

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ALTICE FRANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

## **Contents**

Basis of Preparation	3
Key Factors Affecting Our Results of Operations	4
Discussion and Analysis of Our Results of Operations	7
<i>Significant Events Affecting Historical Results</i>	7
<i>Revenue</i>	10
<i>Adjusted EBITDA</i>	11
<i>Other items Impacting Profit/(Loss)</i>	11
Analysis of the consolidated position of financial position	15
Liquidity and Capital Resources	17
Other Disclosures	19

## **Basis of Presentation**

The discussion and analysis for each of the periods presented is based on the financial information derived from the unaudited consolidated financial statements as of and for the full year ended December 31, 2018.

Please refer to the Glossary for a definition of the key financial terms discussed and analysed in this document.

### *Disclaimers:*

*The following discussion and analysis is intended to assist in providing an understanding of the Group's financial condition, changes in financial condition and results of operations and should be read together with the consolidated financial statements of Altice France as of and for the full year ended December 31, 2018, including the accompanying notes. Some of the information in this discussion and analysis includes forward-looking statements that involve risks and uncertainties.*

*Unless the context otherwise requires, when used in this section, the terms "we," "our," "Company," the "Group," and "us" refer to the business constituting the Group as of December 31, 2018, even though we may not have owned such business for the entire duration of the periods presented.*

*The Group applies International Financial Reporting Standards (IFRS) as endorsed in the European Union. Adjusted EBITDA and Capex are not defined in IFRS, they are "non-GAAP measures". Management believes that these measures are useful to readers of Altice France's financial statements as they provide a measure of operating results excluding certain items that we believe are either outside of our recurring operating activities, or items that are non-cash. Excluding such items enables trends in our operating results and cash flow generation to be more easily observable. We use the non-GAAP measures internally to manage and assess the results of our operations, make decisions with respect to investments and allocation of resources, and assess the performance of management personnel. Such performance measures are also the de facto metrics used by investors and other members of the financial community to value other companies operating in our industry, and thus are a basis for comparability between us and our peers. Moreover, our debt covenants are based on Adjusted EBITDA and other associated metrics.*

## **Key Factors Affecting Our Results of Operations**

Our operations and the operating metrics discussed below have been, and may continue to be, affected by certain key factors as well as certain historical events and actions. The key factors affecting the ordinary course of our business and our results of operations include, among others, network upgrades, competition, acquisitions and integration of acquired businesses, disposals, macro-economic and political risks in the areas where we operate, our pricing and cost structure, churn and the introduction of new products and services, including multi-play services.

### ***Acquisitions and Integration of Businesses***

We have from time to time made significant direct and indirect equity investments in, and divestments of, several cable and telecommunication businesses and ancillary service providers in various jurisdictions. Due to the significant nature of certain of these acquisitions, the comparability of our results of operations based on the Historical Consolidated Financial Information may be affected.

Our revenues for the full year ended December 31, 2018 decreased by 5.9% to €10,187.4 million, from €10,820.4 million for the year ended December 31, 2017. Adjusted EBITDA increased by 1.9% to €3,705.8 million, from €3,636.6 million for the year ended December 31, 2017. The decreases in revenues and increase in Adjusted EBITDA were impacted by such acquisitions and disposals. See “—*Discussion and Analysis of Our Results of Operations—full year ended December 31, 2018 compared to the year ended December 31, 2017—Significant Events Affecting Historical Results*”.

At the core of Altice France’s strategy is a return to revenue, profitability and cash flow growth and, as a result, deleveraging. Altice France benefits from a unique asset base which is fully-converged, fiber rich, media rich, active across consumers and businesses and holds the number two position in its market with nationwide fixed and mobile coverage. The reinforced operational focus offers significant value creation potential. In parallel, Altice France is advancing with its preparations for the disposal of non-core assets. Key elements of the Altice France’s growth and deleveraging strategy include:

- Operational and financial turnaround under the leadership of a new management team;
- Optimizing commercial performance with a particular focus on customer services;
- Continuing to invest in best-in-class infrastructure commensurate with Altice France’s market position;
- Monetizing content investments through various pay TV models and growing advertising revenue, and;
- Execution of the non-core asset disposal program, including part of Altice France’s mobile tower portfolio

For the full year ended December 31, 2018 and 2017, we incurred restructuring and other non-recurring costs of €593.5 million and €989.3 million respectively, which primarily include costs with respect to renegotiations or termination of contractual arrangements, employee redundancies, fees paid to external counsel and other administrative expenses related to reorganization of existing or newly acquired businesses. In addition, we generally record goodwill relating to such acquisitions. As of December 31, 2018, the goodwill recorded on our balance sheet amounted to €11,467 million. Goodwill is subject to impairment reviews in accordance with IFRS and any impairment charge on goodwill would have a negative impact on operating profit/net operating income. For the full year ended December 31, 2018, we recorded a €63 million impairment related to our media CGU.

### ***Multi-Play Strategy***

We have implemented a business strategy focused on the provision and expansion of multi-play product offerings, including triple- and quad-play bundles. Customers who elect to subscribe for our multi-play bundles rather than our individual services realize comparative cost savings on their monthly bill. We believe that the enhanced value proposition associated with our bundled services enables us to meet our customers’ communication and entertainment requirements while concurrently both increasing customer loyalty and attracting new customers. As a result of our focus on providing subscribers with multi-play bundles, we have experienced an increase in the number of cable/fiber customer relationships. We believe our bundled service offerings will be an important driver

of our fixed-based services, partially offsetting the continued pressure on traditional fixed-based services.

### ***Introduction of New Products and Services and Investment in Content***

We have significantly expanded our presence and product and service offerings in the past. In France, we launched new offers with new sports and other content in order to differentiate the product offering and to underline our investment in sports rights and other nonlinear content.

In addition, we regularly review and invest in the content that we offer to provide our subscribers with a flexible and diverse range of programming options, including high-quality local content and exclusive premium content. The Altice group has acquired the exclusive rights to broadcast and distribute various premium sporting events, including the English Premier League, French Basketball League and English Rugby Premiership, which are commercialised in France via exclusive SFR branded channels. Moreover, in May 2017, the Group successfully acquired the exclusive rights to broadcast UEFA Champions League and UEFA Europa League fixtures in France. These rights cover the period from August 2018 to May 2021. Sports events are broadcasted in France by the Altice France Group through channels packaged and distributed by AENS. In 2016, the Altice France Group and AENS entered into a distribution agreement regarding a package of sports and news channels. We intend to continue to selectively invest in local and value-added premium content as well as sports broadcasting and distribution rights in the future to enrich our differentiated and convergent communication services from those of our competitors. We believe that such efforts will reduce our customer churn and increase ARPU.

