DIGI COMMUNICATIONS NV
(former CABLE COMMUNICATIONS SYSTEMS NV)

CONSOLIDATED FINANCIAL STATEMENTS

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

For the year ended 31 December 2016

DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)
Consolidated Financial Statements
Prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2016

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GENERAL INFORMATION

Directors:

Zoltan Teszari, President of the Board of Directors
Marius Catalin Varzaru
Monique Charlotte Rosenkotter-Donker
Parveen Chantal Soebrati

Registered Office:

Digi Communications N.V.
Naritaweg 165, 1043 BW, Amsterdam, Netherlands

Auditors:

Ernst & Young Assurance Services S.R.L.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Digi Communications NV (former Cable Communications Systems NV)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Digi Communications NV (former Cable Communications Systems NV), ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition given the complexity of billing systems

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).

The Group's revenue recognition relies on IT systems, comprising of a number of interdependent interfaces and databases. Given the complexity of the **IT** environment, with highly automated processes and controls over the critical path of transactions, a significant component of the audit work was in the area of controls that we considered relevant and key for the financial reporting of revenue, such as controls over the capture, rating, storage and extraction of information. These controls are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner. We therefore consider this as a key audit matter.

We focused our audit on those IT systems and controls that are significant for the Group's revenue recognition. 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.

Our audit procedures included, but were not limited to, the following procedures:

- a detailed understanding of the revenue processes and related document flows, identifying the IT systems as well as the controls designed and implemented within the respective processes that we considered relevant and significant for our audit;
- testing the operating effectiveness of selected controls by inspecting evidence supporting whether they were in place throughout the year. We focused on billing systems controls with respect to data capture, mediation and recording of revenue transactions; on the controls over authorization of tariff changes and over the correctness of input of tariff information in the billing system as well as on the controls over the accuracy of automatic calculation of invoice amounts based on tariffs, usage and other relevant inputs;

With respect to IT general controls, we tested controls over the user access rights to systems and data, as well as managing system changes. The audit approach was tailored in accordance with the financial significance of the system and whether there were automated procedures supported by that system and our focus was on the following procedures:

- testing whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications;
- testing whether user access rights were set-up in accordance with Group's internal policies and procedures and
- testing the operating effectiveness of controls over the system changes, in order to determine if changes were properly authorized, implemented and monitored.

In addition, we also performed, amongst others, the following procedures:

- Analysis over the calculation of revenues from subscription, by considering each type of subscription and the applicable tariff as per the commercial offers;

- Testing, on a sample basis, the proper allocation of cash receipts to subscribers.

Revenue recognition considering multiple revenue streams

The Group's main sources of revenue are from subscription services, as follows:

- Revenue from rendering of cable TV ("CATV") and direct-to-home TV ("DTH"), subscription services;
- Revenue from rendering of internet and data communication subscription services (fixed and mobile);
- Revenue from rendering of fixed-line and mobile telephony subscription and fixed-line and mobile telephony voice traffic services.

Telecommunication services also comprise significant equipment sales.

In addition to telecommunications revenues the Group also derives a smaller portion of revenues from rentals, energy production (including related green certificates), advertising, filming services for other operators etc.

The Group's disclosures about revenue recognition are included in Note 2 (Basis for preparation and accounting policies) and Note 17 (Revenues).

We consider this a key audit matter due to the fact that there are multiple revenue streams which are subject to different IFRS requirements with respect to revenue recognition.

Our audit procedures included, but were not limited to the following procedures:

- Analyse 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;
- Assess whether the Group's accounting policies are implemented consistently as adopted.

In the area of revenue recognition, we also performed, amongst others, the procedures outlined in the above key audit matter *Revenue recognition given the complexity of billing systems.*

Impairment of tangible and intangible assets

As at 31 December 2016, the Group has recognized goodwill in amount of EUR 77,178 thousand, representing 37% out of total intangibles assets.

Under IFRS, an entity is required to test the goodwill for impairment at least annually. The determination of the recoverable amount, being determined by the Group as fair value less costs to sell, was significant to our audit because the computation of fair value less costs to sell is complex and relies on estimates and assumptions, therefore we have considered it a key audit matter. Goodwill acquired through business combinations is allocated among the following cash generating units (CGUs), for the purpose of impairment testing: CBT

Our audit procedures included, but were not limited to, the following procedures:

- analysis of the methodology used by management to assess the fair value less costs to sell of the CGUs, to determine its compliance with accounting standards and consistency of application;
- evaluation of the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rate and the capital expenditure. We involved our valuation specialists to assist us in the evaluation of key assumptions and methodologies used by the Group for the impairment testing, including the

(being: cable, TV, fixed and mobile internet and data, fixed line and mobile telephony) Romania, CBT Hungary and CBT Spain.

The main assumptions used by the Group in the estimation of fair value less costs to sell were:

- the discount rates (post-tax);
- the terminal growth rate;
- capital expenditure and
- assumptions underlying future operating cash flows for the explicit period of 5 years.

The Group's disclosures about the impairment test for the above CGUs, which include the goodwill as well as most of the tangible and other intangible assets of the Group, are included in Note 2.1 (Basis for preparation and accounting policies) and Note 6 (Intangible assets). Furthermore, an assessment of impairment indicators has been made for the other CGUs, which do not include goodwill (such as the renewable energy production), as well as for specific assets (such as abandoned construction-in-progress).

determination of the discount rates for Romania and Hungary. In this context we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the Group's economic circumstances; ii) existing market information; iii) the business plans of the Group, including management's expectations; iv) the risk associated with cash flows, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate; v) specific requirements of IFRS;

- test the mathematical accuracy of the discounted cash flow computations;
- assessment of the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- test the mathematical accuracy of the computations in respect of the sensitivity in the available headroom of CGUs.

We further assessed the adequacy of the Group's disclosures about the impairment test in the notes to the consolidated financial statements.

Covenants associated with bonds and Senior Facilities Agreement

The availability of adequate funding and whether the Group meets its financial covenants are significant for our audit.

We have considered this a key audit matter due to the high leverage of the Group (as of 31 December 2016 interest-bearing loans and borrowings, including bonds, amount to EUR 709,587 thousand and equity amounts to EUR 42,603 thousand).

The Group's disclosure about the covenants of the bonds and the covenants of the Senior Facilities Agreement (SFA) is included in Note 14 (Interest bearing loans and borrowings).

Our audit work included, but was not limited to the following procedures:

- read the terms of the 2016 SFA and 2016 bonds with respect to the covenants clauses;
- evaluate the Group's assessment of compliance with the debt covenant requirements including both quantitative and qualitative covenants as at 31 December 2016;
- given the relevance of the EBITDA (earnings before interest tax depreciation and amortisation) in the quantitative covenant calculations, we focused our procedures on the correct classification of items in EBITDA and on the specific items included in or excluded from EBITDA, in accordance with criteria as stated in the SFA and bonds terms.

We further assessed the adequacy of the disclosures included in the notes to the consolidated financial statements.

Recoverability of overdue trade and other receivables

At 31 December 2016, the Group records trade and other receivable balances of EUR 154,023 thousand, before allowance adjustment of EUR 45,058 thousand.

The identification and determination of receivables allowance requires management to make judgements and assumptions and represents a process with a significant level of uncertainties.

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, recent historical payment patterns and other available information concerning the creditworthiness of counterparties, as well as the Group's historical loss experiences for the relevant aged category.

Due to the significance of trade and other receivables (representing 55% of Current assets) and the related estimation uncertainty, this is considered a key audit matter.

The Group's disclosures about receivables allowance are included in Note 2.2 f) (accounting policies—impairment), Note 10 (Trade and other receivables) and Note 23 (Financial risk management—Credit risk section) to the consolidated financial statements.

Our audit work included, but was not limited to, the following procedures:

- test controls over the collection process;
- test application controls over the automatic computation of ageing of receivables;
- test collections from customers, on a sample basis, subsequent to the year-end;
- evaluate 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;
- evaluate the Group's allowance levels by considering the historical cash collection patterns and degree of accuracy of previous allowance estimates;
- obtain direct customer confirmations, and inspecting public information available about the insolvency proceedings and obtaining confirmation letter from external lawyers regarding the insolvency process, where applicable;
- review the correspondence with the Group's external lawyers supporting any disputes between the parties involved, and the attempts by management to recover the amounts outstanding, where applicable.

We further assessed the adequacy of the Group disclosures included in Note 10 (Trade and other receivables) and Note 23 (Financial risk management) to the consolidated financial statements.

Useful lives of property, plant and equipment

Management judgment significantly impacts the carrying value of property, plant and equipment through the estimation of their useful lives.

As described in Note 2.2.c) (accounting policies—property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements, as of 31December 2016 management has completed its review of the estimated useful lives of property plant and equipment and determined changes to be necessary to many types of assets from the categories of Customer premises equipment, Network and Equipment. The change of estimated useful lives was applied prospectively from 1 January 2016 onwards.

Our audit procedures included, but were not limited to, the following procedures:

- reading the memos prepared by management to support the revised useful lives, including appendices with technical specifications and relevant public studies;
- evaluation of the additional technical specifications obtained from certain suppliers;
- testing the actual failure rates experienced so far by RCS&RDS as listed in the memos;
- analyzing that the recent churn rates do not imply useful lives shorter than the revised ones;

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Due to the significance of the impact on depreciation expense (a net decrease of EUR 23,173 thousand of the depreciation expense for the year 2016) and the degree of judgment involved in determining the revised useful lives, this is considered a key audit matter.

- comparing the revised useful lives with the ones disclosed in the latest financial statements available of other telecommunications groups based in Europe and a public study of useful lives applied by telecommunications groups based in the United States;
- involving our Telecommunications industry specialists and our valuation & business modelling specialists to assist us and review the useful lives re-assessment from the methodology and assumptions reasonability point of *view,* including appropriate consideration of technological obsolescence and comparison to non-public benchmarks available to them;
- evaluation of the consistency of the business strategy assumptions used for the revision of useful lives with the assumptions used for the business plan and impairment test, and other knowledge accumulated by us about management's plans during our audit.

We further assessed the adequacy of the disclosures included in Note 2.2.c) (accounting policies-property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements.

Revaluation of property, plant and equipment

The Group uses the revaluation model in order to account for land, buildings, network, equipment and devices and customer premises equipment.

As of 31 December 2016, management has performed the annual analysis, in order to assess whether the carrying amount does not differ materially from the fair value of the above categories of property, plant and equipment. Following this analysis, management concluded that a revaluation exercise must be performed only for land, buildings and customer premises equipment. At 31 December 2016, the carrying value of assets carried under revaluation model was:

- land: EUR 17,803 thousand (after 2016 revaluation);
- buildings: EUR 71,290 thousand (after 2016 revaluation);
- networks: EUR 417,054 thousand
- customer premises equipment: EUR 74,431 thousand (after 2016 revaluation), and
- equipment and devices: EUR 131,062 thousand.

Our audit work included, but was not limited to, the following procedures:

- perform a detailed understanding of the Group's internal processes and related documentation flow as well as methods and assumptions used by management and the Group's internal specialists;
- assessing the competence, capabilities of the Group's internal specialists, as well as their objectivity;
- evaluate the valuation methodology used, giving consideration to the: (i) nature of the asset being valued; (ii) premise and standard of value; (iii) observable market prices; and (iv) whether the assumptions used provide a reasonable basis for the fair value measurement;
- test the underlying data to evaluate that it: (i) is relevant; and (ii) provides objective support for the assumptions used in the valuation analysis, including where possible an overall assessment against industry practices;

We have considered the revaluation of customer premises equipment, as well as the assessment of management that no revaluation is necessary for network and for equipment and devices, to be a key audit matter due to the fact that it requires management to make significant judgements and assumptions. The main areas involving significant judgments and assumptions made by management were represented by:

- determination of current replacement cost of the assets;
- the assets' specific physical/functional depreciation and
- the functional and economical obsolescence.

The Group's disclosures about the revaluation are included in Note 2.2 c) (accounting policies—property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements.

- evaluate the assumptions made by management for the specific technical adjustments related to the physical characteristics of the individual assets, including the allocation of individual assets to the categories from which the valuation assumptions have been derived;
- analyse and corroborate the replacement costs sourced by management based on external/internal evidence and similar benchmarks;
- test the mathematical accuracy of the valuation models used by management;
- for several of the above procedures we have involved our Telecommunications industry specialists and our valuation & business modelling specialists to assist us;
- in respect of the useful lives used to account for the assets' physical/functional depreciation please refer to the procedures outlined in the above key audit matter

Useful lives of property, plant and equipment

We further assessed the adequacy of the Group disclosures included in Note 2.2 c) (accounting policies—property, plant and equipment) and Note 5 (Property, plant and equipment) to the consolidated financial statements.

Other information

The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement ot this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial s tatements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to f r aud or error .

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

As disclosed in Note 2.1(b) to the consolidated financial statements, these statements have been prepared as part of the filling obligations of the Group, stated in the Offering Memorandum dated 12 October 2016. These consolidated financial statements are not intended for statutory filling purposes in any jurisdiction.

The partner in charge of the audit resulting in this independent auditor's report is Anamaria Cora.

On behalf of
Ernst & Young Assurance Services SRL

Anamaria Cora

Name of signing person: Anamaria Cora

Bucharest, Romania

11 April 2017

DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)
Consolidated Statement of financial position
as at 31 December 2016

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

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	825,989	674,743
Intangible assets	6a	206,812	205,128
Available for sale financial assets (AFS)	7	—	43,373
Investment in associates		995	1,000
Long term receivables		3,927	5,852
Deferred tax assets	20	3,126	3,951
Total non-current assets		**1,040,849**	**934,047**
Current assets			
Inventories	9	18,552	13,205
Programme assets	6b	30,312	29,536
Trade and other receivables	10	108,965	82,545
Income tax receivable		2,804	202
Other assets	11	6,321	8,209
Derivative financial assets	25	17,049	9,937
Cash and cash equivalents	12	14,625	49,662
Total current assets		**198,628**	**193,296**
Total assets		**1,239,477**	**1,127,343**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	51	51
Share premium		8,247	8,247
Treasury shares		(16,703)	(16,703)
Reserves		9,096	31,597
Retained earnings		40,474	77,462
Equity attributable to equity holders of the parent		**41,165**	**100,654**
Non-controlling interest		1,438	2,160
Total equity		**42,603**	**102,814**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings, including bonds	14	665,540	624,897
Deferred tax liabilities	20	34,812	26,981
Other long term liabilities	15.2	46,076	7,598
Total non-current liabilities		**746,428**	**659,476**
Current liabilities			
Trade and other payables	15.1	373,969	271,118
Interest-bearing loans and borrowings	14	44,047	63,118
Income tax payable		1,390	1,746
Derivative financial liabilities	25	16,356	8,253
Deferred revenue		14,684	20,818
Total current liabilities		**450,446**	**365,053**
Total liabilities		**1,196,874**	**1,024,529**
Total equity and liabilities		**1,239,477**	**1,127,343**

The financial statements were approved by the Board of Directors on 11/04/2017 and were signed on its behalf by:

Zoltan Teszari, President of the Board of Directors

Marius Catalin Varzaru, Member of the Board of Directors

Monique Charlotte Rosenkotter-Donker, Member of the Board of Directors

Parveen Chantal Soebrati, Member of the Board of Directors

Serghei Bulgac, CFO

DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)
Consolidated Statement of profit or loss and other comprehensive income
for the year ended as at 31 December 2016
(all amounts are in thousand EUR, unless specified otherwise)

	Notes	2016 *Continuing Operations*	2016 *Discontinued Operations*	2016 *Total*	2015 *Continuing Operations*	2015 *Discontinued Operations*	2015 *Total*
Revenues	17	842,755	—	842,755	746,290	3,840	750,130
Gain/(loss) from sale of discontinued operations	21	—	(674)	(674)	—	20,882	20,882
Operating expenses	18	(755,848)	—	(755,848)	(696,567)	(3,115)	(699,682)
Other expenses	28	(6,969)	—	(6,969)	(998)	—	(998)
Operating profit		**79,938**	**(674)**	**79,264**	**48,725**	**21,607**	**70,332**
Finance income	19	45,312	—	45,312	9,869	—	9,869
Finance expenses	19	(101,467)	—	(101,467)	(70,726)	(23)	(70,749)
Net finance costs		**(56,155)**	**—**	**(56,155)**	**(60,857)**	**(23)**	**(60,880)**
Profit / (loss) before taxation		**23,783**	**(674)**	**23,109**	**(12,132)**	**21,584**	**9,452**
Income tax	20	(11,326)	—	(11,326)	(5,369)	(56)	(5,425)
Net profit / (loss)		**12,457**	**(674)**	**11,783**	**(17,501)**	**21,528**	**4,027**
Other comprehensive income							
Items not to be reclassified to profit or loss							
Revaluation of property, plant and equipment, net of tax		16,660	—	16,660	—	—	—
Items that are or may be reclassified to profit or loss, net of tax							
Foreign operations – foreign currency translation differences		1,609	—	1,609	(108)	—	(108)
Change in fair value available for sale asset		2,367	—	2,367	1,227	—	1,227
Available for sale financial asset, reclassification of gain	7	(33,722)		(33,722)	—	—	—
Cash Flow hedge reserves		654	—	654	(4,535)	—	(4,535)
Other comprehensive income for the year, net of tax		**(12,432)**	**—**	**(12,432)**	**(3,416)**	**—**	**(3,416)**
Total comprehensive income for the year		**25**	**(674)**	**(649)**	**(20,917)**	**21,528**	**611**

