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	11		
Issued and paid-up share capital		6,918	6,918
Share premium		3,406	3,406
Treasury shares		(14,524)	(13,922)
Reserves		(13,755)	(3,667)
Retained earnings		117,051	102,967
<b>Total equity</b>		<b>99,096</b>	<b>95,702</b>
<b>Non-current liabilities</b>			
Bonds – long term liabilities	12	355,851	358,474
<b>Total non-current liabilities</b>		<b>355,851</b>	<b>358,474</b>
<b>Current liabilities</b>			
Trade and other payables		7,590	4,323
Derivative financial liabilities	9	31,115	33,264
Bonds – short term liabilities	12	3,695	3,695
<b>Total current liabilities</b>		<b>42,400</b>	<b>41,282</b>
<b>Total liabilities</b>		<b>398,251</b>	<b>399,756</b>
<b>Total equity and liabilities</b>		<b>497,347</b>	<b>495,458</b>

These stand-alone financial statements were authorized for issue by the Board of Directors on 19 March 2019 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambo Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
<i>CEO</i>	<i>Independent Non-Executive Director</i>	<i>Executive Director</i>	<i>Independent Non-Executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>President</i>



**DIGI Communications N.V.****Stand-alone Statement of profit or loss and other comprehensive income  
for the year ended 31 December 2018***(all amounts are in thousand Euro, unless specified otherwise)*

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Interest income	14	22,240	20,284
Dividend income	14	10,122	10,340
Other income	14	-	2,353
Operating expenses	15	(5,756)	(3,111)
Other expenses	15	(479)	(2,603)
<b>Operating Profit</b>		<b>26,127</b>	<b>27,263</b>
Finance income	16	3,725	21,913
Finance expenses	16	(23,818)	(39,969)
<b>Net finance costs</b>		<b>(20,093)</b>	<b>(18,056)</b>
<b>Profit before taxation</b>		<b>6,034</b>	<b>9,207</b>
Income tax	17	(304)	(704)
<b>Net profit for the period</b>		<b>5,730</b>	<b>8,503</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified to profit or loss</i>			
Fair value change for Financial assets at fair value through OCI		(10,088)	(3,667)
<b>Other comprehensive income for the period, net of income tax</b>		<b>(10,088)</b>	<b>(3,667)</b>
<b>Total comprehensive income for the period</b>		<b>(4,358)</b>	<b>4,836</b>

These stand-alone financial statements were authorized for issue by the Board of Directors on 19 March 2019 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius CatalinVarzaru,	Zoltan Teszari,
<i>CEO</i>	<i>Independent Non-Executive Director</i>	<i>Executive Director</i>	<i>Independent Non-Executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>President</i>

**DIGI Communications N.V.****Stand-alone Statement of Cash Flows****for the year ended 31 December 2018***(all amounts are in thousand Euro, unless specified otherwise)*

	Notes	2018	2017
<b>Cash flows from operating activities</b>			
<b>Profit before taxation</b>		<b>6,034</b>	<b>9,206</b>
<b>Adjustments for:</b>			
Interest expense, net	16	17,500	17,676
Losses/gains on derivative financial instruments		(2,623)	-
Equity settled share-based payments	19	3,723	1,540
<b>Cash flows from operations before working capital changes</b>		<b>24,634</b>	<b>28,422</b>
Increase/(Decrease) in trade receivables and other assets		(1,987)	(397)
(Increase)/Decrease in trade payables and other current liabilities		(661)	(1,599)
<b>Cash flows from operations</b>		<b>21,986</b>	<b>26,426</b>
Interest paid		(17,500)	(17,141)
Income tax paid		(792)	(1,588)
<b>Cash flows from operating activities</b>		<b>3,694</b>	<b>7,697</b>
<b>Cash flow used in investing activities</b>			
Acquisition of subsidiaries, net of cash and NCI		-	(1,132)
Acquisition of NCI while retaining control		-	-
<b>Cash flows used in investing activities</b>		<b>-</b>	<b>(1,132)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(2,619)	(21,005)
Cash outflows from acquisition of treasury shares		(1,195)	(2,459)
Proceeds from Bonds	12	-	-
Proceeds from group companies borrowings	12	5,004	34,328
Repayment of Bonds	12	-	-
Borrowing payments to group companies		(4,859)	(21,032)
<b>Cash flows used in financing activities</b>		<b>(3,669)</b>	<b>(10,168)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>25</b>	<b>(3,603)</b>
Cash and cash equivalents at the beginning of the period		31	3,634
<b>Cash and cash equivalents at the end of the period</b>		<b>56</b>	<b>31</b>

**DIGI Communications N.V.****Stand-alone Statement of Changes in Equity****for the period ended 31 December 2018***(all amounts are in thousand Euro, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Fair value reserve*	Retained earnings	Total equity
<b>Balance at 1 January 2018</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>(3,667)</b>	<b>102,967</b>	<b>95,702</b>
<b>Comprehensive income for the period</b>						
Net profit for the period	-	-	-	-	5,730	<b>5,730</b>
Fair value change for Financial assets at fair value through OCI	-	-	-	(10,088)	-	<b>(10,088)</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,088)</b>	<b>5,730</b>	<b>(4,358)</b>
<b>Total comprehensive income for the period</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>(13,755)</b>	<b>108,697</b>	<b>91,344</b>
<b>Transactions with owners, recognized directly in equity</b>						
Contributions by and distributions to owners	-	-	-	-	(7,035)	<b>(7,035)</b>
Net change in treasury shares (Note 11)	-	-	(1,192)	-	-	<b>(1,192)</b>
Equity-settled share-based payment transactions (Note 19)	-	-	590	-	15,389	<b>15,979</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(602)</b>	<b>-</b>	<b>8,354</b>	<b>7,752</b>
<b>Balance at 31 December 2018</b>	<b>6,918</b>	<b>3,406</b>	<b>(14,524)</b>	<b>(13,755)</b>	<b>117,051</b>	<b>99,096</b>

\*Fair value reserves represent Legal reserves

**DIGI Communications N.V.**  
**Stand-alone Statement of Changes in Equity**  
**for the year ended 31 December 2018**  
*(all amounts are in thousand Euro, unless specified otherwise)*

	Share capital	Share premium	Treasury shares	Fair value reserve*	Retained earnings	Total equity
<b>Balance at 1 January 2017</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>-</b>	<b>58,271</b>	<b>49,866</b>
<b>Comprehensive income for the period</b>						
Net profit for the period	-	-	-	-	8,503	<b>8,503</b>
Fair value change for AFS (Note 5)	-	-	-	(3,667)	39,170	<b>35,503</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,667)</b>	<b>47,673</b>	<b>44,006</b>
<b>Total comprehensive income for the period</b>	<b>51</b>	<b>8,247</b>	<b>(16,703)</b>	<b>(3,667)</b>	<b>105,944</b>	<b>93,872</b>
<b>Transactions with owners, recognized directly in equity</b>						
<i>Contributions by and distributions to owners</i>						
Dividends distributed (Note 11)	-	-	-	-	(6,000)	<b>(6,000)</b>
Change in share capital - increase (Note 11)	9,949	(8,247)	-	-	(1,702)	-
Net change in treasury shares (Note 11)	-	-	2,781	-	-	<b>2,781</b>
Difference between fair value of AFS shares received and cost of shares in subsidiaries given (Note 5)	-	3,406	-	-	-	<b>3,406</b>
Change in share capital - decrease (Note 11)	(3,082)	-	-	-	3,082	-
Equity-settled share-based payment transactions (Note 19)	-	-	-	-	1,643	<b>1,643</b>
<b>Total transactions with owners</b>	<b>6,867</b>	<b>(4,841)</b>	<b>2,781</b>	<b>-</b>	<b>(2,977)</b>	<b>1,830</b>
<b>Balance at 31 December 2017</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>(3,667)</b>	<b>102,967</b>	<b>95,702</b>

\*Fair value reserves represent Legal reserves

## **1. CORPORATE INFORMATION**

Digi Communications N.V. (“DIGI” or “the Company”) is a company incorporated in Netherlands with place of business and registered office in Romania. DIGI registered office is located in Str. Dr. Nicolae Staicovici, nr. 75, bl. Forum 2000 Building, Faza 1, et. 4, sect. 5, Bucuresti, Romania. On 11 April 2017 the Company changed its name to Digi Communications N.V., its former name being Cable Communications Systems N.V. (“CCS”)

The Company was established on March 29, 2000 and mainly acts as a holding- and finance company.

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

The financial statements of the Company are included in the consolidated financial statements of Digi Group and RCS Management S.A., Bucharest, Romania.

The stand-alone financial statements were authorized for issue by the Board of Directors of DIGI on 19 March 2019.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

### **2.1 BASIS OF PREPARATION**

#### **(a) Statement of compliance**

These stand-alone financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (Option 4 under Article 362 NCC from Title 9, Book 2, of the Dutch Civil Code) and in accordance with Part 9 of Book 2 of the Dutch Civil Code .

#### **(b) Basis of measurement**

The stand-alone financial statements have been prepared on the historical cost basis, except for available for sale financial assets and derivative financial instruments measured at fair value.

#### **(c) Going concern assumption**

Management believes that the Company will continue as a going concern for the foreseeable future.

#### **(d) Judgements and estimates**

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

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

- Note 3: recognition and valuation of shares swap contracts

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

- Note 5: measurement of Financial assets at fair value through OCI
- Note 9: bonds embedded derivatives.

**(e) Functional and presentation currency**

The functional currency as well as the presentation currency for the Company's financial statements is the primary currency of the main economic transactions which influences its activity as a holding and finance company (EUR).

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

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

The consolidated financial statements of DIGI and RCS Management S.A. are presented in Euros, which is the functional and presentation currency of the Company.

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

Currency	2018			2017		
	Jan – 1	Average for the year	Dec – 31	Jan – 1	Average for the year	Dec – 31
RON per 1EUR	4.6597	4.6535	4.6639	4.5411	4.5681	4.6597
USD per 1EUR	1.1993	1.1723	1.1450	1.0510	1.1293	1.1993

**2.2 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied by the Company are consistent with accounting policies applied for the Consolidated Financial Statements of the Group, except for the following:

**Financial instruments***(i) Non-derivative financial assets****Financial assets (Investments in subsidiaries)***

The investments of the Company in the shares of its subsidiaries are measured at historical cost in its standalone financial statements, as allowed by IAS 27.

At each year-end the Company reviews the value of its investments for impairment, by considering mainly the comparison of cost to net asset value of the respective subsidiary/sub-group, as well as the profitability of the respective subsidiary/sub-group.

*(iii) Share capital*



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

### ***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Transactions with the Company's shares (Class A shares) between shareholders are considered completed at the date the transfer of ownership has been agreed upon by the parties in a written contract. Transactions with the B shares are trading on the stock exchange and are considered completed at the transaction date.

### ***Repurchase, disposal and reissue of share capital (treasury shares)***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium. When treasury shares are cancelled the excess of cost above nominal value is debited to retained earnings.

Share and repurchase agreements related to treasury shares do not result in the derecognition of the respective treasury shares and do not affect their valuation.

### ***Dividend income***

Dividend income is recognised in profit or loss on the date that DIGI's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

## **3. FINANCIAL ASSETS**

### ***Investments in subsidiaries***

Changes in investments in subsidiaries are presented below:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Opening balance 1 January</b>	<b>45,992</b>	<b>43,886</b>
Additions	-	4,210
Disposals	-	(2,205)
Share based plan	12,259	101
<b>Closing balance 31 December</b>	<b>58,251</b>	<b>45,992</b>

### ***Investments in group companies***

The Company's investments in group companies comprise the following:

<b>Name</b>	<b>Registered office</b>	<b>Ownership 31 December 2018</b>	<b>Ownership 31 December 2017</b>	<b>Acquisition cost 31 December 2018</b>
RCS&RDS S.A.	Bucharest, Romania	93.58%	93.58%	45,875
Lexin Hvar B.V.	Amsterdam, the Netherlands	95.00%	95.00%	16
<b>Total</b>				<b>45,890</b>

**4. LONG TERM LOAN RECEIVABLE***Amounts due from Group Company*

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Opening balance as at 1 January</b>	<b>358,474</b>	<b>358,474</b>
Changes	(2,623)	-
<b>Closing balance 31 December</b>	<b>355,851</b>	<b>358,474</b>

In October 2016, RCS&RDS S.A. has concluded a proceeds loan agreement with the Company for an amount of EUR 350,000,000 and bears interest at 5.562%. The loan is due in September 2023.

The fair value of the embedded derivatives related to the 2016 Bonds was also assessed at inception date, in October 2016, in amount of EUR 8,474. It was recognized as Long term loan receivable (from Proceeds Loan) with a corresponding increase in the Bond liability.

**5. Financial assets at fair value through OCI (AFS)**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Balance at 1 January</b>	<b>42,146</b>	<b>-</b>
Additions	-	45,813
Fair value change for Financial assets at fair value through OCI	(10,088)	(3,667)
Non-cash distribution of dividends (Note 11)	-	-
<b>Balance at 31 December</b>	<b>32,058</b>	<b>42,146</b>

The above available for sale financial assets comprise shares in RCS Management S.A. As at 31 December 2018 the percentage of ownership of Digi in RCSM is 10%.

In March 2017 share swaps agreements were concluded between the Company and several minority shareholders, through which the minority shareholders of RCSM exchanged 18,360 shares of RCSM for 17,367,832 shares in RCS&RDS and 255 shares of the Company, which became effective in April 2017. The swaps were accounted for as follows:

- For the swap against RCS&RDS shares the difference between the weighted average cost of the RCS & RDS shares swapped and the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed below) was credited to retained earnings, as this was effectively a transaction with owners (being a transaction with owners of the Company's parent, RCSM).
- For the swap against treasury shares the difference between the weighted average cost of the treasury shares and the fair value of RCSM shares determined by reference to the share price of Digi shares at the IPO (similar to the determination at year-end, detailed below) was credited to share premium.

During 2018, there were no changes made to the Financial assets at fair value through OCI.

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. Consequently, the fair value assessment of the Financial assets at fair value through OCI shares held in RCSM at year end 2017 and 2018 was performed based on the quoted price/share of the shares of the Company as of the valuation date, adjusted for the impact of other assets and liabilities of RCSM, given that the main asset of RCSM is the holding of the majority of the shares of the Company. The fair value assessment also takes into account the cross-holdings between the Group and RCSM.

The decrease in the fair value of the Financial assets at fair value through OCI during 2017 and 2018, as reported in OCI, is not considered to be an impairment.

**6. RECEIVABLES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Receivables from Related Parties		-
Amounts due from Group companies	15,123	10,478
Prepaid expenses	238	269
<b>Total</b>	<b>15,361</b>	<b>10,747</b>

All receivables fall due in less than one year. The fair value of the receivables approximates the book value.

Amounts due from group companies represent mainly dividends receivable.

**7. SHORT TERM LOANS**

The short term loans are provided to Group companies and include the following:

<b>Name</b>	<b>CCY</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Loan RCS&RDS S.A	EUR	4,655	4,804
<b>Total</b>		<b>4,655</b>	<b>4,804</b>

On 19 May 2017 the Company granted a loan to RCS & RDS S.A. in amount of 6,500 RON with maturity date on 18 May 2018. The loan had interest of 6% p.a. The loan was repaid in 2017.

On 15 December 2017, The Company granted a loan to RCS & RDS S.A in amount of 10,000 EUR due in one year. The loan bears interest of 5.5% p.a. On 15 December 2017, RCS & RDS drew EUR 4,866 from this loan. The rest of the amount up to the maximum available commitment was not yet utilized. Until the end of the year, RCS & RDS repaid EUR 62.

On 15 December 2018, The Company granted a loan to RCS & RDS S.A in amount of 10,000 EUR due in one year. The loan bears interest of 5.5% p.a. On 17 December 2018, RCS & RDS drew EUR 4,866 from this loan. The rest of the amount up to the maximum available commitment was not yet utilized. Until the end of the year, RCS & RDS repaid EUR 211.

**8. RELATED PARTY DISCLOSURES**

Receivables from Group companies	Object	31 December 2018	31 December 2017
RCS & RDS	Proceeds Loan	355,851	358,474
RCS & RDS	Dividend receivable	14,201	10,061
RCS & RDS	Interest receivable Loans	10	22
RCS & RDS	Short term loan	4,655	4,804
RCS & RDS	WHT Bonds	833	317
Lexin Hvar B.V.	Interest receivable	78	78
<b>Total</b>		<b>375,629</b>	<b>373,756</b>

Payables to Group companies	Object	31 December 2018	31 December 2017
RCS & RDS	Prepaid interest	(757)	(757)
RCS & RDS	Other	(1,010)	(927)
<b>Total</b>		<b>(1,767)</b>	<b>(1,685)</b>

Payables to Related parties	Object	31 December 2018	31 December 2017
RCS Management S.A.	Dividends	(4,345)	-
Other	Dividends and shares	-	(3)
<b>Total</b>		<b>(4,345)</b>	<b>(3)</b>

On January 30, 2017, the Company entered into two short-term loans with two of its minority shareholders (i) Carpathian Cable Investments S.a.R.L., for a principal amount of EUR 6,628 and (ii) Celest Limited, for a principal amount of EUR 1,504. Both loans represent converted dividends payable. The loans bear a 5% per annum interest rate. The short-term loan was repaid as at June 30, 2017.

Transactions with Group companies Revenues	Object	2018	2017
RCS & RDS	Dividend	10,122	10,340
RCS & RDS	Interest	19,617	20,284
RCS & RDS	Costs recovered	0	2,356
RCS & RDS	WHT	3,333	-
RCS & RDS	Services	131.7	-
<b>Total</b>		<b>33,204</b>	<b>32,979</b>

Transactions with Group companies Expenses			
RCS & RDS	Reinvoiced costs	-	485
RCS & RDS	Services	67	-
<b>Total</b>		<b>67</b>	<b>485</b>

Transactions with Related parties	Object	2018	2017
Selling shareholders IPO	IPO		2,353
Celest Ltd.	Interest		32
Carpathian Cable Investment S.A.R.L.	Interest		142
RCSM	Dividends	4,347	
Zoltan Teszari	Dividends	171	
<b>Total</b>		<b>4,519</b>	<b>2,527</b>

## **9. DERIVATIVE ASSETS AND LIABILITIES**

As at 31 December 2018 the Company had derivative financial assets recorded:

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Fair value</b>	<b>Notional</b>	<b>Fair value</b>	<b>Notional</b>
Embedded derivatives asset/liability	31,115	n/a	33,264	n/a

Embedded derivative assets of EUR 31,115 are related to the bond (31 December 2017: EUR 33,264). The 2016 Bond includes several call options as well as one put option, for which the combined fair value of these embedded options was assessed through the Option Adjusted Spread model and we recognized a separate embedded derivative asset.

The same disclosure applies to the embedded derivative liability, resulting from the terms of the Proceed Loan to RCS & RDS SA, which mirror the terms of the bond as detailed above.

## **10. CASH AND CASH EQUIVALENTS**

As at 31 December 2018 Cash and cash equivalents balance was of EUR 56 (31 December 2017: EUR 31). All cash is freely disposable.

## **11. SHAREHOLDER'S EQUITY**

### **11.1 Share capital**

In February 2017, the general meeting of shareholders of the Company has unanimously resolved the following:

- to amend the articles of association pursuant to which, inter alia, two classes of shares will be created being: class A shares with a nominal value of ten eurocent (EUR 0.10) each and in respect of which for each share A ten (10) votes may be cast and class B shares with a nominal value of one eurocent (EUR 0.01) each and in respect of which for each share B one (1) vote may be cast;
- a conversion and split of each currently issued ordinary share in the Company with a nominal value of EUR 1 into ten (10) class A shares with a nominal value of EUR 0.10 each;
- the cancellation of shares held by the Company in its own share capital; and
- the increase of the share capital by issuing up to 100 million class A shares pro-rata to the shareholdings, subject to availability of reserves.

These resolutions took effect on 11 April 2017.

In April 2017 the Board of DIGI was authorized to issue a number of 99,494,060 class A shares at a total nominal value of EUR 9,949,406 through incorporation of share premium and reserves (bonus issuance, based on the shareholders' resolutions from February 2017).

Therefore, as at 31 December 2017, the authorized capital of the company amounts to EUR 11,000,000. The authorized capital is divided into shares as follows:

- one hundred million (100,000,000) class A shares, with a nominal value of ten eurocents (EUR 0.10) each; and
- one hundred million (100,000,000) class B shares, with a nominal value of one eurocent (EUR 0.01) each.

The issued and paid-up capital as at 31 December 2017 and as at 31 December 2018 in amount of EUR 6,918,043, divided into 100,000,000 shares (out of which (i) 65,756,028 class A shares with a nominal value of ten eurocents (EUR 0.10) each and (ii) 34,243,972 class B shares, with a nominal value of one eurocent (EUR 0.01) each).

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

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

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

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

## 11. SHAREHOLDER'S EQUITY (CONTINUED)

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

	31 December 2018	31 December 2017
<b>Class A:</b>		
Ordinary Shares – Issued and Paid (No.)	65,756,028	65,756,028
Ordinary Shares – Unissued (No.)	34,243,972	34,243,972
Nominal Value	0.10 EUR per share	0.10 EUR per share
<b>Class B:</b>		
Ordinary Shares – Issued and Paid (No.)	34,243,972	34,243,972
Ordinary Shares – Unissued (No.)	65,756,028	65,756,028
Nominal Value	0.01 EUR per share	0.01 EUR per share
Share Capital Value (EUR thousand)	6,918,043	6,918,043

The rights attaching to the class B shares are uniform in all respects except for the voting rights to the class A shares.

At 31 December 2018, the shareholders of DIGI are as follows:

	31 December 2018		31 December 2017	
Shareholder name	No. of shares	%	No. of shares	%
<b>Class A:</b>				
RCS Management S.A.	57,866,545	57.87%	57,866,545	57.87%
Teszari Zoltan	2,280,122	2.28%	2,280,122	2.28%
DIGI-treasury shares	5,609,361	5.61%	5,609,361	5.61%
<b>Total class A</b>	<b>65,756,028</b>		<b>65,756,028</b>	
<b>Class B:</b>				
Shares listed on BVB	33,339,354	33.3%	33,246,818	33.25%
DIGI - treasury shares	904,618	0.9%	997,154	1.00%
<b>Total class B</b>	<b>34,243,972</b>		<b>34,243,972</b>	
<b>TOTAL</b>	<b>100,000,000</b>		<b>100,000,000</b>	

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



**11. SHAREHOLDER'S EQUITY (CONTINUED)**

In March 2017 a share swap agreement was concluded between Mr Teszari and the Company through which Mr Teszari exchanges a number of 7,500,000 shares of RCS&RDS for 1,042 shares of the Company.

Being a swap transaction between RCS & RDS and the Company's shares the valuation basis chosen was the cost of the treasury shares swapped to represent the cost of the RCS&RDS shares acquired, as being the most representative and objective measure of fair value.

**Proposed appropriation of the result**

The board of directors proposed to add the result for the year to retained earnings. The proposal has been reflected in the statement of financial position. At the annual general meeting in 2019, the board of directors shall propose to pay-out from retained earnings a dividend per share of RON 0.50, totaling EUR 10,156 (using 31 December 2018 fx rate). This dividend payment shall only be reflected in the statement of financial position when it is approved by the annual general meeting.

**11.2 Dividends**

In April 2017 the Company declared dividends of EUR 6 million for year ended 31 December 2016, which were paid at the beginning of May 2017; the related amount of dividend per share was EUR/share 0.063.

The GSM from 2 May 2018 approved the distribution of a gross dividend of 0.35 RON (EUR 0.075 per share) per share for year ended 31 December 2017. The dividend was distributed on 30 May 2018.

**11.3 Nature and purpose of reserves***Treasury shares*

Contains cost of treasury shares.

*Reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired. The fair value reserve is considered Legal reserve.

*Retained earnings*

Contains cumulative Retained earnings of past periods.

**11.4 Stand-alone Equity Reconciliation**

31-Dec-18	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
<b>Stand-alone</b>	<b>6,918</b>	<b>3,406</b>	<b>(14,524)</b>	<b>117,051</b>	<b>(13,755)</b>	-	-	-	<b>99,096</b>
Net result of the period				10,870					<b>10,870</b>
Retained earnings of the other subsidiaries in the Group	-	-	-	46,137	-	-	-	-	<b>46,137</b>
Revaluation reserve transfer	-	-	-	12,565	-	-	(12,565)	-	-
Reserves only in the consolidated FS						(34,242)	41,885	94	<b>7,737</b>
Impact of accounting policies difference cost vs equity method for subsidiaries				(17,798)					<b>(17,798)</b>
<b>Consolidated</b>	<b>6,918</b>	<b>3,406</b>	<b>(14,527)</b>	<b>168,825</b>	<b>(13,755)</b>	<b>(34,242)</b>	<b>29,320</b>	<b>94</b>	<b>146,039</b>

## 11. SHAREHOLDER'S EQUITY (CONTINUED)

31-Dec-17	Share capital	Share premium	Treasury shares	Retained earnings	Fair value Reserves	Translation reserve	Revaluation reserve	Cash Flow hedge reserves	Total equity
<b>Stand-alone</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>102,967</b>	<b>(3,667)</b>	-	-	-	<b>95,702</b>
Net result of the period	-	-	-	49,765	-	-	-	-	<b>49,765</b>
Retained earnings of the other subsidiaries in the Group	-	-	-	(2,830)	-	-	-	-	<b>(2,830)</b>
Revaluation reserve transfer	-	-	-	6,765	-	-	(6,765)	-	-
Reserves only in the consolidated FS	-	-	-	-	-	(29,957)	41,885	(248)	<b>11,680</b>
Impact of accounting policies difference cost vs equity method for subsidiaries	-	-	-	(17,798)	-	-	-	-	<b>(17,798)</b>
<b>Consolidated</b>	<b>6,918</b>	<b>3,406</b>	<b>(13,922)</b>	<b>138,869</b>	<b>(3,667)</b>	<b>(29,957)</b>	<b>35,120</b>	<b>(248)</b>	<b>136,519</b>

## 11.5 Net Result Reconciliation

	2018	2017
<b>Stand-alone net result</b>	<b>5,730</b>	<b>8,503</b>
Embedded Derivative gain	0	19,924
Deferred tax subsidiaries	(15,427)	(10,288)
Income tax subsidiaries	(5,139)	(8,064)
Subsidiaries net results	32,858	51,956
<b>Consolidated net result</b>	<b>18,022</b>	<b>62,031</b>

## 12. BONDS-LONG TERM AND SHORT TERM DEBT

Long term portion	Nominal interest rate	31 December 2018	31 December 2017
2016 Bonds	5% p.a.	355,851 <sup>1</sup>	358,474 <sup>1</sup>
<b>Total long term portion</b>		<b>355,851</b>	<b>358,474</b>

<sup>1</sup> This amount includes fair value at inception of the 2016 Bonds in amount of EUR 8,474 net of amortisation expense of EUR 2,623.

**2016 Senior Secured Notes**

On October 26, 2016 the Company issued the 2016 Notes with a value of €350.0 million falling due in 2023. The 2016 Notes are secured by (i) subject to certain exclusions, all present and future movable assets of RCS & RDS, including bank accounts, trade receivables, intragroup receivables, insurance receivables, inventories, movable tangible property (including installation, networks, machinery, equipment, vehicles, furniture, and other similar assets), intellectual property rights, insurance and proceeds related to any of the foregoing; (ii) all shares of certain of RCS & RDS's material subsidiaries held by RCS & RDS; and (iii) certain assets of the Company including all shares it holds in the RCS & RDS, certain bank accounts and rights under the proceeds loan agreement dated November 4, 2013 as amended and extended between the Company, as lender, and RCS & RDS, as borrower. The collateral is shared with other facilities of RCS & RDS. For details regarding the Collateral, please see below.

Interest is payable semi-annually in arrears in April and October of each year.

The 2016 Notes include several redemptions options which were assessed to be closely related to the host contract. The derivative resulted from these redemptions options is recorded at fair value.

## **12. BONDS-LONG TERM AND SHORT TERM DEBT (CONTINUED)**

The costs that are directly related to the 2016 Notes are recharged through the intercompany account to RCS&RDS S.A.

For details about RCS & RDS's Facilities, please refer to the Note 14 from the consolidated financial statements of DIGI for the year ended 31 December 2018.

For details regarding Loans from Group companies, please see Note 8.

### **Collateral**

#### **(i) Collateral for all facilities of RCS & RDS and DIGI**

The obligations of the Group under the Bonds, as well as their obligations under the Senior Facilities Agreement of RCS & RDS, under the ING Facilities Agreement of RCS & RDS and the Citi Facilities Agreement of RCS & RDS on a paripassu basis pursuant to the terms of the Intercreditor Agreement dated 4 November 2013 and amended on 26 October 2016, are secured by a first-ranking security interest in certain assets of RCS&RDS and DIGI, namely:

- (a) Certain Capital Stock that DIGI holds in RCS&RDS which as at 31 December 2018 accounted for 93.58% of the issued Capital Stock of RCS&RDS, as per Trade Register;
- (b) All bank accounts of DIGI, including any new bank accounts;
- (c) Receivables under the Proceeds Loan (The Proceeds Loan is the loan provided by DIGI to its subsidiary, RCS&RDS on 4 November 2013 amended and restated on 26 October 2016 – currently EUR 350,000)
- (d) 100% of the quota in DIGI T.S. Kft Hungary;
- (e) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and
- (f) All DIGI T.S Kft Hungary's shares owned currently in Invitel representing 99.998395%.
- (g) subject to certain exclusions, all present and future movable assets of RCS&RDS including bank account monies, trade and other receivables, intragroup receivables, inventories, movable tangible property (including installations, machinery, equipment, vehicles, furniture and other similar assets), intangible assets, intellectual property rights, insurance and proceeds related to any of the foregoing as described in the General Movable Mortgage Agreement between RCS&RDS and Wilmington Trust (London) Limited.

On 8 August 2017, the 2016 Senior Secured Notes, were admitted to trading on the Main Securities Market of the Irish Stock Exchange. In connection with this listing, DIGI Távközlési és Szolgáltató Korlátolt Felelősségű Társaság (the Hungarian subsidiary of RCS & RDS S.A., the Company's subsidiary) acceded as an additional guarantor under to the Indenture and the Intercreditor Agreement dated 26 October 2016 relating to the Notes, as well as under the Senior Facility Agreement dated 7 October 2016.