In March 2018, we redesigned our offers, stripping out premium content, and making the telecom offers more simple and comparable to competitors. These offers are now built around two separate blocks: one centred around telecoms and one centred on premium content (Sport, Cinema/Series, etc.); these are offered as pay options, at a rate still preferential for SFR customers, for fixed and mobile offers. Altice France also announced the launch of a single brand this summer for all of its sports content: RMC Sport, set to replace SFR Sport with the Champions League launch this summer. This strategy is starting to pay off as there is a significant uplift on gross-adds ARPU for customers taking content options and this trend is anticipated to strengthen as further key content is added with the Champions League from Q3 2018.

### ***Pricing***

We focus our product offerings on multi-play offers. In France, we offer multiple play (4P) offers at various price points based on the targeted clientele (low cost, no engagement period offers through our RED brand and more premium offers with the SFR brand). The French market remains highly competitive and hence extremely sensitive to pricing strategy. The cost of a multi-play subscription package generally depends on market conditions, our competitors' pricing of similar offerings and the content and add-ons available on each platform. In general, the greater the optionality, content and usage time included in the offering, the higher the price of the multi-play package. The prices of B2B contracts are negotiated individually with each customer. The B2B market for voice services is extremely price-sensitive and entails very low margins as voice services are highly commoditized, involving sophisticated customers and relatively short-term contracts. The B2B market for data services is less price-sensitive, as data services require more customization and involve service level agreements. In both markets, price competition is strongest in the large corporate and public-sector segments, whereas customer-adapted solutions are an important competitive focus in the medium and small business segments. We have tailored our targeted pricing strategy to account for these dynamics in France.

### ***Cost Structure***

We generally work towards achieving satisfactory operating margins in our business and focus on revenue-enhancing measures once we have achieved such margins. We continuously work towards optimizing our cost base by streamlining processes and service offerings, improving productivity by centralizing our business functions, reorganizing our procurement process, eliminating duplicative management functions and overhead, terminating lower-return projects and non-essential consulting and third-party service agreements, and investing in our employee relations and our culture. We are implementing common technological platforms across our networks to gain economies of scale, notably with respect to billing systems, network improvements and customer premises equipment and are investing in sales, marketing and innovation, including brand-building, enhancing our sales channels and automating provisioning and installation processes. We have also achieved, and expect to continue to achieve, substantial reductions in our operating expenses as we implement uniform best practice

operational processes across our organization. As a result, we have generally managed to achieve growth in the Adjusted EBITDA, profitability and operating cash flow of businesses that we have acquired.

For two years running, we have incurred significant capital expenditure (between 21-22% of total consolidated revenues) in order to improve our mobile network and to roll out new fiber homes (we are the market leader in very high-speed internet). Our gross capital expenditure amounted to €2,247 million for the full year ended December 31, 2018 and €2,386 million for the year ended December 31, 2017.

### ***Network Upgrades***

Our ability to provide new or enhanced fixed-based services, including HDTV and VoD television services, broadband internet network access at increasing speeds and fixed-line telephony services as well as UMTS, 3G and 4G mobile services to additional subscribers depends in part on our ability to upgrade our (i) cable and DSL networks by extending the fiber portion of our network, reducing the number of nodes per home passed and upgrading technical components of our network and (ii) mobile networks by building-out our UMTS-network and investing in LTE as well as maintaining agreements with third parties to share mobile networks. During 2015, 2016, 2017 and 2018, we have increased our fiber deployment and upgraded a substantial part of our cable networks. For example, as of December 31, 2018, our cable networks are largely DOCSIS 3.0 enabled, which allows us to offer our customers high broadband internet access speeds and better HDTV services across our footprint. In France, the Group accelerated the build-out of its 4G network over the last two years to have a market-leading mobile network in place by the end of December 2018 (4G population coverage of 98%). The Group also aims to continue the expansion of its fiber network in France and intends to capitalize on its past investments in improved fiber infrastructure.

### ***Competition***

The Group faces significant competition and competitive pressures in the French market. Moreover, the Group's products and services are subject to increasing competition from alternative new technologies or improvements in existing technologies.

With respect to its B2C activities, the Group faces competition from telephone companies and other providers of DSL, VDSL2 and fiber network connections. With respect to pay TV services, the Group is faced with growing competition from alternative methods for broadcasting television services other than through traditional cable networks. For example, online content aggregators which broadcast over-the-top ("OTT") programs on a broadband network, such as Internet competitors Amazon, Apple, Google and Netflix, are expected to grow stronger in the future. Connected or 'smart' TVs facilitate the use of these services. With respect to the fixed line and mobile telephony markets, the Group experiences a shift from fixed line telephony to mobile telephony and faces intensive competition from established telephone companies, mobile virtual network operators ("MVNOs") and providers of new technologies such as VoIP.

In the competitive B2B data services market, price pressure has been strong. Conversely, the use of data transmission services has significantly increased. The Group is currently facing competition from software providers and other IT providers of data and network solutions, and the line between them and the suppliers of data infrastructure and solutions like the Group has become increasingly blurred. Partnerships between IT providers and infrastructure providers are becoming more and more common and are an additional source of competition but also an opportunity. Being able to face the competition efficiently depends in part on the density of the network, and certain competitors of the Group have a broader and denser network. In recent years, the B2B market has experienced a structural change marked by a move from traditional switched voice services to VoIP services.

In the French pay television market, the Group competes with providers of premium television packages such as CanalSat, DSL triple-play and/or quad-play operators such as Orange, Free and Bouygues Telecom, which provide Internet Protocol TV ("IPTV"), and providers of pay digital terrestrial television ("DTT"). In the broadband market, the Group competes primarily, though increasingly with fiber, with xDSL providers such as Orange (the leading DSL provider in France), Free and Bouygues Telecom. The Group's competitors continue to invest in fiber network technology which has resulted in additional competition to its fiber-based services. In the French mobile telephony market, the Group competes with well-established mobile network operators such as Orange, Bouygues Telecom and Free, as well as other MVNOs such as La Poste. In particular, price competition is significant since entry into the market by Free in early 2012 with low-priced no-frills packages.

Moreover, the competition in the fixed market has deteriorated recently with more aggressive promotions from competitors for longer periods, particularly at the low end of the market. However, the acceleration of the Group's fiber deployment in France, notably expanding FTTH coverage in low-density and rural areas, should support better fiber subscriber trends as the addressable market for very high-speed broadband services expands.

### ***Macroeconomic and Political Developments***

Our operations are subject to macroeconomic and political risks that are outside of our control. For example, high levels of sovereign debt in certain European countries, combined with weak growth and high unemployment, could lead to low consumer demand, fiscal reforms (including austerity measures), sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and, potentially, disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our financial condition.