	Notes	2016 *Continuing Operations*	2016 *Discontinued Operations*	2016 *Total*	2015 *Continuing Operations*	2015 *Discontinued Operations*	2015 *Total*
Profit / (Loss) attributable to:							
Equity holders of the parent		13,434	(648)	12,786	(16,667)	20,637	3,970
Non-controlling interest		(977)	(26)	(1,003)	(834)	891	57
Net profit / (loss) for the year		**12,457**	**(674)**	**11,783**	**(17,501)**	**21,528**	**4,027**
Total comprehensive income attributable to:							
Equity holders of the parent		221	(648)	(427)	(19,896)	20,637	741
Non-controlling interests		(196)	(26)	(222)	(1,021)	891	(130)
Total comprehensive income for the year		**25**	**(674)**	**(649)**	**(20,917)**	**21,528**	**611**
Earnings per share (in EUR) attributable to parent company (Note 8)							
Net profit/(loss)		**13,434**	**(648)**	**12,786**	**(16,667)**	**20,637**	**3,970**
Basic and diluted earnings/(loss) per share (EUR/share)		**289.2**	**(13.9)**	**275.2**	**(358.7)**	**444.2**	**85.5**

The financial statements were approved by the Board of Directors on 11/04/2017 and were signed on its behalf by:

Zoltan Teszari, President of the Board of Directors

Monique Charlotte Rosenkotter-Donker, Member of the Board of Directors

Marius Catalin Varzaru, Member of the Board of Directors

Parveen Chantal Soebrati, Member of the Board of Directors

Serghei Bulgac, CFO

DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)
Consolidated Statement of Cash Flows
for the year ended 31 December 2016
(all amounts are in thousand EUR, unless specified otherwise)

	Notes	2016	2015
Cash flows from operating activities			
Profit/(loss) before taxation		**23,109**	**9,452**
Adjustments for:			
Depreciation, amortization and impairment	5, 6	170,094	187,905
Revaluation deficit recognised in profit or loss		6,276	—
Interest expense, net*	19	45,173	49,342
Finance cost & amortized borrowing costs*		26,505	4,923
Impairment of trade and other receivables	18	9,677	10,069
Impairment of investments in associates		—	1,542
Losses/(gains) on derivative financial instruments	23	14,547	(5,523)
Equity settled share-based payments	24	—	2,054
Unrealised foreign exchange loss/(gain)		5,741	(837)
Reclassification of fair value adjustment of AFS		(33,722)	
Other non cash items		—	(64)
Gain on sale of assets		(1,462)	(744)
(Gain)/loss on disposal of subsidiary	21	674	(20,882)
Cash flows from operations before working capital changes		**266,612**	**237,237**
Changes in:			
Decrease/(increase) in trade receivables and other assets		(29,540)	15,144
Increase in inventories		(5,974)	(3,704)
Increase in trade payables and other current liabilities		31,424	21,191
(Decrease)/increase in deferred revenue		(7,248)	(28,388)
Cash flows from operations		**255,274**	**241,480**
Interest paid		(43,981)	(44,235)
Income tax paid		(7,823)	(5,062)
Net cash flows from operating activities		**203,470**	**192,183**
Cash flow used in investing activities			
Purchases of property, plant and equipment	5,15	(142,629)	(113,733)
Purchases of intangibles	6,14	(70,767)	(80,618)
Acquisition of subsidiaries, net of cash and NCI	22	(2,124)	(1,827)
Acquisition of AFS	22	(939)	(1,460)
Sale of subsidiaries, net of cash disposed	21	—	25,132
Proceeds from sale of property, plant and equipment		505	919
Net cash flows used in investing activities		**(215,954)**	**(171,587)**
Cash flows from financing activities			
Dividends paid to shareholders		(4,428)	(1,622)
Proceeds from borrowings	14	496,304	258,229
Repayment of borrowings	14	(477,628)	(272,905)
Financing costs paid		(26,779)	(4,082)
Settlement of derivatives		(5,802)	(3,739)
Payment of finance lease obligations		(3,428)	(1,618)
Net cash flows (used in)/from financing activities		**(21,761)**	**(25,737)**
Net increase/(decrease) in cash and cash equivalents		**(34,245)**	**(5,141)**
Cash and cash equivalents at the beginning of the year	12	**49,662**	**54,288**
Effect of exchange rate fluctuations of cash and cash equivalents held		(792)	515
Cash and cash equivalents at the end of the year	12	**14,625**	**49,662**

** As of 31 December 2015 interest expense and unamortized borrowing costs recognized as expense were both presented on the Interest expense, net line in the Cash flow. Comparative information was restated as of 31 December 2016, in order to present this information on separate lines. For details, please see Note 13 Borrowings.*

DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2016
(all amounts are in thousand EUR, unless specified otherwise)

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2016	**51**	**8,247**	**(16,703)**	**(31,726)**	**36,314**	**31,355**	**(4,346)**	**77,462**	**100,654**	**2,160**	**102,814**
Comprehensive income for the period											
Profit/(loss) for the year	—	—	—	—	—	—	—	12,786	**12,786**	(1,003)	***11,783***
Foreign currency translation differences	—	—	—	1,545	—	—	—		**1,545**	64	***1,609***
Revaluation of property, plant and equipment, net of tax (Note 5)	—	—	—	—	15,970	—	—	—	**15,970**	690	***16,660***
Fair Value for AFS (Note 7)	—	—	—	—	—	2,367	—	—	**2,367**	—	***2,367***
Reclassification AFS gain (Note 7)	—	—	—	—	—	(33,722)	—	—	**(33,722)**	—	***(33,722)***
Cash Flow hedge reserves	—	—	—	—	—	—	627	—	**627**	27	***654***
Transfer of revaluation reserve (depreciation)	—	—	—	—	(9,288)	—	—	9,288	**—**		—
Total comprehensive income for the period	**—**	**—**	**—**	**1,545**	**6,682**	**(31,355)**	**627**	**22,074**	**(427)**	**(222)**	**(649)**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Dividends distributed (Note 13)	—	—	—	—	—	—	—	(57,546)	**(57,546)**	(370)	**(57,916)**
Total contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(57,546)**	**(57,546)**	**(370)**	**(57,916)**
Changes in ownership interests in subsidiaries											
Payments while having full control (Note 22)	—	—	—	—	—	—	—	—	**—**	—	—
Movement in ownership interest while retaining control (Note 22)	—	—	—	—	—	—	—	(1,516)	**(1,516)**	(130)	**(1,646)**
Total changes in ownership interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,516)**	**(1,516)**	**(130)**	**(1,646)**
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(59,062)**	**(59,062)**	**(500)**	**(59,562)**
Balance at 31 December 2016	**51**	**8,247**	**(16,703)**	**(30,181)**	**42,996**	**—**	**(3,719)**	**40,474**	**41,165**	**1,438**	**42,603**

DIGI COMMUNICATIONS (former CABLE COMMUNICATIONS SYSTEMS)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2016
(all amounts are in thousand EUR, unless specified otherwise)

	Share capital	Share premium	Treasury shares	Translation reserve	Revaluation reserve	Fair value Reserves	Cash Flow hedge reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 January 2015	**51**	**8,247**	**(16,703)**	**(31,616)**	**46,775**	**30,128**	**—**	**68,261**	**105,143**	**2,197**	**107,340**
Comprehensive income for the period											
Profit for the year	—	—	—	—	—	—	—	3,970	**3,970**	57	***4,027***
Foreign currency translation differences	—	—	—	(110)	—	—	—	—	***(110)***	2	***(108)***
Fair Value for AFS	—	—	—	—	—	1,227	—	—	***1,227***	—	***1,227***
Cash Flow hedge reserves	—	—	—	—	—	—	(4,346)	—	***(4,346)***	(189)	***(4,535)***
Transfer of revaluation reserve (depreciation)	—	—	—	—	(10,461)	—	—	10,461	**—**	—	**—**
Total comprehensive income for the period	**—**	**—**	**—**	**(110)**	**(10,461)**	**1,227**	**(4,346)**	**14,431**	**741**	**(130)**	**611**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Equity-settled share-based payment transactions *(Note 24)*	—	—	—	—	—	—	—	1,968	1,968	86	2,054
Dividends distributed (note 13)	—	—	—	—	—	—	—	(3,500)	(3,500)		(3,500)
Total contributions by and distributions to owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***(1,532)***	***(1,532)***	***86***	***(1,446)***
Changes in ownership interests in subsidiaries											
Payments while having full control (Note 22)	—	—	—	—	—	—	—	(707)	(707)	(31)	(738)
Movement in ownership interest while retaining control (Note 22)	—	—	—	—	—	—	—	(2,991)	(2,991)	38	(2,953)
Total changes in ownership interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***(3,698)***	***(3,698)***	***7***	***(3,691)***
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,230)**	**(5,230)**	**93**	**(5,137)**
Balance at 31 December 2015	**51**	**8,247**	**(16,703)**	**(31,726)**	**36,314**	**31,355**	**(4,346)**	**77,462**	**100,654**	**2,160**	**102,814**

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. The main operations are carried by RCS&RDS S.A (Romania) ("RCS&RDS"), Digi T.S kft (Hungary), Digi Spain Telecom SLU, and Digi Italy SL. DIGI registered office is located in Amsterdam (1043 BW), Naritaweg 165, Telestone 8, The Netherlands. On 11 April 2017 the Company changed its name, its former name being Cable Communications Systems N.V.

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

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

In 1998 Romania Cable Systems S.A established a new subsidiary Romania Data Systems S.A. ("RDS") for the purposes of offering internet, data and fixed telephony services to the Romanian market.

In August 2005, Romania Cable Systems S.A. absorbed through merger its subsidiary Romania Data Systems S.A. and changed its name into RCS&RDS.

RCS&RDS evolved historically both by organic growth and by acquisition of telecommunication operators and customer relationships.

The Group provides telecommunication services of Cable TV (television), Fixed and Mobile Internet and Data, Fixed-line and Mobile Telephony ("CBT") and Direct to Home television ("DTH") services in Romania, Hungary, Spain and Italy. The largest operating company of the Group is RCS&RDS. At the end of 2016, DIGI Group had a total of 13,400 employees (2015: 12,453 employees).

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

The consolidated financial statements were authorized for issue by the Board of Directors of DIGI on 11/04/2017.

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").

(b) Non–statutory consolidated financial statements

These Consolidated financial statements are not intended for statutory filing purposes in any jurisdiction. Consequently, they are not suitable for statutory filing in any jurisdiction. For statutory Dutch filing purposes the Group has applied the exception 408 of the Dutch Civil Code Book 2 Title 9 and therefore, the parent company of the Company, RCSM, will file its consolidated financial statements for the year ended 31 December 2016,

prepared in accordance with IFRS as adopted by the EU, with the auditor's opinion and the annual report in English within six months after the balance sheet date or within one month after a lawfully made later publication at the office of the commercial register.

(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 available for sale financial assets 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 USD and EUR. The unfavourable evolution of the exchange rates has impacted the financial result. However it did not affect the operations of the Group.

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 risk.

(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).

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 under IFRS as adopted by EU 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 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 consolidated financial statements is included in the following notes:

- Note 22 purchase price allocation and goodwill calculation;
- Notes 2.2 (d): recognition and classification of programme assets;
- Notes 2.2 (c) and 5: recognition of customer premises equipment.

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

- Note 3b: fair value of customer relationships acquired in a business combination;
- Note 6: key assumptions used in discounted cash flow projections in relation to goodwill impairment testing;
- Notes 7 and 23 iv): measurement of available for sale financial assets;
- Note 2.2 (c) and Note 5: useful lives of property, plant and equipment;
- Note 5: revaluation of buildings, network, equipment and devices and customer premises equipment;
- Note 23 i): impairment of trade receivables;
- Notes 23 iv): fair value of financial instruments;
- Note 26: contingencies;
- Note 14 and 23 iv): 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.

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 2016:

- **IAS 27 Separate Financial Statements (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management has not made use of this amendment.

- **IAS 1: Disclosure Initiative (amendment)**

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has not made use of this amendment.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has not made use of this amendment.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not have any plans that fall within the scope of this amendment.

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Group had no transactions in scope of this amendment.

- **The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015.

    - IFRS 2 Share-based Payment: This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

    - IFRS 3 Business combinations: This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

    - IFRS 8 Operating Segments: This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

    - IFRS 13 Fair Value Measurement: This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

    - IAS 16 Property Plant & Equipment: The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

    - IAS 24 Related Party Disclosures: The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

- IAS 38 Intangible Assets: The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

These amendments did not have a significant effect on the financial position or performance of the Group.

- **The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016.

  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - IFRS 7 Financial Instruments: Disclosures: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

  - IAS 19 Employee Benefits: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

  - IAS 34 Interim Financial Reporting: The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

These amendments did not have a significant effect on the financial position or performance of the Group.

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 2016. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent company, using mostly 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.

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, after adjustments to align the accounting policies with those of the Group, 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.

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:

- available-for-sale equity investments (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 directly to equity under translation reserve. On disposal of a foreign entity, accumulated exchange differences relating to it and previously recognized in equity as translation reserve are recognized in profit or loss as component of the gain or loss on disposal.

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

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

Currency	**2016**			**2015**		
	Jan – 1	**Average for the year**	**Dec – 31**	**Jan – 1**	**Average for the year**	**Dec – 31**
RON per 1EUR	4.5245	4.4908	4.5411	4.4821	4.4450	4.5245
HUF per 1EUR	313.12	311.47	311.02	314.89	309.89	313.12
CZK per 1EUR	N/A	N/A	N/A	27.73	27.58*	N/A
USD per 1EUR (ecb.eu)	1.0887	1.1070	1.0510	1.2141	1.1095	1.0887

* The average rate for CZK is the average of period starting 1 January 2015, ending 30 April 2015.

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").

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 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 reviewed 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.

As at 31 December 2016, management completed its review of the estimated useful lives of property, plant and equipment. As the Group continued to build and utilise the network and related assets, there is a more consistent ground for estimating the consumption pattern of those assets. Consequently, useful lives for several asset sub-categories were revised in order to match the current best estimate of the period over which these assets will generate future economic benefits.

The change of estimated useful lives was applied prospectively from 1 January 2016 onwards:

	Prior Useful life	**Revised Useful life**
Buildings	40-50 years	40-50 years
Fixed Network	15 years	up to 25 years
Mobile Radio Network (sites)	10 years	20 years
Equipment and devices	3-12 years	3-10 years
Customer premises equipment	5 years	5-10 years
Vehicles	5 years	5 years
Furniture and office equipment	3-9 years	3-9 years

The effects of the change of estimated useful lives is presented in Note 5.

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.

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.

Items of property, plant and equipment with zero net book value are not revalued.

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).

Subscriber acquisition costs

Subscriber acquisition costs ("SAC") 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.

SAC are amortized over the related contract period, being a one or two year period.

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 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.

As at 31 December 2016, management completed its review of the estimated useful lives of mobile telephony licenses. For certain mobile telephony licenses there are options for extension, automatic upon the request of the Group. Consequently, useful lives were revised in order to match the current best estimate of the period over which these licenses will generate future economic benefits. Estimated useful lives for mobile telephony licenses are now between 15-25 years (prior: 15 years).

The change of estimated useful lives was applied prospectively from 1 January 2016 onwards. The effects of the change of estimated useful lives are presented in Note 6.

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.

e) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises financial assets on the date that the Group becomes a party to the contractual provisions of the instrument.

For regular way purchases or sales of financial assets, i.e. purchases or sales under a contract whose terms require delivery of the assets within the time frame established generally by regulation or convention in the marketplace concerned, the trade date is applied for recognition.

Classification

The Group classifies non-derivative financial assets into the following categories: loans and receivables, cash and cash equivalents and available-for-sale financial assets

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs, on the date that they are originated. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets included in loans and receivables category include trade and other receivables and other long term receivables.