**13. Remuneration of Board of Directors**

In April 2017, the new Board of Directors was appointed for the Company.

On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions for the stock option plan for Class B Shares grant applicable to the executive Board members of the Company in 2017. A total number of 280,000 class B shares were granted as part of the stock option plan for 2017. At vesting date, on 15 May 2018, the plan was settled in shares, at no cost for the executive Board members. For details, please see Note 19.

On 2 May 2018, the General Shareholder's Meeting has approved the grant of stock options for class B shares applicable to the executive and non-executive Board members in 2018. In May 2018, Mr. Serghei Bulgac (Chief Executive Officer and Executive Director of the Company), Mr. Valentin Popoviciu (Executive Director of the Company), Mr. Marius Varzaru (Non-executive Director) and Mr. Bogdan Ciobotaru (Non-executive Director) have been granted by the Company class B 686,090 conditional stock options (applicable for the years 2018 and 2019). For details, please see Note 19.

The remuneration of the Directors for year ended 31 December 2018, in their capacity as Digi's Board members comprises of:

	2018	2017
Short term benefits – salaries	958	625
Contributions	12	64
<b>Total</b>	<b>970</b>	<b>689</b>

**Individual compensations for the Board members are presented below:**

		2018			
Name	Position	Gross salaries (thousand EUR)	Salaries contributions (thousand EUR) <sup>1</sup>	Gross salaries (thousand EUR) other functions within the Group	Share options (thousand EUR) <sup>2</sup>
SERGHEI BULGAC	Chief Executive Officer (Executive Director)	171	4	95	1,467
VALENTIN POPOVICIU	Executive Director	171	4	68	597
ZOLTAN TESZARI	President (Non-Executive Director)	171	4	20	
BOGDAN CIOBOTARU	Independent Non-Executive Director	111	0	43	285
PIOTR RYMASZEWSKI	Independent Non-Executive Director	111	0	0	
SAMBOR RYSZKA	Non-Executive Director	111	0	48	
MARIUS CATALIN VARZARU	Non-Executive Director	111	0	652	225
<b>Total</b>		<b>958</b>	<b>12</b>	<b>926</b>	<b>2,574</b>

<sup>1</sup>As per the fiscal legislation, taxes were applied accordingly to the fiscal residency of the Board members.

<sup>2</sup>Value at grant date.

		2017				
Name		Position	Gross salaries (thousand EUR)	Salaries contributions (thousand EUR) <sup>1</sup>	Gross salaries (thousand EUR) other functions within the Group	Share options (thousand EUR) <sup>2</sup>
SERGHEI	BULGAC	Chief Executive Officer (Executive Director)	98	21	95	1,913
VALENTIN	POPOVICIU	Executive Director	98	21	71	522
ZOLTAN	TESZARI	President (Non-Executive Director)	98	21	-	-
BOGDAN	CIOBOTARU	Independent Non-Executive Director	82	-	71	-
PIOTR	RYMASZEWSKI	Independent Non-Executive Director	82	-	-	-
SAMBOR	RYSZKA	Non-Executive Director	82	-	150	-
MARIUS CATALIN	VARZARU	Non-Executive Director	82	-	354	-
Total			625	64	741	2,435

<sup>1</sup>As per the fiscal legislation, taxes were applied accordingly to the fiscal residency of the Board members.

<sup>2</sup>Value at grant date.

During 2017 and 2018, some of the Board members had also other functions/roles with other Group companies for which they were remunerated, mainly:

Mr Ryszka is the Managing Director of Digi Hungary

Mr Varzaru is the Managing Director of Digi Spain

Mr Bulgac and Mr Popoviciu are Board members of RCS & RDS S.A.

For details regarding the share option plan, please see Note 19.

**14. INCOME**

	<b>2018</b>	<b>2017</b>
Interest income	22,240	20,284
Dividend income	10,122	10,340
<b>Total income</b>	<b>32,362</b>	<b>30,624</b>

Interest income includes interest received from loans granted to RCS & RDS. For details please see Note 4 and Note 7.

In April 2017 RCS & RDS declared dividends in amount of 50 million lei (EUR 11 million equivalent) from undistributed profits of the previous years. Digi's share of dividend received was recognized as dividend income.

During 2017 Digi recorded EUR 2,603 IPO related costs (presented as Other expenses) out of which EUR 2,353 were recovered from the selling shareholders in the IPO (presented as Other income).

In May 2018, RCS & RDS declared dividends in amount of 50 million lei, equivalent of EUR 10.8 million from 2017 profit, out of which EUR 10.1 million represents the share distributed to the Company.

**15. OPERATING EXPENSES**

	<b>2018</b>	<b>2017</b>
Salaries and related taxes	1,097	582
Contribution to pension related fund	-	57
Share-based payment expense	3,720	1,643
Other expenses	939	829
<b>Total operating expenses</b>	<b>5,756</b>	<b>3,111</b>

For details about the share option plan implemented in 2017 and 2018, please see Note 19.

During 2017 Digi recorded EUR 2,603 IPO related costs (presented as Other expenses) out of which EUR 2,353 were recovered from the selling shareholders in the IPO (presented as Other income).

**16. NET FINANCE COSTS**

	<b>2018</b>	<b>2017</b>
<b>Financial revenues</b>		
Other financial revenues	3,465	21,714
	<b>3,465</b>	<b>21,714</b>
<b>Financial expenses</b>		
Interest expense	(20,123)	(17,676)
Other financial expenses	(3,356)	(21,800)
	<b>(23,479)</b>	<b>(39,476)</b>
Foreign exchange differences (net)	(79)	(294)
<b>Net Financial Cost</b>	<b>(20,093)</b>	<b>(18,056)</b>



**17. INCOME TAX**

Up to 21 April 2017 the Company was a Dutch Tax resident. In the context of the IPO from 2017, we became a tax resident in Romania. As from April 21, 2017 the Company is no longer a Dutch tax resident and is regarded as solely resident in Romania. The Company is a Romanian tax resident having its place of effective management in Bucharest, Romania, where all the strategic and commercial decisions are made, as well as the day-to-day management is carried out.

The statutory tax rate applied during 2017 was 20%/25% before 21 April 2017 (in Netherlands) and 16% after 21 April 2017 (in Romania).

The statutory tax rate applied in Romania during 2018 was 16%

*Reconciliation of income tax expense*

Reconciliation of income tax expense at the statutory income tax rate applicable to the net result before tax to the income tax expense at the Company's effective income tax rate for the financial years 2018 and 2017 is as follows:

	2018	2017
<b>Net profit before income tax</b>	<b>6,034</b>	<b>9,207</b>
At statutory income tax rate of the Company (16%)	969	1,487
Non-deductible expenses / (Non-taxable income)	(911)	(1,477)
Exit tax in the Netherlands for change of Company's fiscal domicile	-	449
Effect of fiscal profit of the Company in the Netherlands before moving fiscal domicile (including higher tax rate 20/25%)	-	225
Taxes in respect of prior years	246	20
<b>Effective tax expense</b>	<b>304</b>	<b>704</b>

**18. FINANCIAL RISK MANAGEMENT**

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

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

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

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

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

*(i) Credit risk***Credit risk exposure**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2018	31 December 2017
Trade and other receivables	6	15,361	10,747
Short term loan receivable	7	4,655	4,804
Derivative financial assets	9	31,115	33,264
Cash and cash equivalents	10	56	31
Long term loan receivables	4	355,851	358,474
<b>Total</b>		<b>407,038</b>	<b>407,320</b>

The carrying amount of the financial assets, net of the recorded impairment allowances, represents the maximum amount exposed to credit risk.

The EUR Bonds issued by the Company have received ratings from Moody's and S&P (B1/BB-). Since the Company is a holding company, the same ratings could be extrapolated for the long term and short term loans receivables from RCS & RDS SA.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2018	31 December 2017
ING Bank	28	31
BRD Bank	28	-
<b>Total</b>	<b>56</b>	<b>31</b>

**Impairment losses**

The ageing of trade and other receivables, and other assets, at the reporting date was:

	Gross	Impairment	Net	Gross	Impairment	Net
	31 December 18			31 December 17		
<b>1. Neither past due nor impaired</b>	15,123	-	15,123	10,478	-	10,478
<b>2. Past due but not impaired</b>	-	-	-	-	-	-
<b>3. Impaired</b>	-	-	-	-	-	-
<b>Total</b>	<b>15,123</b>	<b>-</b>	<b>15,123</b>	<b>10,478</b>	<b>-</b>	<b>10,478</b>

**(ii) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, inter-company loans. Management monitors on a monthly basis the forecast of cash outflows and inflows in order to determine its funding needs.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2018:

31 December 2018							
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
<b>Non derivative financial liabilities</b>							
Bonds	355,851	431,651	8,678	8,822	17,500	396,651	-
Trade and other payables	7,590	7,590	7,590	-	-	-	-
<b>Total</b>	<b>363,441</b>	<b>439,241</b>	<b>16,268</b>	<b>8,822</b>	<b>17,500</b>	<b>396,651</b>	<b>-</b>

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2017:

31 December 2017							
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
<b>Non derivative financial liabilities</b>							
Bonds	358,474	416,840	8,507	8,896	17,743	381,694	-
Trade and other payables	4,323	4,323	4,323	-	-	-	-
<b>Total</b>	<b>362,797</b>	<b>421,163</b>	<b>12,830</b>	<b>8,896</b>	<b>17,743</b>	<b>381,694</b>	<b>-</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

At 31 December 2018, the Company had net current assets of EUR 8,787 (31 December 2017: EUR 7,564). Management considers that the Group will generate sufficient funds to cover the current liabilities from future revenues.

The Company's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and to keep the Company's leverage optimized. Management believes that there is no significant risk that the Company will encounter liquidity problems in the foreseeable future.

**(iii) Market risk**

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

**Exposure to currency risk**

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

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The Board of Directors actively manages the exposure to RON currency only for borrowings.

The Company's exposure to foreign currency risk was as follows (amounts expressed in thousands of the respective currencies):

	<b>31 December 2018</b>			<b>31 December 2017</b>		
	<b>EUR</b>	<b>RON</b>	<b>USD</b>	<b>EUR</b>	<b>RON</b>	<b>USD</b>
Trade and other receivables	-	15,045	-	-	10,041	-
Cash and cash equivalents	-	52	1	-	6	2
Trade and other payables	-	(6,248)	-	-	(168)	-
<b>Gross statement of financial position exposure</b>	<b>-</b>	<b>8,849</b>	<b>1</b>	<b>-</b>	<b>9,879</b>	<b>2</b>

The following significant exchange rates applied for the year ended 31 December 2018:

	<b>2018</b>	<b>2017</b>
<b>Romania</b>		
USD	4.0736	3.8915
EUR	4.6639	4.6597

*Sensitivity analysis for currency risk*

A 10 percent strengthening of the currencies listed below against the functional currencies of the Company would have decreased profit / increased loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant

	<b>Effect on profit before tax 31 December 2018</b>	<b>Effect on profit before tax 31 December 2017</b>
RON	(880)	(212)
USD	-	-
<b>Total</b>	<b>(880)</b>	<b>(212)</b>

A 10 percent weakening of the above mentioned currencies against the functional currencies of the Company 31 December would have had the equal but opposite effect on profit and loss, on the basis that all other variables remain constant.

The effect in equity is the effect in profit or loss before tax, net of tax (16%) (excluding translation effect into presentation currency).

**Exposure to interest rate risk**

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of the Company's borrowings as well as on the loans granted by the Company are fixed. The interest rates of borrowings are disclosed in Note 7 and 12. The interest rates of loans granted by the Company are disclosed in Notes 4 and 7.

*iv) Fair values*

The Company measures at fair value available for sale investments and embedded derivatives.

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Fair value hierarchy**

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation techniques with all significant inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: valuation techniques using significant inputs that are not observable or based on observable market data (i.e. unobservable inputs).

The significance of a valuation input is assessed against the fair value measurement in its entirety.

**Recurring fair value measurements**

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements of financial instruments are categorised are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>31 December 2018</b>				
Financial assets fair value through OCI			32,058	<b>32,058</b>
Embedded derivatives			31,115	<b>35,132</b>
<b>Total</b>			<b>63,173</b>	<b>67,190</b>
<b>31 December 2017</b>				
Available for sale financial assets	-	-	42,146	42,146
Embedded derivatives	-	-	33,264	33,264
<b>Total</b>	-	-	<b>75,410</b>	<b>75,410</b>

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**Financial assets at fair value through OCI

In 2017 the Company's class B shares were listed on the Bucharest Stock Exchange. As at 31 December 2017 and as at 31 December 2018, the method of valuing RCSM's ownership in DIGI (and implicitly RCSM's equity and the Interest DIGI holds in RCSM) was based directly on the quoted price/share of DIGI, since they are actively traded.

The fair value assessment at year end was made based on the quoted price/share as of the valuation date, which is a relevant method of estimating the market value of a minority ownership in its equity.

*Sensitivity analysis for available for sale financial assets*

A change in the share price, and respectively of the growth rate and/ or WACC at the reporting date would have an impact as follows:

	Share price	
	10% increase	10% decrease
<b>31 December 18</b>		
Financial assets at fair value through OCI	3,195	(3,195)
<b>31 December 17</b>		
Available for sale financial assets	4,180	(4,180)

Embedded derivatives

The fair value of the options embedded in the issued bonds was estimated using the Option Adjusted Spread (OAS) model. The OAS model basically compares the yield on a "plain vanilla" bond (i.e.: a bond no optionality features) with the yield on a similar bond but with the embedded options. The difference between the two yields represents the price of the embedded options. Thus the model directly provides a separate price for the entire optionality of the bonds. The fair value was obtained from a third party financial institution. The management has determined that such prices were developed in accordance with the requirements of IFRS 13.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2018 is as follows:

	Financial assets at fair value through OCI (Notes 5)	Embedded derivatives
<b>1 January 2018</b>	<b>42,146</b>	<b>33,264</b>
Gains recognised in profit or loss for the year		(2,149)
Gains recognised in other comprehensive income	(10,088)	
Purchases		
<b>31 December 2018</b>	<b>32,058</b>	<b>31,115</b>
	Available for sale (Notes 5)	Embedded derivatives
<b>1 January 2017</b>	-	<b>13,908</b>
Gains recognised in profit or loss for the year	-	19,356
Gains recognised in other comprehensive income	(3,667)	-
Purchases	45,813	-
<b>31 December 2017</b>	<b>42,146</b>	<b>33,264</b>



**18. FINANCIAL RISK MANAGEMENT (CONTINUED)****Assets and liabilities not measured at fair value but for which the fair value is disclosed**

The fair value of long term loans and their corresponding carrying amount (excluding the interest accrued) and fair value measurement hierarchy are presented in the table below:

<b>31 December 2018</b>			
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Hierarchy</b>
<b>Loans (Note 12)</b>			
Bonds	350,000	366,625	Level 1
<b>31 December 2017</b>			
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Hierarchy</b>
<b>Loans (Note 12)</b>			
Bonds	350,000	376,199	Level 1

The fair value of bonds is calculated on the basis of the market price.

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, short term loans and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (or recognized recently carrying values for other long term liabilities) and low transaction costs of these instruments.

**vii) Capital management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. Management monitors "total gross debt to EBITDA" ratio which is computed in accordance with the Senior Notes covenants, at Group level. Currently the ratio is 2.8 (2017: 2.7), level which, as mentioned, is constantly monitored.

**19. SHARE-BASED PAYMENT**

**19.1** On 14 May 2017 the General Shareholders' Meeting adopted the terms and conditions of the stock option plan for Class B Shares, applicable to the executive Board members of the Company. A total number of 280,000 class B shares were granted as part of the stock option plan, with vesting date in one year's time. Stock options granted to Executive Directors will be subject to performance criteria which, for the year 2017, include the (i) successful closing of the Offer and Admission, (ii) duration of employment with the Company and (iii) growth in EBITDA and in RGUs. Fair value at granting date was EUR 2,435.

At vesting date, on 15 May 2018, the plan was settled in shares, at no cost for the executive Board members. On 15 May 2018 Mr. Serghei Bulgac, Chief Executive Officer and Executive Director of the Company and Mr. Valentin Popoviciu, Executive Director of the Company, have exercised their stock options, which have vested in accordance with the provisions of the Company's stock option plan granted in 2017. In accordance with this stock option plan, Mr. Serghei Bulgac was granted 220,000 shares, while Mr. Valentin Popoviciu was granted 60,000 shares.

**19.2** In December 2017, the Board of Directors approved a stock option plan whereby a number of directors, officers and employees of certain subsidiaries of the Group in Romania were granted options to acquire for free class B shares of the Company, with up to 1.6% out from the total number of shares issued by the Company being allocated for this program. The beneficiaries will be able to exercise the stock option (the vesting) only after the lapse of one year from the grant date.

**19. SHARE-BASED PAYMENT (CONTINUED)**

In 2017, 1.5 million shares were granted as options to eligible employees under the share based payment plan. A total number of 2,746 employees are included in the share based payment plan. Fair value at granting date was EUR 12,387. At vesting date, the plan will be settled in shares.

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

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

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

As at 31 December 2018 the related share option expense of EUR 3,720 (2017: EUR 1,541) in the Statement of profit or loss and other comprehensive income in the line item Operating expenses, within salaries and related taxes (Note 15).

**20. AUDIT FEES**

	31 December 2018		31 December 2017	
	EY NL	EY Other	EY NL	EY Other
Statutory audit	98	-	80	-
Other audit services	-	285	-	187
Other assurance services	32	239	-	275
Non-audit services	-	-	-	-
<b>Total</b>	<b>130</b>	<b>524</b>	<b>80</b>	<b>462</b>

**21. NUMBER OF EMPLOYEES AND EMPLOYEES COSTS**

The average number of persons employed by the Company during the period ended 31 December 2018 was 7 (31 December 2017: 3).

In April 2017 the Company changed fiscal residency and place of business to Romania. Therefore, the position in Netherlands become redundant starting with 1 June 2017.

As at 31 December 2018 the Company had 8 (31 December 2017: 5) employees in Romania.

For employees cost, please see Note 15.

## **22. GENERAL COMMITMENTS AND CONTINGENCIES**

### **(a) Contractual commitments**

The Company is a Guarantor for several credit facilities of RCS & RDS S.A concluded with different banks.

For details about Collateral please see Note 12.

### **(b) Legal proceedings**

During the financial period, the Company was involved in one court proceedings (as a defendant). In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these financial statements. Specifically, for the litigation described below the Company did not recognize provisions as management assessed that the outcome of this litigation is not more likely than not to result in significant cash outflows for the Company.

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

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

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

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

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

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

jurisdictions where i-TV Digitális Távközlési Zrt., DIGI Távközlési és Szolgáltató Kft., RCS&RDS, RCS Management S.A., or the Company operate.

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

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

## **23. SUBSEQUENT EVENTS**

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. For details please see note 11.

On 12 February 2019 the Company issued an additional EUR 200,000 senior secured notes due 2023. The proceeds of the Offering were partially used to prepay RCS & RDS S.A (the Company's subsidiary in Romania) borrowings in 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.

For developments in legal proceedings in which the Company was involved, subsequent to 31 December 2018, please refer to Note 22.

These stand-alone financial statements were authorized for issue by the Board of Directors on 19 March 2019 represented by:

Serghei Bulgac,	Bogdan Ciobotaru,	Valentin Popoviciu,	Piotr Rymaszewski,	Sambor Ryszka,	Marius Catalin Varzaru,	Zoltan Teszari,
<i>CEO</i>	<i>Independent Non-Executive Director</i>	<i>Executive Director</i>	<i>Independent Non-Executive Director</i>	<i>Non-executive Director</i>	<i>Non-executive Director</i>	<i>President</i>



## Other information



## PROFITS, DISTRIBUTION AND LOSSES

As per the Company's Articles of Association (Article 28), from the profits, shown in the annual accounts, as adopted, the board of directors shall determine which part shall be reserved. Any profits remaining thereafter shall be at the disposal of the general meeting. The board of directors shall make a proposal for that purpose.

Distributions on the shares shall be made to each share equally, irrespective of the class and nominal value of such share. Distributions may be made only insofar as the company's equity exceeds the amount of the paid in and called up part of the issued capital, increased by the reserves which must be kept by virtue of the law.

If a loss was suffered during any one year, the board of directors may resolve to offset such loss by writing it off against a reserve which the company is not required to keep by virtue of the law.

The distribution of profits shall be made after the adoption of the annual accounts, from which it appears that the same is permitted. The board of directors may, with due observance of the policy of the company on reserves and dividends, resolve to make an interim distribution in certain circumstances.

At the proposal of the board of directors or the class A meeting, the general meeting may resolve to make a distribution on shares, which can be either (wholly or partly) in cash or in shares. At the proposal of the board of directors or the class A meeting, the general meeting may resolve that distributions are made in another currency than Euro.

The board of directors may, subject to due observance of the policy of the company on reserves and dividends and with the prior approval of the class A meeting, resolve that distributions to holders of shares shall be made out of one or more reserves.

Dividends and other distributions of profit shall be made payable in the manner and at such date(s) - within four (4) weeks after declaration thereof - and notice thereof shall be given, as the board of directors shall determine. The board of directors may determine that entitled to dividends and other distributions of profits shall be, the shareholders, usufructuaries and pledgees, as the case may be, at a record date within four (4) weeks after notification thereof. A claim of a shareholder for payment of a distribution shall be barred after five years have elapsed.

For details regarding the Company's dividend policy, please see chapter [Dividend Policy](#) from this Annual report.

## AUDIT REPORT

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and Part 9 of book 2 of the Dutch civil code for the year ended 31 December 2018 were audited by Ernst & Young Accountants LLP. Their independent auditor's report is included below.



## Independent auditor's report

To: the shareholders and board of directors of Digi Communications N.V.

## Report on the audit of the financial statements 2018 included in the annual report

### Our opinion

We have audited the financial statements 2018 of Digi Communications N.V., based in Bucharest, Romania.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Digi Communications N.V. as at 31 December 2018, and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and stand-alone statement of financial position as at 31 December 2018
- The following statements for 2018: the consolidated and stand-alone statements of profit or loss and other comprehensive income, cash flows and changes in equity
- The notes comprising a summary of the significant accounting policies and other explanatory information

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Digi Communications N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Audit firms supervision act (Wet toezicht accountantsorganisaties, Wta), the Code of Ethics for Professional Auditors (Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten, ViO, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Dutch Code of Ethics (Verordening gedrags- en beroepsregels accountants, VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Materiality

Materiality	€8,700,000 (2017: €8,000,000)
Benchmark applied	Approximately 2.8% of earnings before interest, taxes, depreciation and amortization (EBITDA)

Explanation	<p>The users of the financial statements of a for-profit entity typically focus on operating performance, particularly profit before tax. In the past years Digi Communications N.V.'s profit before tax heavily fluctuated, resulting from the impact of the discontinuance of operations and other non-recurring transactions.</p> <p>Furthermore, we note that in Digi Communications N.V.'s external communications, EBITDA is commonly used to report on financial performance. Considering these aspects, we have concluded that EBITDA is the most appropriate and stable benchmark for Digi Communications N.V. to base our materiality upon. The materiality is thereby set at €8,700,000, using a percentage of 2.8%, which is within a generally accepted range.</p>
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We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of directors that misstatements in excess of €435,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

#### Scope of the group audit

Digi Communications N.V. is at the head of a group of entities. Our group audit mainly focused on group entities that are either significant based on their size or risk relative to the consolidated financial statements. All entities that have contributions to consolidated EBITDA exceeding 5% of total are included within our audit scope. This resulted into full scope audit procedures on the financial information of two entities and specific audit procedures on the financial information of one entity. The procedures performed for group entities with an audit scope represent 95% of revenue, 95% of EBITDA and 97% of total assets. We used the work of other EY member firms when auditing entities outside the Netherlands.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

#### Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the board of directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following the acquisition of Invitel Távközlési Zrt. a new key audit matter has been included as compared to the previous year. The other key audit matters did not change significantly.

Risk of inappropriate revenue recognition given multiple sources of revenue and complexity of billing systems (refer to note 17 in the consolidated financial statements)	
Risk	<p>The group recognizes revenue from multiple sources, including rendering of cable TV (CATV) and direct-to-home TV (DTH) subscription services, provision of internet and data communication subscription services (fixed and mobile) and provision of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.</p>

Risk of inappropriate revenue recognition given multiple sources of revenue and complexity of billing systems (refer to note 17 in the consolidated financial statements)

	<p>There is an inherent telecommunications industry risk associated with the recognition of revenue, given the complexity of billing systems, which process large volumes of data, and the impact of changing offerings and pricing models on revenue recognition (such as tariff structures and incentive arrangements).</p> <p>The group's revenue recognition relies on complex IT systems, comprising of a number of interdependent interfaces and databases.</p> <p>For IFRS 15 'Revenue from Contracts with Customers' the group used the modified retrospective method. The effect of IFRS 15 is disclosed in note 2 in the consolidated financial statements.</p>
Our audit approach	<p>We focused our audit on those IT systems and related internal controls that are significant to the group's revenue recognition process. Considering that audit procedures over the IT systems and application controls require specific expertise, we involved our IT specialists in order to assist us in our audit procedures.</p> <p>In addition to IT audit procedures, we have analyzed the group's accounting policy for each revenue stream considering both the substance of the commercial offers that were in force during the year, and the applicable requirements of IFRS as well as the industry practices for each revenue stream and we have verified that the group's accounting policies are implemented consistently.</p> <p>Furthermore, we performed data-analytics on certain revenue streams in which we verified that all revenue recognized during the year subsequently resulted in cash receipt. Our analytics did not reveal material exceptions.</p> <p>Lastly, we verified appropriate recognition of the impact of IFRS 15 in the financial statement 2018.</p>
Key observations	<p>We conclude that the revenue for 2018 has been appropriately recognized and disclosed in the financial statements.</p>

Risk of impairment of property, plant and equipment and non-current intangible assets (refer to note 5 and 6a in the consolidated financial statements)

Risk	<p>At 31 December 2018, property, plant and equipment and non-current intangible assets amount to €1,139 million and €246 million respectively, together amounting to approximately 85% of total assets presented in the statement of financial position.</p> <p>Property, plant and equipment require an assessment of triggering events for impairment at each reporting date, whereas goodwill is tested for impairment at least annually.</p> <p>The goodwill impairment tests carried out by management are complex and require significant management judgment. The recoverable amounts of (groups of) cash-generating units (CGUs) have been determined based on discounting of expected future cash flows from continuing use of the CGU's.</p>
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Risk of impairment of property, plant and equipment and non-current intangible assets (refer to note 5 and 6a in the consolidated financial statements)

	Management performed the annual impairment tests for goodwill and specific impairment tests for other assets when indicators had been identified. These impairment tests did not reveal impairments.
Our audit approach	<p>Our audit procedures included an assessment of the historical accuracy of management's estimates through retrospective review, evaluating and testing the assumptions, methodologies, the discount rates and other data used by the Company, for example by comparing them to external data. This assessment included support of EY valuation experts.</p> <p>We evaluated the 2019 financial forecast and the solidity of management's financial forecast process. Furthermore, we evaluated management's outlook in the explicit period as well as the long term growth rate, in particular around forecasted revenues, EBITDAs and capital expenditures. Our assessment also included sensitivity analyses.</p> <p>We assessed the adequacy of the disclosures included in the consolidated financial statements.</p>
Key observations	We agree with management's conclusions that no impairments are required and we concluded the disclosures in the consolidated financial statements being proportionate and in accordance with EU-IFRS.

Risk of non-compliance with covenants associated with bonds and senior facilities agreement (refer to note 14 in the consolidated financial statements and note 18 in the stand-alone financial statements)

Risk	<p>The availability of adequate funding and whether the group meets its financial covenants are significant to our audit, due to the relatively high leverage of the group.</p> <p>As of 31 December 2018, management performed covenant calculations in accordance with the requirements of the financing arrangements and concluded all covenants are complied with.</p>
Our audit approach	<p>As part of our audit, we read the terms of the SFA and bonds with a particular focus on covenants clauses. Based on the audited financial information, we tested the group's assessment of compliance with the covenant requirements covering both quantitative and qualitative covenants as at 31 December 2018.</p> <p>Given the relevance of EBITDA (earnings before interest tax, depreciation and amortization) in the quantitative covenant calculations, we performed specific procedures to verify appropriate classification of items in EBITDA and on adjustments made to EBITDA, in accordance with the covenant requirements as stated in the SFA and bonds terms.</p> <p>We further assessed the adequacy of the disclosures included in the notes to the consolidated financial statements.</p>
Key observations	We agree with the covenant calculations as per 31 December 2018 and we conclude the disclosures in the financial statements to be appropriate.

Risk of non-recoverable overdue trade and other receivables (including contract assets) (refer to notes 10 and 23 i) in the consolidated financial statements)

Risk	<p>At 31 December 2018, the group records trade receivable and other receivables (including contract assets) balances of EUR 104 million net of allowance for doubtful debtors. The identification and determination of trade receivables allowance requires management to make judgments and assumptions and represents a process with a certain level of uncertainties.</p> <p>The main assumptions used by management in evaluating the level of the allowance include factors such as age of the balance, type of customers, existence of disputes and historical payment patterns.</p>
Our audit approach	<p>As part of our audit, we tested controls over the collection process and we tested collections from customers subsequent to year-end, on a sample basis.</p> <p>Additionally, we evaluated management's assessment of the creditworthiness of clients and the factors taken into account when establishing the percentage of allowance or considering that no allowance is necessary. This evaluation included an assessment of the historical cash collection patterns and degree of accuracy of previous allowance estimates.</p> <p>We read correspondence with the group's external lawyers in respect of any disputes with customers and the attempts by management to recover the amounts outstanding, where applicable.</p> <p>We also assessed the adequacy of the group's disclosures to the consolidated financial statements.</p>
Key observations	<p>We conclude the allowance for doubtful debtors at 31 December 2018 and the related disclosures to be appropriate and in accordance with EU-IFRS.</p>

Risk of inappropriate accounting for acquisition of Invitel (refer to Note 22) in the consolidated financial statements)

Risk	<p>On 30 May 2018, the group announced the successful closing of the acquisition of Invitel Távközlési Zrt. (Invitel). The acquisition classifies as a business combination in accordance with IFRS 3, which requires a purchase price allocation for the acquisition method of accounting. This results in the recognition of goodwill or a bargain gain and requires determination of fair value of identifiable assets and liabilities as at the acquisition date.</p> <p>Management has engaged a third party appraiser to assist in the purchase price allocation.</p>
Our audit approach	<p>We read transaction documents to verify appropriateness of management's assessments that the transaction falls within the business combinations definition, as required by IFRS 3.</p> <p>§</p> <p>We evaluated the appropriate determination of the acquisition date and we audited the balance sheet of Invitel at the most practical date closest to the acquisition date.</p> <p>§</p>

Risk of inappropriate accounting for acquisition of Invitel (refer to Note 22) in the consolidated financial statements)	
	<p>We verified appropriateness of management's assessment of the fair value of assets and liabilities acquired and we engaged our internal EY valuation specialists to assist with the testing of the purchase price allocation. For this purpose, our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Verifying the appropriate and complete identification of identifiable assets and liabilities</li> <li>• Verifying the appropriate determination of fair values of those assets and liabilities;</li> <li>• Verifying that identifiable assets and liabilities are appropriately recognized in the balance sheet</li> <li>• Verifying the appropriate determination of deferred taxes</li> </ul> <p>We have also evaluated the appropriate determination of the acquisition price, as well as management's assessment of the goodwill calculation. Additionally, we verified that the results of Invitel after the acquisition were appropriately consolidated by the group and that the acquisition is appropriately disclosed in the consolidated financial statements.</p>
Key observations	We conclude that accounting for the acquisition of Invitel and the related disclosures are appropriate and in accordance with EU-IFRS.

## Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The group management report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the group management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were engaged by the board of directors as auditor of Digi Communications N.V. as of the audit for the year 2014 and have operated as statutory auditor since that date.



#### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

## Description of responsibilities for the financial statements

#### Responsibilities of management and the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The non-executive members of the board of directors are responsible for overseeing the company's financial reporting process.

#### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 19 March 2019

Ernst & Young Accountants LLP

Signed by G.M.J. Bloetjes



# Annex





## ANNEX 1

### Important Information

#### Cautionary Note Regarding Forward-Looking

Certain statements in this Report are not historical facts and are forward-looking. Forward-looking statements appear in various locations, including, without limitation, in the sections entitled “*Risk Factors*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Business*”. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Report includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, and the trends we anticipate in the industries and the political and legal environments in which we operate and other information that is not historical information.

Words such as “believe,” “anticipate,” “estimate,” “target,” “potential,” “expect,” “intend,” “predict,” “project,” “could,” “should,” “may,” “will,” “plan,” “aim,” “seek” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this Report are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this Report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed in the section entitled “*Risk Factors*,” as well as those included elsewhere in this Report. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- significant competition in the markets in which we operate;
- rapid technological changes leading to increased competition and the rendering of our technologies or services obsolete;
- our capital expenditure not being able to generate a positive return or a significant reduction in costs or promote the growth of our business;
- deterioration of the general internal economic, political and social conditions in our principal countries of operation;
- continued uncertainties, challenging conditions in the global economy or volatile credit markets;
- currency transactional and translation risks associated with exchange rate fluctuations;
- a systems failure or shutdown in our networks;
- our ability to use Intelsat’s and Telenor’s satellites to broadcast our DTH services and failure to find a commercially acceptable alternative in a reasonable amount of time;
- difficulty in obtaining adequate managerial and operational resources as a result of our rapid growth and expansion in new areas of business;
- our ability to attract and retain key personnel without whom we may not be able to manage our business effectively;
- our ability to attract new customers and retain existing customers if we do not maintain or improve our reputation for quality of service;
- continued demand for cable TV and telecommunications products and services in Romania and Hungary;
- our ability to retain or increase our subscriber base and increasing costs of operations if we cannot acquire or retain content or programming rights or do so at competitive prices;
- a decrease in our ARPU figures as a result of our business strategy;
- failure to manage customer churn;

- our insurance not adequately covering all potential losses, liabilities and damage related to our business and certain risks being uninsured or not insurable;
- problems with and interruptions to our billing and credit control systems that our business relies upon;
- discontinuing of products or services by terminating contracts with, or charging of non-competitive prices by our current hardware, software and service suppliers;
- volatility in the cost of electricity we supply to our customers;
- our dependence on various intellectual property rights that we license from or that may be claimed by third parties;
- our dependence on our interconnection, roaming and MVNO arrangements with other telecommunications operators and third party network providers, over which we have no direct control;
- concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunication towers;
- leakage of sensitive customer data in violation of laws and regulations, and any other failure to fully comply with applicable data protection legislation, resulting in fines, loss of reputation and customer churn;
- undertaking future acquisitions on an opportunistic basis;
- downgrading of our credit ratings by an international rating agency;
- changes to IFRS standards for lease accounting and revenue recognition;
- changes in the determination of our tax residency;
- claims relating to breaches of competition law and investigations by competition authorities to which we may have been and may continue to be subject;
- our failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, which could result in substantial additional compliance costs or various sanctions or court judgments;
- difficulty in obtaining required licenses, permits or other authorisations to operate our existing network, and any subsequent amendment, revocation, suspension, or termination of licenses and permits obtained;
- disruption of service and additional expenses incurred as a result of being required to move some of our networks which are based on contracts and which may be terminated;
- inadvertent infringement of the intellectual property rights of others, which could lead to liability for infringements in relation to information disseminated through our network, protracted litigation and, in certain instances, loss of access to transmission technology or content;
- variation in payments related to copyrights;
- adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations;
- major litigation with the Antena Group and other parties and unfavorable court decisions;
- failure to comply with anti-corruption laws or allegations thereof;
- other contractual claims, complaints, litigation and negative publicity therefrom;
- higher vulnerability of the economies of the countries where we operate to fluctuations in the global economy;
- social, political and military conflicts in the region of our operations;
- political and economic uncertainty and risk resulting from the UK's vote to leave the European Union;
- difficult business climate as a result of corruption in some of the markets where we operate;
- rapid or unforeseen economic or political changes characteristic of emerging markets such as the markets in which we operate;
- downgrading of Romania's or Hungary's credit ratings by an international rating agency;
- Romania's difficulties related to its integration with the European Union and Hungary's repeated backlashes against the European Union;
- less developed legal and judicial systems in some of our markets of operation;
- difficulty of service of process in, and enforcement of judgments rendered by courts of, the United States and the United Kingdom;
- our substantial leverage and debt servicing obligations;
- debt covenants that restrict our ability to finance our future operations and capital needs and to pursue business opportunities and activities;

- impairment of our ability to draw funds under the Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement;
- the significant amount of cash required to service our debt and sustain our operations and the fact that our ability to generate cash depends on many factors beyond our control and we may not be able to generate sufficient cash to service our debt;
- our inability to refinance maturing debt on terms that are as favorable as those from which we previously benefited or on terms that are acceptable to us or at all;
- our exposure to unexpected risk and potential losses relating to derivative transactions;
- the other factors discussed in more detail under “Risk Factors”; and
- factors that are not known to us at this time.

This list of important factors and the other factors discussed in the section entitled “Risk Factors” is not exhaustive. Other sections of this Report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

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

## Presentation of Financial and Other Information

### Presentation of Financial Information

The financial information presented in this Report is, unless otherwise indicated, the historical consolidated financial information for the Group. DIGI is the holding company for the Group and holds the majority of the outstanding shares of RCS & RDS. DIGI has no significant operations and has not engaged in any significant activities other than financing activities relating to the Group and acting as its holding company.

Included herein are the consolidated financial statements of the Group as at and for the year ended December 31, 2017, prepared in accordance with the IFRS as adopted by the EU (the “Annual Financial Statements”).

The Group’s presentation currency is the euro, as further described in the sections entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Capital Structure—Exchange Rates*”. Accordingly, the Financial Statements included herein are presented in euros.

We currently have operations in Romania, Hungary, Spain and Italy. In Note 4 of the Annual Financial Statements, as part of our “Other” segment we reported (i) revenue from, and expenses of, our (a) Italian operations and (b) Discontinued Operations, in each case, for the applicable periods and (ii) expenses of the Company. In this Report, unless otherwise stated, as part of our “Other” segment we only present the results of our Italian operations, for revenue, and the results of our Italian operations and expenses of the Company, for operating expenses.

## Operating and Market Data

### RGUs and ARPU

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

More specifically:

- for our cable TV and DTH services, we count each basic package that we invoice to a customer as an RGU, without counting separately the premium add-on packages that a customer may subscribe for;
- for our fixed internet and data services, we consider each subscription package to be a single RGU;
- for our fixed-line telephony services, we consider each phone line that we invoice to be a separate RGU, so that a customer will represent more than one RGU if it has subscribed for more than one phone line; and



- for our mobile telecommunication services we consider the following to be a separate RGU: (a) for post-paid services, each separate SIM on a valid contract; (b) for pre-paid services, each mobile voice and mobile data SIM with active traffic in the last month of the relevant period, except for Romania where pre-paid RGUs are not included due to low amount of traffic generated.

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

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

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

### Non-GAAP Financial Measures

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

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

### Rounding

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

## ANNEX 2

### Corporate Governance Compliance Statement as per the BSE CGC

Ref.	Code provisions	Compliance as at 19 March 2019	Note
A.1.	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.	YES	While the Board of Directors is not formally regulated by separate terms of reference, the composition, activity, functions and responsibilities of the Board of Directors of the Company are provided in detail within the Articles (in force since the 21 April 2017).
			<i>(See for reference Chapter VII (from clause 15 to 23) from the Articles)</i>
A.2.	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	YES	Detailed provisions regarding the management of the conflict of interest matters regarding the Board of Directors are included in the following Company corporate regulations: clause 18 from the Articles, the Code of Conduct of the Company (applicable as of 14 May 2017), the Conflict of Interest Policy (applicable as of 14 May 2017), and the Terms of Reference of the Audit Committee (applicable as of 14 May 2017).
A.3.	The Board of Directors or the Supervisory Board should have at least five members.	YES	The Board of Directors of the Company has 7 members.
A.4.	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice.	YES	<p>5 members of the Board of Directors (out of 7) are non-executive.</p> <p>2 members of the Board of Directors (out of 7) are independent non-executive directors – Bogdan Ciobotaru and Piotr Rymaszewski.</p> <p>The policy on the Profile for Non-Executive Directors provides for certain rules and criteria in connection with the non-executive directors <i>(See for reference in this respect the Company's website at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a>).</i></p>
A.5.	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	YES	—
A.6.	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	YES	—
A.7.	The company should appoint a Board secretary responsible for supporting the work of the Board.	YES	<i>(See for reference in this respect Part 3 from the IPO Prospectus from 26 April 2017 – page 57).</i>

Ref.	Code provisions	Compliance as at 19 March 2019	Note
A.8.	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	YES	According to the Terms of Reference of the Audit Committee, the Audit Committee performs such evaluation. The valuation of the year 2018 was presented by the Audit Committee to the Non-executive and the Executive members of the Board during the meeting from 18 March 2019.
A.9.	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	YES	<i>(See for reference Section “Corporate Governance” from this report)</i>
A.10.	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	YES	<i>(See for reference Section “Corporate Governance” from this report)</i>
A.11.	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the Nomination Committee should be independent.	YES (PARTIALLY)	The directors are appointed following a nomination made by the Class A Meeting, instead of a nomination proposal by the nomination committee established by the Board of Directors and consisting of non-executive directors. The good corporate governance sought by the BSE CGC is achieved by applying this nomination procedure, as the Class A Meeting takes into account that the Board of Directors should be composed such that the requisite expertise, background, competences and—as regards certain of the non-executive directors—independence are present for them to carry out their duties properly.
B.1.	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	YES (PARTIALLY)	<p>The Audit Committee of the Company is formed by 3 non-executive members.</p> <p>The Audit Committee is formed by qualified individuals, with auditing, financial and management experience.</p> <p>2 out of the 3 members of the Audit Committee are independent non-executive Board members.</p>
B.2.	The Audit Committee should be chaired by an independent non-executive member.	NO	The Audit Committee is not an independent director, as required by the BSE CGC. The shareholders of the Company have approved Marius Varzaru as the chairman of the Audit Committee due to his audit and accounting experience prior to joining the Company, and due to his extensive knowledge of the Company’s and its affiliates’ operations. Nonetheless, the good corporate governance sought by the BSE CGC is achieved by having the majority of the Audit Committee members being independent and high standard terms of reference being applied to the work of the Audit

Ref.	Code provisions	Compliance as at 19 March 2019	Note
			Committee.
<b>B.3.</b>	Among its responsibilities, the Audit Committee should undertake an annual assessment of the system of internal control.	YES	(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a> )
<b>B.4.</b>	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	YES	(See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a> and the description of the Audit Committee's activity in 2018 in section "Corporate Governance" from this report)
<b>B.5.</b>	The Audit Committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	YES	This assessment was performed by the Audit Committee and the other non-executive members of the Board of Directors on a case by case basis.
<b>B.6.</b>	The Audit Committee should evaluate the efficiency of the internal control system and risk management system.	YES	This assessment was performed by the Audit Committee during the meetings that have taken place in 2018.  (See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a> and the description of the Audit Committee's activity in 2018 in section "Corporate Governance" from this report)
<b>B.7.</b>	The Audit Committee should monitor the application of statutory and generally accepted standards of internal auditing. The Audit Committee should receive and evaluate the reports of the internal audit team.	YES	This assessment was performed by the Audit Committee during the meetings that have taken place in 2018.  (See for reference in this respect the Terms of Reference of the Audit Committee (applicable as of 14 May 2017) – available at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a> and the description of the Audit Committee's activity in 2018 in section "Corporate Governance" from this report)
<b>B.8.</b>	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards	YES	The Audit Committee submitted to the Board a summary on the Audit Committee's activity in 2018, comprising main findings. Other ad-hoc reporting was performed during the year.  Also, whenever necessary during the year, the Audit Committee reported to the Board of Directors particular matters that called for the Board of Directors' attention, care or decision.
<b>B.9.</b>	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	YES	There are numerous provisions in the Articles and in the other corporate governance documents of the Company precluding from any preferential treatment between the Company and one shareholder with regard to entering into transactions and agreements.

Ref.	Code provisions	Compliance as at 19 March 2019	Note
			<p>The Board of Directors of the Company has also adopted a Policy on Bilateral Contacts with the Shareholders.</p> <p>(See for reference in this respect the Company's website at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a>).</p>
<b>B.10.</b>	<p>The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board</p> <p>following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.</p>	YES (PARTIALLY)	Formally, there is no separate policy regarding the transactions that the Company can enter into. However, the Articles contain for detailed provisions regarding the approval requirements for the entering by the Company into agreements and transactions ( <i>for example, see for reference clause 19 from the Articles</i> ).
<b>B.11.</b>	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	YES	As of 1 April 2018, the internal audit function has been ensured by a group of selected individuals lead by an appointed Internal Audit Director of the Company.
<b>B.12.</b>	To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	YES	The relationship between the internal audit function and the Audit Committee is described and regulated in detail in the Terms of Reference of the Audit Committee ( <i>See for reference in this respect the Company's website at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a></i> ).
<b>C.1.</b>	<p>The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.</p> <p>The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems.</p> <p>It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause.</p>	YES	The Company has approved a Remuneration Policy and the Terms of Reference of the Remuneration Committee ( <i>See for reference in this respect the Company's website at <a href="http://www.digi-communications.ro/en/corporate-governance">http://www.digi-communications.ro/en/corporate-governance</a></i> ).

Ref.	Code provisions	Compliance as at 19 March 2019	Note
	[...]		
	Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.		
<b>D.1.</b>	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	NO	Currently, the IR function of the Company is covered by several executive and non-executive members of the Board of Directors, by the Chief Financial Officers of the Company and by the Company Secretary.  The Company is considering setting up a specialized in-house IR function, and is currently prospecting the market for most suitable candidates.
<b>D.1.1.</b>	Principal corporate regulations: the articles of association, general shareholders' meeting procedures.	YES	The Articles contain detailed provisions on the corporate rules of the Company (including regarding the procedures of the general shareholders' meeting).
<b>D.1.2.</b>	Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	YES	(See for reference in this respect section "Corporate Governance" from this report).
<b>D.1.3.</b>	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;	YES	All such (current and periodic) reports are accessible on the Company's website - <a href="http://www.digi-communications.ro/en/investor-relations/shares">http://www.digi-communications.ro/en/investor-relations/shares</a> .
<b>D.1.4.</b>	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	YES	-
<b>D.1.5.</b>	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	N/A	The Company properly informed its investors and its shareholders on any information in connection with its activity of relevance to the market.  The Company does not deem that any of the reports that it issued to the market fits in any of the scenarios provided at this point D.1.5.  For more details regarding all such (current and periodic) reports, see for reference the Company's website - <a href="http://www.digi-communications.ro/en/investor-relations/shares">http://www.digi-communications.ro/en/investor-relations/shares</a>



Ref.	Code provisions	Compliance as at 19 March 2019	Note
D.1.6.	The name and contact data of a person who should be able to provide knowledgeable information on request;	YES	Dan Ionita (Co-Chief Executive Officer), Teodora Buga (Senior Business Analyst) and Carmen Oțelea (Secretary of the Board) - <a href="mailto:ipo.relations@digi-communications.ro">ipo.relations@digi-communications.ro</a>
D.1.7.	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	YES	All such (current and periodic) reports are accessible on the Company's website - <a href="http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations">http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations</a> . <a href="http://www.digi-communications.ro/en/investor-relations/shares">http://www.digi-communications.ro/en/investor-relations/shares</a>
D.2.	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.	YES	The Reserves and Dividend Policy of the Company is accessible on the Company's website - <a href="http://www.digi-communications.ro/en/see-file/Digi-Communications-NV-Dividend-policy-ENG.pdf">http://www.digi-communications.ro/en/see-file/Digi-Communications-NV-Dividend-policy-ENG.pdf</a> .  Also, regarding the dividend policy, see for reference the Company's disclosures in section "Dividend Policy" from the IPO Prospectus from 26 April 2017 (page 185).
D.3.	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.	YES (PARTIALLY)	Neither the Company nor the Group subsidiaries have adopted formal policies with respect to forecasts. Also, forecasts are not made with a periodical regularity. However, the Company and/or its Group subsidiaries perform either <i>ad-hoc</i> and/or occasional forecasting based on relevant assumptions. Such forecasts (such as the business plans) are prepared either upon request from external partners (e.g., lending banks, regulatory authorities, etc.) or for internal analytical purposes (e.g., for assessing CAPEX provisions, etc.).
D.4.	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next general meeting of shareholders.	YES	Clause 32 from the Articles of the Company provides for the freedom of any shareholder to attend a general shareholders' meeting. For more details and the conditions applicable to any shareholder's participation and voting, see for reference all provisions from clause 32 onwards from the Articles.
D.5.	The external auditors should attend the shareholders' meetings when their reports are presented there.	N/A	The Company does not restrict the participation of the external auditors at the general shareholders' resolutions resolving upon the external auditors' report.
D.6.	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	YES	With respect to the annual results for 2018, see for reference Section Risk management, risks and internal control systems and Annex 4 to this report.
D.7.	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	NO	According to its corporate documentation, the Company publishes the annual results and the yearly management report on the BSE, AFM, on its website and on a national and international online newspaper, as well as the result of the general shareholders' meeting resolutions within the shortest deadlines.

Ref.	Code provisions	Compliance as at 19 March 2019	Note
D.8.	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	YES	All such periodic reports in both Romanian and English languages are accessible on the Company's website - <a href="http://www.digi-communications.ro/en/investor-relations/shares">http://www.digi-communications.ro/en/investor-relations/shares</a> .
D.9.	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	YES	All such presentations are accessible are accessible on the Company's website - <a href="http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations/investor-presentations">http://www.digi-communications.ro/en/investor-relations/shares/financial-results-presentations/investor-presentations</a> .
D.10.	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	N/A	The Company occasionally supports forms of sports, cultural, religious, educational or artistic expressions.

## ANNEX 3

### Corporate Governance Compliance Statement as per the Dutch Corporate Governance Code (DCGC)

Ref.	Code provisions	Compliance	Explanation
1.1.1	<p><b>Long-term value creation strategy:</b> The executive directors should develop a view on long-term value creation by the company and its affiliated enterprise and should formulate a strategy in line with this. Depending on market dynamics, it may be necessary to make short-term adjustments to the strategy.</p> <p>When developing the strategy, attention should in any event be paid to the following:</p> <ul style="list-style-type: none"> <li>i. the strategy's implementation and feasibility;</li> <li>ii. the business model applied by the company and the market in which the company and its affiliated enterprise operate;</li> <li>iii. opportunities and risks for the company;</li> <li>iv. the company's operational and financial goals and their impact on its future position in relevant markets;</li> <li>v. the interests of the stakeholders; and</li> <li>vi. any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.</li> </ul>	YES	—
1.1.2	<p><b>Involvement of the non-executive directors:</b> The executive directors should engage the non-executive directors early on in formulating the strategy for realizing long-term value creation. The executive directors render account to the non-executive directors of the strategy and the explanatory notes to that strategy.</p>	YES	—
1.1.3	<p><b>Role of the non-executive directors:</b> The non-executive directors should supervise the manner in which the executive directors implement the long-term value creation strategy. The non-executive directors should regularly discuss the strategy, the implementation of the strategy and the principal risks associated with it. In the report drawn up by the non-executive directors, an account is given of its involvement in the establishment of the strategy, and the way in which it monitors its implementation.</p>	YES	—
1.1.4.	<p><b>Accountability of the executive directors:</b> In the management report,</p>	YES	

Ref.	Code provisions	Compliance	Explanation
	the executive directors should give a more detailed explanation of its view on long-term value creation and the strategy for its realization, as well as describing which contributions were made to long-term value creation in the past financial year. The executive directors should report on both the short-term and long-term developments.		—
1.2.1	<b>Risk assessment:</b> The executive directors should identify and analyze the risks associated with the strategy and activities of the company and its affiliated enterprise. It is responsible for establishing the risk appetite, and also the measures that are put in place in order to counter the risks being taken.	YES	—
1.2.2	<b>Implementation:</b> Based on the risk assessment, the executive directors should design, implement and maintain adequate internal risk management and control systems. To the extent relevant, these systems should be integrated into the work processes within the company and its affiliated enterprise it and should be familiar to those whose work they are relevant to.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
1.2.3	<b>Monitoring of effectiveness:</b> The executive directors should monitor the operation of the internal risk management and control systems and should carry out a systematic assessment of their design and effectiveness at least once a year. This monitoring should cover all material control measures relating to strategic, operational, compliance and reporting risks. Attention should be given to observed weaknesses, instances of misconduct and irregularities, indications from whistleblowers, lessons learned and findings from the internal audit function and the external auditor. Where necessary, improvements should be made to internal risk management and control systems.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
1.3.1	<b>Appointment and dismissal:</b> The executive directors both appoints and dismisses the senior internal auditor. Both the appointment and the dismissal of the senior internal auditor should be submitted to the non-executive directors for approval, along with the recommendation issued by the audit committee.	YES	Compliance since April 2018.
1.3.2	<b>Assessment of the internal audit function:</b> The executive directors should assess the way in which the internal audit function fulfils its responsibility annually, taking into account the audit committee's opinion.	YES	See explanation to principle 1.3.1 above.
1.3.3	<b>Internal audit plan:</b> The internal audit function should draw up an audit plan, involving the executive directors, the audit committee and the external auditor in this process. The audit plan should be submitted to the executive directors, and then to the non-executive directors, for approval. In this internal audit plan, attention should be paid to the interaction with the external auditor.	YES	See explanation to principle 1.3.1 above.

Ref.	Code provisions	Compliance	Explanation
1.3.4	<b>Performance of work:</b> The internal audit function should have sufficient resources to execute the internal audit plan and have access to information that is important for the performance of its work. The internal audit function should have direct access to the audit committee and the external auditor. Records should be kept of how the audit committee is informed by the internal audit function.	YES	See explanation to principle 1.3.1 above.
1.3.5	<b>Reports of findings:</b> The internal audit function should report its audit results to the executive directors and the essence of its audit results to the audit committee and should inform the external auditor. The research findings of the internal audit function should, at least, include the following: <ul style="list-style-type: none"> <li>i. any flaws in the effectiveness of the internal risk management and control systems;</li> <li>ii. any findings and observations with a material impact on the risk profile of the company and its affiliated enterprise; and</li> <li>iii. any failings in the follow-up of recommendations made by the internal audit function.</li> </ul>	YES	See explanation to principle 1.3.1 above.
1.3.6	<b>Absence of an internal audit department:</b> If there is no separate department for the internal audit function, the non-executive directors will assess annually whether adequate alternative measures have been taken, partly on the basis of a recommendation issued by the audit committee and will consider whether it is necessary to establish an internal audit department. The non-executive directors should include the conclusions, along with any resulting recommendations and alternative measures, in the report of the non-executive directors.	N/A	—
1.4.1	<b>Accountability to the non-executive directors:</b> The executive directors should discuss the effectiveness of the design and operation of the internal risk management and control systems referred to in best practice provisions 1.2.1 to 1.2.3 inclusive with the audit committee and render account of this to the non-executive directors.	YES	—
1.4.2	<b>Accountability in the management report:</b> In the management report, the executive directors should render account of: <ul style="list-style-type: none"> <li>i. the execution of the risk assessment, with a description of the principal risks facing the company in relation to its risk appetite. These risks may include strategic, operational, compliance and reporting risks;</li> <li>ii. the design and operation of the internal risk</li> </ul>	YES	—

Ref.	Code provisions	Compliance	Explanation
	<p>management and control systems during the past financial year;</p> <p>iii. any major failings in the internal risk management and control systems which have been observed in the financial year, any significant changes made to these systems and any major improvements planned, along with a confirmation that these issues have been discussed with the audit committee and the non-executive directors; and</p> <p>iv. the sensitivity of the results of the company to material changes in external factors.</p>		
<b>1.4.3</b>	<p><b>Statement by the executive directors:</b> The executive directors should state in the management report, with clear substantiation, that:</p> <p>i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;</p> <p>ii. the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;</p> <p>iii. based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and</p> <p>iv. the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.</p>	YES	—
<b>1.5.1</b>	<p><b>Duties and responsibilities of the audit committee:</b> The audit committee undertakes preparatory work for the non-executive directors' decision-making regarding the supervision of the integrity and quality of the company's financial reporting and the effectiveness of the company's internal risk management and control systems. Among other things, it focuses on monitoring the executive directors with regard to:</p> <p>i. relations with, and compliance with recommendations and following up of comments by, the internal and external auditors;</p> <p>ii. the funding of the company;</p> <p>iii. the application of information and communication technology by the company, including risks relating</p>	YES	—



Ref.	Code provisions	Compliance	Explanation
	to cybersecurity; and iv. the company's tax policy.		
1.5.2	<b>Attendance of the executive directors, internal auditor and external auditor at audit committee consultations:</b> The chief financial officer, the internal auditor and the external auditor should attend the audit committee meetings, unless the audit committee determines otherwise. The audit committee should decide whether and, if so, when the chairman of the executive directors should attend its meetings.	YES	—
1.5.3	<b>Audit committee report:</b> The audit committee should report to the non-executive directors on its deliberations and findings. This report must, at least, include the following information: i. the methods used to assess the effectiveness of the design and operation of the internal risk management and control systems referred to in best practice provisions 1.2.1 to 1.2.3, inclusive; ii. the methods used to assess the effectiveness of the internal and external audit processes; iii. material considerations regarding financial reporting; iv. the way material risks and uncertainties referred to in best practice provision 1.4.3 have been analysed and discussed, along with a description of the most important findings of the audit committee.	YES	—
1.5.4	<b>Non-executive directors:</b> The non-executive directors should discuss the items reported on by the audit committee as per of best practice provision 1.5.3.	YES	—
1.6.1	<b>Functioning and appointment:</b> The audit committee should report annually to the non-executive directors on the functioning of, and the developments in, the relationship with the external auditor. The audit committee should advise the non-executive directors regarding the external auditor's nomination for appointment/reappointment or dismissal and should prepare the selection of the external auditor. The audit committee should give due consideration to the executive directors' observations during the aforementioned work. Also, on this basis, the non-executive directors should determine its nomination for the appointment of the external auditor to the general meeting.	YES	—
1.6.2	<b>Informing the external auditor about their functioning:</b> The non-executive directors should give the external auditor a general idea of the content of the reports relating to their functioning.	YES	—
1.6.3	<b>Engagement:</b> The audit committee should submit a proposal to the non-	YES	—

Ref.	Code provisions	Compliance	Explanation
	executive directors for the external auditor's engagement to audit the financial statements. The executive directors should play a facilitating role in this process. In formulating the terms of engagement, attention should be paid to the scope of the audit, the materiality to be used and remuneration for the audit. The non-executive directors should resolve on the engagement.		
1.6.4	<b>Accountability:</b> The main conclusions of the non-executive directors regarding the external auditor's nomination and the outcomes of the external auditor selection process should be communicated to the general meeting.	YES	—
1.6.5	<b>Departure of the external auditor:</b> The company should publish a press release in the event of the early termination of the relationship with the external audit firm. The press release should explain the reasons for this early termination.	N/A	—
1.7.1	<b>Provision of information to the external auditor:</b> The executive directors should ensure that the external auditor will receive all information that is necessary for the performance of his work in a timely fashion. The executive directors should give the external auditor the opportunity to respond to the information that has been provided.	YES	—
1.7.2	<b>Audit plan and external auditor's findings:</b> The external auditor should discuss the draft audit plan with the executive directors before presenting it to the audit committee. The audit committee should annually discuss with the external auditor: <ul style="list-style-type: none"> <li>i. the scope and materiality of the audit plan and the principal risks of the annual reporting identified by the external auditor in the audit plan; and</li> <li>ii. based also on the documents from which the audit plan was developed, the findings and outcomes of the audit work on the financial statements and the management letter.</li> </ul>	YES	—
1.7.3	<b>Publication of financial reports:</b> The audit committee should determine whether and, if so, how the external auditor should be involved in the content and publication of financial reports other than the financial statements.	YES	—
1.7.4	<b>Consultations with the external auditor outside the executive directors' presence:</b> The audit committee should meet with the external auditor as often as it considers necessary, but at least once per year, outside the presence of the executive directors.	YES	—
1.7.5	<b>Examination of discussion points arising between the external auditor</b>	YES	—

Ref.	Code provisions	Compliance	Explanation
	<b>and the executive directors:</b> The non-executive directors should be permitted to examine the most important points of discussion arising between the external auditor and the executive directors based on the draft management letter or the draft audit report.		
1.7.6	<b>External auditor's attendance of non-executive directors' meetings:</b> The external auditor should in any event attend the meeting of the non-executive directors at which the report of the external auditor on the audit of the financial statements is discussed.	YES	—
2.1.1	<b>Profile:</b> The non-executive directors should prepare a profile, taking account of the nature and the activities of the enterprise affiliated with the company. The profile should address: <ul style="list-style-type: none"> <li>i. the desired expertise and background of the non-executive directors;</li> <li>ii. the desired diverse composition of the non-executive directors, referred to in best practice provision 2.1.5;</li> <li>iii. the size of the non-executive directors; and</li> <li>iv. the independence of the non-executive directors.</li> </ul> The profile should be posted on the company's website	YES	—
2.1.2	<b>Personal information:</b> The following information about each non-executive directors should be included in the report of the non-executive directors: <ul style="list-style-type: none"> <li>i. gender;</li> <li>ii. age;</li> <li>iii. nationality;</li> <li>iv. principal position;</li> <li>v. other positions, in so far as they are relevant to the performance of the duties of the non-executive directors;</li> <li>vi. date of initial appointment; and</li> <li>vii. current term of office.</li> </ul>	YES	—
2.1.3	<b>Executive committee:</b> If the executive directors work with an executive committee, the executive directors should take account of the checks and balances that are part of the two-tier system. This means, among other things, that the executive directors' expertise and responsibilities are safeguarded and the non-executive directors are informed adequately. The non-executive directors should supervise this whilst paying specific attention to the dynamics and the relationship between the executive	NO	The Executive Directors of the Company do not work in committees. The Company has two executive members of the Board.