### ***Fluctuations in Currency Exchange Rates and Interest Rates***

Our reporting currency is Euros and most of our operations are conducted in Euros. We are exposed to the USD and variable interest rates as part of our debt obligations. However, we have entered into hedging operations to mitigate risk related to variations in USD and a majority of our debt is fixed rate date, thus reducing the risk of an increase in benchmark interest rates having a material impact on our interest obligations.

### **Discussion and Analysis of Our Results of Operations**

#### ***For the full year ended December 31, 2018 compared to the year ended December 31, 2017***

The below table sets forth our consolidated statement of income for the full year ended December 31, 2018 and 2017, in millions of Euros and as a percentage of revenues for the periods in question:

<b>Consolidated Statement of Income</b>	<b>December 31,</b>	<b>December 31,</b>	<b>Change</b>
<b>(€m)</b>	<b>2018</b>	<b>2017 restated</b>	
		<b>(*)</b>	
<b>Revenues</b>	<b>10,187.4</b>	<b>10,820.4</b>	<b>(5.9)%</b>
Purchasing and subcontracting	(3,382.7)	(4,026.4)	(16.0)%
Other operating expenses	(2,171.4)	(2,290.1)	(5.2)%
Staff costs and employee benefit expenses	(929.6)	(876.8)	6.0%
Depreciation, amortization and impairment	(2,600.5)	(2,780.9)	(6.5)%
Non-recurring income and expenses	(591.4)	(979.8)	(39.6)%
<b>Operating income</b>	<b>511.8</b>	<b>(133.5)</b>	<b>(483.4)%</b>
Financial income	8.9	208.9	(95.7)%
Cost of gross financial debt	(831.5)	(1,099.3)	(24.4)%
Other financial expenses	(252.7)	(177.4)	42.5%
<b>Net financial income (expense)</b>	<b>(1,075.3)</b>	<b>(1,067.8)</b>	<b>0.7%</b>
Share in net income (loss) of associates	(12.7)	(10.7)	18.5%
<b>Income (loss) before taxes</b>	<b>(576.1)</b>	<b>(1,212.0)</b>	<b>(52.5)%</b>
Income tax income (expense)	99.3	428.1	(76.8)%
<b>Net income (loss) from continuing operations</b>	<b>(476.8)</b>	<b>(783.8)</b>	<b>(39.2)%</b>
<b>Net income (loss)</b>	<b>(476.8)</b>	<b>(783.8)</b>	<b>(39.2)%</b>
Group share	(476.2)	(762.3)	(37.5)%
Non-controlling interests	(0.7)	(21.6)	(96.9)%

### **Significant Events Affecting Historical Results**

Our historical results were impacted by the following significant events that occurred during the course of the full year ended December 31, 2018

#### **1.1. Altice Group Reorganization**

On January 8, 2018, Altice Europe announced:

- That existing sports content wholesale contracts between Altice France and Altice TV would be cancelled and replaced by new contracts ("revenue sharing") with a lower guaranteed minimum income. Altice TV will be eligible to receive an indemnity of €300.0 million as part of the renegotiation;

- The reorganization of its structure comprising Altice France, Altice International and Altice TV;
- The planned acquisition by Altice France of the shares held by Altice International in Outremer Telecom, Altice Technical Services (France) and Altice Customer Services.

## **1.2. Agreement with ARCEP concerning “Zones blanches” sites**

On January 14, 2018, Altice France, along with the operators in the French telecom market, reached an agreement with the French telecom regulator (“ARCEP”) and the French state in order to improve mobile coverage in certain poorly covered mobile areas (“Zones blanches”), in exchange for concessions on future mobile spectrum auctions and the scrapping of a specific spectrum based tax for the new sites deployed as part of this initiative (“IFER”).

As part of the deal, and in exchange for a prolongation of the existing spectrums bands (900/1800/2100 MHz), the Group has agreed to generalize 4G coverage on all the mobile sites (and 75% of the Zones blanches sites) in 2020 and the implementation of 4G on all Zones blanches site by 2022.

## **1.3. Altice France sold its international wholesale voice carrier business**

On March 12, 2018, Altice Europe and Altice France announced that they had entered into exclusivity with Tofane Global, a Paris-based telecommunications and digital player specializing in international carrier services, for the sale of its international wholesale voice carrier business in France.

This transaction shows further execution of the Group’s non-core asset disposal program to strengthen the company’s long-term balance sheet position and focus on improving the operational and financial results of its key franchises.

The transfer of assets to SFR International Carrier Services and its sale to Tofane Global were finalized on September 12, 2018. The disposal price amounted to €21.3 million.

## **1.4. Exclusive control over NextRadioTV S.A.**

The convergence between the Group’s telecoms and media offerings was initiated in 2015 with Altice Europe’s acquisition of a 49% stake in NextRadioTV S.A. (“NextRadioTV”) (which was subsequently acquired by the Group in 2016). In furtherance of this convergence strategy, the Group has taken the following steps to take exclusive control of NextRadioTV through the joint venture Group News Participations (“GNP”).

On January 30, 2017, the Group announced that it intended to take over exclusive control of NextRadioTV and, to that effect, had filed the necessary application with the Conseil Supérieur de l’Audiovisuel (“CSA”) and the French Competition Authority in order to obtain their clearance of the proposed transaction. On June 13, 2017, the French Competition Authority granted its clearance and authorized the transaction.

On April 5, 2018, Altice France acquired the minority stake held by News Participations S.A.S. in Altice Content Luxembourg S.A. for the amount of €100.0 million by exercising the call option it held on News Participation’s 25% stake in Altice Content Luxembourg, following which Altice Content Luxembourg has become a wholly-owned subsidiary of Altice France. Altice Content Luxembourg is an indirect parent of NextRadioTV and the direct parent of GNP.

On April 20, 2018, the CSA granted its clearance and authorized the transaction. On May 31, 2018, the Group consummated the acquisition of the remaining 51.0% stake in NextRadioTV (via a conversion of convertible bonds).

The Group has been consolidating the results of GNP in application of IFRS 10 since May 2016, hence this authorization does not have any impact on the financial statements, except for a reclassification of non-controlling interests to Group equity. The net impact of the operation was €(29.6) million (refer to statement of changes in equity).

In the event of a change in control, the French Labor code (L-7112-5) allows journalists to activate a five-year Exit clause (“clause de cession”). As of December 31, 2018, the Group has recorded the associated financial risk for an amount of €4.8 million.

## **1.5. Disposal of i24News to Altice USA**

On April 23, 2018, the Group completed the sale of i24News, an Israeli international 24-hour news and current affairs television channel, to Altice USA for a total consideration of \$2.5 million.



## **1.6. Closing of the previously announced acquisitions of Altice Customer Services and Altice Technical Services France**

On May 16, 2018, the Group successfully closed the previously announced acquisitions of Altice Customer Services and Altice Technical Services France.

Altice France acquired a 65.0% stake in the capital of Altice Customer Services from Altice International for a total consideration of €64.5 million, of which €30.0 million served as consideration for the shares of the company and €34.4 million served as consideration for financial assets held by Altice International against Altice Customer Services.