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.

Available-for-sale assets

Available for sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial liabilities

Recognition

The Group initially recognises financial liabilities on the date that the Group becomes a party to the contractual provisions of the instrument.

Classification

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Other financial liabilities

Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, issued bonds and trade and other payables.

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 operating activities.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(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 shares between shareholders are considered completed at the date the transfer of ownership has been agreed upon by the parties in a written contract.

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.

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 impact on employee profit-sharing, net of the related tax effect. There are currently no instruments that have a dilutive effect on earnings.

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.

(iv) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Derivatives held for trading

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Derivatives as hedging instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

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.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

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. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

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.

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 and loss.

Impairment losses recognized for goodwill cannot be subsequently reversed.

ii) Financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. 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, recent historical payment patterns and other available information concerning the creditworthiness of counterparties, as well as the Group's historical loss experiences for the relevant aged category. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI. Impairment losses for an impaired available-for-sale equity instrument are not reversed through profit or loss, but only through OCI.

Investments in associates

An impairment loss in respect of investments in associates is measured by comparing the recoverable amount of the investment with its carrying amount. The recoverable amount of the investment is the higher of its fair value less costs of disposal and its value in use. The Group determines the fair value less costs of disposal based on a discounted cash flow ("DCF") valuation model.

An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

g) Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost is determined on a FIFO 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.

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.

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.

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.

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 if 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 recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenues from services

The Group's main sources of revenue from services 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.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The revenues from services are recognized as follows:

- *Subscription fees and voice traffic services*

  Video services subscriptions, pay TV fees, internet and data subscriptions, telephony subscriptions and voice minutes consumption revenues are earned over the period when those 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 the time the call is made. Revenue from interconnect fees is recognised at the time the services are performed.

- *Deferred revenue*

  Any subscription revenue received in advance of the service being provided is recorded as deferred revenue and recognized over the period when the service is provided.

- *Prepaid services*

  Revenue from the sale of prepaid cards, net of discounts allowed, included in the Group's prepaid services packages, is recognised 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 vouchers' fair value (which is the same as their nominal value) is deducted from the future subscription values and recognized as revenue when utilised or at expiration.

Equipment sales

Revenue is recognized when the significant risks and rewards of ownership of the equipment have passed to the buyer, usually upon delivery.

Multiple element arrangements

Sales of certain packaged offers are considered as comprising identifiable and separate components to which general revenue recognition criteria can be applied separately. Once the separate components have been identified, the amount received or receivable from the customer is allocated, based on each component's fair value, first to the undelivered element and the remainder, if any, to the delivered element. For the delivered element the revenue is recognized only when the following criteria are met:

- the delivered item has a value to the consumer on a standalone basis, and
- there is objective and reliable evidence of the fair value of the undelivered item.

Where the promotional offer includes a period of free service, a portion of the revenue is recognized over the period of the free service.

Instalment sales

Revenue attributable to the sales price, exclusive of interest, is recognized when the risks and rewards of ownership have passed to the buyer, usually upon delivery. The revenue recognised on the sale is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, using the effective interest method.

Rental income

Rental income arising from operating leases of assets is accounted for on a straight-line basis over the lease term of ongoing leases.

Advertising

Revenues obtained from publicity sales on our broadcasting channels (TV & radio) are recognized when the relating advertising is performed.

Supply of electricity

Realized results from trading of electricity are reported in the Profit and Loss account on a net basis as part of Operating expenses. Mark-to-market results (unrealised) from fair value assessment of energy trading contracts are reported as Other income/ (Other expense) in the Profit and Loss account.

Revenues from electricity production, including the related green certificates granted under Romania's renewable energy support scheme, are recognized when electricity is produced. 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.

m) Finance income and finance expense

Finance income comprises interest income on funds invested, dividend income, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on derivative financial instruments that are recognised in profit or loss and reclassifications of net gains in hedging instruments previously recognised in other comprehensive income.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on derivative financial instruments that are recognised in profit or loss and reclassifications of net losses on hedging instruments previously recognised in other comprehensive income. Unamortised borrowing fees are expensed upon termination of related borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

n) Related parties

Parties are considered related when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also 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.

q) Share-based payment transactions

Certain members of the management team of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (‘equity- settled transactions’).

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. For determination of fair value of equity instruments, refer to Note 3(e).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, 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 date'). 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 charge 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.

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 vesting 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, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, 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. 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.

In 2016 no share based payment plan applied (no grants were made and all previous awards vested).

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.

s) 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.

t) 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.

2.3 Standards issued but not yet effective and not early adopted

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 adopt these standards early.

- **IFRS 9 Financial Instruments**

  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. 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. Management has assessed that this amendment will not have a significant impact on the consolidated financial position or performance of the Group.

- **IFRS 15 Revenue from Contracts with Customers**

  The standard is effective for annual periods beginning on or after 1 January 2018. 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.

  The Group has initiated the IFRS 15 impact analysis, which is still on-going. We have started the analysis of a sample of contracts and mix of services provided to subscribers in order to assess the impact of IFRS 15 implementation compared with our current accounting policies in accordance with IAS 18. Among others, we have analysed the mobile handsets component of a multiple element arrangements and the timing of the revenues recognized. Based on the sample analysed so far, we have identified the performance obligations and determined transaction price, as well as allocated the transaction price in accordance with IFRS 15. Based on the current status of the analysis, the impact of implementing IFRS 15 appears to be not very significant with respect to unbundling of revenues.

  The analysis is scheduled to be continued during 2017 in order to finalize the estimation of the total impact. We have not yet analysed accounting for changes in contracts, accounting for subscriber acquisition costs and loyalty programs. The Group will implement IFRS 15 as at 1 January 2018. The transition policy to be adopted is still under review.

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

  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Clarifications have not yet been endorsed by the EU. Management is in the process of assessing the impact of adopting IFRS 15.

- **IFRS 16: Leases**

  The standard is effective for annual periods beginning on or after 1 January 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. The management is in process of assessing the impact of this new standard on the consolidated financial position or performance of the Group. For details of the Group's operating leases as lessee, please refer to Note 26.

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

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IAS 12 Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses**

  The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. For example, the amendments clarify the accounting for deferred tax assets when an entity is not allowed to deduct unrealised losses for tax purposes or when it has the ability and intention to hold the debt instruments until the unrealised loss reverses. Management has assessed that this amendment will not have an impact on the consolidated financial position or performance of the Group.

- **IAS 7 Statement of Cash Flows (Amendments): Disclosure Initiative**

  The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendment will have impact on the disclosures from the consolidated financial statements of the Group.

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

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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 have not yet been endorsed by the EU. The Group does not currently operate a share based payment scheme.

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Group does not hold investment property.

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

  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. This Interpretation has not yet been endorsed by the EU. The Group has already applied the accounting treatment provided by this Interpretation before its issuance.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. Management has assessed that these improvements will not have an impact on the consolidated financial position or performance of the Group.

    - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

    - ***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.

3. DETERMINATION OF FAIR VALUES

- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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.

Please refer to Note 5 for disclosures of the revaluation performed in 2016.

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.

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 value of shares at the grant date as the exercise price of the options is equal to the nominal value of shares which is close to zero (refer to Note 24). 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. The market value of the shares is determined based on a discounted cash flow method and comparable enterprise/equity values of other entities in the telecom industry. The main inputs used in the discounted cash flow calculation are Group revenues, EBITDA, WACC, terminal growth rate.

Please refer to Note 24 for additional disclosures regarding share-based payments.

f) Available for sale investments

The market value of the shares is determined based on a discounted cash flow method and comparable enterprise/equity values of other entities in the telecom industry. The main inputs used in the discounted cash flow calculation are Group revenues, EBITDA, WACC, terminal growth rate.

Please refer to Note 23 for additional disclosures regarding the fair valuation of AFS investments.

4. SEGMENT REPORTING

31 December 2016	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue and other income	612,691	137,850	83,036	9,178	—	—	**842,755**
Inter-segment revenues	2,695	—	1,648	453	(4,796)	—	**—**
Segment operating expenses	(413,114)	(86,510)	(70,735)	(13,915)	4,796	—	**(579,478)**
EBITDA (Note 28)	**202,272**	**51,340**	**13,949**	**(4,284)**	**—**	**—**	**263,277**
Depreciation, amortization and impairment of tangible and intangible assets						(170,094)	**(170,094)**
Revaluation impact						(6,276)	**(6,276)**
Other expenses	(6,969)	—	—	—	—	—	**(6,969)**
Gain from sale of discontinued operations	—	—	—	(674)	—	—	**(674)**
Operating profit							**79,264**
Additions to tangible non-current assets	184,501	35,163	1,010	133	—	—	**220,807**
Additions to intangible non-current assets	31,897	1,606	2,814	987	—	—	**37,304**
Carrying amount of:							
Property, plant and equipment	708,992	115,426	1,450	121	—	—	**825,989**
Non-current intangible assets	171,408	30,747	3,434	1,223	—	—	**206,812**
Investments in associates and AFS	995	—	—	—			**995**

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

31 December 2015	Romania	Hungary	Spain	Other	Eliminations	Reconciling item	Group
Segment revenue and other income	540,134	125,933	72,679	11,384	—	—	**750,130**
Inter-segment revenues	1,638	—	1,074	—	(2,712)	—	**—**
Segment operating expenses	(362,212)	(76,549)	(62,755)	(12,973)	2,712	—	**(511,777)**
EBITDA (Note 28)[1]	**179,560**	**49,384**	**10,998**	**(1,589)**	**—**	**—**	**238,353**
Depreciation, amortization and impairment of tangible and intangible assets	—	—	—	—	—	(187,905)	**(187,905)**
Other expenses[1]	(998)	—	—	—	—	—	**(998)**
Gain from sale of discontinued operations	—	—	—	20,882	—	—	**20,882**
Operating profit	**—**	**—**	**—**	**—**	**—**	**—**	**70,332**
Additions to tangible non-current assets	125,621	15,303	522	174	—	—	**141,620**
Additions to intangible non-current assets	27,600	1,017	2,962	670	—	—	**32,250**
Carrying amount of:							
Property, plant and equipment	575,008	98,711	954	70	—	—	**674,743**
Non-current intangible assets	169,529	31,208	3,510	881	—	—	**205,128**
Investments in associates and AFS	1,000	—	—	43,373	—	—	**44,373**

(1) *As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealised mark-to-market loss of EUR 998 thousand was included in Operating expenses.*

The types of products and services from which each segment derives its revenues are disclosed in Note 17.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At December 31, 2015	**12,043**	**62,190**	**476,482**	**83,397**	**142,637**	**226,347**	**30,140**	**18,473**	**1,051,709**
Additions	8,207	4,321	5,789	186,393	—	9,888	2,410	3,799	**220,807**
Transfer from construction in progress ("CIP")/ reallocation	—	15,568	89,421	(185,197)	33,517	38,462	6,088	2,141	**—**
Transfers from inventories	—	—	—	9,973	—	—	—	—	**9,973**
Disposals	—	(269)	(2,201)	(311)	(178)	(143)	(142)	(15)	**(3,259)**
Disposals through deconsolidation of subsidiaries	—	—	(769)	—	—	—	—	(1)	**(770)**
Cancellation of accumulated depreciation against gross carrying amount of the revaluated asset	—	(3,694)	—	—	(115,722)	—	—	—	**(119,416)**
Revaluation surplus recognised in other comprehensive income	929	990	—	—	17,523	—	—	—	**19,442**
Revaluation deficit recognised in profit or loss	(3,264)	(647)	—	—	(2,365)	—	—	—	**(6,276)**
Effect of movements in exchange rates	(112)	(407)	(1,886)	(310)	(981)	(395)	(129)	(63)	**(4,283)**
At December 31, 2016	**17,803**	**78,052**	**566,836**	**93,945**	**74,431**	**274,159**	**38,367**	**24,334**	**1,167,927**
Depreciation and impairment									
At December 31, 2015	**—**	**7,402**	**114,068**	**—**	**102,074**	**117,797**	**23,283**	**12,342**	**376,966**
Depreciation charge	—	3,132	38,842	—	12,367	25,572	3,516	3,264	**86,693**
Impairment	—	—	—	128	1,702	—	—	—	**1,830**
Disposals	—	(26)	(2,201)	—	(171)	(98)	(72)	(15)	**(2,583)**
deconsolidation of subsidiaries	—	—	(493)	—	—	—	—	(1)	**(494)**
Cancellation of accumulated depreciation against gross carrying amount of the revaluated asset	—	(3,694)	—	—	(115,722)	—	—	—	**(119,416)**
Effect of movements in exchange rates	—	(52)	(434)	(1)	(250)	(174)	(101)	(46)	**(1,058)**
At December 31, 2016	**—**	**6,762**	**149,782**	**127**	**—**	**143,097**	**26,626**	**15,544**	**341,938**
Net book value									
At December 31, 2015	**12,043**	**54,788**	**362,414**	**83,397**	**40,563**	**108,550**	**6,857**	**6,131**	**674,743**
At December 31, 2016	**17,803**	**71,290**	**417,054**	**93,818**	**74,431**	**131,062**	**11,741**	**8,790**	**825,989**

	Land	Buildings	Network	Construction in progress	Customer premises equipment	Equipment and devices	Vehicles	Furniture and office equipment	Total
Cost									
At December 31, 2014	**10,405**	**43,277**	**431,870**	**64,665**	**120,121**	**197,960**	**27,446**	**15,428**	**911,172**
Additions	1,894	3,234	5,038	119,749	442	7,918	1,171	1,880	**141,326**
Acquired through business combinations (note 22 b)	—	—	—	—	—	290	—	4	**294**
Transfer from construction in progress ("CIP")/ reallocation	—	16,400	44,292	(111,294)	25,103	21,743	2,280	1,476	**—**
Transfers from inventories	—	—	—	11,967	—	—	—	—	**11,967**
Discontinued operations (note 21)	—	—	—	—	(1,122)	(28)	(116)	(68)	**(1,334)**
Disposals	(126)	—	(609)	(773)	(506)	(267)	(625)	(87)	**(2,993)**
Effect of movements in exchange rates	(130)	(721)	(4,109)	(917)	(1,401)	(1,269)	(16)	(160)	**(8,723)**
At December 31, 2015	**12,043**	**62,190**	**476,482**	**83,397**	**142,637**	**226,347**	**30,140**	**18,473**	**1,051,709**
Depreciation and impairment									
At December 31, 2014	**—**	**5,506**	**72,582**	**—**	**74,758**	**83,258**	**21,747**	**10,242**	**268,093**
Depreciation charge	—	1,971	43,267	—	29,297	35,867	2,242	2,332	**114,976**
Impairment	—	—	—	—	337	—	—	—	**337**
Discontinued operations (note 21)	—	—	—	—	(713)	(12)	(64)	(49)	**(838)**
Disposals	—	—	(431)	—	(443)	(251)	(629)	(80)	**(1,834)**
Effect of movements in exchange rates	—	(75)	(1,350)	—	(1,162)	(1,065)	(13)	(103)	**(3,768)**
At December 31, 2015	**—**	**7,402**	**114,068**	**—**	**102,074**	**117,797**	**23,283**	**12,342**	**376,966**
Net book value									
At December 31, 2014	**10,405**	**37,771**	**359,288**	**64,665**	**45,363**	**114,702**	**5,699**	**5,186**	**643,079**
At December 31, 2015	**12,043**	**54,788**	**362,414**	**83,397**	**40,563**	**108,550**	**6,857**	**6,131**	**674,743**

Property, plant and equipment additions

Most of the additions in 2016 and 2015 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 and equipment investments mainly in the Company's TV production facilities.

Property, plant and equipment in leasing

The carrying amount of property, plant and equipment includes an amount of EUR 12,915 as of 31 December 2016 (31 December 2015: 14,255) 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 (x)).

Revaluation of land and buildings

The Group engaged an accredited independent appraiser to determine the fair value of 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 revaluation registered a decrease in fair value of EUR 2,335 for land and an increase of EUR 343 for buildings. These values were recorded through profit and loss with a total negative impact of EUR 3,911 (as part of Operating expenses) and through other comprehensive income with a total positive impact of EUR 1,919.

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.

The fair value is overall determined to be Level 3 in the fair value measurement hierarchy. The inputs used in the valuation were either:

- Level 2 inputs based on the IFRS 13 classification (e.g. current rents, prices per sqm, yields, occupancy rates, etc. publicly available on the market for similar assets and other market-corroborated inputs), or

- Level 3 (unobservable) inputs representing for example assumptions in respect to operational costs, replacement costs, depreciation adjustments—most of them derived based on publicly available technical studies (rather than direct inputs from the market), with orderly adjustments performed by the appraiser.