Ref.	Code provisions	Compliance	Explanation
	<p>directors and the executive committee. In the management report, account should be rendered of:</p> <ul style="list-style-type: none"> <li>i. the choice to work with an executive committee;</li> <li>ii. the role, duty and composition of the executive committee; and</li> <li>iii. how the contacts between the non-executive directors and the executive committee have been given shape.</li> </ul>		
2.1.4	<p><b>Expertise:</b> Each non-executive director and each executive director should have the specific expertise required for the fulfilment of his duties. Each non-executive director should be capable of assessing the broad outline of the overall management.</p>	YES	—
2.1.5	<p><b>Diversity policy:</b> The non-executive directors should draw up a diversity policy for the composition of the executive directors, the non-executive directors and, if applicable, the executive committee. The policy should address the concrete targets relating to diversity and the diversity aspects relevant to the company, such as nationality, age, gender, and education and work background.</p>	NO	<p>The Company does not have a diversity policy in relation to the non-executive directors. This deviation from the DCGC exists since April 2017 and will last for an indefinite period. The desired expertise and background of the candidates are decisive when non-executive directors are appointed or reappointed. The members of the board, as well as all employees of the Company and the group companies are recruited and promoted primarily based on professional achievements, experience and performance within the group, irrespective of gender, age, origin or any other personal or social feature. Although the Company does not have in place a formal diversity policy, in practice, the Company has not and does not intend to discriminate between potential candidates for any available board position.</p>
2.1.6	<p><b>Accountability about diversity:</b> The corporate governance statement should explain the diversity policy and the way that it is implemented in practice, addressing:</p> <ul style="list-style-type: none"> <li>i. the policy objectives;</li> <li>ii. how the policy has been implemented; and</li> <li>iii. the results of the policy in the past financial year.</li> </ul> <p>If the composition of the executive directors and the non-executive directors diverge from the targets stipulated in the company's diversity policy and/or the statutory target for the male/female ratio, if and to the extent that this is provided under or pursuant to the law, the current state of affairs should be outlined in the corporate governance statement, along with an explanation as to which measures are being taken to attain the intended target, and by when this is likely to be achieved.</p>	NO	<p>The Company does not have a diversity policy. See explanation to principle 2.1.5. above.</p>
2.1.7	<p><b>Independence of the non-executive directors:</b> The composition of the non-executive directors is such that the members are able to operate independently and critically vis-à-vis one another, the executive directors, and any particular interests involved. In order to safeguard its</p>	NO	<p>The Company has five non-executive directors, of which three do not meet the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the board. When appointing the non-executive members of the board, the</p>

Ref.	Code provisions	Compliance	Explanation
	<p>independence, the non-executive directors are composed in accordance with the following criteria:</p> <ul style="list-style-type: none"> <li>i. any one of the criteria referred to in best practice provision 2.1.8, sections i. to v. inclusive should be applicable to at most one non-executive director;</li> <li>ii. the total number of non-executive directors to whom the criteria referred to in best practice provision 2.1.8 are applicable should account for less than half of the total number of non-executive directors; and</li> <li>iii. for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is at most one non-executive director who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.</li> </ul>		<p>general shareholders meeting from 21 April 2017 aimed to set-up a board made up from selected individuals with most extensive experience and insight into the group. Therefore, Mr. Teszari Zoltan was appointed as the non-executive director and as the President of the board, while Mr. Sambor Ryszka (former co-General Manager of Digi Kft.<sup>9</sup>) and Mr. Marius Varzaru (current general manager of Digi Spain) were appointed as non-executive members of the board. Given the particularity of the business and operations of our group companies and the need for business continuity and internal and industry awareness, the general shareholders meeting from 21 April 2017 gave priority to these functionality needs. However, the amended articles of association of the Company and the corporate governance documents of the Company establish clear and detailed rules regarding independent behavior and the management of any conflict of interest that any member of the board, and particularly all non-executive members of the board are strictly required to comply with.</p>
<b>2.1.8</b>	<p><b>Independence of non-executive directors:</b> A non-executive director is not independent if they or their spouse, registered partner or life companion, foster child or relative by blood or marriage up to the second degree:</p> <ul style="list-style-type: none"> <li>i. has been an employee or member of the management board of the company (including associated companies as referred to in Section 5:48 of the Financial Supervision Act (<i>Wet op het financieel toezicht/Wft</i>)) in the five years prior to the appointment;</li> <li>ii. receives personal financial compensation from the company, or a company associated with it, other than the compensation received for the work performed as a non-executive director and in so far as this is not in keeping with the normal course of business;</li> <li>iii. has had an important business relationship with the company or a company associated with it in the year prior to the appointment. This includes in any event</li> </ul>	NO	See explanation to best practices 2.1.7. above.

<sup>9</sup> See footnote no 4.

Ref.	Code provisions	Compliance	Explanation
	<p>the case where the non-executive director, or the firm of which he is a shareholder, partner, associate or adviser, has acted as adviser to the company (consultant, external auditor, civil notary or lawyer) and the case where the non-executive director is a management board member or an employee of a bank with which the company has a lasting and significant relationship;</p> <p>iv. is a member of the management board of a company in which a member of the management board of the company which he supervises is a non-executive director;</p> <p>v. has temporarily performed management duties during the previous twelve months in the absence or incapacity of management board members;</p> <p>vi. has a shareholding in the company of at least ten percent, taking into account the shareholding of natural persons or legal entities cooperating with him or her on the basis of an express or tacit, verbal or written agreement;</p> <p>vii. is a member of the management board or supervisory board – or is a representative in some other way – of a legal entity which holds at least ten percent of the shares in the company, unless the entity is a group company.</p>		
<b>2.1.9</b>	<b>Independence of the chairman of the board:</b> The chairman of the board should not be a former member of the board of the company and should be independent within the meaning of best practice provision 2.1.8.	NO	The president (chairman) of the board does not meet the independence criteria contained in the DCGC. Mr. Zoltan Teszari's appointment as the president was voted by the general shareholders meeting of the Company from 21 April 2017 and will last during the entire period for which Mr. Teszari Zoltan will be a member of the board. The president is the principal shareholder of the Company. The president is not a member of the audit committee.
<b>2.1.10</b>	<b>Accountability regarding non-executive directors' independence:</b> The report of the non-executive directors should state that, in the opinion of the non-executive directors, the independence requirements referred to in best practice provisions 2.1.7 to 2.1.9 inclusive have been fulfilled and, if applicable, should also state which non-executive director(s), if any, it does not consider to be independent.	NO	The report of the non-executive directors only states which non-executive directors are not independent under the Bucharest Stock Exchange Corporate Governance Code.
<b>2.2.1</b>	<b>Appointment and reappointment periods – executive directors:</b> A	YES	



Ref.	Code provisions	Compliance	Explanation
	executive director is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time, which reappointment should be prepared in a timely fashion. The diversity objectives from best practice provision 2.1.5 should be considered in the preparation of the appointment or reappointment.		
2.2.2	<b>Appointment and reappointment periods – non-executive directors:</b> A non-executive director is appointed for a period of four years and may then be reappointed once for another four-year period. The non-executive director may then subsequently be reappointed again for a period of two years, which appointment may be extended by at most two years. In the event of a reappointment after an eight-year period, reasons should be given in the report of the non-executive directors. In any appointment or reappointment, the profile referred to in best practice provision 2.1.1 should be observed.	NO	The president (chairman) of the board may be reappointed for an indefinite number of terms. For details regarding the expected applicability period of and rationale for the deviation, please see the explanations from above.
2.2.3	<b>Early retirement:</b> A non-executive director or an executive director should retire early in the event of inadequate functioning, structural incompatibility of interests, and in other instances in which this is deemed necessary by the non-executive directors. In the event of the early retirement of an executive director or non-executive director, the company should issue a press release mentioning the reasons for the departure.	YES	—
2.2.4	<b>Succession:</b> The non-executive directors should ensure that the company has a sound plan in place for the succession of executive directors and non-executive directors that is aimed at retaining the balance in the requisite expertise, experience and diversity. Due regard should be given to the profile referred to in best practice provision 2.1.1 in drawing up the plan for non-executive directors. The non-executive directors should also draw up a retirement schedule in order to avoid, as much as possible, non-executive directors retiring simultaneously. The retirement schedule should be published on the company's website.	NO	The Company has a retirement schedule. However, in light of his position as principal shareholder of the Company and with the General Meeting of shareholders' approval, the retirement schedule will not be applicable to the President (chairman) of the Board. Mr. Zoltan Teszari, the main shareholder of the Company, holds the position of President of the Board. According to the Rotation Schedule for the non-executive directors of the Company established by the Board pursuant to article 15 paragraph 6 of the Articles on 15 May 2017, Mr. Zoltan Teszari is expressly excluded from the agreed rotation schedule.
2.2.5	<b>Duties of the selection and appointment committee:</b> The selection and appointment committee should prepare the non-executive directors' decision-making and report to the non-executive directors on its deliberations and findings. The selection and appointment committee should in any event focus on: <ul style="list-style-type: none"> <li>i. drawing up selection criteria and appointment procedures for executive directors and non-executive directors;</li> <li>ii. periodically assessing the size and composition of the executive directors and the non-executive</li> </ul>	NO	The Company does not have a nomination committee. The Company has decided not to set up a nomination committee as referred to in the DCGC, since the general meeting of holders of class A shares as a whole will perform the duties of such nomination.

Ref.	Code provisions	Compliance	Explanation
	<p>directors, and making a proposal for a composition profile of the non-executive directors;</p> <p>iii. periodically assessing the functioning of individual executive directors and non-executive directors, and reporting on this to the non-executive directors;</p> <p>iv. drawing up a plan for the succession of executive directors and non-executive directors;</p> <p>v. making proposals for appointments and reappointments; and</p> <p>vi. supervising the policy of the executive directors regarding the selection criteria and appointment procedures for senior management.</p>		
<b>2.2.6</b>	<p><b>Evaluation by the non-executive directors:</b> At least once per year, outside the presence of the executive directors, the non-executive directors should evaluate its own functioning, the functioning of the various committees of the non-executive directors and that of the individual non-executive directors and should discuss the conclusions that are attached to the evaluation. In doing so, attention should be paid to:</p> <p>i. substantive aspects, the mutual interaction and the interaction with the executive directors;</p> <p>ii. events that occurred in practice from which lessons may be learned; and</p> <p>iii. the desired profile, composition, competencies and expertise of the non-executive directors.</p>	NO	However, due valuation by the Audit Committee and the Remuneration Committee of their own activity is performed on yearly basis,
<b>2.2.7</b>	<p><b>Evaluation of the executive directors:</b> At least once per year, outside the presence of the executive directors, the non-executive directors should evaluate both the functioning of the executive directors as a whole and that of the individual executive directors and should discuss the conclusions that must be attached to the evaluation, such also in light of the succession of executive directors. At least once annually, the executive directors, too, should evaluate its own functioning as a whole and that of the individual executive directors.</p>	NO	However, due valuation of the Executives Directors' activity is performed on an yearly basis by the Audit Committee and the Remuneration Committee.
<b>2.2.8</b>	<p><b>Evaluation accountability:</b> The non-executive directors' report should state:</p> <p>i. how the evaluation of the non-executive directors, the various committees and the individual non-executive directors has been carried out;</p> <p>ii. how the evaluation of the executive directors and the</p>	NO	—

Ref.	Code provisions	Compliance	Explanation
	individual executive directors has been carried out; and iii. what has been or will be done with the conclusions from the evaluations.		
2.3.1	<b>Non-executive director's terms of reference:</b> The division of duties within the non-executive directors and the procedure of the non-executive directors should be laid down in terms of reference. The non-executive director's terms of reference should include a paragraph dealing with its relations with the executive directors, the general meeting, the employee participation body (if any) and the executive committee (if any). The terms of reference should be posted on the company's website.	NO	There are no rules in place for the Non-executive directors. However, Chapter VII from the Articles include detailed provisions and rules regarding the board, including on the composition, remuneration, the allocation of tasks and duties among the executive directors and the non-executive directors, on the decision-making process and the management of any conflict of interest.
2.3.2	<b>Establishment of committees:</b> If the board consists of more than four non-executive directors, it should appoint from among its non-executive directors an audit committee, a remuneration committee and a selection and appointment committee. Without prejudice to the collegiate responsibility of the non-executive directors, the duty of these committees is to prepare the decision-making of the non-executive directors. If the non-executive directors decide not to establish an audit committee, a remuneration committee or a selection and appointment committee, the best practice provisions applicable to such committee(s) should apply to the non-executive directors together.	NO	The Company does not have a nomination committee. See explanation to principle 2.2.5 above.
2.3.3	<b>Committees' terms of reference:</b> The non-executive directors should draw up terms of reference for the audit committee, the remuneration committee and the selection and appointment committee. The terms of reference should indicate the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. The terms of reference should be posted on the company's website.	YES	—
2.3.4	<b>Composition of the committees:</b> The audit committee or the remuneration committee should not be chaired by the chairman of the board or by a former executive of the board of the company. More than half of the members of the committees should be independent within the meaning of best practice provision 2.1.8.	NO	More than half of the members of the Remuneration Committee do not comply with the independence criteria contained in the DCGC. This deviation from the DCGC exists since April 2017 and will last at least until the expiry of the mandate cycle of the present members of the Remuneration Committee. See explanation to principle 2.1.7. above.
2.3.5	<b>Committee reports:</b> The non-executive directors should receive from each of the committees a report of their deliberations and findings. In the report of the non-executive directors it should comment on how the duties of the committees were carried out in the financial year. In this report, the composition of the committees, the number of committee meetings and the main items discussed at the meetings should be mentioned.	YES	—
2.3.6	<b>Chairman of the board:</b> The chairman of the board should in any case	YES	—

Ref.	Code provisions	Compliance	Explanation
	<p>ensure that:</p> <ul style="list-style-type: none"> <li>i. the non-executive directors have proper contact with the executive directors, the employee participation body (if any) and the general meeting;</li> <li>ii. the board elects a vice-chairman;</li> <li>iii. there is sufficient time for deliberation and decision-making by the board;</li> <li>iv. the board members receive all information that is necessary for the proper performance of their duties in a timely fashion;</li> <li>v. the board and its committees function properly;</li> <li>vi. the functioning of individual executive directors and non-executive directors is assessed at least annually;</li> <li>vii. the board members follow their induction programme;</li> <li>viii. the board follow their education or training programme;</li> <li>ix. the board performs activities in respect of culture;</li> <li>x. the non-executive directors recognize signs from the enterprise affiliated with the company and ensures that any (suspicion of) material misconduct and irregularities are reported to the supervisory board without delay;</li> <li>xi. the general meeting proceeds in an orderly and efficient manner;</li> <li>xii. effective communication with shareholders is assured; and</li> <li>xiii. the non-executive directors are involved closely, and at an early stage, in any merger or takeover processes.</li> </ul> <p>The chairman of the board should consult regularly with the executive directors.</p>		
<b>2.3.7</b>	<b>Vice-chairman of the board:</b> The vice-chairman of the board should deputize for the chairman when the occasion arises.	YES	—
<b>2.3.8</b>	<b>Delegated non-executive director:</b> A delegated non-executive director is a non-executive director who has a special task. The delegation may not extend beyond the responsibilities of the board itself and may not include the management of the company. Its purpose is more intensive	N/A	—

Ref.	Code provisions	Compliance	Explanation
	supervision and advice and more regular consultation with the executive directors. The delegation should be of a temporary nature only. The delegation may not detract from the duties and powers of the non-executive directors. The delegated non-executive director continues to be a member of the board and should report regularly on the execution of his special duty to the plenary board.		
<b>2.3.9</b>	<b>Temporary executive function of a non-executive director:</b> A non-executive director who temporarily takes on the management of the company, where the executive directors are absent or unable to fulfil their duties, should resign as a non-executive director of the board.	N/A	—
<b>2.3.10</b>	<b>Company secretary:</b> The non-executive directors should be supported by the company secretary. The secretary: <ul style="list-style-type: none"> <li>i. should ensure that the proper procedures are followed and that the statutory obligations and obligations under the articles of association are complied with;</li> <li>ii. should facilitate the provision of information of the board; and</li> <li>iii. should support the chairman of the board in the organisation of the affairs of the board, including the provision of information, meeting agendas, evaluations and training programmes.</li> </ul> <p>The company secretary should, either on the motion of the non-executive directors or otherwise, be appointed and dismissed by the executive directors, after the approval of the non-executive directors has been obtained. If the secretary also undertakes work for the executive directors and notes that the interests of the executive directors and the non-executive directors diverge, as a result of which it is unclear which interests the secretary should represent, the secretary should report this to the chairman of the board.</p>	YES	—
<b>2.3.11</b>	<b>Report of the non-executive directors:</b> The annual statements of the company include a report by the non-executive directors. In this report, the non-executive directors should render account of the supervision conducted in the past financial year, reporting in any event on the items referred to in best practice provisions 1.1.3, 2.1.2, 2.1.10, 2.2.8, 2.3.5 and 2.4.4 and, if applicable, the items referred to in best practice provisions 1.3.6 and 2.2.2.	YES	Information with respect to these matters are comprised in the report's section on Corporate Governance.
<b>2.4.1</b>	<b>Stimulating openness and accountability:</b> The executive directors and the non-executive directors are each responsible for stimulating openness	YES	—

Ref.	Code provisions	Compliance	Explanation
	and accountability within the organ of which they form part, and between the different organs within the company.		
2.4.2	<b>Other positions:</b> Executive directors and non-executive directors should report any other positions they may have to the non-executive directors in advance and, at least annually, the other positions should be discussed at the non-executive directors meeting. The acceptance of membership of a supervisory board by an executive director requires the approval of the non-executive directors.	YES	—
2.4.3	<b>Point of contact for the functioning of non-executive directors and executive directors:</b> The chairman of the board should act on behalf of the board as the main contact for the executive directors, non-executive directors and shareholders regarding the functioning of executive directors and non-executive directors. The vice-chairman should act as contact for individual non-executive directors and executive directors regarding the functioning of the chairman.	YES	—
2.4.4	<b>Attendance at non-executive directors' meetings:</b> Non-executive directors should attend non-executive directors' meetings and the meetings of the committees of which they are a part. If non-executive directors are frequently absent from these meetings, they should be held to account on this. The report of the non-executive directors should state the absenteeism rate from non-executive directors and committee meetings of each non-executive directors.	YES	—
2.4.5	<b>Induction programme for non-executive directors:</b> All non-executive directors should follow an induction programme geared to their role. The induction programme should in any event cover general financial, social and legal affairs, financial reporting by the company, any specific aspects that are unique to the relevant company and its business activities, the company culture and the relationship with the employee participation body (if any), and the responsibilities of a non-executive director.	YES	—
2.4.6	<b>Development:</b> The executive directors and non-executive directors should each conduct an annual review for their own organ to identify any aspects with regard to which the non-executive directors and executive directors require training or education.	YES	—
2.4.7	<b>Information safeguards:</b> The executive directors should ensure that internal procedures are established and maintained which safeguard that all relevant information is known to the executive directors and the non-executive directors in a timely fashion. The non-executive directors should supervise the establishment and implementation of these procedures.	YES	The implementation of enhanced monitoring systems and mechanisms is ongoing.
2.4.8	<b>Non-executive directors' responsibility for obtaining information:</b>	YES	—



Ref.	Code provisions	Compliance	Explanation
	The non-executive directors and each individual non-executive director have their own responsibility for obtaining the information from the executive directors, the internal audit function, the external auditor and the employee participation body (if any) that the non-executive directors needs in order to be able to carry out its duties as a supervisory organ properly.		
2.4.9	<b>Obtaining information from officers and external parties:</b> If the non-executive directors consider it necessary, it may obtain information from officers and external advisers of the company. The company should provide the necessary means to this end. The non-executive directors may require that certain officers and external advisers attend its meetings.	YES	—
2.5.1	<b>Executive directors' responsibility for culture:</b> The executive directors should adopt values for the company and its affiliated enterprise that contribute to a culture focused on long-term value creation and discuss these with the non-executive directors. The executive directors are responsible for the incorporation and maintenance of the values within the company and its affiliated enterprise. Attention must be paid to the following, among other things: <ul style="list-style-type: none"> <li>i. the strategy and the business model;</li> <li>ii. the environment in which the enterprise operates; and</li> <li>iii. the existing culture within the enterprise, and whether it is desirable to implement any changes in this.</li> </ul> The executive directors encourage behavior that is in keeping with the values and propagates these values through leading by example.	YES	—
2.5.2	<b>Code of Conduct:</b> The executive directors should draw up a code of conduct and monitor its effectiveness and compliance with this code, both on the part of itself and of the employees of the company. The executive directors should inform the non-executive directors of its findings and observations relating to the effectiveness of, and compliance with, the code. The code of conduct will be published on the company's website.	YES	—
2.5.3	<b>Employee participation:</b> If the company has established an employee participation body, the conduct and culture in the company and its affiliated enterprise should also be discussed in the consultations between the executive directors, the non-executive directors and such employee participation body.	N/A	—
2.5.5	<b>Accountability regarding culture:</b> In the management report, the executive directors should explain: <ul style="list-style-type: none"> <li>i. the values and the way in which they are incorporated in the company and its affiliate enterprise; and</li> </ul>	YES	—

Ref.	Code provisions	Compliance	Explanation
	ii. the effectiveness of, and compliance with, the code of conduct.		
2.6.1	<b>Procedure for reporting actual or suspicion of misconduct or irregularities:</b> The executive directors should establish a procedure for reporting actual or suspected irregularities within the company and its affiliated enterprise. The procedure will be published on the company's homepage. The executive directors should ensure that employees have the opportunity to file a report without jeopardizing their legal position.	YES	—
2.6.2	<b>Informing the chairman of the board:</b> The executive directors should inform the chairman of the board without delay of any signs of actual or suspected material misconduct or irregularities within the company and its affiliated enterprise. If the actual or suspected misconduct or irregularity pertains to the functioning of an executive director, employees can report this directly to the chairman of the board.	YES	—
2.6.3	<b>Notification by the external auditor:</b> The external auditor should inform the chairman of the audit committee without delay if, during the performance of his duties, he discovers or suspect an instance of misconduct or irregularity. If the actual or suspected misconduct or irregularity pertains to the functioning of an executive director, the external auditor should report this directly to the chairman of the board.	N/A	—
2.6.4	<b>Oversight by the non-executive directors:</b> The non-executive directors monitor the operation of the procedure for reporting actual or suspected misconduct or irregularities, appropriate and independent investigations into signs of misconduct or irregularities, and, if an instance of misconduct or irregularity has been discovered, an adequate follow-up of any recommendations for remedial actions.  In order to safeguard the independence of the investigation in cases where the executive directors their selves are involved, the non-executive directors should have the option of initiating its own investigation into any irregularities that have been discovered and to coordinate this investigation.	YES	—
2.7.1	<b>Preventing conflicts of interest:</b> Executive directors and non-executive directors are alert to conflicts of interest and should in any case refrain from the following:  i. competing with the company; ii. demanding or accepting substantial gifts from the company for themselves or their spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second	YES	—

Ref.	Code provisions	Compliance	Explanation
	degree; iii. providing unjustified advantages to third parties at the company's expense; iv. taking advantage of business opportunities to which the company is entitled for themselves or for their spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree.		
2.7.2	<b>Terms of reference:</b> The terms of reference of the non-executive directors should contain rules on dealing with conflicts of interest, including conflicting interests between executive directors and non-executive directors on the one hand and the company on the other. The terms of reference should also stipulate which transactions require the approval of the non-executive directors. The company should draw up regulations governing ownership of, and transactions in, securities by executive or non-executive directors, other than securities issued, by the company.	NO	See explanation to principle 2.3.1 above.
2.7.3	<b>Reporting:</b> A conflict of interest may exist if the company intends to enter into a transaction with a legal entity: <ul style="list-style-type: none"> <li>i. in which a member of the board personally has a material financial interest; or</li> <li>ii. which has a member of the board who is related under family law to a member of the board of the company.</li> </ul> <p>An executive director should report any potential conflict of interest in a transaction that is of material significance to the company and/or to such executive director to the chairman of the board and to the other members of the board without delay. The executive director should provide all relevant information in that regard, including the information relevant to the situation concerning his spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree.</p> <p>A non-executive director should report any conflict of interest or potential conflict of interest in a transaction that is of material significance to the company and/or to such non-executive director to the chairman of the board without delay and should provide all relevant information in that regard, including the relevant information pertaining to his spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. If the chairman of the board</p>	YES	—

Ref.	Code provisions	Compliance	Explanation
	has a conflict of interest or potential conflict of interest, he should report this to the vice-chairman of the board without delay. The non-executive directors should decide, outside the presence of the executive director or non-executive director concerned, whether there is a conflict of interest.		
2.7.4	<b>Accountability regarding transactions: board members:</b> All transactions in which there are conflicts of interest with board members should be agreed on terms that are customary in the market. Decisions to enter into transactions in which there are conflicts of interest with board members that are of material significance to the company and/or to the relevant board members should require the approval of the non-executive directors. Such transactions should be published in the management report, together with a statement of the conflict of interest and a declaration that best practice provisions 2.7.3 and 2.7.4 have been complied with.	YES	—
2.7.5	<b>Accountability regarding transactions: majority shareholders:</b> All transactions between the company and legal or natural persons who hold at least ten percent of the shares in the company should be agreed on terms that are customary in the market. Decisions to enter into transactions with such persons that are of material significance to the company and/or to such persons should require the approval of the non-executive directors. Such transactions should be published in the management report, together with a declaration that best practice provision 2.7.5 has been complied with.	YES	—
2.7.6	<b>Personal loans:</b> The company should not grant its board members any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the non-executive directors. No remission of loans should be granted.	YES	—
2.8.1	<b>Non-executive directors involvement:</b> When a takeover bid for the company's shares or for the depositary receipts for the company's shares is being prepared, in the event of a private bid for a business unit or a participating interest, where the value of the bid exceeds the threshold referred to in Section 2:107a(1)(c) of the Dutch Civil Code, and/or in the event of other substantial changes in the structure of the organisation, the executive directors should ensure that the non-executive directors is involved in the takeover process and/or the change in the structure closely and in a timely fashion.	YES	—
2.8.2	<b>Informing the non-executive directors about request for inspection by competing bidder:</b> If a takeover bid has been announced for the shares,	N/A	—

Ref.	Code provisions	Compliance	Explanation
	or depositary receipts for shares, in the company, and the executive directors receive a request from a competing bidder to inspect the company's records, the executive directors should discuss this request with the non-executive directors without delay.		
2.8.3	<b>Executive directors' position on a private bid:</b> If a private bid for a business unit or a participating interest has been made public, where the value of the bid exceeds the threshold referred to in Section 2:107a(1)(c) of the Dutch Civil Code, the executive directors of the company should as soon as possible make public its position on the bid and the reasons for this position.	N/A	—
3.1.1	<b>Remuneration policy proposal:</b> The remuneration committee should submit a clear and understandable proposal to the non-executive directors concerning the remuneration policy to be pursued with regard to the executive directors. The non-executive directors should present the policy to the general meeting for adoption.	YES	—
3.1.2	<b>Remuneration policy:</b> The following aspects should in any event be taken into consideration when formulating the remuneration policy: <ul style="list-style-type: none"> <li>i. the objectives for the strategy for the implementation of long-term value creation within the meaning of best practice provision 1.1.1;</li> <li>ii. the scenario analyses carried out in advance;</li> <li>iii. the pay ratios within the company and its affiliated enterprise;</li> <li>iv. the development of the market price of the shares;</li> <li>v. an appropriate ratio between the variable and fixed remuneration components. The variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character;</li> <li>vi. if shares are being awarded, the terms and conditions governing this. Shares should be held for at least five years after they are awarded; and</li> <li>vii. if share options are being awarded, the terms and conditions governing this and the terms and conditions subject to which the share options can be exercised. Share options cannot be exercised during the first three years after they are awarded.</li> </ul>	NO	If shares options are being awarded, share options can be exercised before three years have lapsed after they have been awarded (minimum term required by the DCGC). This deviation was implemented to match the Romanian tax provisions for the granting of stock option to employees and management and also to ensure sooner transfer of stocks to eligible employees, officers and directors.