The seller has agreed to issue a vendor note with a maturity under one year to Altice France for the total amount of the consideration transferred. The amount has been fully paid in December 2018. The fair value of put and call options on the 35.0% minority interest, not held by Altice before the transaction, have been booked in equity for a negative amount of €23.6 million.

Altice Customer Services comprises mainly of companies of the Intelcia group, a French language-focused player in the customer relations management outsourcing industry.

Altice France also acquired a 100% stake in Altice Technical Services France (“ATSF”) from Altice International for a total consideration of €174.8 million. The seller has agreed to issue a vendor note with a maturity under one year to Altice France for the total amount of the consideration transferred. The amount has been fully paid in December 2018.

Altice Technical Services France is an all-round technical services company offering among others network deployment, upgrade and maintenance for the telecommunications industry.

## **1.7. Implementation of separation of Altice Europe and Altice USA**

On January 8, 2018, Altice Europe announced the separation of Altice USA from Altice Europe.

The separation was effected by a spin-off of Altice Europe’s 67.2% interest in Altice USA through a distribution in kind to Altice Europe shareholders. Altice Europe announced completion of the Spin-Off on June 8, 2018.

The Altice Europe Group reorganized its structure comprising the Group Altice France (including SFR, Altice Technical Services France, Altice Customer Services and, following consummation of the Altice Blue Two acquisition), Altice International (including its subsidiaries) and Altice TV (including its subsidiaries of which Altice Entertainment News and Sport).

## **1.8. Tower assets transaction**

On June 20, 2018, Altice France entered into an exclusivity and put option agreement with Starlight BidCo S.A.S., an entity controlled by funds affiliated with KKR for the sale of 49.99% of the shares in a newly incorporated tower company “SFR TowerCo” that comprise 10,198 sites currently operated by the Group. The transaction values “SFR TowerCo” at an enterprise value of €3.6 billion. In addition, a build-to-suit agreement for 1,200 new sites between the Group and “SFR TowerCo” is expected to generate approximately €250 million in additional proceeds to the Group within the next four years.

In connection with this transaction, Altice France and the Starlight BidCo entered into a shareholders agreement relating to the management of “SFR TowerCo” and certain other matters, which will, inter alia, provide Starlight BidCo with consent rights intended to protect its financial interest over specified matters relating to the operation and financing of “SFR TowerCo”. In addition, “SFR TowerCo” and the Group entered into a twenty year master services agreement for the hosting, site development and ancillary services to be provided by “SFR TowerCo” to the Group as tenant.

On December 18, 2018, Altice France and KKR announced the closing of the transaction and the creation of the new tower company, named Hivory. The consideration received was €1.8 billion, corresponding to approximately 49.99% of the total transaction value.

## **1.9. New employment commitment**

On June 22, 2018, the Group entered into an agreement providing a new commitment to the unions to maintain its current number of employees (9,428 as of June 30, 2018) until December 31, 2020. Under this agreement, the Group has also provided a commitment to the effect that if it undertakes any minor restructuring, its employees will benefit from certain support and structured departure processes.

### **1.10. Agreement with Orange for the deployment of Fiber in AMII zones**

At the end of June, SFR and Orange signed an agreement to extend their FTTH (Fiber to The Home) deployments outside very densely populated areas (“ZTD”). This agreement concerns part of the moderately dense areas (“AMII”) which was not covered under the agreement signed by SFR and Orange in 2011.

The area concerned has 2.9 million housing units or business premises which will now be distributed as follows:

- 1.83 million homes or business premises will be deployed by Orange in 363 municipalities;
- 1.07 million homes or business premises will be deployed by SFR in 291 municipalities.

SFR undertook to finalize the 1.07 million housing and business premises by the end of 2020.

### **1.11. Refinancing of 2022 Notes and restructuring of associated cross currency swaps**

On July 16 and July 18, 2018, the Group announced that it had successfully completed the issuance of new term loans and bonds with the intention of redeeming its USD and EUR denominated Senior Secured Notes due in 2022.

The Group issued a USD term loan for a nominal amount of \$2,500 million with an interest rate of Libor 3m+4.00% falling due in 2026 and two Senior Secured Notes, a \$1,750 million note with a coupon of 8.125% falling due in 2027 and a €1,000 million note with a 5.875% coupon also falling due in 2027.

The proceeds from these issuances were used to fully redeem its \$4,000 million May 2022 at 6% Senior Secured Notes and the €1,000 million May 2022 at 5.735% Senior Secured Notes.

The transactions were approved by the board of the Group on July 6, 2018 and were closed in August 2018.

Additionally, cross currency interest rate swaps issued by the Group to hedge the dollar denominated debts were also restructured in order to reflect the new conditions of the new debt instruments.

As part of these transactions, the Group recorded a non-recurring expense of €148.6 million related to the restructuring of the debt and a net non-recurring expense of €8 million related to the restructuring of the cross currency swaps (refer to Note 25 – Derivative instruments for more details).

### **1.12. Signing of an agreement for the acquisition of Télé Lyon Métropole (TLM)**

On October 10, 2018, Altice France announced the signing of an agreement to acquire Télé Lyon Métropole (TLM), the local TNT channel in Lyon, in order to create BFM Lyon (or BFM Lyon Métropole). Altice France aims to build a 100% local news channel. The studios will be installed in Lyon and will host the Lyon editorial of the channel. The *Conseil Supérieur de l'Audiovisuel* (“CSA”) approved the acquisition of TLM to Altice France on 28<sup>th</sup> December. The closing of the transaction occurred on January 8, 2019. The acquisition price is not significant.

### **1.13. Acquisition of sub-group Altice Blue Two**

On October 31, 2018, the Group successfully completed the acquisition of a controlling stake in Groupe Altice Blue Two, an indirect subsidiary of Altice Europe. This acquisition was part of the restructuring announced by the Altice Europe in January 2018.

Sub-group Altice Blue includes the telecom operations of Outremer Telecom, a fixed and mobile operator present in the French Overseas Territories (and reported as ‘FOT’ in Altice Europe’s financial communication and in this financial report).

The total consideration transferred amounted to €475.8 million, which was financed fully by drawing on the Group’s available Revolving Credit Facility (“RCF”)

This operation has been treated as an acquisition under common control and hence no goodwill has been created as part of this transaction.

### **1.14. Agreement between SFR and Canal Plus Group around Premier League broadcasting**

Canal Plus has acquired broadcasting rights to England’s Premier League soccer matches during the 2019/2022 season which will kick off in August 2019. The rights for 2016/2019 are currently owned by Altice. SFR has

announced that it has already started to work with Canal Plus Group, in order to allow SFR subscribers to continue to enjoy the English Premier League on its TV channels after the summer of 2019.