The valuation is sensitive to its main inputs, being the sales value per sqm (which was in the range of 224 EUR/sqm to 1,167 EUR/sqm for apartments located in different cities in Romania and 224 EUR/sqm to 637 EUR/sqm for market values estimated for the main land plots), the rental value per sqm (which was in the range of 12 EUR/sqm to 21.5 EUR/sqm for the main assets) and the yield (which was in the range of 7.5% to 10% for the main assets).

If land was measured using the cost model, the carrying amounts would be as follows:

	31 December 2016	**31 December 2015**
Cost	**19,705**	**11,713**
Fair value	**17,803**	**12,043**

If buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2016	**31 December 2015**
Cost	81,470	62,253
Accumulated depreciation	(14,436)	(11,537)
Net carrying amount	**67,034**	**50,716**
Fair value	**71,290**	**54,788**

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. Please refer to "Estimated useful lives" below for the changes in estimated useful lives.

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. Please refer to "Estimated useful lives" below for the changes in estimated useful lives.

The revaluation generated a net increase in fair value of EUR 15,158, recorded through profit and loss for revaluation deficit of EUR 2,365 (as part of Operating expenses) and through other comprehensive income for revaluation surplus of EUR 17,523.

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 2016	**31 December 2015**
Cost	631,477	541,447
Accumulated depreciation	(251,244)	(216,408)
Net carrying amount	**380,233**	**325,039**
Fair value	**417,054**	**362,414**

Equipment and devices

	31 December 2016	**31 December 2015**
Cost	382,018	334,719
Accumulated depreciation	(256,516)	(232,416)
Net carrying amount	**125,502**	**102,303**
Fair value	**131,062**	**108,550**

Customer premises equipment

	31 December 2016	31 December 2015
Cost	517,672	484,842
Accumulated depreciation	(458,251)	(446,588)
Impairment	(6,585)	(4,883)
Net carrying amount	**52,836**	**33,371**
Fair value	**74,431**	**40,563**

Estimated useful lives

As at 31 December 2016, management reviewed the estimated useful lives of property, plant and equipment. As the Group continued to build and utilise the network and related assets, there is a more consistent ground for estimating the consumption pattern of those assets. Consequently, useful lives for several asset sub-categories were revised in order to match the current best estimate of the period over which these assets will generate future economic benefits.

The change of estimated useful lives was applied prospectively from 1 January 2016 onwards. For details, please see also Note 2.2 c) Basis of preparation and accounting policies.

The impact of revising the estimated useful lives of certain categories of property, plant and equipment on the value of depreciation charge recognized in profit or loss statement in year ended December 31, 2016 is presented below:

	Depreciation charge 2016		
	Prior estimated useful lives	Revised estimated useful lives	Difference arising from change in estimated useful lives
Buildings	3,132	3,132	—
Network	42,954	38,842	(4,112)
Customer premises equipment	23,791	12,367	(11,424)
Equipment and devices	33,209	25,572	(7,637)
Vehicles	3,516	3,516	—
Furniture and office equipment	3,264	3,264	—
Total	**109,866**	**86,693**	**(23,173)**

Collateral

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

Impairment

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).

6. INTANGIBLE ASSETS

a) Non-current intangible assets

	Goodwill	Customer relationships	Trade marks	Subscriber acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
Cost						
At December 31, 2015	**77,240**	**74,782**	**2,883**	**64,172**	**153,426**	**372,503**
Additions	—	645	—	14,587	22,072	37,304
Disposals	—	—	—	—	(12)	(12)
Effect of movement in exchange rates	(62)	(126)	—	55	(518)	(651)
At December 31, 2016	**77,178**	**75,301**	**2,883**	**78,814**	**174,968**	**409,144**
Depreciation						
At December 31, 2015	**—**	**56,560**	**577**	**57,809**	**52,429**	**167,375**
Amortization		10,309	733	7,126	16,835	35,003
Impairment	—	—	—	398	—	398
Effect of movement in exchange rates		(254)	(3)	21	(208)	(444)
At December 31, 2016	**—**	**66,615**	**1,307**	**65,354**	**69,056**	**202,332**
Net Book Value						
At December 31, 2015	**77,240**	**18,222**	**2,306**	**6,363**	**100,997**	**205,128**
At December 31, 2016	**77,178**	**8,686**	**1,576**	**13,460**	**105,912**	**206,812**

	Goodwill	Customer relationships	Trade marks	Subscriber acquisition costs ("SAC")	Licences and software	Total non-current intangible assets
Cost						
At December 31, 2014	**80,994**	**69,255**	**235**	**58,298**	**133,839**	**342,621**
Additions	—	2,838	—	6,249	20,467	29,554
Reclassifications	(3,321)	3,321	—	—	—	—
Disposals	—	—	—	—	—	—
Additions from acquisition of subsidiaries (note 22 b)	—	—	2,695	—	1	2,696
Discontinued operations (note 21)	—	—	—	(256)	(4)	(260)
Effect of movement in exchange rates	(433)	(632)	(47)	(119)	(877)	(2,108)
At December 31, 2015	**77,240**	**74,782**	**2,883**	**64,172**	**153,426**	**372,503**
Depreciation						
At December 31, 2014	**—**	**47,080**	**146**	**54,011**	**41,643**	**142,880**
Amortization	—	9,876	438	4,180	11,100	25,594
Disposals	—	—	—	—	—	—
Discontinued operations (note 21)	—	—	—	(256)	(4)	(260)
Effect of movement in exchange rates	—	(396)	(7)	(126)	(310)	(839)
At December 31, 2015	**—**	**56,560**	**577**	**57,809**	**52,429**	**167,375**
Net Book Value						
At December 31, 2014	**80,994**	**22,175**	**89**	**4,287**	**92,196**	**199,741**
At December 31, 2015	**77,240**	**18,222**	**2,306**	**6,363**	**100,997**	**205,128**

(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.

(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), in countries where the Group is providing both CBT and DTH services, the Group identified separate CGUs for CBT and DTH respectively. In countries where either CBT or DTH services are provided, only one CGU was identified for telecom activities. Mobile telephony and television production do not represent separate CGUs in Romania due RCS&RDS strategy, structure of subscribers and revenues generated.

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;

- CBT Spain.

Goodwill	**31 December 2016**	**31 December 2015**
CBT	**76,868**	**76,908**
Romania	55,600	55,781
Hungary	21,040	20,899
Spain	228	228
DTH	**310**	**332**
Romania	310	332
Total	**77,178**	**77,240**

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.

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

- for the Romanian territory 8.17% p.a. (2015: 8.48%);

- for the Hungarian territory 9.14% p.a. (2015: 9.40%).

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.

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 1.7% p.a. (2015: 1.7%);
- for Hungarian CBT CGU 1.7% p.a. (2015: 1.7%).

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 budget period, given the strategic nature of this information.

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 2016 no reasonable change in the main assumptions could result in an impairment charge (31 December 2015: same).

(iii) Subscriber acquisition costs ("SAC")

SAC represents third party costs for acquiring and connecting customers of the Group. In 2016 SAC was generated in relation with contracting customers in Romania (EUR 10,810), Spain (EUR 2,721), Hungary (EUR 326) and Italy (EUR 730). In 2015 SAC was generated in relation with contracting customers in Romania (EUR 2,567), in Spain (EUR 2,942), Hungary (EUR 328) and Italy (EUR 412).

(iv) Licences and software

Estimated useful lives

As at 31 December 2016, management reviewed the estimated useful lives of mobile telephony licenses. For certain mobile telephony licenses there are options for extension, automatic upon the request of the Group. Consequently, useful lives were revised in order to match the current best estimate of the period over which these licenses will generate future economic benefits. For details, please see also Note 2.2 d) Basis of preparation and accounting policies.

The impact of revising the estimated useful lives of certain mobile telephony licences on the value of amortization charge recognized in profit or loss statement in year ended December 31, 2016 is presented below:

	Amortization charge 2016		
	Prior estimated useful lives	**Revised estimated useful lives**	**Difference arising from change in estimated useful lives**
Licenses	17,557	16,835	(722)

2100 MHz license (Romania)

In January 2007 the Romanian General Inspectorate for Communication and Information Technology ("IGCTI") granted to RCS&RDS a *2100 MHz* license for a period of 15 years which may be extended at the request of the Company for another 10 years, for a total consideration of EUR 27,056 (equivalent of USD 35,000), entirely paid as of 31 December 2014. The cost of the *2100 MHz* license was EUR 23,110 and was determined at inception date by discounting the future payments using effective interest method at the date the license was granted to RCS&RDS (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 2016 is EUR 6,550 (2015: EUR 7,011).

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 2016 is EUR 32,158 (2015: EUR 34,911).

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.

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 2016 is EUR 28,726 (2015: EUR 30,137). 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 2016 is EUR 3,563 (2015: EUR 5,722).

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 2016 is EUR 1,227 (2015: EUR 1,847).

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).

b) Current intangible assets—programme assets

	31 December 2016	31 December 2015
Balance at 1 January	**29,536**	**16,838**
Additions	47,058	60,074
Amortization (Note 18)	(46,170)	(46,999)
Effect of movement in exchange rates	(112)	(377)
Balance at 31 December	**30,312**	**29,536**

Included in "Additions" is an amount of EUR 34,376 representing broadcasting rights for sports competitions for 2016/2017 season (2015: EUR 42,956 for 2015/2016 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. AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

	31 December 2016	31 December 2015
Balance at 1 January	**43,373**	**41,296**
Additions	1,653	850
Fair value adjustment—OCI	2,367	1,227
Non-cash distribution of dividends (Note 13)	(47,393)	—
Balance at 31 December	**—**	**43,373**

The above available for sale financial assets comprise shares in RCSM. As at 31 December 2016 the percentage of ownership of DIGI in RCSM is nil (31 December 2015: 9.17%). For additional disclosures on the fair values of the AFS refer to Note 23 (iv).

As of 31 December 2016 the AFS assets were derecognized and the entire fair value gain accumulated in fair value reserve, amounting to EUR 33,722, was reclassified to Profit or Loss (as Finance income).

8. EARNINGS PER SHARE (EPS)

	2016	2016	2016	2015	2015	2015
	Continuing Operations	*Discontinued Operations*	*Total*	*Continuing Operations*	*Discontinued Operations*	*Total*
Net profit/(loss) for the year	12,457	(674)	11,783	(17,501)	21,528	4,027
Non-controlling interests	977	26	1,003	834	(891)	(57)
Net profit/(loss) attributable to equity holders of the parent	**13,434**	**(648)**	**12,786**	**(16,667)**	**20,637**	**3,970**
Weighted average number of ordinary shares outstanding (number of shares)						
Weighted average number of ordinary shares outstanding—basic*			**46,459**			**46,459**
Weighted average number of shares outstanding—diluted*			**46,459**			**46,459**
Earnings/(loss) per share (EUR/share)	**289.2**	**(13.9)**	**275.2**	**(358.7)**	**444.2**	**85.5**
Weighted average number of ordinary shares outstanding (number of shares), retrospectively adjusted for the share split (1:10) and bonus issuance decided in February 2017 (see Note 27)						
Weighted average number of ordinary shares outstanding—basic			**99,958,650**			**99,958,650**
Weighted average number of shares outstanding—diluted			**99,958,650**			**99,958,650**
Earnings/(loss) per share (EUR/share)	**0.13**	**(0.01)**	**0.13**	**(0.17)**	**0.21**	**0.04**

* 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 above-mentioned resolutions and the changes approved therein are set to take effect only following the lapse of a two-month mandatory wait period, occurred on 11 April 2017 (please see also Note 27).

For details about the share split and bonus issuance of shares, please see Note 27.

9. INVENTORIES

	31 December 2016	31 December 2015
Merchandise and equipment	6,255	7,603
Materials and consumables	12,297	5,602
Total inventories, net	**18,552**	**13,205**

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

	31 December 2016	31 December 2015
Trade receivables	107,096	76,685
Receivable from related parties (refer to Note 14)	1,014	974
Other taxes receivable	380	180
Other receivables	475	4,706
Total trade and other receivables	**108,965**	**82,545**

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

	31 December 2016	31 December 2015
Advances to suppliers	4,291	6,167
Prepayments	2,030	2,042
Total other assets	**6,321**	**8,209**

For details regarding credit risk please refer to Note 23.

12. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Bank accounts	14,340	49,423
Petty cash	285	239
Total cash and cash equivalents	**14,625**	**49,662**

Collateral

For details on the pledges placed on the Group assets refer to Note 14 (xiv).

13. EQUITY

As of 31 December 2016, DIGI has an authorised share capital of EUR 250 comprised of 250,000 units of ordinary shares with nominal value of EUR/share 1 each. At the date of the balance sheet 50,594 ordinary shares were issued and fully paid. There are no other issued shares.

	31 December 2016	31 December 2015
Ordinary Shares—Issued and Paid (No.)	50,594	50,594
Ordinary Shares—Unissued (No.)	199,406	199,406
Nominal Value	1 EUR per share	1 EUR per share
Share Capital Value (EUR thousand)	51	51

At 31 December 2016 and 2015, the shareholders of DIGI are as follows:

	31 December 2016		31 December 2015	
Shareholder name	**No. of shares**	**%**	**No. of shares**	**%**
RCSM	29,277	57.87%	29,277	57.87%
Teszari Zoltan	2,326	4.60%	2,326	4.60%
Carpathian Cable Investment Ltd	9,953	19.67%	9,953	19.67%
Celest Limited (Cyprus)	2,694	5.32%	2,694	5.32%
DIGI—treasury shares	4,135	8.17%	4,135	8.17%
Other	2,209	4.38%	2,209	4.38%
Total	**50,594**	**100.00%**	**50,594**	**100.00%**

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.

Dividends

As stated previously, these financial statements are not the statutory financial statements of DIGI. The profit available for distribution is the profit for the year and retained earnings recorded in the Dutch GAAP statutory financial statements, which differs from the result in these financial statements, prepared in accordance with IFRS.

In 2016 a gross dividend of EUR 57,545 (2015: EUR 3,500) was distributed from the DIGI statutory retained earnings of 2016 (2015).

On December 27, 2016 the general shareholders meeting of DIGI has approved the distribution of cash dividends in amount of 300 EUR/share for shareholders; RCSM has exercised the option to receive instead of the cash dividends all the RCSM shares that were held by DIGI at the date (20,400 shares).

The 2016 distributions consisted of EUR 10,154 cash and EUR 47,392 distribution in kind representing all the available-for-sale shares in RCSM. The related amount of dividend per share for 2016 was EUR/share 1,726.32 for RCSM and respectively EUR/share 407.62 for the other shareholders; the amount of dividend per share for 2015 was EUR/share 75.34.

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 available-for-sale financial assets until the assets are derecognised or impaired.

Cash flow hedges

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument.

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 2016	31 December 2015
2013 Bonds	(i)	7.5% p.a.	—	439,176
2016 Bonds	(ii)	5% p.a.	349,638	—
2015 Senior Facilities Agreement	(iv)	3M ROBOR + 2.5%p.a.	—	179,005
2016 Senior Facilities Agreement	(v)	3M ROBOR + 2.65%p.a.	307,296	—
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	3,990	6,716
Other	(x)		4,616	
Total long term portion			**665,540**	**624,897**

Current portion		Nominal interest rate	31 December 2016	31 December 2015
2015 Senior Facilities Agreement	(iv)	3M ROBOR + 2.5%p.a.	—	48,287
2016 Senior Facilities Agreement	(v)	3M ROBOR + 2.65%p.a.	25,085	—
Overdrafts	(vi-vii)	Variable linked to EURIBOR/ ROBOR/LIBOR+ respective margin	7,217	4,757
Obligations under finance leases	(xv)	Variable linked to LIBOR and EURIBOR+ respective margin	1,782	2,046
Other	(x)-(xiii)		9,962	8,028
Total current portion			**44,047**	**63,118**

(i) 2013 Bonds

In November 2013, DIGI issued non-convertible bonds in amount of EUR 450,000 with a coupon yield of 7.5% and maturity in November 2020. The bonds were placed at face value and have a half year coupon period. The Bonds included several call options as well as one put option. (Please refer to Notes 23 and 25 for details regarding the separated embedded derivative). 2013 Bonds were fully redeemed and refinanced in October 2016 by a new bond issuance and Senior Facilities Agreement. Please see point ii).

Arrangement fees

The total cost of concluding the 2013 Bonds was amortised using the effective interest method over the life of the Bonds. Upon redemption in 2016 the unamortized balance of 2013 Bond issuance related fees was recognized as finance expense, in amount of EUR 8,802. As at 31 December 2016 the balance was nil. (2015: EUR 10,822).