Ref.	Code provisions	Compliance	Explanation
3.1.3	<b>Remuneration – executive committee:</b> If the board works with an executive committee, the executive directors should inform the non-executive directors about the remuneration of the members of the executive committee who are not executive directors. The executive directors should discuss this remuneration with the non-executive directors annually.	N/A	—
3.2.1	<b>Remuneration committee’s proposal:</b> The remuneration committee should submit a proposal to the non-executive directors concerning the remuneration of individual executive directors. The proposal is drawn up in accordance with the remuneration policy that has been established and will, in any event, cover the remuneration structure, the amount of the fixed and variable remuneration components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the company and its affiliated enterprise.	YES	—
3.2.2	<b>Executive directors’ views on their own remuneration:</b> When drafting the proposal for the remuneration of ma executive directors, the remuneration committee should take note of individual executive directors’ views with regard to the amount and structure of their own remuneration. The remuneration committee should ask the executive directors to pay attention to the aspects referred to in best practice provision 3.1.2.	YES	—
3.2.3	<b>Severance payments:</b> The remuneration in the event of dismissal should not exceed one year’s salary (the ‘fixed’ remuneration component). Severance pay will not be awarded if the agreement is terminated early at the initiative of the executive director, or in the event of seriously culpable or negligent behavior on the part of the executive director.	YES	These conditions are provided in the management agreements concluded by the Company with each Director.
3.3.1	<b>Time spent and responsibility:</b> The remuneration of the non-executive directors should reflect the time spent and the responsibilities of their role.	NO	Non-executive directors receive the same fixed base salary the executive directors receive and such fixed base salary is not related to the time spent by the non-executive directors and the specific responsibilities of their role as required by the DCGC. The remuneration conditions as provided in the general shareholders meeting from 21 April 2017 and in the terms of reference of the remuneration committee and the remuneration policy will apply for an indefinite period until further amendment. Non-executive directors additionally sit in the Company’s audit and remuneration committees, which in the Company’s view compensates for the Non-Executive Directors work within the Company
3.3.2	<b>Remuneration of non-executive directors:</b> non-executive directors may not be awarded remuneration in the form of shares and/or rights to shares.	NO	Non-executive Directors may be awarded remuneration in the form of share options. Any such grant of shares as part of share option plans will need to be expressly decided by the Company’s general shareholders resolutions. This departure is due to the general shareholders’s will from time to time to reward particular effort made by certain Non-Executive Directors for the Company or for the activity carried out within certain Group



Ref.	Code provisions	Compliance	Explanation
			subsidiaries.
3.3.3	<b>Share ownership:</b> Shares held by a non-executive director in the company on whose supervisory board they serve should be long-term investments.	YES	—
3.4.1	<b>Remuneration report:</b> The remuneration committee should prepare the remuneration report. This report should in any event describe, in a transparent manner, in addition to the matters required by law: <ul style="list-style-type: none"> <li>i. how the remuneration policy has been implemented in the past financial year;</li> <li>ii. how the implementation of the remuneration policy contributes to long-term value creation;</li> <li>iii. that scenario analyses have been taken into consideration;</li> <li>iv. the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year;</li> <li>v. in the event that an executive director receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and</li> <li>vi. in the event that a current or former executive director receives a severance payment, the reason for this payment.</li> </ul>	YES	The Remuneration Committee prepares, as it has done for the year 2018, annual reports outlining its activity within the Company, as well as outlining the remuneration conditions at the level of the most relevant subsidiaries of the Company. As in 2018 there has been no change in the remuneration of the Directors, the activity of the Remuneration Committee mainly focused on the supervision of the multiple ongoing stock option plans, as well as on the remuneration conditions applicable at the level of the Company's subsidiaries in Romania, Hungary, Spain and Italy.
3.4.2	<b>Agreement of executive director:</b> The main elements of the agreement of an executive director with the company should be published on the company's website in a transparent overview after the agreement has been concluded, and in any event no later than the date of the notice calling the general meeting where the appointment of the executive director will be proposed.	NO	The main elements of the agreement of an executive director with the Company has not been published on the Company's website. However, sufficient information was disclosed regarding the remuneration of directors.
4.1.1	<b>Non-executive directors supervision:</b> The non-executive directors' supervision of the executive directors should include the supervision of relations with shareholders.	YES	—
4.1.2	<b>Proper conduct of business at meetings:</b> The chairman of the general meeting is responsible for ensuring the proper conduct of business at	YES	—

Ref.	Code provisions	Compliance	Explanation
	meetings in order to promote a meaningful discussion at the meeting.		
4.1.3	<p><b>Agenda:</b> The agenda of the general meeting should list which items are up for discussion and which items are to be voted on. The following items should be dealt with as separate agenda items:</p> <ul style="list-style-type: none"> <li>i. material changes to the articles of association;</li> <li>ii. proposals relating to the appointment of board members;</li> <li>iii. the policy of the company on additions to reserves and on dividends (the level and purpose of the addition to reserves, the amount of the dividend and the type of dividend);</li> <li>iv. any proposal to pay out dividend;</li> <li>v. resolutions to approve the management conducted by the executive directors (discharge of executive directors from liability);</li> <li>vi. resolutions to approve the supervision exercised by the non-executive directors (discharge of non-executive directors from liability);</li> <li>vii. each substantial change in the corporate governance structure of the company and in the compliance with this Code; and</li> <li>viii. the appointment of the external auditor.</li> </ul>	YES	—
4.1.4	<p><b>Proposal for approval or authorization:</b> A proposal for approval or authorisation by the general meeting should be explained in writing. In its explanation the executive directors should deal with all facts and circumstances relevant to the approval or authorization to be granted. The notes to the agenda should be posted on the company's website.</p>	YES	—
4.1.5	<p><b>Shareholder's explanation when exercising the right to put items on the agenda:</b> If a shareholder has arranged for an item to be put on the agenda, he should explain this at the meeting and, if necessary, answer questions about it.</p>	YES	—
4.1.6	<p><b>Placing of items on the agenda by shareholders:</b> A shareholder should only exercise the right to put items on the agenda after they have consulted with the executive directors on this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the company's strategy, for example as a result of the dismissal of one or several board members, the executive directors should be given the opportunity to stipulate a reasonable period in which to respond (the response time). The opportunity to stipulate the response time should also</p>	YES	—

Ref.	Code provisions	Compliance	Explanation
	apply to an intention as referred to above for judicial leave to call a general meeting pursuant to Section 2:110 of the Dutch Civil Code. The relevant shareholder should respect the response time stipulated by the executive directors, within the meaning of best practice provision 4.1.7.		
4.1.7	<p><b>Stipulation of the response time:</b> If the executive directors stipulate a response time, this should be a reasonable period that does not exceed 180 days from the moment the executive directors are informed by one or more shareholders of their intention to put an item on the agenda to the day of the general meeting at which the item is to be dealt with. The executive directors should use the response time for further deliberation and constructive consultation, in any event with the relevant shareholder(s), and should explore the alternatives. At the end of the response time, the executive directors should report on this consultation and the exploration to the general meeting. This should be monitored by the non-executive directors.</p> <p>The response time may be stipulated only once for any given general meeting and should not apply to an item in respect of which the response time had been previously stipulated, or to meetings where a shareholder holds at least three-quarters of the issued capital as a consequence of a successful public bid.</p>	YES	—
4.1.8	<b>Attendance of members nominated for the board:</b> Board members nominated for appointment should attend the general meeting at which votes will be cast on their nomination.	YES	—
4.1.9	<b>External auditor's attendance:</b> The external auditor may be questioned by the general meeting in relation to his report on the fairness of the financial statements. The external auditor should for this purpose attend and be entitled to address this meeting.	YES	—
4.1.10	<b>General meeting's report:</b> The report of the general meeting should be made available, on request, to the shareholders no later than three months after the end of the meeting, after which shareholders should have the opportunity to react to the report in the following three months. The report should then be adopted in the manner provided for in the articles of association.	YES	—
4.2.1	<b>Substantiation of invocation of overriding interest:</b> If the executive directors and the non-executive directors decide not to provide the general meeting with all information desired with the invocation of an overriding interest on the part of the company, they must give reasons for this.	YES	—
4.2.2	<b>Policy on bilateral contacts with shareholders:</b> The company should formulate an outline policy on bilateral contacts with the shareholders and should post this policy on its website.	YES	—

Ref.	Code provisions	Compliance	Explanation
4.2.3	<b>Meetings and presentations:</b> Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences should be announced in advance on the company's website and by means of press releases. Analysts' meetings and presentations to investors should not take place shortly before the publication of the regular financial information. All shareholders should be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations should be posted on the company's website.	YES	—
4.2.4	<b>Posting information in a separate section of the website:</b> The company should post and update information which is relevant to the shareholders and which it is required to publish or submit pursuant to the provisions of company law and securities law applicable to it in a separate section of the company's website.	YES	—
4.2.5	<b>Executive directors contacts with press and analysts:</b> The contacts between the executive directors on the one hand and the press and financial analysts on the other should be handled and structured carefully and with due observance of the applicable laws and regulations. The company should not do anything that might compromise the independence of analysts in relation to the company and vice versa.	YES	—
4.2.6	<b>Outline of anti-takeover measures:</b> The executive directors should outline all existing or potential anti-takeover measures in the management report and should also indicate in what circumstances and by whom these measures may likely be used.	YES	—
4.3.1	<b>Voting as deemed fit:</b> A shareholder should vote as he sees fit. A shareholder who makes use of the voting advice of a third party is expected to form his own judgment on the voting policy or the voting advice provided by this adviser.	YES	—
4.3.2	<b>Providing voting proxies or voting instructions:</b> The company should give shareholders and other persons entitled to vote the possibility of issuing voting proxies or voting instructions, respectively, to an independent third party prior to the general meeting.	YES	—
4.3.3	<b>Cancelling the binding nature of a nomination or dismissal:</b> The general meeting of shareholders of a company not having statutory two-tier status ( <i>structuurregime</i> ) may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the board and/or a resolution to dismiss a member of the board by an absolute majority of the votes cast. It may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one-third. If this proportion of the capital is not represented at	NO	Such resolution can be adopted by the general meeting with the normal quorum and voting majority requirements. This deviation is provided within the Articles as approved by the Company's general shareholders resolutions from 21 April 2017. This deviation is meant to avoid vote inefficiencies or blockage upon the appointment or dismissal of any relevant director.

Ref.	Code provisions	Compliance	Explanation
	the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, or to dismiss a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of the votes cast, regardless of the proportion of the capital represented at the meeting.		
4.3.4	<b>Voting right on financing preference shares:</b> The voting right attaching to financing preference shares should be based on the fair value of the capital contribution.	YES	—
4.3.5	<b>Publication of institutional investors' voting policy:</b> Institutional investors (pension funds, insurers, investment institutions and asset managers) should post annually, in any event on their website, their policy on the exercise of the voting rights for shares they hold in listed companies.	N/A	—
4.3.6	<b>Report on the implementation of institutional investors' voting policy:</b> Institutional investors should report annually, on their website and/or in their management report, on how they implemented their policy on the exercise of the voting rights in the relevant financial year. In addition, they should report on their website at least once per quarter on whether and, if so, how they have voted as shareholders at general meetings. This report will be posted on the website of the institutional investor.	N/A	—
4.4.1	<b>Trust office board:</b> The board of the trust office should have the confidence of the holders of depositary receipts and operate independently of the company that has issued the depositary receipts. The trust conditions should specify in what cases and subject to what conditions holders of depositary receipts may request the trust office to call a meeting of holders of depositary receipts.	N/A	—
4.4.2	<b>Appointment of board members:</b> The board members of the trust office should be appointed by the board of the trust office, after the job opening has been announced on the website of the trust office. The meeting of holders of depositary receipts may make recommendations to the board of the trust office for the appointment of persons to the position of board member. No executive directors or former executive directors, non-executive directors or former non-executive directors, employees or permanent advisers of the company should be a member of the board of the trust office.	N/A	—
4.4.3	<b>Board appointment period:</b> A person may be appointed to the board of the trust office for a maximum of two four-year terms, followed by a maximum of two two-year terms. In the event of a reappointment after an eight-year period, reasons should be given in the report of the board of the	N/A	—

Ref.	Code provisions	Compliance	Explanation
	trust office.		
4.4.4	<b>Attendance of the general meeting:</b> The board of the trust office should attend the general meeting and should, if desired, make a statement about how it proposes to vote at the meeting.	N/A	—
4.4.5	<b>Exercise of voting rights:</b> In exercising its voting rights, the trust office should be guided primarily by the interests of the depositary receipt holders, taking the interests of the company and the enterprise affiliated with it into account.	N/A	—
4.4.6	<b>Periodic reports:</b> The trust office should report periodically, but at least once per year, on its activities. The report should be posted on the company's website.	N/A	—
4.4.7	<b>Contents of the reports:</b> The report referred to in best practice provision 4.4.6 should, in any event, set out: <ul style="list-style-type: none"> <li>i. the number of shares for which depositary receipts have been issued and an explanation of changes to this number;</li> <li>ii. the work carried out in the financial year;</li> <li>iii. the voting behaviour in the general meetings held in the financial year;</li> <li>iv. the percentage of votes represented by the trust office during the meetings referred to under iii.;</li> <li>v. the remuneration of the members of the board of the trust office;</li> <li>vi. the number of meetings held by the management and the main items dealt with in them;</li> <li>vii. the costs of the activities of the trust office;</li> <li>viii. any external advice obtained by the trust office;</li> <li>ix. the (other) positions held by the board members of the trust office; and</li> <li>x. the contact details of the trust office.</li> </ul>	N/A	—
4.4.8	<b>Voting proxies:</b> The board of the trust office should issue voting proxies under all circumstances and without limitations to all depositary receipt holders who request this. Each depositary receipt holder may also issue binding voting instructions to the trust office in respect of the shares which the trust office holds on his behalf.	N/A	—
5.1.1	<b>Composition of the board:</b> The majority of the board is made up of non-executive directors. The requirements for independence stipulated in best	NO	See explanation to principle 2.1.7 above.



Ref.	Code provisions	Compliance	Explanation
	practice provisions 2.1.7 and 2.1.8 apply to the non-executive directors.		
5.1.2	<b>Chairman of the board:</b> The chairman of the board chairs the meetings of the board. The chairman of the board should ensure that the board as a collective, as well as the board's committees, have a balanced composition and function properly.	YES	—
5.1.3	<b>Independence of the chairman of the board:</b> The chairman of the board should not be an executive director or former executive director of the company and should be independent within the meaning of best practice provision 2.1.8.	NO	See explanation to principle 2.1.7 above.
5.1.4	<b>Composition of committees:</b> The committees referred to in best practice 2.3.2 should be comprised exclusively of non-executive directors. Neither the audit committee nor the remuneration committee can be chaired by the chairman of the board or by a former executive director of the company	YES	—
5.1.5	<b>Accountability for supervision by non-executive directors:</b> The non-executive directors render account of the supervision exercised in the past financial year. They should, as a minimum, report on the items referred to in best practice provisions 1.1.3, 2.1.2, 2.1.10, 2.2.8, 2.3.5 and 2.4.4 and, if applicable, the items referred to in best practice provisions 1.3.6 and 2.2.2.	YES	Information with respect to these matters are comprised in the report's section on Corporate Governance.

## ANNEX 4

### Risk Factors

*Any investment in the Shares and/or the Notes is subject to a number of risks. Prior to investing in the Shares and the Notes, prospective investors should carefully consider the risk factors associated with any such investment, the Group's business and the industry in which it operates, together with all other information contained in this Report including, the risk factors described below.*

*The occurrence of any of the following events could have a material adverse effect on our business, prospects, results of operations and financial conditions. The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations and/or financial condition and, if any such risk should occur, the price of the Shares and/or the Notes may decline and investors could lose all or part of their investment. An investment in the Shares and/or the Notes involves complex financial risks and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Investors should consider carefully whether any such investment is suitable for them in the light of the information in this Report and their personal circumstances.*

#### Risks Relating to Our Business and Industry

**We face significant competition in the markets in which we operate, which could result in decreases in the number of current and potential customers, revenue and profitability.**

We face significant competition in all our markets and business lines, which is expected to intensify further. For example, in Romania and Hungary we face intense competition in our cable TV, DTH, fixed internet and data and fixed-line telephony business lines from local entities controlled by Deutsche Telekom ("**Telekom Romania**") and "**Magyar Telekom**," respectively) and Liberty Global ("**UPC Romania**" and "**UPC Hungary**," respectively). In the Romanian mobile telecommunication services market, we compete with Telekom Romania and local entities controlled by Orange ("**Orange Romania**") and Vodafone ("**Vodafone Romania**"). Increased competition may encourage the customers to stop subscribing to our services (an effect known as "churn") and thereby adversely affect our revenue and profitability.

These competitors, as well as other competitors that may enter the market in the future, may enjoy certain competitive advantages that we do not, such as having greater economies of scale, easier access to financing, access to certain new technologies, more comprehensive product offerings in certain business lines, greater personnel resources, greater brand name recognition, fewer regulatory burdens and more experience or longer-established relationships with regulatory authorities, customers and suppliers. In particular, all our principal competitors in our core Romanian market are part of much larger international telecommunication groups.

In recent years, the telecommunications industry has experienced a significant increase in customer demand for multiple-play offerings, which combine two or more fixed and mobile services in one package. Although we believe that the combination of our own fixed and mobile infrastructures in Romania is unparalleled, all of our principal competitors in the country have made arrangements to significantly enhance their multiple-play capabilities. In particular, Telekom Romania is currently continuing to invest in the development of its FTTH network to complement its existing mobile infrastructure.

Orange Romania and Vodafone Romania have taken advantage of the ANCOM-endorsed practice for Romania's fixed line operators to open their networks to competitors. Both entered into certain network sharing agreements with Telekom Romania (in February 2016 and in July 2018, respectively) enabling them to provide cable TV and fixed internet and data services via Telekom Romania's network under their own brand names. Orange Romania is also party to a mobile network sharing agreement concluded in July 2013 with Vodafone Romania, under which each party independently operates its spectrum and retains strategic control over switched networks. Separately, Vodafone has applied to the European Commission for permission to acquire Liberty Global's operations in four European countries, including Romania and Hungary. In December 2018, the European Commission opened an in-depth investigation to assess the proposed transaction under the EU Merger Regulation, the current deadline for issuing a decision being May 2, 2019. As a third-party to this transaction, the Company will be able to find more details only once data becomes available. These developments have resulted, and are expected in the future to result, in synergies to the businesses of our principal competitors, increase competition, exercise further pressure on prices, result in higher rates of customer churn and ultimately adversely affect our revenue and profitability. Although in 2015, ANCOM confirmed its view (which was supported by the

European Commission) that we are under no obligation to open our fixed fiber-optics network to third parties, there is no assurance that this decision may not be reversed. If we are directed by ANCOM, or any other competent authority, to open our infrastructure to third parties, including our competitors, that could further enhance our competitors' market positions, while eroding our key competitive advantages, and have a material adverse effect on our business, prospects, results of operations or financial condition.

In addition to competition in our traditional services and technologies, we also experience significant pressure from the rapid development of new technologies and alternative services, which are either offered by our existing competitors or new entrants. See “—*Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to, or implement new technological developments in a cost-efficient manner or at all.*” For example, our fixed-line telephony and fixed internet and data business lines in Romania are experiencing increased competition from the country's growing mobile telecommunication services sector. This may result in slower growth or a decrease in our fixed-line telephony and fixed internet and data services penetration rates as our subscribers may migrate from fixed to mobile services, choosing to switch to our competitors such as Telekom Romania, Orange Romania, or Vodafone Romania, who currently have stronger market positions than us in the mobile telecommunication services sector. These competitors are also aiming to offer increasingly innovative integrated solutions to customers, such as 5G. In particular, in February 2018, Orange Romania announced a joint project with Samsung Electronics and Cisco to test its 5G capabilities, which test was completed in July 2018 in several urban areas of Romania. The purpose was to show how 5G network capabilities complement fixed internet networks, with Samsung Electronics and Cisco delivering an end-to-end solution to Orange Romania during the relevant trial period. In September 2018, Vodafone Romania launched a country-wide live NB-IoT network in Romania for its business customers. In 2017, Telekom Romania also showcased the potential of their 5G technology in live demonstrations in Romania (*Source: Peer reporting*). We also have to compete with companies offering other technologies alternative to our telephony services, such as Skype, WhatsApp, Google Hangouts and Facebook Messenger, as well as with companies offering alternative platforms that make TV and entertainment content available to customers, such as Netflix, Apple TV, Amazon Prime and Google Play, along with other services which allow legal or illegal downloading of movies and television programs.

Our success in these markets may be adversely affected by the actions of our competitors in a number of ways, including:

- ▶ lower prices, more attractive multiple-play services or higher quality services, features or content;
- ▶ more rapid development and deployment of new or improved products and services; or
- ▶ more rapid enhancement of their networks.

Our market position will also depend on effective marketing initiatives and our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors, changes in consumer preferences and economic, political and social conditions in the markets in which we operate. Any failure to compete effectively or any inability to respond to, or effectively anticipate, consumer sentiment, including in terms of pricing of services, acquisition of new customers and retention of existing customers, could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Rapid technological changes may increase competition and render our technologies or services obsolete, and we may fail to adapt to, or implement, new technological developments in a cost-efficient manner or at all.**

The markets in which we operate are characterized by rapid and significant changes in technology, customer demand and behavior, and as a result, by a changing competitive environment. Given the fast pace of technological innovation in our industry, we face the risk of our technology becoming obsolete. We may need to make substantial investments to upgrade our networks or to obtain licenses for and develop and install new technologies (such as 5G) to remain competitive. The cost of implementing these investments could be significant, and there is no assurance that the services enabled by new technologies will be accepted by customers to the extent required to generate a rate of return that is acceptable to us. In addition, we face the risk of unforeseen complications in the deployment of these new services and technologies and there is no assurance that our original estimates of the necessary capital expenditure to offer such services will be accurate. New services and technologies may not be developed and/or deployed according to expected schedules or may not be commercially viable or cost effective. Should our services fail to be commercially viable, this could result in additional capital expenditures or a reduction in profitability. Any such change could have a material adverse effect on our business, prospects, results of operations or financial condition.

In addition, rapid technological change makes it difficult to predict the extent of our future competition. For example, new transmission technologies and means of distributing content or increased consumer demand for, and affordability of, products based on new mobile communication technologies could trigger the emergence of new competitors or strengthen the position of existing competitors. There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. Any failure to do so could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our financial condition and results of operations. Conversely, we may overestimate the demand in the marketplace for certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenue, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology or service. Our future success depends on our ability to anticipate, react and adapt in a timely manner to technological changes. Responding successfully to technological advances and emerging industry standards may require substantial capital expenditure and access to related or enabling technologies to introduce and integrate new products and services successfully. Failure to do so could have a material adverse effect on our competitive position, business, prospects, results of operations or financial condition.

**We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business.**

The expansion and operation of our fixed fiber and mobile networks, as well as the costs of development, sales and marketing of our products and services, require substantial capital expenditure. In recent years, we have undertaken significant investment to attract and retain customers, including expenditures for equipment and installation costs and the implementation of new technologies such as GPON, as well as upgrades of existing networks, such as the FTTB/FTTH roll-out. As at the date of this prospectus, we had the following material ongoing capital requirements:

- expansion of our fixed fiber-optic network in Romania and Hungary;
- expansion and further development of our mobile network in Romania and Hungary;
- acquisition and/or renewal of additional sports, film and other broadcasting rights;
- costs associated with CPE and the acquisition of new customers; and
- roll-out of our fixed internet and data and fixed telephony business in Spain.

In addition, we may, from time to time, incur significant capital expenditure in relation to our opportunistic mergers and acquisitions, such as the acquisition of Invitel. See “—*We may undertake future acquisitions on an opportunistic basis which may increase our risk profile, distract our management or increase our expenses.*”

However, no assurance can be given that any existing or future capital expenditures will generate a positive return, a significant reduction in costs, or promote the growth of our business. If our investments fail to generate the expected positive returns or cost reductions, our operations could be significantly adversely affected and future growth could be significantly curtailed.

In order to finance our capital expenditures and working capital needs, we use a combination of cash from operations, financial indebtedness, reverse factoring and vendor financing arrangements. Our working capital needs have fluctuated in the past years few along with the need to finance the development of our mobile telecommunication services business (where we continue to acquire handsets and other CPE that are further on-sold to customers subject to deferred payments (although we have reduced handset acquisition for these purposes since the first quarter of 2017). With respect to the former, we generally pay our suppliers within a relatively short period after acquiring products, but on-sell handsets and other CPE to our customers subject to a deferral of payments for up to 12 months. For our working capital needs, we enter into certain reverse factoring and vendor financing agreements to extend the terms of our payments to suppliers. If we fail to negotiate or renegotiate such arrangements, our ability to finance the continued expansion of our business would be materially adversely affected.

In addition, our liquidity and capital requirements may increase if we expand into additional areas of operation, accelerate the pace of our growth or make acquisitions. If, for any reason, we are unable to obtain adequate funding to meet these requirements, we may be required to limit our operations and our expansion plans, including plans to expand our network and service offering, our operations could be significantly adversely affected, future growth could be significantly curtailed and our competitive position could be impaired.

**We may be adversely affected by unfavorable conditions in the global economy or volatile equity and credit markets.**

Concerns about increased global political instability and trade controversies, as well as the potential economic slowdown and recession in Europe and the United States, the availability and cost of credit, diminished business and consumer confidence and inflation contribute to increased market volatility and diminished expectations for European and emerging economies, including the jurisdictions in which we operate. This instability was further exacerbated by United Kingdom's vote on June 23, 2016 to leave the European Union and the ongoing uncertainty on the terms and timing of such departure (currently expected to take place on March 29, 2019), which has increased volatility in the global financial markets and is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the terms of the United Kingdom's future relationship with the European Union are settled. The effects of the continued instability in global markets may impact a significant number of our customers, leading to increased unemployment and a decrease in disposable income, and government responses to the economic crisis, such as austerity measures and increases in tax rates. Such conditions could have a material adverse effect on our business and results of operations. Furthermore, the United Kingdom's vote to leave has increased the concern that certain other European Union members may also hold referendums and vote to leave the European Union. Some of the effects of the continued instability in global markets, including the risk of deflation and the instability of the euro, may impact a significant number of our customers, leading to increased unemployment and a decrease in disposable income, and government responses to the economic crisis, such as austerity measures and increases in tax rates. Such conditions could have a material adverse effect on our business and results of operations.

Reduced availability of credit has had, and could in the future have, an indirect negative effect on our business by reducing overall spending in the countries in which we operate, causing or helping to cause significant decreases in the value of certain asset classes and, therefore, decreases in the overall wealth of our customers and, together with the overall economic climate, increases in the number of payment defaults and insolvencies among our customers.

In addition, volatile credit markets have also affected us in the past, and may affect us in the future, through increases in interest rates of our floating rate debt and other financial obligations, particularly the 2018 Senior Facilities Agreement, the 2016 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement. The lack of easily available credit in the future may also restrict our ability to grow at a pace commensurate with the business opportunities we can identify. See *"—We operate in a capital-intensive business and may be required to make significant capital expenditure and to finance a substantial increase in our working capital to maintain our competitive position. Our capital expenditure may not generate a positive return or a significant reduction in costs or promote the growth of our business."* All these factors and other effects of a continued economic downturn that we may fail to predict could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Any potential deterioration of the general internal economic, political and social conditions in Romania and Hungary, our principal countries of operation, or any adverse changes in the Romanian or Hungarian tax or regulatory environment, may not be offset by developments in other markets.**

Our success is closely tied to general economic developments in Romania and Hungary. Negative developments in, or the general weakness of, the Romanian or Hungarian economies, in particular increasing levels of unemployment may have a direct negative impact on the spending patterns of retail consumers, both in terms of subscriber and usage levels. Because a substantial portion of our revenue is derived from residential customers who may be impacted by such conditions, it may be more difficult for us to attract new customers or maintain ARPU at existing levels. Deterioration in the Romanian or Hungarian economies may further lead to a higher number of non-paying customers or generally result in service disconnections. Additionally, any uncertainty or instability in, or related to, the political conditions in Romania and Hungary, including any changes to their respective political regimes, legal, tax and regulatory frameworks or governing policies, could negatively affect our business and operations.

In addition, Romanian and Hungarian policy-making and regulatory frameworks are often subject to rapid and sometimes dramatic changes, the consequences of which may be difficult to foresee, or which could potentially lead to slower economic growth or general deterioration of economic conditions in those countries. For example, the Romanian government has recently implemented a series of reforms, including numerous increases to minimum wage rates, as well as changes to the country's social security taxation regime and a transfer of its burden from employers to employees; it also introduced certain one-off exceptional taxes. Some of those



measures may have a severe impact on various sectors of Romanian economy, including telecommunication and energy companies. In particular, on January 1, 2019, the December Ordinance became effective in Romania, which (i) increased ANCOM's annual monitoring fee to 3.0% of total turnover of a telecommunications operator for the preceding year; (ii) increased ANRE's annual fee to 2.0% of total turnover of an energy company for the preceding year generated by licensed electricity-related activities; (iii) conditioned any extension of an existing mobile communication license on the payment of a fee equivalent to 4.0% of the total turnover of Romania's mobile telephony market for the year preceding the requested extension date, multiplied by the number of years for which the extension is requested (which will be applicable, for example, to our 2,100 MHz license that is up for renewal in 2022 (see "*Business—Operations—Mobile Telecommunication Services Networks—Romania*")); (iv) conditioned any issuance of new mobile communication licenses on the payment of fees equivalent to 2.0% or 4.0% (depending on the frequency band for which the license is requested) of the total turnover of Romania's mobile telephony market for the year preceding the issuance date, multiplied by the number of years for which the new license is requested; and (v) significantly increased penalties for breaches of applicable regulations. While the parts of the December Ordinance establishing increased penalties are somewhat unclear as to exact methods of calculation, it provides for fines of up to 10% of a company's turnover in the year prior to the decision to impose such penalties. In addition, since from January 1, 2019, Romanian banks will be required to pay a quarterly tax of 0.1% to 0.5% of the book value of their financial assets, if the ROBOR they charge to their customers exceeds 2%. Unfavorable economic conditions, regulatory uncertainty and special taxation may ultimately have a direct and/or indirect negative impact on consumers' spending and/or the prices we are able to charge for our products and services. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Special taxation and other regulatory initiatives*" and "*Industry Regulation—Romania—Sanctions in Relation to Electronic Communications Networks and Services and to Telephony Services.*"

As our business is primarily focused on Romania and Hungary, any such negative developments may not be offset by positive trends in other markets. Therefore, a weak economy and negative economic or political developments in the principal countries in which we operate may jeopardize our growth targets and could have a material adverse effect on our business, prospects, results of operations or financial condition. See also "*Risks Relating to Investments in Countries Where We Operate—The legal and judicial systems in some of our markets of operation are less developed than other European countries, which makes an investment in the Notes riskier than investments in securities of an issuer that operates in a more developed legal and judicial system.*"

#### **We are subject to transactional currency risks associated with exchange rate fluctuations.**

For the year ended December 31, 2018 we generated approximately 85.6% of revenue in our two principal functional currencies, the Romanian leu and the Hungarian forint (which included approximately 27.1% representing revenue collected in local functional currencies, but denominated in euro). As at December 31, 2018, we had €489.9 million and US\$68.1 million of obligations denominated in euros and U.S. dollars, respectively, compared to €421.0 million and US\$70.2 million, respectively, as at December 31, 2017. Our euro obligations principally relate to outstanding financial debt, and our exposure to the U.S. dollar primarily relates to purchases of content for our cable TV and DTH businesses and mobile CPE acquisitions. A significant depreciation of our principal operational currencies relative to the euro and, to a lesser extent, the U.S. dollar, could have a material adverse effect on our business, prospects, results of operations or financial condition. In this respect, from December 31, 2015 to December 31, 2017, the Romanian leu and the Hungarian forint have declined compared to the euro approximately 3.2% and approximately 3.4% in total, respectively. However, for the month of January 2019, the Romanian leu's depreciation accelerated by a further 2.1%.