### 1.15. Partnership around fiber business in Altice France

On November 30, 2018, Altice France has entered into exclusivity agreement with Allianz Capital Partners (“ACP”), AXA Investment Managers – Real Assets, acting on behalf of its clients (“AXA IM – Real Assets”), OMERS Infrastructure (“Omers”), (together the “Partners”) regarding the sale of a minority equity stake of 49.99% in SFR FTTH for a total cash consideration of €1.8 billion based on a €3.6 billion equity value. This partnership creates the leading FTTH infrastructure wholesaler in France and brings an additional €1.8 billion of cash to Altice France. The assets and liabilities were classified as held for sale as of December 31, 2018 (refer to Note 21 – *Assets (and Liabilities) held for sale*). Please refer to Note 36 – *Subsequent events*.

#### Revenue

For the full year ended December 31, 2018, we generated total revenues of €10,187 million, a 5.9% decrease compared to €10,820 million for the year ended December 31, 2017.

From January 1, 2018, the Group has implemented the new standard on revenue recognition, IFRS 15, as decreed and adopted by the European Union. As a result, the presentation and recognition of our revenues was adopted to accurately reflect the requirements of the standard. More information on these changes is provided in Notes 1.2, 2.3 and 38 to the consolidated financial statements for the full year ended December 31, 2018.

The decrease in revenues was mainly due to a decrease in our telecom revenue, and a decrease in our media activities due to the exclusion in 2018 of revenues from press businesses sold during the year 2017.

The tables below set forth the Group’s revenue by lines of activity which the Group operates for the full year ended December 31, 2018 and December 31, 2017, respectively:

Revenues (€m)	December 31, 2018	December 31, 2017 restated	Change
Mobile-service	3,907.0	4,158.4	(6.0)%
Mobile-equipment sales	773.0	773.3	(0.0)%
Fixe	3,793.4	4,083.8	(7.1)%
Wholesale	1,189.1	1,288.5	(7.7)%
Media	462.9	516.3	(10.3)%
Other	62.0	-	-
<b>Total</b>	<b>10,187.4</b>	<b>10,820.4</b>	<b>(5.9)%</b>

Revenues for the Group’s mobile services decreased from €4,158 million for the year ended December 31, 2017 to €3,907 million for the full year ended December 31, 2018, a 6.0% decrease. This decrease was driven primarily by continued pricing pressure on mobile offers for our B2C base, impacts of customer loss from previous quarters and the repricing of the B2B mobile base in the second quarter of 2017. For the full year ended December 31, 2018, the Group continued its positive net adds trend, adding 1,012k new B2C mobile post-paid customers (compared to net adds of 199k for the year ended December 31, 2017), as a result of an improved customer experience and anti-churn measures implemented at the end of 2017. B2C mobile revenue was also impacted by the loss of favourable VAT treatment on telecom/press bundles (ended in February 2018). B2B mobile net-adds remained negative during the period (-54k compared to -76k for the year ended December 31, 2017), but there was a stabilisation of the ARPU, following measures taken from the end of 2017 onwards to correct back book price reductions.

Mobile equipment revenues remained flat at €773 million for the year ended December 31, 2018 compared to the full year ended December 31, 2017.

The Group’s fixed segment revenues decreased by 7.1% from €4,084 million for the year ended December 31, 2017 to €3,793 million for the full year ended December 31, 2018. This decrease was mainly due to customer losses experienced in previous quarters and partly impacted by more intense market competition following SFR’s successful churn reduction and more proactive retention activity. For the year ended December 31, 2018, the Group added 186k new B2C fixed customers (compared to 171k losses in 2017), with 284k fiber net adds (offset

by 116k losses in ADSL customers). B2C fixed revenue was also impacted by the loss of favourable VAT treatment on telecom/press bundles (ended in February 2018).

Wholesale revenues decreased by 7.7% to reach €1,189 million for the full year ended December 31, 2018 from €1,289 million for the year ended December 31, 2017. The decrease was mainly due to a decrease in revenues from white label operators and a decline in the international wholesale voice business (which was disposed in the year ended December 31, 2018).

Revenues from the Group's media activities totalled €463 million for the full year ended December 31, 2018, a 10.3% decrease as compared to €516 million for the year ended December 31, 2017. This decrease was driven by the sale of certain press businesses in the second half of 2017, thus impacting 2018 revenues. The revenues from these disposed businesses was included for the year ended December 31, 2017. The news and television part of our media businesses grew by 16.9% to reach €347 million for the full year ended December 31, 2018, compared to €297 million for the year ended December 31, 2017. This growth was driven by record audiences and ad revenues from our BFM and RMC brand channels.

### Adjusted EBITDA

For the full year ended December 31, 2018, our Adjusted EBITDA was €3,706 million, an increase of 1.9% compared to the year ended December 31, 2017 (€3,637 million). A reconciliation from operating income to adjusted EBITDA, as well as a breakdown of other operating expenses is presented below. This increase was mainly due to a decrease in content and other costs, offset partially by the decrease in revenues described in the section above.

- Purchasing and subcontracting costs decreased by 16.0%, from €4,026 million in the year ended December 31, 2017 to €3,382 million in the full year ended December 31, 2018, mainly driven by a decrease in content costs for premium content supplied by other Altice group companies following the restructuring and the creation of the new Altice TV unit announced in January 2018 and a decrease in interconnection costs due to the lower usage of SMS by customers.

<b>Other operating expenses</b>	<b>December 31,</b>	<b>December 31,</b>	<b>Change</b>
<b>(€m)</b>	<b>2018</b>	<b>2017 restated</b>	
Network operation and maintenance	(686.2)	(783.7)	(12.4)%
Sales and marketing	(504.0)	(531.1)	(5.1)%
Customer service	(424.7)	(512.9)	(17.2)%
General and administrative expenses	(328.0)	(248.5)	32.0%
Taxes	(228.6)	(213.8)	6.9%
<b>Other operating expenses</b>	<b>(2,171.4)</b>	<b>(2,290.1)</b>	<b>(5.2)%</b>

- Other operating expenses decreased by 5.2% to €2,171 million in the full year ended December 31, 2018 from €2,290 million in the year ended December 31, 2017, driven mainly due to a decrease in customer service, sales and marketing costs and network operations and maintenance costs, which was offset by an increase in general and administrative costs.
  - Network operation and maintenance costs decreased from €784 million for the year ended December 31, 2017 to €686 million for the year ended December 31, 2018, mainly as a result of the insourcing of Altice Technical Services, a major supplier of network deployment and maintenance services for the Group.
  - Sales and marketing costs decreased to €504 million for the year ended December 31, 2018, mainly as a result of lower marketing activity, a direct result of the decrease in revenues compared to the year ended December 31, 2017.
  - The decrease in customer service costs to €425 million from €513 million was a result of the insourcing of Altice Customer Services, as well as concerted efforts to decrease first time customer service contact (part of the Group's anti-churn efforts).