Pledges

Details on pledges are presented further in section (xiv) of the Note 14.

Covenants

The Group had agreed to certain covenants with respect to the 2013 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 was subject to certain exceptions and qualifications. Certain of these covenants may also be suspended in the event that the Bonds receive investment grade ratings from the relevant credit rating agencies.

In accordance with the terms of the Notes, the Group was 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 Notes) 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 would not exceed 3.50 to 1.

The Group was in compliance with all the covenants under the 2013 Bonds as at 31 December 2015.

(ii) 2016 Bonds

On October 26, 2016 the Company issued Bonds with a value of EUR 350 million with a 5% coupon yield falling due in October 2023.

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 2016 the unamortized balance of bond issuance related fees was EUR 8,637 (2015: nil).

Drawing

As of 31 December 2016, the nominal balance is EUR 350,000 (EUR 349,638 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.

In accordance with the terms of the Notes, 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 Notes) 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.

The Group is in compliance with all the covenants under the 2016 Bonds as at 31 December 2016.

(iii) 2013 Senior Facilities Agreement

On October 21, 2013 RCS&RDS entered into a committed facility agreement, as borrower, with Citibank, N.A., London Branch and ING Bank N.V. Amsterdam, Bucharest Branch, as mandated lead arrangers, for the repayment of the existing facilities and for general corporate purposes (the "2013 Senior Facilities Agreement"). The 2013 Senior Facilities Agreement consisted of a term loan facility with a capacity of EUR 250 million and a revolving credit facility with a capacity of EUR 50 million. On June 19, 2014 RCS&RDS drew the remaining EUR 45 million under the term loan. On May 22, 2015 RCS&RDS repaid the facility using the proceeds of the 2015 Senior Facilities Agreement and own funds.

(iv) 2015 Senior Facilities Agreement

On April 30, 2015 RCS&RDS entered into a committed facility agreement, as borrower, with BRD-Groupe Societe Generale, Citibank, London branch, ING Bank, and Unicredit Tiriac Bank as mandated lead arrangers, for the repayment of the 2013 Senior Facilities Agreement (the "2015 Senior Facilities Agreement").

At signing the 2015 Senior Facilities Agreement consisted of a term loan facility with a capacity of RON 994.2 million and a revolving credit facility with a capacity of RON 39.8 million. The facility had an option to be increased by EUR 25 million (in RON at the exchange rate from the date of the notice) until the end of 2015. RCS&RDS exercised the option and drew EUR 23.3 million (RON 105.4 million) from the term loan and the revolver credit on 29 December 2015 (the "Accordion" agreement).

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 (balance of the initial term loan as at 31 December 2015: EUR 197.8 million excluding borrowing costs; balance of the initial revolver loan as at 31 December 2015: EUR 8.8 million excluding borrowing costs).

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 (balance of the additional amount related to the term loan as at 31 December 2015: EUR 21 million; balance of the initial revolver loan as at 31 December 2015: EUR 2.3 million).

On October 26, 2016, RCS & RDS repaid all of the amounts outstanding under the 2015 Senior Facilities Agreement using the proceeds of the Senior Facilities Agreement.

Arrangement fees

The total cost of concluding the loan is amortised using the effective interest method over the life of the loan. As of 31 December 2015 the unamortized balance of borrowings related fees was EUR 2,568.

The Senior Facilities Agreement concluded on October 2016 was accounted for as a modification of the previous 2015 Senior Facilities Agreement since there were no substantially different terms compared to the previous agreement, therefore the unamortized borrowing costs of the 2015 Senior Facilities Agreement in amount of EUR 2,045 as at 31 December 2016 will continue to be amortised over the life of the 2016 Senior Facility Agreement using the effective interest method (please see also Note 19).

Drawing

On May 22, 2015 RCS&RDS drew the entire amount available from both the term loan facility and the revolving credit facility. On 29 December 2015 RCS&RDS drew an additional amount under the "Accordion" agreement. As of 31 December 2015, RCS&RDS drew in total EUR 229,860 (EUR 227,292—presented net of borrowing fees).

Maturities and repayment schedule

The term loan facility was repayable in 10 equal semi annual instalments starting with October 30, 2015 and the revolving credit facility was repayable in full on April 30, 2018. On October 30, 2015 RCS&RDS has repaid the first principal instalment in amount of EUR 22 million (equivalent of 99.4 million RON at exchange rate as at 31 December 2015). In October 2016 the facility was refinanced by the Senior Facilities Agreement.

Pledges

The 2015 Senior Facilities Agreement was unconditionally guaranteed by DIGI on a senior secured basis, and shares in the Collateral pursuant to the terms of the Intercreditor Agreement.

Covenants

The Group had agreed under the 2015 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 2015 Senior Facilities Agreement included maintaining: (i) at the end of each accounting quarter a maximum consolidated total net indebtedness to EBITDA ratio of 3.75 until December 31, 2016 and afterwards a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 3.75 until December 31, 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25.

The Group was in compliance with all the covenants under the 2015 Senior Facility Agreement as at 31 December 2015.

(v) Senior Facilities Agreement ("SFA")

On October 7, 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 can be 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 can be drawn for the purpose of funding the refinancing of the 2013 Bonds. The SFA Facility B can be drawn for the general corporate and working capital purposes of the Group. All facilities mature in October 2021.

Drawing

On October 26, 2016, the Company drew (a) RON 930.0 million (EUR 204.8 million equivalent as at 31 December 2016) under the SFA Facility A1 and repaid the 2015 Senior Facilities Agreement in full; and (b) RON 600.0 million (EUR 132.1 million equivalent as at 31 December 2016) under the SFA Facility A2. Facility B has a capacity of RON 157 million.

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

Maturities and repayment schedule

The repayment schedule for any principal amount drawn under the SFA Facility A1/A2 is as follows:

Repayment instalment	
Repayment date	***%****
28-Apr-17	3.75
30-Oct-17	3.75
30-Apr-18	6.25
30-Oct-18	6.25
30-Apr-19	8.75
30-Oct-19	8.75
30-Apr-20	8.75
30-Oct-20	8.75
30-Apr-21	8.75
Termination date for the SFA Facility A1/ A2	36.25
Total	**100**

* *(percentage of the SFA Facility A1/A2 loan outstanding as at the end of the availability period for the SFA Facility A1/A2);*

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 2016 the unamortized balance of borrowings related fees incurred in 2016 was EUR 2,496.

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 2,045 as at 31 December 2016 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 Notes, the ING Facilities Agreement, the Citi Facilities Agreement and the BRD Letters of Guarantee 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 3.75 until December 31, 2016 and afterwards a maximum consolidated total net indebtedness to EBITDA ratio of 3.25; and (ii) a minimum EBITDA to net total interest ratio of 3.75 until December 31, 2016 and afterwards a minimum EBITDA to net total interest ratio of 4.25.

The Group is in compliance with all the covenants under the Senior Facility Agreement as at 31 December 2016.

(vi) 2013 ING Facilities Agreement

On November 1, 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 (i) an uncommitted overdraft facility of up to EUR 5.0 million and (ii) an uncommitted facility for letters of guarantee of up to EUR 5.0 million.

Drawings

As of 31 December 2016 EUR 4,163 (31 December 2015: EUR 4,757) were drawn under the overdraft facility. In addition EUR 1,973 and RON 13,122 Letters of Guarantee were issued under the letters of guarantee facility.

In addition to the ING Facilities Agreement, on April 28, 2016 RCS & RDS entered into an uncommitted letter of guarantee facility of up to EUR 5.0 million with ING Bank N.V., Bucharest Branch. The letter of guarantee issued under this facility has expired.

(vii) Citi Facilities Agreement

On October 25, 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 October 25, 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 November 4, 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:

a) an uncommitted overdraft/bank guarantee facility in the amount of USD 5,545, as at 31 December 2016

b) an uncommitted bank guarantee facility in the amount of USD 4,650, as at 31 December 2016

c) an uncommitted bank guarantee facility in the amount of EUR 500, as at 31 December 2016.

As of 31 December 2016, the overdraft was utilised in amount of EUR 3,054 equivalent (31 December 2015: nil) and bank letters of guarantee were issued in amount of USD 750, EUR 1,031 and RON 16,264.

(viii) Unicredit cash collateral agreement

On October 5, 2010, RCS&RDS entered into a cash collateral agreement with UniCredit Tiriac Bank S.A., for EUR 59 for issuance of a letter of counter guarantee, which is valid until August 2017 (the "Unicredit Cash Collateral Agreement"). The agreement entered into force on October 8, 2012, and is secured with a moveable mortgage over a cash collateral account opened with UniCredit Tiriac Bank S.A.

On December 15, 2015, RCS & RDS entered into an agreement with UniCredit Bank S.A. for an uncommitted overdraft/bank guarantee facility in the amount of EUR 2.0 million. As at December 31, 2016 this facility remained undrawn.

(ix) BRD Letters of Guarantee Facility

As of 31 December 2016 the Group had letters of guarantee issued by BRD with a value of EUR 680 and RON 2,045.

(x) Libra Loan Agreement

On February 25, 2016, RCS & RDS entered into a loan agreement for the aggregate amount of RON 32.0 million repayable in 5 years with Libra Bank (the "Libra Loan Agreement"). RCS&RDS drew RON 31.6 million 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 2016 RON 26,898 (EUR 5,923 equivalent using exchange rate as at 31 December 2016) was outstanding under the Libra Loan Agreement.

(xi) Santander Facility

On October 30, 2015, Digi Spain entered into a new EUR 1.5 million short-term facility agreement with Banco Santander (the "Santander Facility"). This facility was renewed from October 30, 2016 for one additional year, and at the same time the limit was increased to EUR 2.0 million, with maturity on October 21, 2017. As at December 31, 2016, the balance drawn under the Santander Facility was EUR 1,065 (31 December 2015: EUR 950).

(xii) Caixa Facility

On February 6, 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 January 17, 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 500,000. As at December 31, 2016, the balance drawn under the Caixa Facility overdraft was EUR 388 (31 December 2015: EUR 82).

On October 21, 2016, Digi Spain entered into a short-term loan with Caixabank, S.A for EUR 1.8 million with maturity on February 28, 2017 (the "Caixa Loan"), when the loan was repaid. As at December 31, 2016, the balance was EUR 1,200.

(xiii) OTP Bank Hungary Loan Agreement

In December 2016, Digi Hungary has entered into a short term loan of HUF 1,300 million (EUR 4.2 million equivalent using exchange rate as at 31 December 2016) with OTP bank in Hungary. Out of this loan, as at December 31, 2016 HUF 500 million (EUR 1.6 million equivalent using exchange rate as at December 31, 2016) was drawn and outstanding. The remaining amount was drawn in January 2017.

(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 (other than certain shares of Capital Stock of RCS&RDS that are subject to a call option in favor of the purchaser of our Serbian subsidiary), which as at 31 December 2016 accounted for 95.8% 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) Treasury shares of RCS&RDS held by itself, which on the Issue Date accounted for 8.55% of its issued Capital Stock (as of 31 December 2016: nil, since RCS&RDS cancelled treasury shares in December 2016);

(e) 100% of the issued Capital Stock of DIGI T.S. Kft Hungary;

(f) 100% of the issued Capital Stock of DIGI Spain Telecom S.L.U.; and

(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.

(xv) Obligations under finance leases

The Group financed the acquisition of certain assets (buildings and land) through finance leases. As at 31 December 2016 there are four 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 42 months for Raiffeisen Leasing and 97 months for Piraeus Leasing.

In December 2015 the Group entered into two new lease agreements with Unicredit Leasing IFN for two buildings in Timisoara and Arad. The lease agreement for the Timisoara property was terminated on August 11, 2016. The remaining length of the building in Arad lease contract is 36 months.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31-Dec-16		31-Dec-15	
	Net	**Gross**	**Net**	**Gross**
Within one year	1,782	1,989	2,046	2,345
Later than one but less than five years	3,275	3,615	5,688	6,208
More than five years	715	755	1,027	1,118
Less: future finance charges (interest)		(587)		(909)
Total	**5,772**	**5,772**	**8,762**	**8,762**

15. TRADE AND OTHER PAYABLES, OTHER LONG TERM LIABILITIES

15.1 TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables and payables to fixed assets suppliers	253,539	188,431
Accruals	62,639	49,869
Value added tax ("VAT")	10,106	1,069
Other payables related to investments	5,011	3,062
Salary and related taxes	19,649	15,677
Amounts payable to related parties (Note 16)	1,285	631
Dividends payable (Note 16)	15,354	9,413
Other	6,386	2,966
Total trade and other payables	**373,969**	**271,118**

Included in payables to suppliers and accruals above is EUR 138,936 (31 December 2015: EUR 78,752) representing amounts due for property, plant and equipment and EUR 24,909 (31 December 2015: EUR 19,227) 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

	31 December 2016	31 December 2015
Other long term liabilities	46,076	7,598

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). The increase in Other long term liabilities as at 31 December 2016 is in line with the sustained roll-out of our mobile network during 2016.

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:

Receivables from related parties

		31 December 2016	31 December 2015
Party			
Ager Imobiliare S.R.L.	(ii)	698	673
Digi Serbia	(ii)	218	211
Music Channel S.R.L.	(ii)	52	51
RCSM	(i)	37	26
Other		9	13
Total		**1,014**	**974**

Payables to related parties

		31 December 2016	31 December 2015
Party			
Related parties—shares	(ii)	1,082	453
RCSM	(i)	5,711	5,628
Digi Serbia	(ii)	117	114
Mr. Zoltan Teszari	(iii)	648	700
Other		9,081	3,149
Total		**16,639**	**10,044**
Of which: dividends payable (Note 15.1)		*15,354*	*9,413*

(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. There have been no guarantees provided or received for any related party receivables or payables, other than the pledge on shares of RCS&RDS, provided by DIGI for loans and borrowings (refer to Note 14 (xiv)). For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (31 December 2015: nil).

For dividends distributed, please refer to Note 13.

Compensation of key management personnel of the Group

	2016	2015
Short term employee benefits—salaries, including employer contribution to State pension plan	2,258	2,013
Share-based payments	—	2,054

In 2015 certain members of the management team (including key management personnel) benefitted from a share based payment plan at the level of RCS&RDS. In 2016 the share based payment plan was not applied (no grants were made and all previous awards vested). Total share options granted to key management personnel during the 2016 financial year amounted to nil shares (2015: 935,000 shares), in addition to the salaries shown above (refer to Note 24).

The transactions with related parties, except for the compensation of key management personnel presented above, were insignificant during the years 2016 and 2015.

17. REVENUES

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

	2016	2015
Revenues from continuing operations	**842,755**	**746,290**
Cable TV		
Romania	175,673	166,845
Hungary	40,993	36,586
	216,666	**203,431**
Internet and data*		
Romania	163,627	155,931
Hungary	37,954	33,398
Italy	—	—
Spain	—	—
	201,581	**189,329**
Telephony Revenues*		
Romania	147,107	109,955
Hungary	8,040	8,329
Spain	82,709	72,242
Italy	8,997	7,353
	246,853	**197,878**
DTH Revenue		
Romania	38,714	40,176
Hungary	31,378	30,479
	70,092	**70,655**
Other revenues		
Romania	87,568	67,227
Hungary	19,485	17,141
Spain	328	438
Italy	182	191
	107,563	**84,997**
Revenues from discontinued operations	**—**	**3,840**
DTH Revenue		
Czech Republic	—	3,816
	—	**3,816**
Other revenues		
Czech Republic	—	24
	—	**24**
Total revenues	**842,755**	**750,130**

* *Starting with 30 June 2016, we aggregate the mobile telephony and mobile data revenue and present them as revenues from mobile telecommunication services (voice and date) reported under Telephony revenue category. Revenue for the year ended 31 December 2015 was restated accordingly: the amount of EUR 38,021 coming from Internet and data revenues were partially reclassified to Telephony line (Romania, Hungary, Spain and Italy).*

Other revenues include mainly sales of CPE, but also contain services of filming sport events, advertising revenue, rental of CPE and penalties invoiced to subscribers. Sales of CPE include mainly mobile handsets and other equipment.

The significant increase in telephony revenues is entirely due to the increase in Mobile telephony revenues.