In particular, our ability to repay or refinance our euro-denominated financial indebtedness could be adversely impacted by a significant appreciation of the euro relative to our functional currencies. Such appreciation could also markedly reduce our consolidated financial results as reported in euros (see "*We are subject to currency translation risks associated with exchange rate fluctuations*"). This could result in a breach of certain financial covenants under the 2018 Senior Facilities Agreement, the 2016 Senior Facilities Agreement, the ING Facilities Agreement and other existing credit facilities, thereby requiring us to seek waivers from these creditors or causing the acceleration of this indebtedness. In addition, this could make it more difficult for us to comply with the incurrence financial covenants under the Notes. In accordance with our historical approach, we may hedge the interest payments and/or repayments of the whole or a portion of the principal amount of our financial indebtedness. However, any hedging arrangements we enter into may not adequately offset the risks of foreign exchange rate fluctuations and may result in losses. In addition, further appreciation of the euro and the U.S. dollar could require us to offset the impact of such exchange rate fluctuations by price increases for customers in Romania and Hungary that are invoiced in local currencies, which could cause a reduction in the number of



RGUs and could have a material adverse effect on our business, prospects, results of operations or financial condition. See also “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Exchange rates—Liabilities denominated in euros and U.S. Dollar.*”

**We are subject to currency translation risks associated with exchange rate fluctuations.**

Our Financial Statements are presented in euros. However, the majority of our revenue and expenses are denominated in the Romanian leu and the Hungarian forint and are translated into euros at the applicable exchange rates for inclusion in our consolidated Financial Statements. In addition, some of our borrowings and their related interest payments, as well as other assets and liabilities, are denominated in currencies other than the euro, which also require translation into euros at the applicable exchange rates when we prepare our consolidated Financial Statements. Therefore, we are exposed to fluctuations in exchange rates when converting non-euro amounts into euro for reporting purposes. Any fluctuation in the value of a relevant functional currency against the euro may affect the value of our revenue, costs, assets and liabilities as stated in our consolidated Financial Statements, which may in turn affect our reported financial condition and results of operations in a given reporting period.

**A systems failure or shutdown in our networks may occur.**

Our cable TV, fixed internet and data and fixed-line telephony services are currently carried through our transmission networks composed primarily of fiber-optic cables. In addition, as at December 31, 2018, we had approximately 4,500 mobile network base stations in place for our mobile telecommunication services. Furthermore, our information technology system comprises numerous intra-linked systems that are periodically updated, upgraded, enhanced and integrated with new systems. Failure to maintain or update these systems, particularly where updates may be required to support new or expanded products or services, could result in their inability to support or expand our business, as it is dependent on the continued and uninterrupted performance of our network. Our ability to deliver services may be subject to disruptions of our systems from communications failures that may be caused by, among other things, computer viruses, power failures, natural disasters, software flaws, transmission cable cuts, sabotage, acts of terrorism, vandalism and unauthorized access. Any such disruption or other damage that affects our network could result in substantial losses, for which we are not adequately covered by our existing insurance policies. Disaster recovery, security and service continuity protection measures that we have undertaken or may in the future undertake, and our monitoring of network performance, may be insufficient to prevent losses. Our network may be susceptible to increased network disturbances and technological problems, and such difficulties may increase over time. Such disruptions may affect our provision of new or existing services and reputation, leading to costly repairs and loss of customers. For so long as any such disruption continues, our revenue could be significantly impacted, which in turn could have a material adverse effect on our operating cash flows, business, prospects, results of operations or financial condition.

**We may be unable to use Intelsat’s and Telenor’s satellites to broadcast our DTH services and may fail to find a commercially acceptable alternative in a reasonable amount of time.**

We currently broadcast programming for our DTH services using nine transponders (and use an additional transponder for transmitting non-DTH signals), of which three are located on a satellite operated by Intelsat Global Sales & Marketing Ltd (“**Intelsat**”), and six (including the one used for transmitting non-DTH signals) are leased through Intelsat on a Telenor satellite. Our current lease arrangement with Intelsat covering both sets of transponders is effective until 2022. There can be no assurance that an extension of the term of this arrangement can be agreed on similar financial terms post 2022 or that we will not have to find alternative providers. As DTH is a competitive, price-sensitive business, we may not be able to pass an increase in satellite transmission costs, in whole or in part, to our DTH customers.

Satellite broadcasts may also be disrupted for various reasons, including:

- transponder failure or other degradation of satellite electronics;
- exhaustion of fuel for maintaining satellites on station;
- premature ageing of the solar cells that power the satellite;
- malfunctions in ground control stations that cause the satellite to drift off its station and therefore become unable to transmit signals to the designated area;
- damage from space debris and solar flares;
- unsuccessful migration process to alternate satellites from satellites reaching the end of operations;
- faulty systems, software, mechanical devices or latent faults in construction; and

- ▶ faulty operation or other causes.

Furthermore, the amount of satellite capacity that we are able to obtain is limited by the amount of efficient transmission spectrum allocated by the relevant national, regional and international regulatory bodies of the satellite operators that provide satellite coverage over our areas of operations. Intelsat is not contractually obligated to increase the satellite capacity it makes available to us.

Should the satellites we use significantly deteriorate, or become unavailable for regulatory reasons or any other reason, we may not be able to secure replacement capacity on an alternative satellite on a timely basis or at the same or similar cost or quality. Our ability to recoup losses related to service failures from Intelsat may also be limited. Even if alternative capacity were available on other satellites, the replacement satellites may need to be repositioned in order to be co-located with the satellites we currently use. If it is not possible to co-locate replacement satellites, we would be required to re-point all our existing customers' receiving dishes to enable them to receive our signal. Accurate re-pointing requires specialist tools and expertise, and we believe that there could be substantial costs of re-pointing all of our existing subscribers' receiving dishes in the event the satellite networks we currently use fail. Moreover, the time needed to re-point our dishes to alternative satellites would vary depending on the market. Accordingly, the inability to use Intelsat's or Telenor's satellites or otherwise to obtain access to sufficient levels of satellite bandwidth on a timely basis and at commercially acceptable prices, or any system failure, accident or security breach that causes interruptions in our operations on the satellite networks we use could impair our ability to provide services to our customers and could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Our growth and expansion in new areas of business may make it difficult to obtain adequate operational and managerial resources, thus restricting our ability to expand our operations.**

We have experienced substantial growth and development in a relatively short period of time, and our business may continue to grow in the future. For example, in 2014 we relaunched our mobile telecommunication services business line in Romania and focused on growth in this area. We also plan to launch a mobile telecommunications business in Hungary in 2019. In 2012 and 2015, respectively, we also added solar energy generation and energy supply to our business. In addition, on May 30, 2018 we purchased Invitel, one of the largest telecommunication services providers in Hungary, which increased the total number of households passed by our fixed networks by approximately 1.1 million.

The operational complexity of our business as well as the responsibilities of our management has increased as a result of this growth, placing significant strain on the relatively limited resources of our senior management. We will need to continue to improve our operational and financial systems and managerial controls and procedures to keep pace with our growth. We will also have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Managing our growth will require, among other things:

- ▶ the ability to integrate new acquisitions into our operations;
- ▶ continued development of financial and management controls and IT systems and their implementation in newly acquired businesses;
- ▶ the ability to manage increased marketing activities;
- ▶ hiring and training new personnel;
- ▶ the ability to adapt to changes in the markets in which we operate, including changes in legislation;
- ▶ the ability to successfully deal with new regulators and regulatory regimes; and
- ▶ the ability to manage additional taxes, increased competition and address the increased demand for our services.

In particular, in relation to any launch of a mobile telecommunications business in Hungary, we have no experience operating this type of business in the respective geography and our current 1,800 MHz license is limited to one duplex of 5 MHz. There can be no assurance that we will be successful in adapting to the demands of this market or that we will be able to supplement our existing licenses, should growth in the business require it, as mobile telecommunications licenses are typically awarded in public tenders.

An inability to ensure appropriate operational and managerial resources and to successfully manage our growth could have a material adverse effect on our business, prospects, results of operations or financial condition.

**We may be unable to attract and retain key personnel, directors, managers, employees and other individuals without whom we may not be able to manage our business effectively.**

We depend on the availability and continued service of a relatively small number of key managers, employees and other individuals, including our founder and President, Zoltán Teszári, directors and senior management.

These key individuals are heavily involved in the daily operation of our business and are, at the same time, required to make strategic decisions, ensure their implementation and manage and supervise our development. The loss of any of these key individuals could significantly impede our financial plans, product development, network expansion, marketing and other plans, which could in turn affect our ability to comply with the financial covenants under the Notes and our existing credit facilities. In particular, Mr. Teszári's continued involvement in the strategic oversight of the Company is key for our continued development and competitive position. In addition, competition for qualified executives in the telecommunications industry in the markets in which we operate is intense. Our future operating results depend, in significant part, upon the continued contributions of our existing management and our ability to expand our senior management team by adding highly skilled new members, who may be difficult to identify and recruit. If any of our senior executives or other key individuals cease their employment or engagement with us, our business, prospects, results of operation or financial condition could be materially adversely affected.

**If we do not maintain or improve our reputation for the quality of our service, our ability to attract new customers and retain existing customers may be harmed.**

Our ability to retain customers and to attract new customers depends in part on our brand recognition and our reputation for the quality of our service. Our reputation and brand may be harmed if we encounter difficulties in the provision of new or existing services, whether due to technical faults, lack of necessary equipment, changes to our traditional product offerings, financial difficulties, or for any other reason. Damage to our reputation and brand could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Our growth and profitability depend principally on continued demand for cable and telecommunications products and services in Romania and Hungary, our ability to attract and retain customers and to successfully expand our mobile telecommunication services business line.**

Our growth and profitability depend on a continued demand for our products and services and growth in our RGUs, on our ability to successfully expand our mobile telecommunication services and on the level of churn experienced due to customers switching to our competitors or otherwise terminating their subscriptions to our services.

If demand for our services in general does not increase, if we are unable to further maximize revenue generated from existing customers through cross-selling, if we are unable to continue to expand our mobile telecommunication services business or if we are unable to gain new customers from our competitors or otherwise, it could have a material adverse effect on our business, prospects, results of operations or financial condition.

**If we cannot acquire or retain content or programming rights or do so at competitive prices, we may not be able to retain or increase our customer base and our costs of operations may increase.**

The success of our business depends on, among other things, the quality and variety of the television programming delivered to our customers. We depend substantially on third parties to provide us with programming TV content and we license rights to broadcast certain high interest sports events and movies on our own premium channels in Romania and Hungary. Our programming agreements generally have terms ranging from one to five years (including options to extend) and contain various renewal, cancellation and annual price adjustment provisions. No assurance can be provided that we will succeed in renewing our rights for content upon the expiry of currently applicable contractual terms on competitive terms or at all. If we fail to negotiate or renegotiate programming agreements for popular content on satisfactory terms or at all, we may not be able to offer a compelling and popular product to our customers at a price they are willing to pay.

Generally, our programming agreements may be terminated if we fail to make any of our payments or breach our obligations to keep our transmission signal secure or within agreed technical parameters and we fail to address any such breaches within a certain time period, typically between 10 and 30 days.

The ability to broadcast certain sports competitions, especially football matches, is integral to our ability to attract and retain customers. We currently hold rights to broadcast some of the most popular competitions in our countries of operation, such as Romanian Football League 1 (until the end of the current football season). However, no assurance can be provided that we will succeed in acquiring new or renewing existing broadcasting rights upon the expiration of the underlying contracts. For example, in 2015 we lost our license to broadcast the Union of European Football Associations ("UEFA") Champions League and the UEFA Europa League in Romania to one of our principal competitors, Telekom Romania (although we subsequently regained those broadcasting rights on co-exclusive and exclusive basis, respectively).

We believe that in order to compete successfully, we must continue to obtain attractive content and deliver it to our customers at competitive prices. When we offer new content, or upon the expiry of existing programming agreements or broadcast licenses, our content suppliers may decide to increase the rates they charge for content, thereby increasing our operating costs. In addition, some of the channels we broadcast in Romania are subject to “must carry” rules, meaning that the content suppliers have opted to make them available free of charge, which, under certain conditions, creates an obligation for us to include them in our cable TV package. If some or all of the main channels we carry in Romania on the “must carry” basis opted out of this regime, we may have to pay for their retransmission or discontinue the transmission of such channels as part of our services, which may lead to increases in costs or potential customer churn. Regulatory requirements in some jurisdictions, such as Hungary, affect content suppliers by, for example, requiring them to produce channels in high definition, and may lead them to increase the rates they charge to us. Increases in programming fees or license fees or changes in the way programming fees or license fees are calculated could force us to increase our subscription rates, which in turn could cause customers to terminate their subscriptions or lead potential new customers to refrain from subscribing. In addition, if we were to breach the terms of the applicable agreements, the license content providers could decide to withhold certain content or we could lose the right to retransmit certain programs or broadcast certain competitions. Also, program providers and broadcasters may elect to distribute their programming through other distribution platforms, such as Internet-based platforms, or may enter into exclusive arrangements with other distributors. If we cannot pass on any increased programming or license fees to our customers, or if we lose rights to transmit certain programming or broadcast certain competitions, it could have a material adverse effect on our reputation, competitive position, business, prospects, results of operations or financial condition.

**Our business strategy may cause our average revenue pre unit (ARPU) figures to decrease.**

In our core markets of Romania and Hungary, our customer base for services other than DTH is located primarily in more affluent urban population centers. However, as we expand into less affluent demographic segments of our geographic markets, our ARPU figures may decline depending upon changes in our mix of customers and the prices at which our packages are offered. For example, reduced versions of our analog and digital cable TV packages in Romania, targeted at rural customers, offer less content and generate less revenue than their standard versions. Further, our reported ARPU for cable TV, DTH and fixed internet may be affected by fluctuations in exchange rates. See “—*We are subject to currency translation risks associated with exchange rate fluctuations.*” A material decrease in ARPU from current levels could have a material adverse effect on our business, prospects, results of operations or financial condition.

**We may fail to manage customer churn.**

The pay TV (which includes cable TV and DTH business lines), fixed internet and data, fixed-line telephony and mobile telecommunication services industries all experience churn as a result of, among other things, high levels of competition. In particular, our DTH and fixed-line telephony service has experienced relatively high levels of churn in recent years. Although churn may have a negative effect on our business, we focus on growth in total number of RGUs, ARPU, revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin (as defined in the March 2019 Prospectus) as key indicators of our performance, rather than churn. We believe that our churn levels are in line with those of our principal competitors in our core markets.

Customer churn could increase as a result of:

- ▶ the availability of competing services, some of which may be less expensive or technologically superior to those offered by us or offer content or features that we do not offer;
- ▶ customers moving to areas where we cannot offer services;
- ▶ customer dissatisfaction with the quality of our customer service, including billing errors;
- ▶ interruptions in the delivery of services to customers over our network and poor fault management; and
- ▶ customers choosing to discontinue a certain service without replacing it with an equivalent service provided by us or our competitors.

Our inability to control customer churn or an increase in customer churn, particularly in relation to our DTH and fixed-telephony services, as a result of any of these factors can lead to a reduction in revenue and RGUs or increased costs to retain these customers, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Our insurance may not cover all potential losses, liabilities and damage related to our business and certain risks are uninsured or are not insurable.**

We maintain an insurance policy in respect of our critical communications equipment in data centers in Bucharest and certain key network nodes throughout Romania for the services we provide, including our up-link facilities in Bucharest. This insurance policy has an aggregate coverage of up to approximately €36.8 million equivalent as at December 31, 2018. We also maintain civil liability insurance policies and property damage insurance policies for our car fleet. In Hungary, we maintain mandatory third-party liability and casualty and collision insurance for our car fleet, as well as an insurance policy for our equipment. We can provide no assurance that insurance will continue to be available to us on commercially reasonable terms or at all. Our insurance may not be adequate to cover all our potential losses or liabilities. At present, we have no coverage for business interruption or loss of key management personnel and a substantial proportion of our assets are not insured. Should a significant event affect one of our facilities or networks, we could experience substantial property loss and significant disruptions in the provision of our services for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Our business relies on sophisticated billing and credit control systems, and any problems with these systems could disrupt our operations.**

Sophisticated billing and credit control systems are critical to our ability to increase revenue streams, avoid revenue losses, monitor costs and potential credit problems and bill our customers properly and in a timely manner. New technologies and applications are expected to increase customers' expectations and to create increasing demands on billing and credit control systems. Any damage, delay or interruptions in our systems or failure of servers or backup servers that are used for our billing and credit control systems could disrupt our operations, and this, in turn, could have a material adverse effect on our reputation, business, prospects, results of operations or financial condition.

**Our business relies on hardware, software, commodities and services supplied by third parties. These suppliers may choose to discontinue their products or services, seek to charge us prices that are not competitive or choose not to renew contracts with us.**

We have important relationships with certain suppliers of hardware, software and services (such as ECI, Ericsson, Wuhan Fiberhome, Huawei, Kaon, Nagravision S.A. ("**Nagravision**"), Nokia, and ZTE). These suppliers may, among other things, extend delivery times, supply unreliable equipment, raise prices and limit or discontinue supply due to their own shortages, business requirements or otherwise. Although we are not entirely dependent on hardware, software and services supplied by particular suppliers, in many cases we have made substantial investments in the equipment or software of a certain supplier. This makes it difficult for us to find replacement suppliers quickly in the event that a supplier refuses to offer us favorable prices, ceases to produce the equipment we use or fails to provide the support we require. In the event that hardware or software products or related services are defective, or if the suppliers are insolvent, it may be difficult or impossible to enforce claims against them, in whole or in part. The occurrence of any of these risks may create technical problems, damage our reputation, result in the loss of customers and could have a material adverse effect on our business, prospects, results of operations or financial condition. Further, our contractual obligations to customers may exceed the scope of the warranties we have obtained from suppliers.

We are also exposed to risks associated with the potential financial instability and business continuity issues of our suppliers. If our suppliers were to discontinue certain products, were unable to provide equipment to meet our specifications or interrupt the provision of equipment or services to us, whether as a result of bankruptcy, regulatory actions, court decisions or otherwise and if we were unable to procure satisfactory substitutes, it could have a material adverse effect on our business, results of operations or financial condition.

**The results of our energy supply business are dependent on the price at which we are able to acquire electricity from third parties. Volatility in the cost of electricity may negatively impact our financial condition and results of operation.**

We acquire the electricity we then sell to our customers on the Romanian wholesale trading platforms, in line with applicable legal provisions which forbid "over the counter" agreements. 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 on the trading platforms could adversely affect our financial condition and results of operations. For example, due to unusual volatility in the cost of electricity which we acquired, we had a net loss of €8.6 million



from our electricity supply activities for the year ended December 31, 2017 (reported on as an increase in our operating expenses). No assurance can be provided that there will not be any further increases or volatility in the cost of electricity or that any such increases or volatility would not have a material adverse effect on our electricity supply activities and thus our financial condition and results of operations in any future period. Although we have taken steps to reduce our exposure to cost volatility and significantly reduced our energy supply activities starting from 2017, natural variations in the level of demand per month from each customer, whether business or residential, and the potential for unexpected variations in the cost of electricity in the Romanian market in the future may continue to affect our remaining energy supply operations.

**Our business relies on third-party licenses and other intellectual property arrangements.**

We rely on third-party licenses and other intellectual property arrangements to enable us to carry on our business. Network elements and telecommunications equipment including hardware, software and firmware deployed on our network are licensed or purchased from various third parties, including from vendors holding the intellectual property rights to use these elements and equipment. Although these agreements provide warranties, indemnities and the right of termination in the event of any breach or threatened breach of any intellectual property rights, no assurance can be provided that competitors or other third parties will not challenge or circumvent the intellectual property rights we own or license or that the relevant intellectual property rights are valid, enforceable or sufficiently broad to protect our interest or will provide us with any competitive advantage. In addition, certain license holders are entitled to control our compliance with the underlying license arrangements and no assurance can be provided that we will be able to satisfy their requirements at all times. Any resulting loss, withdrawal or suspension of those intellectual property rights could result in a significant increase in our costs or otherwise have a material adverse effect on our business, prospects, results of operations or financial condition.

**Our ability to provide commercially viable services depends, in part, upon interconnection, roaming and MVNO arrangements with other operators and third-party network providers and on the impact of EU roaming regulations.**

Our ability to provide commercially viable mobile and fixed-line telecommunication services depends, in part, upon our interconnection and roaming arrangements with other operators. In particular, we are dependent, in certain regions, on interconnection with our competitors' mobile and fixed-line networks and the associated infrastructure for the successful operation of our business. In Romania and Hungary, ANCOM and NMIAH, respectively, regulate the frameworks governing interconnection charges in an effort to facilitate access to other companies' networks. In Romania, ANCOM sets price caps on the interconnection charges that major telecommunications operators, including us, may charge, while in Hungary, NMIAH regulates the termination rates for interconnection. We are also dependent on third-party network providers for the provision of MVNO services in Spain and Italy, the resale of fixed-line services in Spain and mobile and internet data services in Hungary and the supply of international roaming services.

In addition, Regulation (EU) No. 531/2012 on roaming on public mobile communications networks within the European Union ("EU Roaming Regulation") requires mobile communications providers within the European Union to end all retail roaming surcharges starting from June 2017, while having to pay providers relevant wholesale charges. However, on June 29, 2018, ANCOM allowed us to continue to apply roaming surcharges for an additional year (such extension is only permissible for one year periods). Had we been required not to apply such surcharges, it could have had a material negative impact on our mobile telecommunications business as we generally offer unlimited packages to our customers for a fixed fee. This model is predicated on domestic calls pricing, and lack of roaming charges could lead to massively increased consumption in roaming, which would generate material wholesale roaming expense for us that we could not recover under our current business model. Although we intend to apply to ANCOM for subsequent one-year extensions and believe that there is reasonable chance that such extensions will be granted, there can be no assurance that we will be able to obtain any such further extension on terms favorable to us, and if we failed to do so and failed to adjust our business model accordingly, we would be required to fully bear, in whole or in part, the wholesale cost of roaming for our clients.

Although we have interconnection and other agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnection and other services they provide. There can be no assurance that interconnection, resale, roaming or MVNO agreements will be easy to agree, that we will be able to renew these agreements on commercially acceptable terms, that they will not be terminated, or that ANCOM, NMIAH or the European Commission will not take any action that could materially adversely affect our operations. If we fail to maintain these agreements on commercially acceptable terms, or if there are any difficulties or delays in interconnecting with other networks and services, or a failure of any operator to provide



reliable roaming services to us on a consistent basis, this could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Concerns about health risks relating to the use of mobile handsets or the location of mobile telecommunication towers may materially adversely affect the prospects of our mobile telecommunication services business.**

Media and other reports have linked radio-frequency emissions from mobile handsets and mobile telecommunication towers to various health concerns, including cancer, and interference with various electronic medical devices, including hearing aids and pacemakers. In particular, in May 2011, the World Health Organization classified radiofrequency electromagnetic fields as potentially carcinogenic to humans based on an increased risk for adverse health effects associated with wireless phone use. Concerns over radio frequency emissions may discourage the use of mobile handsets or may create difficulties in the procurement of tower sites for our mobile telecommunication business, which could have a material adverse effect on the prospects of such business.

If there is sound scientific evidence of a link between radio frequency emissions and health concerns or if concerns about such health risks increase in countries in which we do business, the prospects and results of operations of our mobile telecommunication services business could be materially adversely affected. In addition, the actual or perceived health risks associated with electromagnetic radio emissions and wireless communications devices and antennas and the resulting costs and lowered usage, as well as any related potential new regulatory measures could have a material adverse effect on our business, results of operations or financial condition.

**Sensitive customer data is an important part of our daily business and leakage of such data may violate laws and regulations. Any such data security breach, as well as any other failure to fully comply with applicable data protection legislation could result in fines, reputational damage and customer churn.**

We accumulate, store and use in our operations data, which may be protected by data protection laws. Although we take precautions to protect customer data in accordance with the applicable privacy requirements, it is possible that there may be data leakages in the future. We work with third-party service providers, such as certain software companies, which may not fully comply with the relevant contractual terms and all data protection obligations imposed on them.

The telecommunications sector has become increasingly digitalized, automated and online-based in recent years, increasing our exposure to risks of unauthorized or unintended data release through hacking and general information technology system failures. Unanticipated information technology problems, system failures, computer viruses, intentional/unintentional misuses, hacker attacks or unauthorized access to our network or other failures could result in a failure to maintain and protect customer data in accordance with applicable regulations and requirements and could affect the quality of our services, compromise the confidentiality of our customer data or cause service interruptions, and may result in the imposition of fines and other penalties.

In April 2018, we were fined by the Romanian National Supervisory Authority for Personal Data Processing for breaches of national data protection legislation, especially in relation to the types of data that we process, and although we are committed, and have made significant efforts, to fully align our practices with the requirements of the regulator, as at the date of this prospectus this process has not been completed yet. In addition, the EU General Data Protection Regulation (Regulation (EU) 2016/679) (“**GDPR**”) became effective on May 25, 2018, introducing enhanced data protection requirements and substantial fines for a breach thereof. Although we have already made, and continue making, adjustments to our policies and procedures to ensure full compliance with the GDPR, as at the date of this prospectus its formal implementation in the countries where we operate is still ongoing as the general regulatory framework requires interpretation and adaptation. Therefore, there can be no assurance that the adjustments we have already made, as well as those that we are planning to make in the future, will fully satisfy GDPR’s requirements. Also, on January 11, 2017, the European Commission published a proposal for its new e-Privacy regulation, which is expected to replace the currently effective e-Privacy Directive 2002/58/EC. The new e-Privacy regulation is expected to be adopted in 2019 and we are currently evaluating whether our practices need to be adjusted to ensure compliance therewith. There can be no assurance that such compliance could be achieved within the regulatory timeframes, when set, or at all.

Should we be found to be in breach of any applicable data protection laws, this may result in significant fines, claims for damages, prosecution of relevant employees and managers, reputational damage and customer churn and may have a material adverse effect on our business, prospects, results of operation or financial condition.

**We may undertake future acquisitions on an opportunistic basis which may increase our risk profile, distract our management or increase our expenses.**

Our historical growth has been due in part to our acquisitions of cable and/or internet operations. For example, on May 30, 2018, we acquired Invitel. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Trends and Other Key Factors Impacting Our Results of Operations—Acquisitions and disposals.*” We may undertake, on an opportunistic basis, additional acquisitions in the future in our existing business lines or in other businesses complementary to them. However, we may not be successful in our efforts to estimate the financial effects of any such transactions on our business, especially as our previous acquisitions were relatively small in size and there is no guarantee that future acquisitions would not be larger businesses, which may prove more difficult to integrate. In addition, acquisitions may divert our management’s attention or financial or other resources away from our existing business or require additional expenditures. Such developments could have a material adverse effect on our business, results of operations or financial condition.

Our ability to acquire new businesses may be limited by many factors, including availability of financing, the debt covenants of our financing agreements, the prevalence of complex ownership structures among potential targets, government regulation and competition from other potential acquirers. If acquisitions are made, there can be no assurance that we will be able to maintain the customer base of businesses we acquire, generate expected margins or cash flows or realize the anticipated benefits of such acquisitions, including growth or expected synergies. Although we analyze acquisition targets, those assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations. There can be no assurance that our assessments of, and assumptions regarding, acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations.

Even if we are successful in acquiring new businesses, the integration of new businesses may be difficult for a variety of reasons, including differing languages, cultures, management styles and systems, inadequate infrastructure and poor records or internal controls. In addition, integrating any potential new acquisitions may require significant initial cash investments and present significant costs, which may result in changes in our capital structure, including the incurrence of additional indebtedness, tax liabilities or regulatory fines. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our operating results as a result of costs, challenges, difficulties or risks, including: realizing economies of scale in interconnection, programming and network operations; eliminating duplicative overhead expenses; integrating personnel, networks, financial and operational systems; unforeseen legal, regulatory, contractual and other issues; unforeseen challenges from operating in new geographic areas; and the diversion of management’s attention from our day-to-day business as a result of the need to deal with the foregoing challenges, disruptions and difficulties.

Furthermore, even if we are successful in integrating our existing and new businesses, expected synergies and cost savings may not materialize as anticipated or at all, resulting in lower than expected profit margins. There is no assurance that we will be successful in acquiring new businesses or realizing any of the anticipated benefits of the companies that we may acquire in the future. If we undertake acquisitions but do not realize these benefits, it could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Any downgrade of our credit ratings by an international rating agency could have a negative impact on our business.**

Any adverse revisions to our credit ratings for domestic or international debt by international rating agencies may adversely impact the credit rating of our existing indebtedness (including the Notes), our ability to raise additional financing and the interest rates and other commercial terms, under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Changes to IFRS standards for lease accounting may adversely affect our financial results and position.**

Changes to IFRS have been proposed in recent years, and further changes may be proposed in the future. In particular, the International Accounting Standards Board (“IASB”) released a new standard (“IFRS 16”) on lease accounting, which replaced International Accounting Standards (“IAS”) 17 Leases and which will be effective for financial reporting periods beginning on or after January 1, 2019. The application of IFRS 16 is expected to have a significant impact on our consolidated statement of financial position, as we will be required to recognize the present value of minimum lease payments as liability and record rights of usage assets. It is also expected to have a significant impact on our consolidated profit or loss statement, as we will be required to report depreciation expenses related to such additional assets and interest expenses related to such additional

liabilities (instead of lease expenses). This and any other changes to IFRS that may be proposed in the future could have a material adverse effect on our results of operations or financial condition.