- G&A expenses increased by 32% to reach €328 million for the year ended December 31, 2018, mainly as a result of increased consultant fees and increased rental costs.
- Staff costs and employee benefit expenses increased by 6.0%, from €681 million in the year ended December 31, 2018 compared to €877 million in the full year ended December 31, 2017, mainly due to the acquisitions of new subsidiaries from Altice International during the course of 2018 (see note 1). Excluding the impact of such acquisitions, staff costs decreased by 10.6% to reach €784 million.

#### Reconciliation of operating income to Adjusted EBITDA

Reconciliation of Operating income to (€m)	December 31, 2018	December 31, 2017 restated	Change
<b>Operating income</b>	511.8	(133.5)	(483.4)%
Depreciation, amortization and impairment	2,600.5	2,780.9	(6.5)%
Restructuring costs	(8.6)	672.9	(101.3)%
Costs relating to stock option plans	1.2	2.0	(40.2)%
Other non-recurring costs (a)	600.9	314.3	91.2%
<b>Adjusted EBITDA</b>	3,705.8	3,636.6	1.9%

#### Depreciation and Amortization and Impairment

For the full year ended December 31, 2018, depreciation and amortization totalled €2,600 million, a 4.7% decrease compared to €2,781 million for the year ended December 31, 2017. This decrease was mainly due to the fact that in the year ended December 31, 2017, the Group had started the accelerated amortisation of the SFR brand, following the rebranding decision taken in May 2017, which led to a non-recurring amortisation impact for the year ended December 31, 2017.

#### Non-recurring expenses and income

For the full year ended December 31, 2018, our non-recurring expenses and income totalled €591 million, a 39.6% decrease compared to €980 million for the year ended December 31, 2017.

Non-Recurring Income and Expenses (€m)	December 31, 2018	December 31, 2017 restated	Change
Net restructuring costs	8.6	(672.9)	(101.3)%
Litigation	64.1	(34.3)	(286.9)%
Gain and loss on disposal of property, plant, equipment and intangible assets	16.4	(108.6)	(115.1)%
Other non-recurring income and expenses	(680.5)	(163.9)	315.1%
<b>Non-recurring income and expenses</b>	<b>(591.4)</b>	<b>(979.8)</b>	<b>(39.6)%</b>

The details of non-recurring income and expenses are given below:

- (1) Restructuring costs mainly include costs related to provisions for employee redundancies as part of the voluntary departure plan launched in 2017. For the nine month period ended December 31, 2017, we had recorded the full provision for the departure plan.
- (2) For the full year ended December 31, 2018, we recorded a reversal in provision for certain litigation with Orange for an aggregate amount of € 120.8 million. For the year ended December 31, 2017, we recorded allowances for certain litigation (mainly the Faber litigation for an amount of €40 million, and an additional allowance for the Sequalum litigation for an amount of €16 million)
- (3) Other non-recurring income and expenses were mainly comprised of the break fee due to Altice Entertainment News and Sport as part of the restructuring of Sports and other contracts in 2018 (€300 million), €53 million for onerous contracts related to the St Denis and other premises, €79 million related to the settlement of certain claims with Bouygues Telecom and €59 million paid as management fees to Altice Management International.

## Finance costs (net)

Net finance costs amounted to €1,075 million for the full year ended December 31, 2018, remaining mostly flat compared to €1,068 million for the year ended December 31, 2017. A breakdown is provided below:

<b>Financial Income (€m)</b>	<b>December 31, 2018</b>	<b>December 31, 2017 restated</b>	<b>Change</b>
<b>Cost of gross financial debt</b>	<b>(831.5)</b>	<b>(1,099.3)</b>	<b>(24.4)%</b>
<b>Financial income</b>	<b>8.9</b>	<b>208.9</b>	<b>(95.7)%</b>
Provisions and unwinding of discount	(28.4)	(0.2)	12,790.0%
Other	(224.4)	(177.1)	26.7%
<b>Other financial expenses</b>	<b>(252.7)</b>	<b>(177.4)</b>	<b>42.5%</b>
<b>Net financial income (expense)</b>	<b>(1,075.3)</b>	<b>(1,067.8)</b>	<b>0.7%</b>

The overall increase in net financial expenses is related to the refinancing of the 2022 dollar and euro notes in July and August 2018.

The cost of gross financial debt decreased from €1099 million as of December 31, 2017 to €832 million as of December 31, 2018, mainly as a result of the refinancing of debts carried out during the course of 2017, which lead to a decrease in the cost of debt for the Group.

The cost of the financial debt was also impacted by a favorable change in hedging instruments following an appreciation in the USD / EUR rate between 2017 and 2018 (1.2022 at December 31, 2017 compared 1.1452 at December 31, 2018).

Other financial expenses increased for the period mainly include a non-recurring expense of €148.6 million related to the refinancing of the 2022 notes. See notes 4 – *Significant events of the period* and note 24 – *Financial liabilities* to the consolidated financial statements for more information.

## Share of earnings of associates

For the full year ended December 31, 2018, our share of loss of associates remained stable compared to the year ended December 31, 2017 and amounted to €13 million.

## Income tax income / (expense)

For the year ended December 31, 2017, we recorded an income tax income of €428 million compared to an income of €99 million for the full year ended December 31, 2018. The variation is mainly explained by the provision for restructuring recorded in 2017 (related to the voluntary restructuring plan), which did not recur in 2018.

## Analysis of the consolidated position of financial position

### Assets

Consolidated Statement of Financial Position (€m)	December 31, 2018	December 31, 2017 restated (*)	Change
<i>Assets</i>			
Goodwill	11,479.8	11,199.2	2.5%
Intangible assets	5,888.7	6,518.7	(9.7)%
Contracts costs	156.9	152.0	3.2%
Property, plant and equipment	6,331.4	6,424.2	(1.4)%
Investments in associates	19.8	23.0	(14.0)%
Non-current financial assets	1,116.3	735.7	51.7%
Deferred tax assets	11.7	11.6	0.5%
Other non-current assets	265.5	195.0	36.2%
<b>Non-current assets</b>	<b>25,270.0</b>	<b>25,259.4</b>	<b>0.0%</b>
Inventories	304.0	288.8	5.3%
Trade and other receivables	3,549.6	3,616.4	(1.8)%
Contracts assets	226.8	266.3	(14.8)%
Income tax receivable	110.9	150.6	(26.4)%
Current financial assets	2.2	17.4	(87.3)%
Cash and cash equivalents	1,068.5	451.3	136.8%
Assets held for sale	521.9	(0)	-
<b>Current assets</b>	<b>5,783.9</b>	<b>4,790.7</b>	<b>20.7%</b>
<b>Total Assets</b>	<b>31,053.8</b>	<b>30,050.1</b>	<b>3.3%</b>

Total assets grew by 3.3% from €30,050 million for the year ended December 31, 2017, mainly driven by an increase in current assets, which grew by 20.7% to reach €5,784 million for the year ended December 31, 2018.