18. OPERATING EXPENSES

	2016	2015
Operating expenses from continuing operations	**755,848**	**696,567**
Depreciation of property, plant and equipment (Note 5)	86,693	114,838
Amortization of programme assets (Note 6)	46,170	46,998
Amortisation of non-current intangible assets (Note 6)	35,003	25,594
Revaluation impact (Note 5)	6,276	—
Impairment of property, plant and equipment (Note 5)	1,830	337
Impairment of non-current intangible assets (Note 6)	398	
Salaries and related taxes	119,049	113,618
Contribution to pension related fund	19,171	16,181
Programming expenses	73,915	67,445
Telephony expenses*	123,406	94,464
Cost of goods sold	57,996	48,006
Rentals	50,322	42,727
Invoicing and collection expenses	13,812	13,476
Taxes and penalties	12,676	12,025
Utilities	14,657	13,403
Copyrights	8,851	8,408
Internet connection and related services*	19,303	16,353
Impairment of receivables and other assets, net of reversals	9,677	10,068
Other expenses**	56,643	52,626
Operating expenses from discontinued operations	**—**	**3,115**
Total operating expenses	**755,848**	**699,682**

* *As of 31 December 2016 we have reclassified the mobile internet expenses for Spain and Italy from Telephony expenses line to Internet connection and related services line because of their increasing significance. The comparatives for year ended 31 December 2015 were reclassified accordingly for disclosure purposes.*

** *As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts separately from Operating expenses, as Other expenses. Comparative disclosure as at December 31, 2015 was restated accordingly.*

Other expenses include mainly expenses related to own TV channels (Digi Sport, Digi 24 news channel, Digi World, Digi Life, Digi Animal World, Digi Film) and network maintenance expenses.

The significant increase in telephony expenses is mainly due to the increase in Mobile telephony expenses.

Salaries and related taxes capitalized for the development of network during the year ended 31 December 2016 amount to EUR 25,416 (2015: EUR 21,179).

19. NET FINANCE COSTS

	2016	2015
Finance income		
Interest from banks	49	64
AFS gain reclassified from OCI	33,722	—
Gain on derivative financial instruments and other financial revenue	11,541	9,805
	45,312	**9,869**
Finance expenses		
Interest expense	(45,173)	(49,342)
Loss on derivative financial instruments	(5,216)	(3,207)
Other financial expenses	(47,746)	(12,725)
Foreign exchange differences (net)	(3,332)	(5,452)
	(101,467)	**(70,726)**
Net Finance Costs from continuing operations	***(56,155)***	***(60,857)***
Net Finance Costs from discontinued operations	**—**	***(23)***
Net Finance Costs total	**(56,155)**	**(60,880)**

The 2013 Bonds were refinanced on 26 October 2016. Other financial expenses in 2016 include redemption interest and penalties in amount of EUR 17,627, the expensing of the unamortized transaction costs of the 2013 Bond, in amount of EUR 8,802, and the de-recognition of the embedded derivative asset of the 2013 Bond upon exercise of call option, in amount of EUR 14,211.

Other financial expenses in 2015 include expensing of the unamortised transaction costs of EUR 4.9 million relating to 2013 Senior Facilities Agreement repaid in 2015. Other financial expenses in 2016 and 2015 also include fees related to short-term vendor financing and reverse factoring agreements, commitment fees for undrawn facilities and other bank charges.

In 2016 finance income includes fair value gain from embedded derivative assets related to the 2016 Bonds in amount of EUR 5,474 and fair value gain from embedded derivative assets related to the 2013 Bonds in amount of EUR 4,956 (2015: EUR 9,255 from embedded derivative asset related to the 2013 bonds).

In October 2016 RCS & RDS concluded the Senior Facilities Agreement. The Senior Facilities Agreement was treated as a modification of the 2015 Senior Facilities Agreement. Therefore, the discounted present value of the cash flows under the Senior Facility Agreement was recalculated using the original effective interest rate of the 2015 Senior Facilities Agreement and compared with the amortised cost of the existing facility. The resulting adjustment to the amortised cost of the financial liability was recognised as finance income at the date of the modification, in amount of EUR 784.

20. INCOME TAX

The statutory tax rate applied in Netherlands during 2016 was 25% (2015: 25%)

Other entities

The statutory tax rate applied in the Romanian entities during 2016 was 16% (2015: 16%).

The statutory tax rate applied in Hungary during 2016 was 19% (2015: 19%).

The statutory tax rate applied in Czech Republic during 2015 was 19%.

The statutory tax rate applied in Spain during 2016 was 25% (2015: 28%).

The statutory tax rate applied in Italy during 2016 was 31.4% (2015: 31.4%).

Components of income tax expense for the periods ended 31 December 2016 and 2015 respectively were:

	2016	2015
Current income tax charge	5,505	6,605
Deferred income tax relating to origination and reversal of temporary differences	5,821	(1,236)
Income tax expense/ (credit) recognised in profit or loss for continuing operations	**11,326**	**5,369**
Income tax expense/ (credit) recognised in profit or loss for discontinuing operations	—	*56*

Reconciliation of income tax expense

Reconciliation of income tax expense at the statutory income tax rate (Netherlands) applicable to the net result before tax to the income tax expense at the Group's effective income tax rate for the financial years 2016 and 2015 is as follows:

	2016	2015
Net profit/(loss) before income tax for continuing operations	**23,110**	**(12,132)**
At statutory income tax rate of the Company	5,777	(3,033)
Effect of difference in tax rates applicable for foreign subsidiaries	613	2,346
Non-deductible expenses / (Non-taxable income)	5,031	5,632
Fiscal losses for which no deferred tax has been recognized	—	1,010
Fiscal credit	—	(586)
Changes in percentage rate	(95)	—
Effective tax expense / (credit) from continuing operations	**11,326**	**5,369**
Effective tax expense from discontinuing operations	—	*56*

Deferred taxes in the consolidated statement of financial position are**:**

	31 December 2016	31 December 2015
Deferred tax assets	3,126	3,951
Deferred tax liabilities	(34,812)	(26,981)
	(31,686)	**(23,030)**

Movement of deferred taxes:

	2016	2015
Deferred taxes recognized in the statement of financial position	**(31,686)**	**23,030**
Difference from prior year balance	8,656	(2,241)
Of which:		
Recognized in profit or loss	5,822	(1,327)
Deferred tax liability resulted from business combinations	—	—
Deferred tax liability disposed on sale of subsidiary	—	(184)
Deferred tax liability related to interest rate swaps and related to revaluation, recognised in other comprehensive income	2,930	(864)
Effect of movement in exchange rates	(96)	134

The deferred tax (asset)/ liability for the financial year 2016 comprises the tax effect of temporary differences related to:

	Balance 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Disposed on sale of subsidiary	Effect of movement in exchange rates	Balance 31 December 2016
Property, plant and equipment	33,207	9,768	2,804	—	(277)	**45,502**
Intangibles	3,205	83	—	—	1,684	**4,972**
Intangible acquired through business combination	1,540		—	—	(1,540)	**—**
Accounts receivable	2,408	(1,345)	—	—	47	**1,110**
Accounts payable	(1,015)	(330)	—	—	9	**(1,336)**
Long term borrowings	974	(103)	—	—	(3)	**868**
Inventory	—	—	—	—	—	**—**
Deferred tax liabilities	**40,319**	***8,072***	***2,804***	**—**	***(79)***	***51,116***
Intangibles	160	—	—	—	—	**160**
Accounts receivable	40	—	—	—	(40)	**—**
Accounts payable	—	—	—	—	—	**—**
Interest expense postponed for deduction	(9,509)	(3,076)	—	—	69	**(12,516)**
Inventory	(358)	(592)	—	—	(2)	**(952)**
Cash Flow hedge reserves	(864)	—	126	—	2	**(736)**
Fiscal losses	(6,758)	1,418	—	—	(46)	**(5,386)**
Deferred tax assets	**(17,289)**	***(2,250)***	***126***	**—**	***(17)***	***(19,430)***
Offsetting (refer to Note 2.2 o)	*(13,337)*	—	—	—	—	*(16,304)*
Recognition						
Deferred tax liabilities	**26,981**	—	—	—	—	**34,812**
Deferred tax assets	**(3,951)**	—	—	—	—	**(3,126)**
Net deferred tax liability	**23,030**	—	—	—	—	**31,686**
Deferred tax (benefit) / expense	**—**	**5,822**	**2,930**	**—**	**(96)**	**—**

The deferred tax (asset)/ liability for the financial year 2015 comprises the tax effect of temporary differences related to:

	Balance 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Disposed on sale of subsidiary	Effect of movement in exchange rates	Balance 31 December 2015
Property, plant and equipment	33,183	267	—	(184)	(59)	**33,208**
Intangibles	2,229	2,345	—	—	171	**4,745**
Accounts receivable	1,027	1,415	—	—	(34)	**2,408**
Accounts payable	(4,069)	3,068	—	—	(15)	**(1,015)**
Long term borrowings	7,080	(6,147)	—	—	42	**974**
Inventory	59	—	—	—	(59)	**—**
Deferred tax liabilities	**39,508**	**948**	**—**	***(184)***	**46**	**40,319**
Intangibles	160	—	—	—	—	**160**
Accounts receivable	(54)	95	—	—	(1)	**40**
Accounts payable	(110)	110	—	—	—	**—**
Interest expense postponed for deduction	(4,357)	(5,285)	—	—	133	**(9,508)**
Inventory	(550)	195	—	—	(3)	**(358)**
Cash Flow hedge reserves	—	—	(864)	—	—	**(864)**
Fiscal losses	(9,327)	2,608	—	—	(39)	**(6,758)**
Deferred tax assets	**(14,238)**	**(2,276)**	**(864)**	**—**	**89**	**(17,289)**
Offsetting (refer to Note 2.2 o)	*(11,304)*	—	—	—	—	*(13,337)*
Recognition						
Deferred tax liabilities	**28,204**	—	—	—	—	**26,981**
Deferred tax assets	**(2,933)**	—	—	—	—	**(3,951)**
Net deferred tax liability	**25,271**	—	—	—	—	**23,030**
Deferred tax (benefit) / expense	**—**	**(1,327)**	**(864)**	***(184)***	**134**	**—**

Deferred tax assets recognised for fiscal losses relate mainly to the Group's operations in Hungary. Such losses, in amount of EUR 11,569 at 31 December 2016 (31 December 2015: EUR 18,917), are not subject to preapproval by tax authorities and can be carried forward until 2025.

In addition, in 2016 and 2015 a deferred tax asset was recognized for interest expenses of RCS&RDS which are postponed for deduction until the gearing ratio falls again below 3. Such interest expenses can be carried forward indefinitely.

For statutory purposes, RCS&RDS has performed several revaluations of its property, plant and equipment. Should the statutory revaluation reserves of RCS&RDS be distributed to its shareholders they would be taxed, i.e. they would generate a tax liability of EUR 5,781 (2015: EUR 6,826), 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.

As of 31 December 2016 we have recorded an additional provision regarding the sale transaction of the Czech subsidiary in net amount of EUR 674.

22. BUSINESS COMBINATIONS

a) Subsidiaries

The consolidated financial statements incorporate the financial information of the following main subsidiaries in each of the countries:

DIGI owns shares 96.1% in RCS&RDS (2015: 87.6%), as per shares transactions. Below are the presented the main subsidiaries of RCS&RDS (excluding inactive subsidiaries):

Subsidiary	Country of Incorporation	Field of activity	Legal Ownership 2016	2015
Digi T.S. Kft	Hungary	CATV, Internet, DTH, Telephony	100.00%	100.00%
DIGI SPAIN TELECOM S.L.U.	Spain	Telephony	100.00%	100.00%
DIGI ITALY SL	Italy	Telephony	100.00%	100.00%
ITV.	Hungary	CATV	100.00%	100.00%
CFO Integrator	Romania	Duct Rent	100.00%	100.00%
S.C. ENERGIAFOTO SRL	Romania	Solar energy	100.00%	100.00%
S.C. NOVITAS Electro	Romania	Solar energy	100.00%	100.00%
S.C. DELALINA S.R.L.	Romania	Solar energy	100.00%	100.00%

b) Business acquisitions

	2016	2015
Total consideration payable in cash	**—**	**2,990**
Customer relationships		—
Other intangibles	—	2,696
Deferred tax liabilities	—	—
Property, plant and equipment	—	294
Payables	—	—
Cash and cash equivalents	—	—
Other	—	—
Total identifiable net assets	**—**	**2,990**
Goodwill	**—**	**—**

None of the goodwill recognized is expected to be deductible for tax purposes.

c) Changes in ownership interests while retaining control

In 2016 DIGI acquired 1,070,000 (2015: 1,924,100) shares in RCS&RDS, for a total amount of EUR 1,646 (2015: EUR 2,953).

During 2016 the Group acquired no other non-controlling interests (31 December 2015: EUR 738) from previous owners of the non-controlling interest.

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.

(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:

	Note	31 December 2016	31 December 2015
Trade and other receivables	10	108,965	82,545
Other assets	11	6,321	8,209
Cash and cash equivalents	12	14,340	49,423
Derivative assets	25	17,049	9,937
Long term receivables*		3,927	2,926
Total		**150,602**	**153,041**

* The long term receivables position does not include green certificates balance as at 31 December 2015.

The carrying amount of the financial assets, net of the recorded impairment allowances, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by macro-economic factors, management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by counterparty was:

	31 December 2016	31 December 2015
Citibank	146	1,710
ING Bank	9,658	42,041
Banca Comerciala Romana	13	277
BRD Groupe Societe Generale	231	118
Unicredit Tiriac Bank	304	2,540
Other	3,988	2,737
Total	**14,340**	**49,423**

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.

Impairment losses

The ageing of trade and other receivables, and other assets, at the reporting date was:

	Gross 31-Dec-16	Impairment 31-Dec-16	Net 31-Dec-16	Gross* 31-Dec-15	Impairment* 31-Dec-15	Net* 31-Dec-15
1. Neither past due nor impaired	92,131	—	92,131	57,778	—	57,778
2. Past due but not impaired*	23,155	—	23,155	32,967	—	32,976
3. Impaired	45,058	(45,058)	—	77,439	(77,439)	—
Total	**160,343**	**(45,058)**	**115,286**	**168,193**	**(77,439)**	**90,754**
*** Ageing past due but not impaired**						
Past Due less 30 days	14,917	—	—	28,152	—	—
Past Due 30-90 days	4,124	—	—	3,950	—	—
Past Due 90-180 days	4,114	—	—	875	—	—
Total	**23,155**	**—**	**—**	**32,976**	**—**	**—**

The majority of receivables classified as neither past due nor impaired refer to residential subscribers.

The allowances recorded are mainly determined as collective assessment, based principally on ageing of balances due.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2016	2015*
Balance at 1 January	77,439	71,949
Impairment loss recognized (Note 18)	9,051	10,069
Impairment related to receivables of discontinued operations	—	(1,598)
Amounts written off	(41,381)	(2,302)
Effect of movement in exchange rates	(51)	(679)
Balance at 31 December	**45,058**	**77,439**

* Information related to 2015 from above tables regarding ageing and movement of allowances was changed to include also "other assets" (Note 11).

(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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2016:

	31 December 2016						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**703,814**	**846,859**	42,324	30,999	76,127	697,408	—
Finance lease liabilities	**5,772**	**6,359**	994	994	1,932	1,683	755
Trade and other payables and other liabilities	**409,939**	**416,340**	314,432	55,437	32,745	13,725	2
Derivative financial liabilities							
Interest rate swaps used for hedging	**5,318**	**8,021**	1,969	1,754	2,579	1,718	—
Energy trading acquisitions	**1,264**	**1,268**	934	317	18	—	—
Total	**1,126,106**	**1,278,847**	**360,654**	**89,502**	**113,400**	**714,534**	**757**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2015:

	31 December 2015						
	Carrying amount	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
Non derivative financial liabilities							
Interest bearing loans and borrowings, including bonds	**679,254**	**889,422**	52,734	55,179	92,170	689,339	—
Finance lease liabilities	**8,761**	**9,701**	1,107	1,238	2,476	3,732	1,148
Trade and other payables and other liabilities	**277,646**	**278,206**	245,669	24,823	7,714	—	—
Derivative financial liabilities							
Interest rate swaps	**6,094**	**12,715**	2,330	2,335	3,737	4,313	
Foreign currency swaps	**493**	**493**	493	—	—	—	—
Energy trading acquisitions	14,520	14,585	8,671	5,914	—	—	—
Total	**986,768**	**1,205,122**	**311,004**	**89,488**	**106,0977**	**697,384**	**1,148**

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 2016, the Group had net current liabilities of EUR 251,818 (31 December 2015: EUR 171,756). 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 2016		31 December 2015	
	USD	EUR	USD	EUR
Trade and other receivables	3,973	4,690	3,938	3,637
Cash and cash equivalents	6	5,486	50	3,087
Interest bearing loans and borrowings, including bonds	—	(352,797)	—	(446,161)
Bank overdraft	1	—	—	(4,757)
Finance lease liabilities	—	(5,770)	—	(8,759)
Trade and other payables	(47,714)	(59,870)	(36,712)	(42,288)
Gross statement of financial position exposure	**(43,734)**	**(408,261)**	**(32,724)**	**(495,241)**
Derivative financial instruments*		—	—	25,406
Gross exposure	**(43,734)**	**(408,261)**	**(32,724)**	**(469,835)**

* Represents amounts to be received as part of the cross currency interest rate swaps in place at the end of each period.