Although we are still in the process of analyzing the detailed consequences of IFRS 16's application, we currently believe that had IFRS 16 been applicable as at and for the year ended December 31, 2018, the estimated impact on our consolidated financial statements would have been as follows: (a) a significant increase in our consolidated assets; (b) a significant increase in our consolidated liabilities; (c) an increase in our consolidated depreciation expense; (d) an increase in our consolidated interest expense; and (e) a decrease in our consolidated lease expense. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financial leasing agreements—IFRS 16.*" IFRS 16 will not have any impact on calculations we are required to make under the Indenture for the purposes of ensuring compliance therewith, as those will continue to be made in accordance with the IFRS in effect as at the issue date of the Original Notes, although it is likely to lead to certain divergence between some financial metrics that we report on a regular basis (including Adjusted EBITDA of continuing operations) and related or similarly titled metrics under the Indenture and for covenant purposes.

### **Risks Relating to Legal and Regulatory Matters and Litigation**

#### **Failure to comply with anti-corruption or money laundering laws, or allegations thereof, could have a material adverse effect on our reputation and business.**

While we are committed to doing business in accordance with applicable anti-corruption and money laundering laws, we face the risk that members of the Group or their respective officers, directors, employees, agents or business partners may take actions or have interactions with persons that violate such laws, and may face allegations that they have violated such laws. In general, if we are alleged or found to have violated applicable anti-corruption or money laundering laws in any matter, any such allegations or violation may have a material adverse effect on our reputation and business, including, among others, application of criminal sanctions against us or our officers or employees, disgorgement of property, termination of existing commercial arrangements, our exclusion from further public or private tenders, as well as affect our ability to comply with certain covenants under our existing indebtedness.

For example, on January 15, 2019, the Bucharest Tribunal issued its January Judgment in relation to the investigation conducted by the DNA into alleged bribery and money laundering in connection with our entry into a joint venture with Bodu S.R.L. in 2009 and certain subsequent transactions. The joint venture related to an events hall in Bucharest. At the time of our original investment, Bodu S.R.L. was owned by Mr. Bogdan Dragomir, a son of Mr. Dumitru Dragomir, who served as the President of the Romanian Professional Football League (the "PFL"). The DNA's original enquiry (that followed allegations by Antenna Group that unlawful bribes had been advanced to Mr. Dumitru Dragomir) centred around the €3.1 million investment that we made into the JV from 2009 to 2011. The DNA's subsequent money laundering enquiry related to later transactions entered into with Bodu S.R.L. in 2015 and 2016, through which we ultimately acquired the sole ownership of the events hall. We undertook those transactions in order to ensure continuity of our business in relation to the events hall and recover our original investment. However, the DNA alleged that these were attempts to conceal unlawful bribes.

The January Judgment:

- ▶ dismissed the giving of bribe related allegations against RCS & RDS and its past and current directors on the basis that they had become time-barred;
- ▶ convicted RCS & RDS of money laundering and (a) ordered it to pay a criminal fine of approximately RON1.25 million; (b) confiscated €3.1 million of our original investment in the JV and RON655,124 as alleged unlawful profits derived by RCS & RDS from the JV; and (c) maintained seizure of the two previously attached real estate assets;
- ▶ convicted Integrasoft S.R.L. (one of our Romanian subsidiaries and RCS & RDS's partner in the JV following the 2016 acquisition) of accessory to money laundering and ordered it to pay a criminal fine of approximately RON 700,000;
- ▶ cancelled (a) the original 2009 joint venture agreement (along with all subsequent amendments thereto); (b) the 2015 settlement agreement (along with all subsequent amendments thereto); and (c) the 2016 purchase by RCS & RDS of the events hall's real estate and business;
- ▶ convicted Mr. Ioan Bendei (who at the time was a member of the board of directors of RCS & RDS and is a director of Integrasoft S.R.L.) of accessory to money laundering (in his capacity as director of Integrasoft S.R.L.) and sentenced him to four years' imprisonment;

- ▶ acquitted Messrs. Serghei Bulgac (the current Chief Executive Officer and President of the board of directors of RCS & RDS), Mihai Dinei and Alexandru Oprea (a former Chief Executive Officer and President of the board of directors of RCS & RDS) of all charges; and
- ▶ convicted Mr. Dumitru Dragomir and a director of Bodu S.R.L. of unlawfully receiving the bribes allegedly paid through the JV investments (which, owing to different limitations periods, had not yet become time-barred).

We believe that the convictions and related sanctions in the January Judgment were erroneous and not supported by the evidence provided to the court. See *“Business—Litigation and Legal Proceedings—Investigation by the Romanian National Anti-Corruption Agency.”* We continue to deny any allegations against the Company, Integrasoft S.R.L. or any of our or their current or former officers or employees in relation to this matter and believe that they at all times acted in compliance with applicable law. Notices of appeal against the January Judgment were filed to the Bucharest Court of Appeal on behalf of RCS & RDS, Integrasoft S.R.L. and Messrs. Ioan Bendei, Serghei Bulgac and Mihai Dinei. The full appeal motions will be submitted shortly after the complete text of the January Judgment becomes available.

The January Judgment will not become final or enforceable pending the Bucharest Court of Appeal’s resolution on the appeal, which will involve a full re-trial of the factual matters and legal issues in this case. Nevertheless, the January Judgment may have a material adverse effect on our business reputation, results of operations or financial condition. In particular, if the January Judgment is confirmed on appeal and ultimately becomes effective, our ability to participate in public tenders in Romania may be impeded (for example, if the terms of such tenders specifically prohibit legal entities with a criminal record to participate). In addition, even while appeals are pending, it cannot be excluded that the January Judgment could result in increased scrutiny of our operations and adversely impact perceptions of us (including as to the effectiveness of our compliance policies and procedures). If any of this were to occur, our relationships with governmental authorities, commercial partners or lenders and our perceived attractiveness as a licensee or commercial counterparty may deteriorate, which, among other things, may impair our ability to renew or sustain existing material arrangements with such governmental authorities or counterparties or to enter into new commercially desirable arrangements.

#### **We have been and may continue to be subject to competition law investigations and claims.**

We have been in the past and may continue to be the subject of claims regarding alleged anticompetitive behavior on the markets of the jurisdictions where we operate to restrict competition and limit consumer choice.

For example, Antena TV Group S.A. (**“Antena Group”**), which is a leading media group in Romania, alleged in 2011, among other things, that we abused our dominant position by refusing to transmit one of its channels via our network. The Romanian Competition Council (the **“RCC”**) commenced an investigation into this matter in August 2011. The investigation was completed in March 2015 and the underlying complaints were dismissed in their entirety though the RCC noted that we enjoy a dominant position on the retransmission market in Romania. The regulator’s decision was challenged by Antena Group in court. On October 3, 2016, the Bucharest Court of Appeal upheld the RCC’s decision and dismissed Antena Group’s claims. In 2018, we reached a settlement agreement with Antena Group, which settled all disputes between us. See *“Business—Litigation and Legal proceedings—Legal proceedings against Intact Media Group.”*

On November 14, 2018, the Hungarian Competition Authority (GVH) withdrew its original approval of our acquisition of Invitel and launched a new investigation to re-assess certain market overlaps between Invitel and i-TV, which is another subsidiary we have in Hungary. The stated reason for such withdrawal and investigation was that at the time of the initial evaluation DIGI Hungary had allegedly failed to proactively comment during the initial assessment on certain data regarding the territorial scope of certain telecommunications services provided by i-TV. A fine of approximately €280,000 was imposed pending such further investigation. However, the GVH’s withdrawal of its original approval will not undermine our ownership of Invitel pending the GVH’s investigation (the GVH specifically decided to allow us to continue to exercise full control over Invitel). Although no assurance of the outcome can be provided during such limited investigation, our acquisition of Invitel is not expected to be affected by the GVH’s withdrawal decision in any way beyond the reinstatement of certain limited (1) behavioral requirements with respect to itself in connection with certain 16 settlements, operations in which Digi Hungary had been ordered to divest by the original decision (such as to (a) continue servicing those settlements; (b) not to engage in active marketing activities towards Invitel’s customers in those settlements; and (c) continue to be monitored by the trustee appointed by the GVH in respect of such operations); and (2) interim obligations with respect to i-TV in connection with certain 99 settlements (such as not to (x) permit i-TV to terminate service or lease agreements with infrastructure owners in those settlements; (y) permit i-TV to engage in active marketing activities towards Invitel’s customers in those settlements; and (z)

engage in active marketing activities towards i-TV's customers in those settlements); in each case, that were lifted by the original clearance. We are fully cooperating with the GVH and are hopeful that this new investigation will result in a final re-authorisation of the Invitel acquisition.

We fully cooperated with the relevant competition authorities in any proceedings, in which we have been involved and intend to continue to do so if we are the subject of future proceedings, but such proceedings are typically lengthy and could take several years to be resolved. There is no assurance that the RCC or the GVH will not conduct further investigations on us or, if they do, that they will not impose sanctions on us as a result of such investigations. Such sanctions may include fines of up to 1% of our total turnover in the year prior to the decision if we fail to provide accurate and complete information to the RCC or the GVH within the terms indicated by it or imposed by applicable law and up to 10% of our total turnover in the year prior to the decision per individual violation of competition law, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

In addition, the telecommunications and media sectors, amongst other industries, are under constant scrutiny by national competition regulators in the countries, in which we operate and by the European Commission. Whether in the context of sector inquiries, antitrust investigations or in relation to requests for information, competition authorities may, from time to time, have different interpretations of our behavior in the relevant markets or of the clauses in the agreements that we enter into and construe them as potentially non-compliant with applicable competition legislation. As a result, we could be subject to fines up to the amount mentioned above and/or other restrictive measures.

For example, in April 2013, the RCC launched a sector inquiry regarding (a) electronic communication services offered in Romania as part of multiple-play packages and on a standalone basis; (b) access to electronic communications infrastructure in Bucharest; and (c) examination of the sector in the rest of Romania in order to evaluate the relative market power of participants. Its inquiry in connection with the access to electronic communications infrastructure in Bucharest was completed in early 2016 and recommended increased oversight by ANCOM of communication infrastructure operators (us included) and monitoring of non-discriminative access to such infrastructure by communication providers. The RCC's inquiry regarding electronic communication services in Romania was finalized in late 2017. As a result thereof, relevant existing practices of market participants (us included) could be subjected to stricter scrutiny in the future. In addition, the RCC's 2017 report included certain findings on common potentially abusive provisions in agreements with individual customers, such as termination clauses. The RCC alerted the Romanian National Authority for Consumer Protection ("NACP"), which re-addressed the matter to ANCOM. There is no further information available at the moment. However, should NACP and/or ANCOM deem some of such provisions to be indeed abusive vis-à-vis customers, market participants (us included) may be required to amend existing customer agreements, and may face fines and other sanctions in connection with current practices.

Sector inquiries are not targeted at particular companies and are concluded with reports describing the markets analyzed and including recommendations for better market functioning. The competition authorities cannot apply fines as a result of sector inquiry proceedings for anticompetitive conduct, but may decide to open new investigations targeted at particular companies, which may result in stricter scrutiny of our business and/or the imposition of fines or other sanctions. Additionally, the results of an inquiry could lead to lawsuits being brought by third parties.

**Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial fines, additional compliance costs or various other sanctions or court judgments.**

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as ongoing compliance with, among other things, telecommunications, audio-visual, energy, environmental, health and safety, labor, building and urban planning, personal data protection and consumer protection laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and monitoring licensees' compliance with the terms thereof. We may sometimes disagree with the way legal provisions are interpreted or applied by regulators and we may, from time to time, challenge or contest regulatory decisions in the course of our business, which may affect our relations with regulators. The competent authorities in the countries where we carry out our activities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future



inspections may result in the conclusion that we have violated laws, decrees or regulations. We may be unable to refute any such conclusions or remedy the violations found.

Moreover, regulatory authorities may, from time to time, decide to change their interpretation of the applicable legal or regulatory provisions, their policies or views of our businesses in ways that can significantly impact our operations. For instance, we are subject to certain obligations as an operator with significant market power in the market of access to fixed-line telephony and mobile telephony and, as our market share increases or market conditions change, we could become subject to significant additional restrictions in the future, such as having to comply with higher technical standards. Such restrictions may decrease or eliminate our competitive advantage and could have a material adverse effect on our business, prospects, results of operations or financial condition. To the extent these restrictions are deemed to be insufficient and the relevant telecommunications regulator concludes that our market power is significant to the degree that there is no competition, we may even become subject to user tariff control measures.

Because we are subject to a large number of changing regulatory requirements and market and regulatory practices, we may not be in compliance with certain requirements under telecommunications and media laws, consumer protection laws, personal data protection laws and regulations or regulatory decisions. For instance, we have not always complied in a timely fashion with obligations relating to interconnection, including the obligation that our interconnection agreements comply with applicable ANCOM decisions, and the obligation that we pay our regulatory fees. We were in breach of certain technical obligations/parameters relating to our network and the provision of our services (e.g., level of noise/radiation above the threshold, poor TV signal in certain villages/towns, etc.), for which we have received warnings from ANCOM and small fines. We have generally remedied such breaches after receiving such sanctions from ANCOM, but we may be unable to remedy (or do that in a timely fashion) such breaches in the future. In addition, from time to time, our satellite spectrum license may not cover some of our channels or up-link connections and our retransmission endorsements may not cover some of our channels or may cover certain channels that we are not currently broadcasting. See *“Industry Regulation—Romania—Television and Radio Services—Licenses—Satellite Spectrum License.”* We may also, from time to time, not be in full compliance with our “must carry” obligations and may have differing interpretations of such obligations than the regulators. Our failure to comply with existing laws and regulations and the findings of government inspections may result in the imposition of fines or other sanctions on us by ANCOM or the National Audiovisual Council of Romania (“NAC”). The recent regulatory changes introduced by the December Ordinance entitle ANCOM to impose fines of up to 10% of our total turnover in the year prior to ANCOM’s decision in the event of repeated violations of regulatory obligations under current law in Romania. See *“—Risks relating to our business and industry—Any potential deterioration of the general internal economic, political and social conditions in Romania and Hungary, our principal countries of operation, or any adverse changes in the Romanian or Hungarian tax or regulatory environment, may not be offset by developments in other markets.”*

To the extent certain provisions in our agreements with individual customers are deemed unenforceable by ANCOM or NACP, a court may decide that such provisions are invalid and must be removed from such agreements and we may face minor administrative fines. In certain cases, some agreements may be terminated in full. Recently proposed legislation would greatly increase fines that can be applied by NACP, including with regards to abusive provisions in consumer contracts, to up to 5% of turnover and may lead to an obligation to pay back income realized as a result of clauses deemed abusive. In addition, we could be required to discontinue certain of our business activities and our officers could be subject to administrative and criminal penalties. See also *“—We have been and may continue to be subject to competition law investigations and claims.”* While we are not aware of any relevant claims, there can be no assurance that no such claims will be filed in the future. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and could have a material adverse effect on our business, prospects, results of operations or financial condition.

**It may be difficult for us to obtain all licenses, permits or other authorizations required to operate our existing network or any other required licenses, permits or other authorizations, and once obtained they may be amended, suspended or revoked or may not be renewed.**

The operation of telecommunications networks and the provision of related services are regulated to varying degrees by European, national, state, regional or local governmental and/or regulatory authorities in the countries where we operate. Our operating licenses or authorizations specify the services we can offer and the frequency spectrum we can utilize for mobile operations. The operating licenses are subject to review, interpretation, modification or termination by the relevant authorities and the regulatory framework applicable to them may also be amended. There is no assurance that the relevant authorities will not take any action that could materially



adversely affect our operations. Our operating licenses are generally renewable upon expiration. However, there is no assurance that licenses will be renewed. If we fail to renew any of our licenses, we may lose the ability to continue to operate the relevant business and the realizable value of our relevant network infrastructure and related assets may be materially adversely affected. Some of these licenses and other authorizations are particularly complicated and lengthy to obtain and may subject us to ongoing compliance obligations. Moreover, if we fail to comply with the requirements of the applicable legislation or if we fail to meet any of the terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operations.

Further, the deployment of our networks requires obtaining access rights from various third parties services, as well as various approvals or permits from European, national, state, regional or local governmental and/or regulatory authorities, particularly in relation to establishing base stations for our mobile telecommunication services. These approvals and permits may include building, construction and environmental permits, antenna and mast deployment approvals and various other planning permissions. Obtaining these access rights, approvals and permits can be a complex process and is often characterized by different practices and requirements at the various regulatory authorities which frequently results in inconsistent and bureaucratic processes and/or by varying demands of third parties from whom access rights are obtained. Moreover, in certain instances, applicable regulatory regime has deteriorated over time and otherwise may be not fully adapted to the requirements and realities of modern telecommunications business, while regulatory authorities have recently significantly intensified enforcement activities, including imposition of fines. Though we have a dedicated team tasked with obtaining the required access rights, licenses, permits and other authorizations, due to the inherent challenges of these regimes, we have experienced, and may continue to experience, difficulties in obtaining some of these access rights, approvals and permits, which has led us to operate (in full or in part) without necessary authorizations in some instances and may require us to exert considerable effort and incur considerable expenses in order to implement suitable alternatives or could result in fines or other penalties being imposed by regulators. The December Ordinance has materially increased the level of fines applicable to telecom operators for construction works without access rights or without authorization. While the parts of the December Ordinance establishing increased penalties are somewhat unclear as to exact methods of calculation, they will be determined in relation to turnover, *pro rata* the number of users serviced without authorization, one percentage point per 100 such users, capped at 10%. This could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Many components of our network are based on contracts, which may currently be undocumented or may be terminated or otherwise cancelled, and we may be required to move some of our networks, which may disrupt service and cause us to incur additional expenses.**

In Romania, we currently provide our cable TV, fixed-line telephony and fixed internet and data services through networks that are mostly above-ground and for which we lease the right to use poles from electricity and public transportation companies. In Hungary, we provide our cable TV, fixed-line telephony and fixed internet and data services through networks that are mostly underground. In Romania and Hungary, market participants (us included) may not always be able to obtain or use the necessary permits for developing, building and completing networks in a timely manner or at all, and this may result in such networks (including mobile network base stations) not being fully authorized. Since 2011 (and earlier with respect to certain towns and cities), Romanian authorities have implemented a series of regulatory measures, which led to a *de-facto* prohibition on building above-ground networks on public property (in particular, in urban areas) and imposed pressure to move our existing networks underground. Although urban regulations have since been partially relaxed so as to allow above-ground infrastructure building in rural areas, the overall negative regulatory trend is continuing and may lead to forced changes to network building practices, as well as to requirements to alter existing network locations, which can involve significant capital expenditure. We are moving our networks underground in cities where local authorities have granted us the required authorizations expediently or where the necessary infrastructure was already available. However, we may not always be in full compliance with obligations to move our networks underground or we may have different interpretations with respect to the imposition of such obligations by public authorities. If we were forced to place our above-ground networks underground pursuant to plans of authorities that contemplate impractical solutions, our costs for providing services may increase and our customer satisfaction may be adversely affected. In addition, if we are found not to be in compliance with such obligations, or otherwise in violation of restrictive covenants, easements or rights of way, we may face fines or service interruptions while we relocate our networks.

Certain agreements we entered into for the purpose of developing our networks, including majority of leases of poles that support our above-ground fixed fiber-optic networks, are with persons whose title thereto or authority or capacity to enter into such agreements were not fully verifiable or clear at the time, among other reasons, because of unclear and constantly changing legislation. In addition, certain agreements with third parties with respect to our network (including mobile network base stations) were not documented or executed in the authenticated form required by Romanian law and, as such, they, or the building permits obtained on the basis thereof, may be invalidated or easily discontinued. Moreover, certain agreements were entered into without full compliance with other applicable formalities, such as public tender requirements. No assurance can be provided that such agreements will not be subject to cancellation or revocation in the future. Further, a significant portion of our above-ground fixed fiber-optic network in Romania and Hungary is built on poles leased from various regional electricity distribution companies. Renewal of agreements concluded with these operators is often delayed and problematic. In addition, certain of our lease agreements have provisions allowing the lessor to terminate the lease at its option, subject to prior notice ranging from 10 to 90 days.

We are not aware of any significant claims with regard to any irregularities related to any of the above arrangements. However, if such claims were to arise and be numerous and successful, or if there is any failure to renew these arrangements (or these agreements are terminated or cancelled), it may result in additional significant costs, material capital expenditure, service interruptions, contractual penalties or regulatory fines or other sanctions or, in the worst case, loss of business if there is no adequate alternative or there is a delay in securing such alternative. Any of these network-related risks could have a material adverse effect on our business, prospects, results of operations or financial condition.

**If we infringe the intellectual property rights of third parties, or if we are otherwise held liable for infringements in relation to information disseminated through our network, we could face protracted litigation and, in certain instances, lose access to transmission technology or content.**

The telecommunications industry in the markets in which we operate is characterized by the existence of a large number of patents and trademarks. Objections to the registration of new trademarks from third parties and claims based on allegations of patent and/or trademark infringement or other violations of intellectual property rights are common. Further, as the number of entrants into the Romanian and Hungarian markets increases and the overlap of product function expands, the possibility of such allegations increases. For instance, in 2014 and 2015, Discovery Communications Inc. (“**Discovery**”) challenged the registration by the Romanian intellectual property authority of five trademarks used to brand some of our TV channels, alleging that those trademarks were similar to the ones owned by Discovery. As at the date of this prospectus, claims in relation to two such trademarks were dismissed twice based on procedural grounds. However, both decisions are not yet final. Also, we are engaged in certain legal proceedings in other jurisdictions challenging our entitlement to international protection of some of our trademarks, which followed our decision to obtain such protection in 2017. Defending intellectual property claims, such as the foregoing, requires us to engage in lengthy and costly litigation and divert the attention of our senior management and technical personnel from our businesses. Successful challenges to our rights to intellectual property or claims of infringement of a third party’s intellectual property could require us to incur monetary liability, temporarily or permanently discontinue the use of the respective intellectual property, or enter into royalty or licensing agreements, which may not be available on commercially reasonable terms or at all. If we were required to take any such action, it could have a material adverse effect on our business, prospects, results of operations or financial condition.

The infringement of patents and proprietary rights of others may also lead to the loss of access to transmission technology or programming content, damage third-party interests and render us unable to deliver the content that our customers expect, which could materially adversely affect our business, prospects, results of operations or financial condition. In the event that access to transmission technology is lost, alternative technology would need to be purchased, which may result in an interruption of services and increases in costs.

We may also be subject to claims for defamation, negligence, copyright or other legal claims relating to the programming content or information that we broadcast through our network, publish on our websites or to which our customers have access online through our network. Any such claims could include actions under the censorship and national security laws of countries in which we broadcast or provide internet access. In the event that we receive a valid and substantial infringement claim, we would need to cease broadcasting or block from our internet system the infringing content or information, which may increase customer churn.

**We are subject to payments related to collective copyright organizations which may vary.**

In Romania and Hungary, we are obliged to make payments to various collective copyright protection organizations as compensation for the use of copyrighted content in the programming delivered by us through

our cable TV and DTH services, and copyrighted content used on our website. These amounts are not fixed and are determined by negotiation in accordance with a methodology based on certain legal provisions and relevant European practices. There can be no assurance that amounts payable to various collective copyright protection organizations will not increase in the future or that additional claims could not arise in relation to our past activity or that we will not be subjected to penalties or fines for delaying payments. Since we may not be able to pass on such increases in costs to our customers, such increases, penalties or fines could have a material adverse effect on our results of operations or financial condition.

**Adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations could have a material adverse effect on our results of operations and cash flow.**

The tax laws and regulations in Romania, the Netherlands, Hungary, Spain and Italy may be subject to change, and there may be changes in interpretation and enforcement of tax law. These changes in tax law and/or interpretation and enforcement of the tax law may be difficult for us to predict, and we may therefore be unprepared for these changes. As a result, we may face increases in taxes payable if tax rates increase, or if tax laws or regulations are modified by the competent authorities in a manner, which could have a material adverse effect on our cash flows, business, prospects, results of operation or financial condition for any affected reporting period.

In addition, such authorities periodically examine or audit the Group. In particular, a review by the Romanian tax authorities in the tax affairs of the Company for the years 2013 to 2016 was performed in 2017. This review was for verification purposes only (i.e., not due to an infringement) and such reviews are common in Romania for companies of our size (that review did not result in any material adjustment, fine or recommendation). We regularly consider the likelihood of assessments and, for probable adverse assessments, have established tax allowances, which represent our management's best estimate of the potential assessments. However, the actual resolution of any of these tax matters could differ from the amount provisioned, which could have a material adverse effect on our cash flows, business, prospects, results of operation or financial condition for any affected reporting period.

**We may be subject to fines, awards of damages or other penalties arising from legal proceedings, contractual claims and disputes, as well as negative publicity arising therefrom.**

We are involved in legal proceedings from time to time, which may lead to the imposition of damages, fines or other penalties on us. We may be adversely affected by other contractual claims, complaints and litigation, including from counterparties with whom we have contractual relationships, customers, competitors or regulatory authorities, as well as any adverse publicity that we may attract. Any such litigation, complaints, contractual claims, or adverse publicity could have a material adverse effect on our business, reputation, results of operation or financial condition.

For example, in 2015, Electrica Distribuție Transilvania Nord S.A. (the incumbent electricity distributor from the North-West of Romania) challenged the concession agreement we had 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 had obtained the concession had been carried out in violation of law. See *"Business—Litigation and Legal Proceedings—Legal proceedings against Electrica Distribuție Transilvania Nord."* Should the final court decision be unfavorable to us, it may result in a partial or total loss of our investment in the underground cable trough. The high stakes of this and a parallel litigation with the subsidiaries of Electrica S.A. ("**Electrica**"), (the largest distributor of electrical energy in Romania) essentially disputing the alleged exclusivity rights of incumbent electricity distributors, may also impair our contractual relations with Electrica and its subsidiaries and, consequently, could have a material adverse effect on our operations, business, prospects, results of operations and financial condition. See *"—Many components of our network are based on contracts, which may currently be undocumented or may be terminated or otherwise cancelled, and we may be required to move some of our networks, which may disrupt service and cause us to incur additional expenses."*

**Risks Relating to Investments in Countries where We Operate**

**The economies of the countries where we operate are more vulnerable to fluctuations in the global economy than developed markets. Negative global economic developments could have a materially adverse effect on these countries.**

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. The impact of global economic developments is often felt more strongly in emerging markets, such as Romania and Hungary than it is in more mature markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen

foreign investment in the countries where we operate and their economies could face severe liquidity constraints, causing them to, among other things, raise tax rates or impose new taxes, with a significant impact on our activities. See “*Risks relating to our Business and Industry—We may be adversely affected by unfavorable conditions in the global economy or volatile equity and credit markets.*”

**The current and upcoming social, political and military conflicts in the region of our operations may have consequences, which may materially adversely affect our business.**

Since early 2014, Ukraine, which neighbors both Romania and Hungary, has been confronting a severe internal crisis, in which the Russian Federation is also alleged to be heavily involved. During this crisis, Ukraine lost control over the peninsula of Crimea to the Russian Federation and lost control over a significant part of its other eastern territories to pro-Russian separatists. In response to the perceived heavy intervention (including military intervention) by the Russian Federation in Ukraine, the United States and the European Union have imposed several sets of economic sanctions and are threatening further sanctions in the future. The Russian Federation has denied its involvement and has imposed certain retaliatory economic sanctions.

In addition, the ongoing political instability in the Republic of Moldova, another country neighboring Romania, is threatening to trigger another political conflict in the region. Also, many EU countries, including Hungary, have suffered from the recent massive migration of Middle East refugees, which has had a profound impact on their economic, social and political environments. Hungary’s response to the refugee crisis has been questioned by EU officials. Although we are not currently affected by the above developments, they have the potential to cause materially adverse economic conditions, social turmoil or, in a worse case, military confrontation in the region.

Effects are to a large extent unpredictable, but may include drop in investments caused by uncertainty, further economic sanctions, which may negatively affect the economies of our countries of operation, significant currency fluctuations, increases in interest rates, decreases in the availability of credit, trading and capital flows and increases in energy prices.

These and other unforeseen negative effects of the crises in the region could have a material adverse effect on our business, prospects, results of operations and financial condition.

**The UK’s decision to leave the European Union could create further political and economic uncertainty and risks which may negatively affect the markets in which we operate and our business.**

The referendum resulting in a vote for the United Kingdom to leave the European Union (“**Brexit**”), has created volatility in the global financial markets and could contribute to prolonged uncertainty around certain aspects of the European and global economies, as well as European companies and consumers. Brexit is currently expected to take place on March 29, 2019 and is likely to adversely affect European and worldwide economic conditions, and could contribute to greater instability, in the global financial markets before and after the terms of the United Kingdom’s future relationship with the European Union are settled. Brexit could also affect the general political environment in the European Union, as well as the stability and standing of the European Union as a single market.

Until more clarity is available around the legal, political and economic realities and requirements for Brexit, political and economic uncertainty, notably in European markets, may occur, which could lead to a downturn in the markets in which we operate and a decrease in spending and investment. Additionally, this uncertainty can lead to an increase in costs for us due to legal and regulatory changes, as well as currency exchange rate fluctuations between the euro and Romanian leu, Hungarian forint and the U.S. dollar. These effects could have an adverse effect on our business, investments and potential growth into Europe. These factors could increase our operating costs, delay capital expenditure programs, or place additional regulatory burdens on us that could have a material adverse effect on our business, prospects, results of operations or financial condition. Furthermore, as a result of this uncertainty, financial markets could experience significant volatility, which could adversely affect the value of the Notes.

In addition, Brexit has led to general volatility in the currency exchange market. Increased volatility in the currency exchange market as a result of Brexit could also materially adversely affect our results of operations as we may be unable to implement adequate strategies to protect against the currency exchange risk.

**Corruption could create a difficult business climate in some of the markets where we operate.**

Corruption is one of the main risks confronting companies with business operations in Romania and Hungary. International and local media, as well as international organizations, have issued numerous alerting reports on the levels of corruption in these countries. For example, the 2018 Transparency International Corruption

Perceptions Index, which evaluates data on corruption in countries throughout the world and ranks countries from 0 (least corrupt) to 100 (most corrupt), ranked Romania and Hungary in the 59<sup>th</sup> and 66<sup>th</sup> positions, respectively (2017: 48 and 45; 2016: 48 and 48).