#### Non-current assets:

Non-current assets remained stable at €25,270 million between December 31, 2017 and December 31, 2018. Goodwill increased by 2.5% from €11,199 million to €11,480 million mainly as a result of additional goodwill from the acquisitions of ATS, ACS and FOT. Intangible assets decreased by 9.5% to reach €5,889 million from €6,519 million for the year ended December 31, 2017, as a result of the amortisation of intangible assets recognised as part of the purchase price allocation and the accelerated amortisation of the SFR brand in 2017. Non-current financial assets mainly comprise of derivative financial assets related to our swaps. The increase of 51.7% from €736 million as of December 31, 2017 was mainly related to the appreciation of the USD, leading to an increase in the value of our derivative swap assets (+€101 million).

#### Current assets:

Current assets grew by 20.7% to reach €5,784 million from €4,791 million at the end of December 31, 2017. This increase was mainly due to the increase in cash and cash equivalents from €451 million at the end of December 31, 2017 to €1,069 million at the end of December 31, 2018. This increase was due to the cash proceeds received as part of the sale of a 49.99% stake in our tower business (€1,766 million).

## Equity and liabilities

(€m)	December 31, 2018	December 31, 2017 restated (*)	Change
<i>Equity and liabilities</i>			
<b>Share capital</b>	443.7	443.7	-
Additional paid- in capital	5,403.1	5,403.1	-
Reserves	(2,025)	(2,738)	(26.0)%
<b>Equity attributable to owners of the company</b>	<b>3,821.7</b>	<b>3,108.4</b>	<b>22.9%</b>
<b>Non-controlling interests</b>	<b>216.4</b>	<b>(85)</b>	<b>(354.2)%</b>
<b>Consolidated equity</b>	<b>4,038.1</b>	<b>3,023.3</b>	<b>33.6%</b>
Non-current borrowings and other financial liabilities	17,435.9	16,854.4	3.4%
Other non-current financial liabilities	367.3	248.1	48.0%
Non-current provisions	476.4	476.3	0.0%
Non-current contracts liabilities	502.8	455.2	10.5%
Deferred tax liabilities	126.4	356.6	(64.6)%
Other non-current liabilities	50.4	112.3	(55.1)%
<b>Non-current liabilities</b>	<b>18,959.2</b>	<b>18,503.0</b>	<b>2.5%</b>
Current borrowings and financial liabilities	359.9	351.4	2.4%
Other current financial liabilities	1,086.0	1,106.9	(1.9)%
Trade payables and other liabilities	5,558.0	6,045.3	(8.1)%
Current contracts liabilities	478.5	517.3	(7.5)%
Income tax liabilities	115.4	104.5	10.4%
Current provisions	216.5	349.6	(38.1)%
Other current liabilities	42.8	48.8	(12.2)%
Liabilities directly associated to assets held for sale	199.4	(0)	-
<b>Current liabilities</b>	<b>8,056.6</b>	<b>8,523.8</b>	<b>(5.5)%</b>
<b>Total Equity &amp; liabilities</b>	<b>31,053.8</b>	<b>30,050.1</b>	<b>3.3%</b>

Total consolidated equity increased by 33.6% mainly due to, 1) a decrease in net loss for the period (€477 million for the year ended December 31, 2018 compared to €784 million for the year ended December 31, 2017) ,and 2) an increase in non-controlling interests (related to the sale of a 49.99% stake in our towers business)

### Non-current liabilities

Non-current financial liabilities increased by 2.5% to reach €18,959 million for the year ended December 31, 2018 compared to €18,503 million for the year ended December 31, 2017. This increase was mainly driven by an increase in our non-current borrowings of 3.4% to reach €17,436 million. Our borrowings increased due to a combination of an appreciation of the USD vs the EUR for the year ended December 31, 2018 compared to the year ended December 31, 2017 (1.1452 vs 1.2022) and the issuance of new debt (€215 million equivalent) as part of the refinancing of our 2022 notes in July and August 2018.

### Current liabilities

Current liabilities decreased by 5.5% to reach €8,057 million for the year ended December 31, 2018 compared to €8,523.8 million for the year ended December 31, 2017. This decrease can be explained by a decrease in trade payables and other liabilities from €6,045 million for the year ended December 31, 2017 to €5,558 million for the year ended December 31, 2018 mainly driven by the payment of accruals related to our voluntary departure plan (€328 million).

Current provisions decreased by 38.1% to €217 million mainly due to the reversal of provisions for litigations with Orange, which were settled in 2018 (see note 33 to the consolidated financial statements for the year ended December 31, 2018).



## Liquidity and Capital Resources

### Cash and Debt Profile

As of December 31, 2018, our consolidated cash and cash equivalents amounted to €1,069 million on an actual basis (net of overdraft).

Our most significant financial obligations are our debt obligations. As a result of the various acquisitions we have made since 2013 and the financing transactions that we entered into to fund such acquisitions, our financing profile has undergone a substantial change in this period. Our total third-party debt (excluding certain other long term and short-term liabilities and finance leases,) as of December 31, 2018 was €9,753 million relating to bonds and €7,249 million relating to loans from financial institutions, including drawings under the Existing Revolving Credit Facilities. As of December 31, 2018, our Revolving Credit Facility was undrawn and the balance, amounting to €1,125 million remained available for further liquidity needs.

The following table presents the detail of the Group's debt:

(€m)	Current		Non-current		Total	
	December 31, 2018	December 31, 2017 restated	December 31, 2018	December 31, 2017 restated	December 31, 2018	December 31, 2017 restated
Bonds	278.5	274.0	9,474.4	10,993.1	9,752.9	11,267.2
Term loans	81.4	77.3	7,167.3	5,005.0	7,248.7	5,082.4
Derivative instruments	-	-	794.1	856.3	794.1	856.3
<b>Borrowings</b>	<b>359.9</b>	<b>351.4</b>	<b>17,435.8</b>	<b>16,854.4</b>	<b>17,795.8</b>	<b>17,205.8</b>
Finance lease liabilities	22.9	33.4	56.4	39.5	79.3	72.9
Perpetual subordinated notes ("TSDI")	-	-	53.0	49.5	53.0	49.5
Deposits received from customers	37.2	52.2	162.4	147.4	199.6	199.6
Bank overdrafts	39.2	78.0	-	-	39.2	78.0
Securitization	229.5	248.3	-	-	229.5	248.3
Reverse factoring	600.0	556.1	-	-	600.0	556.1
Commercial paper	107.0	34.5	-	-	107.0	34.5
Other (a)	50.3	104.4	95.6	11.7	145.9	116.1
<b>Other financial liabilities</b>	<b>1,086.0</b>	<b>1,106.9</b>	<b>367.3</b>	<b>248.1</b>	<b>1,453.4</b>	<b>1,355.1</b>
<b>Financial liabilities</b>	<b>1,445.9</b>	<b>1,458.3</b>	<b>17,803.2</b>	<b>17,102.6</b>	<b>19,249.1</b>	<b>18,560.8</b>

For the full year ended December 31, 2018, the Group continued the active management of its debt portfolio by refinancing dollar and euro notes due in 2022.