The following significant exchange rates applied for the year ended 31 December 2016:

	2016	2015
Romania		
USD	4.3033	4.1477
EUR	4.5411	4.5245
Hungary		
USD	293.69	286.63
EUR	311.02	313.12
Czech Republic		
USD	n/a	24.82
EUR	n/a	27.02

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 / increased loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant, and does not take into account the currency swaps existing as of 31 December 2015.

	Effect on profit before tax 2016	Effect on profit before tax 2015
EUR	40,826	49,524
USD	4,144	3,000
Total	**44,970**	**52,524**

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 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).

The Group had in effect a currency swap as of 31 December 2015 in order to mitigate the currency exposure of the bond interest denomination in EUR, for an amount of EUR 450 million. This currency swap was in effect until September 2016.

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 2016	**31 December 2015**
Interest bearing payables	77,319	18,127
Finance lease liabilities	2,129	2,369
Senior Facility Agreement	336,923	229,860
Interest rate swap	5,318	6,587
Other	13,140	4,757
Total	**434,828**	**261,700**

The 2015 Senior Facilities Agreement bears variable interest rate but the Group has entered into fixed for floating interest rate swaps, 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 bears variable interest rate. The interest rate swaps concluded by the Group in for the 2015 Senior Facilities Agreement are still valid under the same terms (amounts, maturities, interest rates etc).

Except for the ones presented in the table above there are no other major interest bearing financial instruments.

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates, after taking into consideration the effect of the IRS, at the reporting date would have increased (decreased) profit or loss before tax by:

	Profit or loss	
31 December 2016		
Variable rate instruments, after IRS effect	(1,924)	1,924

	Profit or loss	
	100 basis points increase	100 basis points decrease
31 December 2015		
Variable rate instruments, after IRS effect	(350)	350

The effect in equity is the effect in profit or loss before tax, net of tax (16%).

Exposure to electricity price risk

Through its electricity production and 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.

iv) Fair values

The Group measures at fair value available for sale investments, 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.

Recurring fair value measurements

Recurring fair value measurements are those that are required or permitted by the accounting standards in the statement of financial position as at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements of financial instruments are categorised are as follows:

	Level 1	Level 2	Level 3	Total
31 December 2016				
Available for sale financial assets	—	—	—	—
Cross currency swaps	—	—	—	—
Interest rate swaps	—	—	(5,318)	(5,318)
Embedded derivatives	—		13,908	13,908
Electricity trading assets (term contracts)	—	—	3,141	3,141
Electricity trading liabilities (term contracts)	—	—	(11,038)	(11,038)
Total	**—**		**693**	**693**
31 December 2015				
Available for sale financial assets	—	—	43,373	43,373
Cross currency swaps	—	—	(493)	(493)
Interest rate swaps			(6,094)	(6,094)
Embedded derivatives*	—		9,255	9,255
Electricity trading assets (term contracts)	—	—	682	682
Electricity trading liabilities (term contracts)	—	—	(1,666)	(1,666)
Total	**—**		**45,057**	**45,057**

* Disclosure restated for 2015 from Level 2 to Level 3

Available for sale financial assets

As at 31 December 2015, available for sale assets comprised shares in RCSM, not traded on active markets. The valuation model used to assess their fair value is based on the income approach. Cash flows were projected based on financial budgets approved by senior management covering a five-year period, after which a terminal annual revenue growth was used. This assessment is made in compliance with IFRS 13, which may be different from other valuation standards, including those set by ANEVAR.

The significant unobservable inputs used in the model include:

- Forecast terminal annual revenue growth rate (2016: n/a ; 2015: 1.7%).
- Risk-adjusted discount rate (2016: n/a ; 2015: 8.48%).

Note 6 a) (ii) includes details regarding other key assumptions used for the cash flow projections (revenues, EBITDA margins and Capital expenditure), which are relevant for this calculation as well. (the valuation model used is based on the Equity value of the Group, determined using DCF method).

The estimated fair value would increase (decrease) if:

- the terminal annual revenue growth rate were higher (lower);
- the risk-adjusted discount rate were lower (higher).

As at 31 December 2016 there are no longer available for sale financial assets.

Sensitivity analysis for available for sale financial assets

A change in growth rate and/ or WACC at the reporting date would have an impact as follows:

	WACC		**Growth rate**	
	100 basis points increase	**100 basis points decrease**	**50 basis points decrease**	**50 basis points increase**
31-Dec-16				
Available for sale financial assets	—	—	—	—
31-Dec-15				
Available for sale financial assets	(10,747)	14,484	(3,160)	8,054

Cross-currency and 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.

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.

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 2016: RON/MWh 210.15 (31 December 2015 RON/MWh 158) , and

- the discount rate approximated by the RON zero rate given the limited data available on term transactions with electricity around the valuation date (2016: 1.20%; 2015: 1.14%).

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 points increase**	**0.5 points decrease**
31-Dec-16				
Electricity trading assets	441	(400)	2	(2)
Electricity trading liabilities	(3,643)	3,312	(65)	66

	spot price		discount rate	
	Average 10% Increase	**Average 10% decrease**	**0.5 points increase**	**0.5 points decrease**
31-Dec-15				
Electricity trading assets	277	(279)	3	(3)
Electricity trading liabilities	(1,339)	1,348	(8)	8

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2016 is as follows:

	Available for sale (Notes 7, 13)	**Cross currency swaps**	**Embedded derivatives**	**Interest rate swaps**	**Trading assets**	**Trading liabilities**
1 January 2016	**43,373**	**(493)**	**9,255**	**(6,094)**	**682**	**(1,666)**
Gains or (losses) recognised in profit or loss for the year	—	—	5,433*	(4,958)	2,459	(9,372)
Gains or (losses) recognised in other comprehensive income	2,367	—	—	779	—	—
Purchases	1,653	—	8,474*	—	—	—
Sales	—	—	—	—	—	—
Settlements**	(47,393)	493	(9,255)	4,955	—	—
31 December 2016	**—**	**—**	**13,908**	**(5,318)**	**3,141**	**(11,038)**

* Net effect of gain on 2013 Bond embedded derivative in 2016 of EUR 4,956, expense of EUR 14,211 upon exercising the call option on 2013 Bond and recognition of fair value gain on 2016 Bond embedded derivative of EUR 5,433 after taking into consideration fair value of the embedded derivative asset at inception of EUR 8,474.

** As of 31 December 2016 the AFS assets were derecognized and the entire fair value gain accumulated in fair value reserve, amounting to EUR 33,722, was reclassified to Profit or Loss and accordingly reclassified from OCI (EUR 33,722).

	Available for sale	**Cross currency swaps**	**Embedded derivatives**	**Interest rate swaps**	**Trading assets**	**Trading liabilities**
1 January 2015	**41,296**	**(993)**	**—**	**—**	**—**	**—**
Gains or (losses) recognised in profit or loss for the year	—	500	9,255	(4,434)	682	(1,666)
Gains or (losses) recognised in other comprehensive income	1,227	—	—	(5,399)	—	—
Purchases	850	—	—	—	—	—
Sales		—	—	—	—	—
Settlements	—	—	—	3,739	—	—
31 December 2015	**43,373**	**(493)**	**9,255**	**(6,094)**	**682**	**(1,666)**

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 2016) and fair value measurement hierarchy are presented in the table below:

	31 December 2016		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 14)	**687,911**	**729,167**	
Bonds*	349,638	372,164	Level 1
2016 Senior Facilities	332,382	350,835	Level 3
Other	5,892	6,168	

	31 December 2015		
	Carrying amount	**Fair Value**	**Hierarchy**
Loans (Note 14)	**666,468**	**709,202**	
Bonds*	439,176	477,852	Level 1
2015 Senior Facilities**	227,292	231,350	Level 3

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

** Disclosure restated for 2015 from Level 2 to Level 3

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).

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.

vii) 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 2.9 (2015: 2.8), level which, as mentioned, is constantly monitored.

24. SHARE-BASED PAYMENTS

In February 2007, the Group implemented a share based payment plan for certain members of the management team and key employees. The options vest if and when certain revenue, subscriber targets and other targets of the Group are met. In 2016 the share-based payments plan was not applied.

Share options were granted to eligible employees under the share based payment plan in 2016 nil (2015: 935,000). The related share option expense of EUR has been recorded as an expense in 2016 EUR nil (2015: EUR 2,054) in the Consolidated statement of profit or loss and other comprehensive income in the line item Operating expenses, within salaries and related taxes. (Note 18).

25. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2016 the Group had both derivative financial liabilities and derivative financial assets.

	31 December 2016		31 December 2015	
	Fair value	Notional	Fair value	Notional
Derivative financial asset (see also Note 23)	**17,049**		**9,937**	
Embedded derivatives	13,908	n/a	9,255	n/a
Electricity trading assets (term contracts)	3,141	95 GWh	682	92 GWh

	31 December 2016		31 December 2015	
	Fair value	Notional	Fair value	Notional
Derivative financial liability (see also Note 23)	**16,356**		**8,253**	
Interest rate swaps	5,318	197,651	6,094	197,769
Cross currency swaps	—	—	493	450,000
Electricity trading liabilities (term contracts)	11,038	787 GWh	1,666	733 GWh

As at 31 December 2016 the Group had derivative financial assets in amount of EUR 17,049 (31 December 2015: 9,937), which included:

- Embedded derivatives of EUR 13,908 related to the bond (31 December 2015: 9,255) (both the 2016 Bond and the 2013 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). The fair value of the embedded derivatives was also assessed at inception date, in October 2016, in amount of EUR 8,474 and recognized as embedded derivative asset with a corresponding increase of the bond liability.

- Electricity trading assets (term contracts) of EUR 3,141 being mark to market gain from fair valuation of electricity trading contracts (31 December 2015: 682).

As at 31 December 2016 the Group had derivative financial liabilities in amount of EUR 16,356 (31 December 2015: EUR 8,253), which included:

- Cross currency swaps: In 2014 were concluded coupon swaps for the interest of the 2013 Proceeds Loan's value (EUR 450 million), all with a termination date of 23 September 2016. As of 31 December 2016 the cross currency swaps are no longer valid. As of 31 December 2016 the balance is nil (31 December 2015: EUR 493).

- Interest rate swaps liability in amount of EUR 5,318 (31 December 2015: EUR 6,094): On May 22, 2015 and in January 2016 RCS & RDS concluded interest rate swaps for the entire term loan facility and Accordion term loan facility under the 2015 SFA, through which RCS&RDS hedged against the volatility of cash flows on its floating rate borrowings due to modification of market interest rates (i.e.: ROBOR). Under the interest rate swaps RCS&RDS pays fixed and receives variable cash flows on the same dates on which is settles the interest on its hedged borrowings. Hedged cash flows occur periodically, on the settlement of the interest on hedged loans, and impact profit or loss throughout the life of the loan, through accrual. Given that critical terms of the hedging instrument match the critical terms of the hedged cash flows, there is no significant ineffectiveness. The interest rate swaps remain valid until the maturity of the agreement in 2021.

- Electricity trading liabilities (term contracts) of EUR 11,038 being mark to market loss from fair valuation of electricity trading contracts (31 December 2015: 1,666).

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.

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 did not recognize provisions as 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 Litigation

In March 2011, the Intact Media Group initiated a series of lawsuits against us. Although we consider the Intact Media Group litigation to be, at least in a large part, abusive and vexatious, if these court claims are successful, they will generate significant adverse effects on our finances, management and business model.

a) The must carry related litigations

In March 2011, Antena Group (Intact Media Group) initiated three separate lawsuits in tort against us alleging that we illegally refused to carry its channels breaching, among other things, the Romanian must carry rules. They claim damages of approximately EUR 100 million and have requested that the court impose other non-monetary remedies, such as requiring that we provide the Intact Media Group channels to our subscribers free of charge and in compliance with the highest technical standards.

In the first proceeding, Antena Group claims that we are bound by the must carry rules to provide Antena 1, the Intact Media Group's lead channel, free of charge to our subscribers in a package that only contains must carry channels. Antena Group has requested injunctive relief which would require us to offer such a package to our subscribers (neither we nor any other Romanian distributor currently offers to its customers such a package) and has sought damages amounting to EUR 65 million for our alleged breach of the must carry rules. The initial court case was split into two proceedings as Antena Group assigned its monetary claims related to this lawsuit to First Quality Debt Recovery.

The claim regarding the EUR 65 million monetary damages was suspended until settlement of both the claim for injunctive relief and a lawsuit we initiated challenging the effects of an arrangement regarding the assignment of receivables from Antena Group to First Quality Debt Recovery. On April 15, 2015, the Bucharest Tribunal partially admitted RCS&RDS' claim and annulled the assignment of receivables from Antena Group to First Quality Debt Recovery. We expect this decision to have a significant positive impact on RCS&RDS' defence against Antena Group's claim regarding the EUR 65 million monetary damages. Please note that this decision is not final as it has been challenged by Antena Group. The next hearing in the appeal is scheduled for 11 April 2017.

In the case regarding the injunctive relief request, both the court of first instance and the court of appeal ruled in our favour and dismissed Antena Group's claims. However, in February 2014, the Romanian Supreme Court admitted the higher appeals filed by Antena Group and First Quality Debt Recovery and quashed the decisions issued by both the first instance and the appeal courts, ordering a retrial of the case by the first court. The decision of the Supreme Court does not confirm Antena Group's allegations on the merits of the case, as the retrial was ordered solely based on procedural reasons. The Bucharest Tribunal annulled the monetary claims (EUR 65 million) filed in the case file (because Antena Group's failure to pay the stamp duties) and suspended the proceedings until a final settlement will be issued in the lawsuit we initiated to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

Separately, Antena Group has also filed two lawsuits claiming (i) monetary damages of approximately EUR 35 million consisting of loss of revenue due to our temporary refusal to carry the tv channels GSP TV and Antena 2 which allegedly breached, among other things, the must carry rules; and (ii) injunctive relief that would require us to provide the disputed channels to our customers in compliance with the highest technical standards. Approximately EUR 24 million out of these claims are related to our refusal to carry GSP TV, while the remaining EUR 11 million is related to our refusal to carry Antena 2. Because Antena Group assigned to First Quality Debt Recovery the claims regarding the EUR 35 million monetary damages as well, First Quality Debt Recovery became involved in these proceedings. Consequently, the court split both the GSP TV and the Antena 2 lawsuits into two: in each case, the monetary claim formed one lawsuit and the claim for injunctive relief another one. At our request, both the GSP TV and the Antena 2 claims for monetary damages were suspended until the final settlement of the lawsuit we initiated for challenging the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

The case regarding the injunctive relief sought in relation to the GSP TV channel was settled by the Bucharest Tribunal in favour of Antena Group, the court ordering us to include the channel in our network in compliance with several technical requirements. However, we have been carrying the channel as of January 2012, and therefore the decision did not impact our network. The appeal filed by RCS & RDS against the first court decision was rejected in October 2014. The decision of the Bucharest Tribunal remained final.

The case regarding the injunctive relief sought in respect to Antena 2 was settled in March 2014 by the Bucharest Tribunal in our favour; Antena Group's claims were rejected in their entirety. Antena Group appealed the decision, but only with regards to the judicial expenses. Initially, the appeal was rejected in October 2014, but following a retrial ordered by the High Court of Cassation and Justice, the court of appeals modified in part the first court's decision, by granting approx. EUR 2 (two) as judicial expenses to Antena Group. The decision is subject to higher appeal.

At the end of 2014, Antena Group initiated two new lawsuits requesting damages in relation to the carriage of GSP TV and Antena 2. The claims are almost identical to the ones regarding the same channels and assigned to First Quality Debt Recovery in 2012, except for the much lower amounts requested, specifically RON 500,000 in relation to GSP TV and RON 250,000 in relation to Antena 2. Both lawsuits have been suspended until the final settlement of the trial initiated by RCS&RDS to challenge the effects of the assignment of receivables from Antena Group to First Quality Debt Recovery.

We have also challenged, but failed to overturn in court a number of NAC (National Audiovisual Council of Romania) decisions on must carry rules and, particularly, a decision finding that we breached the obligation to provide certain must carry channels to our customers (including GSP TV).

This adverse decision could be used in the monetary claims of Antena Group against us in relation to the alleged breach of the must carry rules with respect to GSP TV (such claims being approximately EUR 24 million).