Corruption has been reported to affect the judicial systems and some of the regulatory and administrative bodies in Romania and Hungary, which may be relevant for our businesses. Although it is difficult to predict all of the effects of corruption on our operations, it can, among other things, slow down approvals of regulatory permits and licenses we need to conduct our business. Therefore, corruption could have a material adverse effect on our business, prospects, results of operations or financial condition.

**We operate mainly in emerging markets that may experience rapid or unforeseen economic or political changes.**

Romania and Hungary have undergone substantial political, economic and social change in recent years. As is typical of emerging markets, they do not possess the full business, legal and regulatory infrastructures that would generally exist in more mature free market economies. In addition, the tax, currency and customs legislation in Romania and Hungary are subject to varying interpretations and changes, which can occur frequently. See “— *The legal and judicial systems in some of our markets of operation are less developed than other European countries, which makes an investment in the Notes riskier than investments in securities of an issuer that operates in a more developed legal and judicial system.*” These issues continue to result in relatively high poverty rates and low wages.

Moreover, both of these countries have experienced periods with significant political instability. In particular, for the past several years, the political environment in Romania, our primary market, has been unstable, dominated by political conflict and under significant pressure from street protests mainly related, in 2017 and 2018, legislative proposals of the Parliament and the Government to amend the Criminal Code and to decriminalize certain criminal acts. Political instability and the increasing direct pressure in the form of large street protests could delay or stop economic and regulatory reforms in Romania.

In Hungary, our other core market, the ruling party, which has been in power since 2010, introduced various policies and measures that raised certain concerns about the rule of law, including taxes with retroactive application and a new constitution that has been scrutinized by international organizations (including the EU Commission). The Hungarian opposition towards the European Union’s reaction to the migration crisis (significantly affecting Hungary in its early stages) might additionally encourage the present government to adopt national protective measures that might discourage foreign presence or investments in Hungary. Any disruption of the reform policies and recurrence of political or governmental instability could have a material adverse effect on us and the value of investments related to Romania and Hungary.

The future economic direction of the markets in which we operate remains largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by their respective governments, together with tax, legal, regulatory, and political developments. Our failure to manage the risks associated with our business in emerging markets could have a material adverse effect on our results of operations.

**Any downgrade of Romania’s or Hungary’s credit ratings by an international rating agency could have a negative impact on our business.**

The long-term foreign and domestic currency debt of Romania is currently rated BBB-/A-3 (stable outlook) by S&P, Baa3 (stable outlook) by Moody’s and BBB- (stable outlook) by Fitch; while the long-term foreign and domestic currency debt of Hungary is currently rated BBB-/A-3 (positive outlook) by S&P, Baa3 (stable outlook) by Moody’s and BBB- (positive outlook) by Fitch. Any adverse revisions to Romania’s or Hungary’s credit ratings for domestic or international debt by these or similar international rating agencies may materially adversely impact our ability to raise additional financing and the interest rates and other commercial terms under which such additional financing is available. This could hamper our ability to obtain financing for capital expenditures and to refinance or service our indebtedness, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Romania’s difficulties related to its integration with the European Union and Hungary’s repeated backlashes against the European Union may adversely affect our business.**

Romania entered the European Union in January 2007 and continues to undergo legislative changes due to its accession to, and its continued integration with, the EU. As part of the accession process, the European Union has established a series of measures for Romania in order to fulfill basic EU membership requirements. The European Commission was tasked with monitoring Romania’s progress, which it does by issuing annual compliance reports. In its 2017 Report (the “**2017 Report**”) on Romania’s progress under the Co-operation and



Verification Mechanism (the “CVM”), the European Commission gave a generally positive assessment of Romania’s efforts and proposed 12 recommendations for it to fulfill in order to ensure compliance with the CVM. However, in its 2018 Report (the “**2018 Report**”) on Romania’s progress under the CVM, the European Commission stated that while certain steps towards the implementation thereof had indeed been taken, further developments in 2018 (such as substantial changes to the laws governing organization and functioning of the country’s judicial system and numerous initiatives to grant amnesty to individuals convicted of certain corruption crimes) represented a major pushback and called into question its overall positive assessment of Romania’s progress made in the 2017 Report. In particular, the 2018 Report noted the unfortunate developments in the areas of judicial independence, judicial reform and combating high-level corruption. It also set out eight additional recommendations for the country to follow. On November 13, 2018, the European Parliament passed a draft non-binding resolution on the rule of law in Romania and expressed its deep concerns about the reform of the Romanian judicial and criminal laws, which was alleged to have had the potential of undermining the separation of powers and the country’s fight against corruption.

Unless satisfactory actions are taken, Romania could face EU sanctions, which could have a material adverse effect on financial operations, investments and capital flows in the country, and consequently, on our business, prospects, results of operations or financial condition. Such sanctions may take the form, for example, of a temporary suspension of the application of relevant provisions governing the relations of Romania with any other EU member state or member states or the suspension of member states’ obligations to recognize and enforce, under the conditions laid down in EU law, Romanian judgments and judicial decisions.

The current Hungarian Government has repeatedly adopted positions which were at odds with those of the EU institutions, especially in the context of the 2015-2016 migrant crisis, during which Hungary strongly rejected the migrant quota plan and prompted widespread criticism from EU officials. Continued backlash by Hungary against the European Union’s response to social, economic and/or political events may create uncertainty as to Hungary’s commitment to its membership in the European Union and have a material adverse effect on financial operations, investments and capital flows in Hungary, and consequently, on our business, prospects, results of operations or financial condition.

**The legal and judicial systems in some of our markets of operation are less developed than other European countries, which makes an investment in the Shares and/or the Notes riskier than investments in securities of an issuer that operates in a more developed legal and judicial system.**

The legal and judicial systems in Romania and Hungary are less developed than those of other European countries. Commercial law, competition law, securities law, company law, bankruptcy law and other areas of law in these countries are relatively new to local judges and such related legal provisions have been and continue to be subject to constant changes as new laws are being adopted in order to keep pace with the transition to a market economy and EU legislation. Existing laws and regulations in Romania and Hungary may be applied inconsistently or may be interpreted in a manner that is restrictive and non-commercial. It may not be possible, in certain circumstances, to obtain legal remedies in a timely manner in these countries. The relatively limited experience of a significant number of the magistrates practicing in these markets, specifically with regard to capital markets issues, and the existence of a number of issues relating to the independence of the judiciary system may lead to ungrounded decisions or to decisions based on considerations that are not grounded in the law.

In addition to the foregoing, resolving cases may at times involve considerable delays. The court systems in Romania and Hungary are underfunded relative to those of other European countries. The enforcement of judgments may also prove difficult, which means that the enforcement of rights through court systems may be laborious, especially where such judgments may lead to closure of businesses or job losses. This lack of legal certainty and the inability to obtain effective legal remedies in a timely manner may adversely affect our business, and may also make it difficult for investors in the Additional Notes to address any claims that they may have.

**Investors may be unable to effect service of process or enforce foreign judgments against us or our assets in the jurisdictions in which we operate or our executive officers reside.**

Our presence outside of the United States and the United Kingdom may limit the legal recourse investors in the Additional Notes may enjoy against us. The Issuer is incorporated under the laws of The Netherlands (and is tax resident in Romania), the Company is incorporated under the laws of Romania and DIGI Hungary and Invitel are both incorporated under the laws of Hungary. Other subsidiaries of the Company are incorporated under the laws of Romania, Hungary, Spain and Italy. All of the Issuer’s and the Company’s directors and executive officers named in this prospectus reside outside the United States and United Kingdom, principally in Romania, with the



exception of Mr. Bogdan Ciobotaru, who is a resident of the United Kingdom, Mr. Sambor Ryszka, who is a resident of Hungary, Mr. Marius Varzaru, who is a resident of Spain and Mr. Piotr Rymaszewski, who is a resident of Poland.

Romanian law may make it difficult to enforce judgments against the Company or its subsidiaries that were obtained in foreign courts. The laws of Romania permit an action to be brought before a court of competent jurisdiction in Romania for the recognition and enforcement of a final and conclusive judgment *in personam* rendered by a court from an EU member state, provided that the relevant conditions set forth in EC Regulation No. 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters are met. However, other conditions may be applicable with respect to specific matters, under special Romanian legislation or international conventions. Similar rules on the recognition and enforcement of foreign court judgments apply to judgments issued in non-EU member states, which are parties to the EU Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters of 2007 (the “**Lugano Convention**”).

Judgments rendered by courts in the United States and other non-EU member states, which are not parties to the 2007 Lugano Convention are subject to different requirements, and may be even more difficult to enforce. Subject to special internal legislation (including ratified international conventions) regulating the recognition and enforcement of foreign judgments on specific matters, Romanian law allows an action to be brought before a court of competent jurisdiction in Romania for the recognition of a judgment *in personam* rendered by a court of a non-EU member state, provided that the relevant conditions in respect of recognition of foreign judgments set out under the Romanian Civil Procedure Code are met. Furthermore, the recognition and enforcement of foreign judgments in administrative, customs, criminal or other public law related matters are subject to special legislation and certain conditions may need to be fulfilled. There is no treaty between the United States and Romania providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, under Romanian law reciprocity is presumed to exist *de facto* unless there is proof to the contrary, such proof to be determined by the Romanian Ministry of Justice, in consultation with the Romanian Ministry of Foreign Affairs. The limitations set out above may deprive investors in the Notes of effective legal recourse for claims related to their investment. Similar limitations and restrictions exist in Hungary. See “*Enforcement of Civil Liabilities.*”

In addition, investors may not be able to serve process on our directors and executive officers or us in the United States or enforce judgments obtained in U.S. courts against them or us based on the civil liability provisions of U.S. federal securities laws. It is unclear if original actions of civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the United States. Any enforcement action in a court outside the United States will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction, and requirements relating to the service of process.

**We may be exposed to certain risks related to the fact that the Issuer is a Dutch entity, tax resident in Romania.**

The Issuer was incorporated in The Netherlands, but was re-domiciled for tax purposes to Romania in April 2017 based on place of effective management, while the corporate seat itself remained in Amsterdam, The Netherlands. In its ruling of April 13, 2017, Dutch tax authorities confirmed that following such re-domiciliation they would no longer treat the Issuer as a Dutch tax resident (but solely as a Romanian tax resident) in accordance with the double taxation treaty between The Netherlands and Romania.

Since the tax re-domiciliation of the Issuer to Romania, we are entitled to be treated by all Romanian authorities in a good faith and non-discriminatory manner, as they would have treated any “local” Romanian business. However, should any competent Romanian authority not view us as such and award us a less favourable treatment because the Issuer remains a Dutch entity, this could increase our costs or otherwise have an adverse effect on our business, prospects, results of operations or financial condition.

Moreover, although no such change or decision is presently anticipated, it is possible that future changes in tax laws, rules or interpretations or adverse decisions by tax authorities, including changes or decisions focused on companies such as us that are incorporated or organized in one jurisdiction and tax resident in another, could adversely affect us, including by imposing additional tax or other costs or by requiring us to make other adaptations to minimize adverse tax implications. See “—*Risks relating to legal and regulatory matters and litigation—Adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations could have a material adverse effect on our results of operations and cash flow.*”

## Risks Relating to Our Financial Position

### **Our substantial leverage and debt servicing obligations could have a material adverse effect on our business, prospects, results of operations and financial condition.**

As at December 31, 2018, our total net debt was €13.8 million and our net leverage ratio was 2.7x, which is based on our consolidated total net indebtedness to consolidated EBITDA (containing Intel's 12 months ending December 31, 2018), as per the SFA covenants of Senior Facility 2016.

As at December 31, 2018, our total net debt was €13.8 million and our net leverage ratio was 2.8x, which is based on our consolidated total net indebtedness to consolidated EBITDA (containing Intel's 7 months ending December 31, 2018), as per the SFA covenants of Senior Facility 2016.

Our total gross debt was €20.2 million and gross leverage ratio was 2.8x, as per the 2016 Senior Notes covenants.

Additionally, for the year ended December 31, 2018 and in accordance with the covenants agreed under our existing credit facilities, our EBITDA to total interest ratio (calculated as interest payable, less interest receivable, adjusted to take account of amounts in the nature of interest payable and receivable under our interest rate hedging arrangements) was 7.1 to 1 (containing Intel's 12 months ending December 31, 2018).

Additionally, for the year ended December 31, 2018 and in accordance with the covenants agreed under our existing credit facilities, our EBITDA to total interest ratio (calculated as interest payable, less interest receivable, adjusted to take account of amounts in the nature of interest payable and receivable under our interest rate hedging arrangements) was 6.9 to 1 (containing Intel's 7 months ending December 31, 2018).

See “Overview—Summary Financial and Other Information—Other Operating Data—Selected financial data and ratios.”

Our leverage can have important consequences for our business and operations, including:

- making it more difficult for us to satisfy our obligations with respect to our debt and liabilities;
  - requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thus reducing the availability of our cash flow to fund internal growth through working capital and capital expenditures and for other general corporate purposes;
  - increasing our vulnerability to a downturn in our business or economic or industry conditions;
  - placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
  - limiting our flexibility in planning for, or reacting to, changes in our business and our industry;
  - negatively impacting credit terms with our creditors;
  - restricting us from exploiting certain business opportunities; and
  - limiting our ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations.

Additionally, we may incur substantial additional indebtedness in the future which could increase the risks listed above. Although the Indenture, the intercreditor agreement originally dated November 4, 2013, as amended and restated on October 26, 2016 and which establishes the relative rights of certain of our creditors under our financing arrangements (the “**Intercreditor Agreement**”) and certain of our existing credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, such agreements do not prevent us from incurring obligations that do not constitute indebtedness as such term is defined therein. Any of these or other consequences or events could have a material adverse effect on our business, prospects, results of operations or financial condition.

### **We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.**

The Indenture limits our ability to:

- incur or guarantee additional indebtedness that would cause us to exceed a Consolidated Leverage Ratio (as such term is defined in the Indenture) of 3.75 to 1;

- ▶ pay dividends or make other distributions, purchase or redeem our stock or prepay or redeem subordinated debt;
- ▶ make investments or other restricted payments;
- ▶ sell assets and subsidiary stock;
- ▶ enter into certain transactions with affiliates;
- ▶ create liens;
- ▶ consolidate, merge or sell all or substantially all of our assets;
- ▶ enter into agreements that restrict certain of our subsidiaries' ability to pay dividends; and
- ▶ engage in any business other than a permitted business.

In addition, the 2016 Senior Facilities Agreement contain covenants that limit our ability to incur and assume debt and/or require us to maintain a net leverage ratio of 3.25 to 1 (other than for any ratio testing date that falls during the 18 month period beginning on May 31, 2018 (being the date of the acquisition of Invitel), in which case the net leverage ratio to be complied with is 3.75 to 1) and a consolidated EBITDA to total net interest ratio of 4.25 to 1 (as such terms are defined therein). The ING Facilities Agreement contain covenants that limit our ability to incur and assume debt and/or require us to maintain a net leverage ratio of 3.25 to 1 and a consolidated EBITDA to total interest ratio of 4.25 to 1 (as such terms are defined therein). The 2018 Senior Facilities Agreement contains covenants that limit our ability to incur and assume debt and/or require us to maintain a total leverage ratio (as such term is defined therein) of 3.75 to 1 until June 30, 2019, and 3.25 to 1 thereafter. Further, our existing financing arrangements require us to have positive equity and limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers), to create security over our assets and to open or maintain bank accounts or to enter into banking relationships with certain financial institutions.

Although all of these limitations are subject to significant exceptions and qualifications, these covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

If we fail to comply with any of these covenants, we will be in default under our financial indebtedness (including the Indenture), and the relevant trustee, holders of the indebtedness or the applicable lenders could declare the principal and accrued interest on the Notes or the applicable loans due and payable, after any applicable cure period. These restrictions could materially adversely affect our ability to finance future operations or capital needs or engage in other business activities that may be in our best interest.

**Any impairment of our ability to draw funds under the 2016 Senior Facilities Agreement, the ING Facilities Agreement and the Citi Facilities Agreement could materially adversely affect our business operations.**

Our operations have been primarily financed using cash generated in our operations and debt financing. We rely on our senior revolving credit facilities under the 2016 Senior Facilities Agreement, the Citi Facilities Agreement and the ING Facilities Agreement to fund our business operations and for various other purposes. Further, if we were unable to draw funds under our senior revolving credit facilities, we may need to find alternative sources of funds which may be at higher interest rates. In addition, the overdraft facilities under the ING Facilities Agreement and the Citi Facilities Agreement are provided on an uncommitted basis and can be withdrawn at any time. There also can be no assurance that we will have sufficient cash resources on hand at any given time to meet our expenses or debt servicing requirements. Our ability to draw funds depends on, among other things, our ability to maintain certain ratios. Our ability to meet these financial ratios and other required conditions to drawing could be affected by a number of factors, including by events beyond our control. In addition, our inability to maintain these financial ratios may also result in an event of default under the 2018 Senior Facilities Agreement, the 2016 Senior Facilities Agreement or the ING Facilities Agreement, which would prohibit us from drawing funds under those facilities and potentially trigger a cross-default under the Notes. See *“We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.”* This inability to draw funds under the 2016 Senior Facilities Agreement, the ING Facilities Agreement or the Citi Facilities Agreement or to maintain our operations due to a lack of cash flow could have a material adverse effect on our business, prospects, results of operations or financial condition.

**We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate sufficient cash to service our debt.**

Our ability to make payments on and to refinance our indebtedness, and to fund working capital and to make capital expenditures in the longer term, will depend on our future operating performance and ability to generate sufficient cash over the longer term. This depends on the success of our business strategy and on economic, financial, competitive, market, legislative, regulatory and other factors, as well as the factors discussed in these “*Risk Factors*,” many of which are beyond our control.

No assurance can be provided that our business will generate sufficient cash flows from operations or that future debt or equity financings will be available to us to pay our debt when due or to fund our other capital requirements or any operating losses. If our future cash flows from operations and other capital resources (including borrowings under the 2018 Senior Facilities Agreement, the 2016 Senior Facilities Agreement, the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Agreements) are insufficient to pay our obligations as they mature or to fund our liquidity needs in the longer term, we may be forced to:

- ▶ reduce or delay our business activities or capital expenditures;
- ▶ sell assets;
- ▶ obtain additional debt or equity capital;
- ▶ restructure or refinance all or part of our debt on or before maturity; or
- ▶ forego opportunities such as acquisitions of other businesses.

No assurance can be provided that we would be able to accomplish these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on our indebtedness on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, the 2018 Senior Facilities Agreement, the 2016 Senior Facilities Agreement and the ING Facilities Agreement, limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business and could have a material adverse effect on our financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

**We may not be able to refinance maturing debt on terms that are as favorable as those from which we previously benefited or on terms that are acceptable to us, or at all.**

Our ability to refinance our debt depends on a number of factors, including the liquidity and capital conditions in the credit markets and we may not be able to do so on satisfactory terms, including in relation to the covenants, or at all. In the event that we cannot refinance our debt, we may not be able to meet our debt repayment obligations. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including in relation to the covenants and additional restrictions on our operations and higher interest rates, could have an adverse effect on our results of operations and financial condition.

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various cross-default and cross-acceleration provisions, resulting in the acceleration of a substantial portion (if not all) of our debt and could have a material adverse effect on our business, prospects, results of operations or financial condition.

**Derivative transactions may expose us to unexpected risk and potential losses.**

From time to time, we may be party to certain derivative transactions, such as interest rate swap contracts, with financial institutions to hedge against certain financial risks. Changes in the fair value of these derivative financial instruments, that are not cash flow hedges, are reported in profit and loss, and accordingly could materially affect our reported results in any period. Moreover, we may be exposed to the risk that our counterparty in a derivative transaction may be unable to perform its obligations as a result of being placed in receivership or otherwise. In the event that a counterparty to a material derivative transaction is unable to perform its obligations thereunder, we may experience losses that could have a material adverse effect on our financial condition, financial returns or results of operations.

## Risks Relating to the Shares and the Notes

**Certain Shareholders hold a significant interest in and exert substantial influence over the Group and their interests may differ from or conflict with those of other Shareholders or with those of holders of the Notes.**

Mr. Zoltán Teszári directly and indirectly beneficially owns 56.93% of the Company and 100% of the issued and outstanding Class A Shares and therefore will have 100% of the voting rights in a shareholders meeting for holders of Class A Shares ("Class A Meeting") (no votes can be cast on shares that the Company holds in its own capital).

Due to his ability to exercise control over the Class A Shares and their voting rights as well as the special rights attached to Class A Shares, including in relation to the appointment of the Board of Directors, Mr. Zoltán Teszári will be able to exercise control over all decisions of the Board of Directors and matters requiring shareholder approval, including payment of dividends and approval of significant corporate transactions. Furthermore, the interests of Mr. Zoltán Teszári may not always be aligned with those of other holders of Shares.

If the Principal Shareholder no longer holds a direct or indirect interest in at least 30% in the issued and outstanding nominal share capital of the Company, the rights accruing to the Class A Meeting as set out in the Articles shall cease to exist. For the avoidance of doubt, the provisions relating to the binding nomination right cease to apply in that circumstance.

**Holders of Class B Shares have lower voting rights than holders of Class A Shares which may impact the trading price of Class B Shares as well as control over the Company.**

Holders of Class A Shares and Class B Shares have different voting rights. Each Class A Share has 10 votes, and each Class B Share has one vote. When holders of Class A Shares and Class B Shares vote together, holders having a majority of the votes (or 66.67%, in the case of a vote requiring a special resolution for which a quorum requirement exists and such quorum is not present or represented (i.e. can only be adopted by a majority of at least two-thirds of the votes cast, if less than one half of the issued share capital is presented or represented at the General Meeting)) present and voting will be in a position to control the outcome of the vote even if the matter involves a conflict of interest among the Shareholders or has a greater impact on one group than the other. Therefore, holders of Class A Shares will have more control over the outcome of Shareholder votes and decision-making. As only the Class B Shares are listed on the Bucharest Stock Exchange, the value of Class B Shares may be adversely affected given this distribution of voting rights and control. Our equity capital structure may inhibit or prevent acquisition bids, may decrease the value of the listed Shares and may make it difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders. The existence of different classes of Shares with different voting rights limits the amount of control that holders of Class B Shares have over the Company.

**There is no assurance that the holders of the Shares and/or Notes will be able to sell them.**

The Shares are listed on the regulated market of the Bucharest Stock exchange and the Notes are listed on the regulated market of the Irish Stock Exchange. We cannot guarantee the liquidity of any market that may develop for the Shares and/or the Notes, the ability of the holders of the Shares and/or the Notes to sell such Shares and/or Notes or the price at which they may be able to sell. Liquidity and future trading prices of the Shares and/or the Notes depend on many factors, including, among other things, prevailing interest rates, results of operations, the market for similar securities and general economic conditions. In addition, changes in the overall market for securities such as the Shares and/or the Notes and changes in our financial performance in the markets in which we operate may adversely affect the liquidity of any trading market in the Shares and/or the Notes that does develop and any market price quoted for the Shares and/or the Notes. As a result, we cannot ensure that an active trading market will be available for the Shares and/or the Notes.

**Trading on the Bucharest Stock Exchange may be suspended.**

The FSA is authorized to suspend securities from trading or to request the Bucharest Stock Exchange to suspend the trading of securities of a company listed on the Bucharest Stock Exchange if such continuation of trading would negatively affect investors' interests or to the extent the relevant issuer is in breach of its obligations under the relevant securities laws and regulations. Also, the Bucharest Stock Exchange is entitled to suspend from trading Shares in other circumstances, in accordance with its regulations. Any suspension could affect our Shares' trading price and would impair the transfer of the Shares.



**The Notes may not remain listed on the Irish Stock Exchange.**

Although the Company, in the Indenture, agreed to use its commercially reasonable efforts to maintain the listing of the Notes on the Irish Stock Exchange as long as they are outstanding, the Company cannot assure existing and prospective investors that the Notes will remain listed. If the Company cannot maintain the listing of the Notes on the regulated market of the Irish Stock Exchange or it becomes unduly onerous to make or maintain such listing, it may cease to make or maintain such listing, provided that it will use commercially reasonable efforts to obtain and maintain the listing of the Notes on another recognized listing exchange for high yield issuers, although there can be no assurance that the Company will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Irish Stock Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, the delisting of the Notes from the Irish Stock Exchange, failure to be approved for listing or delisting from another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell the Notes in the secondary market.

**The Shares and/or the Notes may be subject to market price volatility and the market price of may decline disproportionately in response to developments that are unrelated to the Company's operating performance.**

The market price of the Shares and/or the Notes may be volatile and subject to wide fluctuations. The market price of the Shares and/or the Notes may fluctuate as a result of a variety of factors, including, but not limited to, those referred to in these "Risk Factors," as well as period to period variations in operating results or changes in revenue or profit estimates by the Group, industry participants or financial analysts. The market price could also be adversely affected by developments unrelated to the Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Group, speculation about the Group in the press or the investment community, unfavourable press, strategic actions by competitors (including acquisitions and restructurings), changes in market conditions and regulatory changes. Any or all of these factors could result in material fluctuations in the price of Shares and/or the Notes, which could lead to investors getting back less than they invested or a total loss of their investment.

**Not all rights available to shareholders in the United States or other countries outside the Netherlands or Romania will be available to holders of the Shares.**

In the event of an increase in our ordinary share capital, holders of Shares are generally entitled to full pre-emptive rights unless these rights are restricted or excluded by a resolution of the General Meeting, which requires a proposal thereto by the Board of Directors which in turn requires the approval by resolution of the shareholders of the relevant class in respect of the pre-emptive rights of the holders of such class only or, if such increase can be decided by the Board of Directors and the Articles so permit, by a resolution of the Board of Directors. However, certain holders of Shares outside the Netherlands may not be able to exercise pre-emptive rights unless local securities laws have been complied with.

Securities laws of certain jurisdictions may restrict the Group's ability to allow participation by shareholders in future offerings. In particular, shareholders in the United States may not be able to exercise their pre-emptive rights or participate in a rights offer, as the case may be, unless such rights and Shares are registered under the Securities Act or such rights and Shares are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Shareholders in other jurisdictions outside the Netherlands or Romania may be similarly affected if the rights and Shares being offered have not been registered with, or approved by, the relevant authorities in such jurisdictions. We intend to evaluate at the time of any issue of Shares subject to pre-emptive rights or in a rights offer, as the case may be, the costs and potential liabilities associated with any such registration or other means of making the rights available to U.S. Shareholders, as well as the indirect benefits to us of enabling the exercise of U.S. Shareholders of their pre-emptive rights to Shares or participation in a rights offer, as the case may be, and any other factors considered appropriate at the time and then to make a decision as to whether to file such a registration statement or take other steps to enable such holders to participate in the rights offer.

**The issuance of additional Shares in the Company in connection with future acquisitions, any share incentive, share option plan or de-leveraging or otherwise may dilute all other shareholdings.**

The Group may seek to raise financing to fund future acquisitions and other growth opportunities, may issue shares in relation to share incentives or share option plans, or may raise finance for the purposes of de-leveraging. We may, for these and other purposes, issue additional equity or convertible equity securities. As a result, existing holders of Shares may suffer dilution in their percentage ownership or the market price of the Shares may be adversely affected.



**Our ability to pay dividends to Shareholders may be constrained.**

We are a holding company and our ability to generate income and pay dividends is dependent on the ability of our subsidiaries to declare and pay dividends to us. The actual payment of future dividends by us and the payment of dividends, if any, to us by our subsidiaries and the amounts thereof will depend on a number of factors, including (but not limited to) the amount of distributable profits and distributable reserves and investment plans, earnings, level of profitability, ratio of debt to equity, credit ratings, applicable restrictions on the payment of dividends under applicable laws and financial restrictions on the debt instruments of our subsidiaries, compliance with covenants in our debt instruments, the level of dividends paid by other comparable listed companies and such other factors as the Board of Directors may deem relevant from time to time. As a result, our ability to pay dividends in the future may be limited and/or our dividend policy may change. If dividends are not paid in the future, capital appreciation, if any, of the Shares would be investors' sole source of gains.

**Foreign shareholders may be subject to exchange rate risk.**

The Shares are denominated in euro, but traded in Romanian lei. An investment in the Shares by an investor whose principal currency is not the leu exposes the investor to foreign currency exchange rate risk. Any depreciation of the leu in relation to such foreign currency will reduce the value of the investment in the Shares or any dividends in foreign currency terms. In addition, we are required, under Romanian law, to pay our dividends through the system operated by the Central Depository.

Transfers of the Shares and/or the Notes may be restricted, which may adversely affect the value of the Shares and/or the Notes.

The Shares and the Notes have been offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws of the United States. The Shares and the Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Therefore, an investor in the Shares and the Notes may not transfer or sell the Shares and/or the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, or pursuant to an effective registration statement, and may be required to bear the risk of an investment in the Shares/ and or the Notes for an indefinite period of time. It is the investors' obligation to ensure that their offers and sales of Shares and/or the Notes within the United States and other countries comply with applicable securities laws.

**We are subject to additional regulatory obligations and incur additional costs in connection with the trading of our Shares and Notes on the regulated market.**

We are required to meet regulatory requirements pertaining to entities with shares admitted to trading on the Bucharest Stock Exchange and notes admitted to trading on the regulated market of the Irish Stock Exchange, as well as those pertaining to entities registered in the Netherlands (such as the Dutch Corporate Governance Code), in particular with respect to disclosure, corporate governance and financial reporting, and allocate staff and resources to such purposes. Such increased costs could have a material adverse effect on our business, prospects, results of operations and financial condition. In addition, the regulations and requirements applicable to companies whose securities are listed on the Bucharest Stock Exchange and/or the Irish Stock Exchange are subject to change, and any future changes can be difficult to predict, increasing the risk that the Company may in the future be in violation of such rules and regulations, which can result in extensive fines and administrative fees. In addition, the Board of Directors and management may be required to devote time and effort to ensure compliance with such rules and regulations, which may entail that less time and effort can be devoted to other aspects of the business.

**The rights of minority shareholders may be limited under Dutch law.**

The Company is organized under the laws of the Netherlands. The rights of holders of the Shares, including the Shares, are governed by the Company's Articles and by Dutch law. These rights, including the rights of minority shareholders, as well as other matters affecting such rights, may be different in the Netherlands from those elsewhere, and an investor's ability to exercise such rights may be limited.