Antena Group has not yet provided any objective criteria for the determination of their claims in damages.

b) Litigation on grounds of an alleged abuse of dominant position

In July 2014, two companies of the Intact Media Group (Antena Group and Antena 3) filed another claim against RCS&RDS requesting the court to ascertain that RCS & RDS abused its dominant position by its alleged refusal to negotiate and conclude an agreement for the remunerated carriage of Antena Group channels, should Antena Group eventually choose to waive the must carry regime currently applicable to all Intact Media Group's TV channels. The claimants also requested the court to order RCS & RDS to negotiate with Antena Group in view of concluding a pay-tv based agreement under terms similar to the ones agreed by us with Pro TV S.A.

We requested the court to reject the claim as RCS&RDS's behaviour is neither abusively discriminatory nor an abusive refusal to deal. We are mainly arguing that: (i) the claimants didn't initiate good-faith negotiations, as their channels are still under must-carry regime and they didn't even issue an offer to begin with; (ii) the alleged refusal to negotiate would be justified by the abusive past conduct of the claimant; (iii) the negotiations requested by Intact Media Group are not comparable to the ones with Pro TV S.A., given the different market conditions at the moment of the negotiations and the different legal status of the TV channels of the two groups; and (iv) the conditions required by antitrust legislation are not met (e.g., the claimants are not risking exiting the market).

In March 2015, RCS & RDS requested the court to stay the proceedings until the final settlement of four other trials. The court decided on April 14, 2015 in favour of RCS&RDS' request and suspended the trial until the final settlement of the lawsuit including the EUR 65 million monetary damages. The decision on suspension of the trial was challenged by Antena Group on 14 December 2015. RCS&RDS opposed the appeal of Antena Group, but at the same time submitted its own appeal regarding the first court's solution with respect to the request for the suspension of the proceedings until the final settlement of three other trials. On 15 June 2016, the Bucharest Tribunal rejected Antena Group's higher appeal as ungrounded, while the challenge filed by RCS&RDS's was rejected for lack of interest.

c) The copyright related litigation

In June 2014, Antena Group filed a new monetary claim against RCS&RDS, requesting approximately EUR 40 million on the grounds of an alleged breach of its copyright over the Antena 1, Antena Stars (former Antena 2), Euforia Lifestyle TV and ZU TV (former GSP TV) channels. The claimant argues that these TV programs have been carried by RCS&RDS, from June 2011 until June 2014, without Antena Group's consent and in the absence of an agreement on the fees for the use of its copyright.

RCS&RDS requested the dismissal of the claim for being submitted by a person lacking standing on the matter, as the rights invoked by Antena Group (if any) are subject to mandatory collective management, and also for being unfounded, as the carriage was performed having either legal or contractual coverage.

On 30 October 2014, the Bucharest Tribunal rejected the claim on procedural grounds and stated that Antena Group does not have legal standing in this lawsuit. On 16 March 2016, the Bucharest Court of Appeals admitted Antena Group's appeal, annulled the first court's decision and sent the file back to the Bucharest Tribunal for a trial on the merits of the case. The full decision of the Court of Appeals has been communicated to us on 11 July 2016 and the deadline for a higher appeal expired on 11 August 2016.

We have decided not to challenge this decision because, although it granted Antena Group standing in the file, it contains favourable conclusions on the merits of the case. More specifically, the Court of Appeals stated that the relation between Antena Group and RCS&RDS regarding the retransmission of the must carry channels is not subject to an agreement between the parties.

After the annulment decision of the Bucharest Court of Appeal, the case file returned to the Bucharest Tribunal. In front of the Bucharest Tribunal, RCS&RDS requested the court to bring into this claim RCS&RDS' competitors on the retransmission market in Romania. This request was dismissed by the court. The next hearing of this case by the Bucharest Tribunal is scheduled for 11 May 2017.

d) Litigation regarding the outcome of the GSP investigation

On 3 March 2015, the Romanian Competition Council dismissed Antena Group's complaint regarding an alleged abuse of dominant position of RCS&RDS in relation to the GSP TV channel.

On 10 April 2015, Antena Group challenged the Competition Council's decision and requested the courts of law to: (i) annul that decision, as the conduct of RCS&RDS with respect to the GSP channel fulfils the legal criteria to be considered an abuse of dominant position and (ii) order the Competition Council to re-open the investigation and issue a decision taking into consideration all arguments raised by Antena Group. The main grounds of this court claim regard the Competition Council's alleged wrongful analysis of the RCS&RDS' refusal to negotiate the retransmission of GSP TV channel, as well as the authority's alleged lack of a proper analysis regarding RCS&RDS' (alleged) discriminatory behaviour.

Antena Group initiated the proceedings only against the Competition Council, but the court decided that RCS & RDS needs to be introduced in the trial as defendant. On 3 October 2016, the court decided to reject Antena

Group's claim in its entirety. This decision may be appealed by Antena Group within 30 days after the court issues the written reasoning of the decision. Should the court decide in favour of Antena Group's claim, it might force the Competition Council to reopen the investigation against RCS&RDS, which could ultimately lead to the application of antitrust fines amounting up to 10% of RCS&RDS' turnover.

e) Reciprocal contractual claims with the Intact Media Group

Compensation of damage to reputation

In November 2012, we initiated proceedings against Antena Group and other Intact Media Group entities for compensation in respect of the damage to our business reputation inflicted by a media campaign conducted via media assets of Intact Media Group that we consider defamatory. We requested: (i) a declaration that the adversary media campaign was being conducted in abuse of Intact Media Group's rights; (ii) an order obliging Intact Media Group to publish such declaration via its TV and newspaper network; and (iii) monetary compensation in the aggregate amount of approximately EUR 1.2 million for damage to our business reputation.

On March 7, 2016, the Bucharest Court of Appeal ruled in our favor on most counts and required Antena Group to pay us EUR 780,000 in moral damages. Antena Group filed a higher appeal to the Romanian Supreme Court against the decision of the appeal court. On November 24, 2016 the Romanian Supreme Court admitted the higher appeal and sent the case for retrial to the Bucharest Court of Appeal. The retrial has not been scheduled yet.

Violation of certain contracts

In 2011 and 2012, we initiated two proceedings against Antena Group claiming approximately EUR 2.6 million in damages resulting from their breaches of certain contractual arrangements. In 2012, Antena Group responded with counterclaims in both proceedings in the total aggregate amount of approximately EUR 3.3 million.

In the first proceedings we sought a refund of certain retransmission fees we had paid to Antena Group until 2010 in relation to two of its channels (Antena 3 and Antena 4). In turn, Antena Group sought further retransmission fees from us for 2010 and 2011. On November 2, 2015, the first instance court dismissed our claim and granted Antena Group's counterclaim in part, ordering us to pay approximately EUR 1.9 million to Antena Group in retransmission fees and legal expenses. Both parties have appealed that decision. On March 16, 2017 the Bucharest Court of Appeal partially admitted both appeals and consequently awarded approx. EUR 315,000 to us and approx. EUR 900,000 to Antena Group.

We have already filed a higher appeal against this decision, the first hearing before the Romanian Supreme Court being scheduled for May 17, 2017. We are currently unaware if Antena Group has also submitted a higher appeal.

In the second proceedings the court of the first instance fully dismissed both our claim and Antena Group's counterclaim. Both parties are currently appealing the court's decisions. The next hearing in the court of appeal is scheduled for April 24, 2017.

Pecuniary claim filed by the National Cinematography Centre

On 19 April 2016, the National Cinematography Centre in Romania (which is the Romanian public entity under the Romanian Ministry of Culture) filled against RCS&RDS a payment injunction amounting to at least EUR 1.6 million, including principal amount and penalties for late payment.

Under the law, the National Cinematography Centre is entitled, amongst others, to collecting 1% of the monthly aggregate income gained from the cable and satellite carriage of TV channels, as well as from the digital retransmission of TV content. We have dully declared our income to the National Cinematography Centre and have paid the outstanding principal amounts up to date, while we refuse to pay for the accessories that are claimed by the National Cinematography Centre, as being abusive and illegal. The total amount of these accessories is of approximate EUR 1 million.

On 3 April 2017, the Court of Appeal rejected the claim against us. The decision of the court of first instance is final.

While the above mentioned case file involves an urgent (extraordinary) proceeding through which the National Cinematography Centre aimed at forcing RCS&RDS to pay the above mentioned amounts, given the rejection of the above claim by the court of first instance for lack of ground, on 4 November 2016, the National Cinematography Centre additionally filed before the Bucharest Tribunal the principal (ordinary) claim for payment, but with respect to a lower amount, in approximate value of EUR 1.2 million, including principal and accessories. In connection with this second case file, the first hearing is set for 24 April 2017.

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

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

In 2015, Electrica Distribuţie 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 Distribuţie Transilvania Nord S.A. claims that the cable trough is intended to include electricity distribution wires that would breach its alleged exclusive right to distribute electricity in the respective area.

Based on our request, the trial was suspended pending final settlement of (i) our challenge regarding the failure by the claimant to pay required stamp duties and (ii) a separate lawsuit in which two Group companies are challenging the validity of the alleged exclusivity rights of incumbent electricity distributors. Should the final court decision be unfavourable to us, it may result in a partial loss of our investment in the underground cable trough.

Competition Council Investigations

RCS&RDS has been until the date of this report subject to two infringement investigations by the Competition Council. As per our knowledge, no other infringement investigation is pending against RCS&RDS.

Telecom market interconnection investigation

In February 2011, the RCC opened an investigation on the telecommunications market related to interconnection tariffs charged by all telecommunications operators. We believe this investigation was launched with the aim of reducing the relatively high interconnection tariffs charged on the Romanian market and thereby reducing the rates ultimately charged to consumers.

By decision no 33/2015 the RCC decided to close the investigation in exchange for all operators undertaking and complying with a general commitment not to discriminate between the level of the tariffs charged for the on-net and the off-net calls. We will need to implement this commitment for 2 years. During the term of the commitments, RCS&RDS is required to provide to the RCC, upon request, business information, and to commission periodic independent market studies on the evolution of the mobile telephony sector.

The RCC's decision accepting our commitment has closed the investigation without the application of any fines for the alleged anticompetitive conduct. The offering of commitments does not imply any admission of wrongdoing. A failure to comply with the terms of the commitment as accepted by the RCC may lead to penalties of up to 10 per cent of our aggregate turnover.

GSP investigation

In May 2011, Antena TV Group S.A., a leading media group in Romania and our former commercial partner, 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. We have fully cooperated during this investigation and we consider the demands of Antena TV Group S.A. to be abusive and groundless, we have started retransmitting GSP TV following an injunctive relief that Antena TV Group S.A. obtained against us on grounds that starting July 2011 GSP TV became a "must-carry" channel.

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 recommendation 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 is not final and is subject to judicial review. Antena TV Group S.A. challenged the decision and that trial is ongoing (the details of this case are explained in a dedicated section above: "Litigation regarding the outcome of the GSP investigation").

Material commitments

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

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;
- 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, Czech Republic, 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:

	2016	**2015**
Less than one year	27,339	21,948
Between one and five years	50,332	41,276
More than five years	14,941	6,562
	92,612	**69,786**

The leases for local offices and commercial spaces typically run for an initial period of one year, with an option to renew the lease after that date. The leases of pillars for network support typically run for an initial period of 17 years. The leases for fibre optical line capacities typically run for an initial period between 4 and 7 years. None of the leases include contingent rentals.

Besides these lease agreements, there are approximately over 400 contracts signed for a period of over 5 years, with an automatic renewal clause or signed for an indefinite term. The average annual rent for these contracts is of maximum EUR 1,396.

Capital expenditure

The capital expenditure the Group has assumed until 31 December 2016 is mostly made of commitments for the purchase of mobile and fixed network equipment amounting to approximately EUR 85,642 (31 December 2015: EUR 86,045).

Satellite capacity expenses

The Group has committed under the long term agreement with Intelsat, the satellite solution provider, to use until 30 November 2017 the contracted services and to pay monthly equal fees cumulating to EUR 7,373 (31 December 2015: EUR 17,528).

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 15,452 (31 December 2015: EUR 12,131). The increase of the commitment relates to the third frequency block in 2016.

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 20,324 (31 December 2015: EUR 21,721).

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 5,843 (31 December 2015: EUR 6,033).

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 13,318 (31 December 2015: EUR 14,228).

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 2,505 (31 December 2015: EUR 2,744).

Sports rights and TV films and documentaries

As of 31 December 2016, commitments for sports rights related to future seasons and TV films and documentaries amounted to EUR 49,167 (31 December 2015: EUR 71,448).

Letters of guarantee and letters of credit

As of 31 December 2016, there were bank letters of guarantee and letters of credit issued in amount of EUR 11,375 mostly in favour of leasing, content and satellite suppliers and for participation to tenders (31 December 2015: EUR 12,717).

27. SUBSEQUENT EVENTS

In February 2017, the general meeting of shareholders of the Company has unanimously resolved the following:

- to change the name of the Company from Cable Communications Systems N.V. to DIGI Communications N.V.;
- 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.

The above-mentioned resolutions and the changes approved therein are set to take effect only following the lapse of a two-month mandatory wait period, expected on 11 April 2017.

In February 2017 RCS&RDS has contracted a short-term loan from ING Bank NV-Bucharest branch for financing working capital needs in amount of RON 7 million.

In February 2017 the Company converted dividend payables to 2 minority shareholders into short term loans in amount of EUR 8.1 million, with maturity until 30 June 2017 and interest expense of 5% p.a. (secured on pari passu basis, same as the terms of the Intercreditor Agreement, please refer to note xiv).

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.

In March 2017 share swaps agreements were concluded between the Company and several minority shareholders, through which the minority shareholders of RCSM exchange 16,582 shares of RCSM for 17,367,832 shares in RCS&RDS, which became effective in April 2017 after the lapse of a two-month mandatory wait period.

On 7 April 2017, the General Meeting of the shareholders of DIGI decided the following:

- revocation of the resolution of the general meeting of shareholders of DIGI from February 2017 to cancel the shares held by the Company in its own share capital;

- approval of several operations with shares held by DIGI in its own share capital between DIGI and RCSM, as part of the pre-IPO restructuring process;

- the authorization for the Board of DIGI 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);

- resolutions on the intention to float class B shares on the regulated spot market of the Bucharest Stock Exchange, International Tier, and related offering and admission.

The Group acquires the electricity it then sells to its customers on the Romanian wholesale trading platforms, in line with applicable legal provisions which forbid "over the counter" agreements. Due to the fixed prices that the Group charges its customers for electricity supply, increases in the cost of the electricity acquired from third parties on the trading platforms have adverse effects on the financial condition and results of the Group. During the first quarter of 2017 the Group estimates that will record a realized loss before taxes of approximately EUR 7 million from electricity supply activities due to the unusual volatility in the cost of electricity.

In connection with the IPO, the company is proposing to become tax resident in Romania. This should not affect materially the corporate income tax incurred by the Company. Due to misalignment of Romanian and EU legislation, the Company's 350 million Euro 2023 Notes may be subject to Romanian withholding taxes on interest (approximately EUR 3.3 million per year which will be treated as interest expense). The Company believes that the imposition of any such withholding tax is incorrect. However, the Company expects as a prudential matter to pay to such withholding taxes. The Company intends to claim back any amounts so paid. The Company is prepared to litigate in pursuit of such reclaim. Any such litigation is likely to be relatively lengthy and complex.

In April 2017 we have drawn RON 15 million from SFA 2016 Facility B for general corporate and working capital purposes of the Group.

For developments in legal proceedings in which the Group was involved (both as a plaintiff and a defendant), subsequent to 31 December 2016, please refer to Note 26.

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.

	2016	2015
Revenues	**842,755**	**750,130**
Operating profit	79,264	70,332
Depreciation, amortization and impairment	176,370	187,905
EBITDA	**255,634**	**258,237**
(Gain)/loss from sale of discontinued operations (Note 21)	674	(20,882)
Other expenses[1]	6,969	998
Adjusted EBITDA	**263,277**	**238,353**
Adjusted EBITDA (% of revenue)	*31.24%*	*31.77%*

(1) As of December 31, 2016 we present unrealised mark-to-market results from fair value assessment of energy trading contracts on a separate line: Other expenses. Comparative information as of December 31, 2015 was restated accordingly. Prior to the restatement, as of December 31, 2015 the unrealised mark-to-market loss of EUR 998 thousand was included in Operating expenses.

For breakdown of depreciation, amortization and impairment refer to Notes 5 and 6(a) and 6(b). Gain from sale of discontinued operations in 2015 represents the net gains from discontinued operations in Czech Republic and Slovakia.