On August 15, 2018, the Group successfully completed the refinancing of its 2022 dollar and euro denominated notes through the issuance of new euro and dollar denominated notes and a new dollar term loan.

The new notes have the following characteristics:

- Euro denominated notes due in 2027 with a nominal of €1,000.0 million and paying a coupon of 5.875%;
- Dollar denominated notes due in 2027 with a nominal of €1,750.0 million and paying a coupon of 8.125%;
- Dollar denominated Term Loan ("TLB13") due in 2026 with a nominal of €2,500.0 million and paying a coupon of USD Libor 3m + 4.00%.

The notes were issued at par and the term loan with an OID of 2.5%.

Following this refinancing, the average maturity of the Group's capital structure has been extended to 7.5 years from 6.4 years (pre-refinancing) and the weighted average cost of debt was 5.0%.

The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result, additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments.

## ***Sources of Liquidity***

Our principal source of liquidity is expected to be the operating cash flows of our operating subsidiaries and, if required, borrowings under the Existing Revolving Credit Facilities. As of December 31, 2018, our RCF remained undrawn. We expect to use these sources of liquidity to fund operating expenses, working capital requirements, capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time. The availability of borrowings under the Existing Revolving Credit Facilities is conditioned upon compliance with specified leverage ratios. Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash and cash equivalents, the cash provided from the operations of our operating subsidiaries and any available borrowings under the Existing Revolving Credit Facilities will be sufficient to fund our currently anticipated working capital needs, capital expenditures, and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. However, as our debt matures in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete the Refinancing Transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavourable impact on our cash flows and liquidity.

The debt issued by the subsidiaries of the Company is subject to certain restrictive covenants, which apply in the case of debt issued by Altice France to SFR S.A. and its restricted subsidiaries.

The debt issued by the Group's subsidiaries is subject to incurrence based covenants, which do not require ongoing compliance with financial ratios, but place certain limitations on the relevant restricted group's ability to, among other things, incur or guarantee additional debt (including to finance new acquisitions), create liens, pay dividends and other distributions to shareholders or prepay subordinated indebtedness, make investments, sell assets, engage in affiliate transactions or engage in mergers or consolidations. These covenants are subject to several important exceptions and qualifications.

To be able to incur additional debt under an applicable debt instrument, the relevant restricted group must either meet the ratio test described below (on a pro forma basis for any contemplated transaction giving rise to the debt incurrence) or have available capacity under the general debt basket described below or meet certain other exceptions to the limitation on indebtedness covenant in such debt instrument.

Senior Secured Debt and Senior Debt is subject to an incurrence test as following:

- Senior Secured debt of Altice France is subject to an incurrence test of 3.25:1 (Adjusted EBITDA to Net Debt) and Senior Debt is subject to an incurrence test of 4.00:1 (Adjusted EBITDA to Net Debt)

In addition, the Group can use various 'baskets' as defined under its debt covenants to rely on when incurring indebtedness.

The Company or its relevant subsidiaries are allowed to fully consolidate the EBITDA from any subsidiaries in which they have a controlling interest and that are contained in the restricted group as defined in the relevant debt instruments.

The Group has access to a revolving credit facilities, which are subject to maintenance covenants. The terms of these facilities are no more restrictive than the incurrence covenants contained in other debt instruments.

The Issuer is a holding company with no direct source of operating income. Therefore, the Issuer will be dependent on dividends and other payments from its operating subsidiaries to meet its liquidity requirements.

## ***Working Capital***

As of December 31, 2018, the Group had net current liability position of €6,036 million (mainly due to trade payables amounting to €5,558 million) and a negative working capital of €1,956 million. The negative working capital position is structural and follows industry norms. Customers generally pay subscription revenues early or mid-month, with short days of sales outstanding, and suppliers are paid in the beginning of the following month,

thus generating a negative working capital. Payables due the following month are generally covered by operating cash flow. We expect that our operating cash flows and, if required, available borrowings under the Existing Revolving Credit Facilities will be sufficient to meet our working capital requirements during the next 12 months.

### *Cash flow statement*

Consolidated Statement of Cash Flows (€m)	December 31, 2018	December 31, 2017 restated (*)	Change
<b>Net cash flow provided (used) by operating activities</b>	<b>2,710.8</b>	<b>2,794.4</b>	<b>(3.0)%</b>
<b>Net cash flow provided (used) by investing activities</b>	<b>(3,173.7)</b>	<b>(2,704.0)</b>	<b>17.4%</b>
<b>Net cash flow provided (used) by financing activities</b>	<b>1,141.6</b>	<b>(117.2)</b>	<b>(1,073.9)%</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>678.6</b>	<b>(26.8)</b>	<b>(2,628.0)%</b>
<b>Net cash and cash equivalents at beginning of period</b>	<b>373.3</b>	<b>399.9</b>	<b>(6.7)%</b>
<b>Net cash and cash equivalents at end of period</b>	<b>1,029.3</b>	<b>373.3</b>	<b>175.7%</b>
<i>of which cash and cash equivalents</i>	1,068.5	451.3	136.8%
<i>of which bank overdrafts</i>	(39.2)	(78.0)	(49.7)%

#### *Net cash provided by operating activities*

Net cash provided by operating activities increased by 3.0% to €2,711 million for the full year ended December 31, 2018 compared to €2,794 million for the year ended December 31, 2017. This decrease was mainly due to the payment of indemnities related to the voluntary departure plan launched in 2017 (€328 million in 2018, compared to an accrual in 2017). This was offset by lower taxes paid in 2018 compared to 2017 (€53 million compared to €190 million in 2017)

#### *Net cash used in investing activities*

Net cash used in investing activities increased by 17.4% to €3,174 million for the full year ended December 31, 2018 compared to €2,704 million for the year ended December 31, 2017. The increase in the full year ended December 31, 2018 can mainly be attributed to the acquisitions of ATS, ACS and FOT in 2018, amounting to a cash payment of €818.2 million in 2018.

#### *Net cash provided by (used in) financing activities*

For the full year ended December 31, 2018, the Group generated net cash from financing activities for an amount of €1,146 million, compared a net outflow of cash from financing activities of €117 million for the year ended December 31, 2017. This increase was mainly due to cash proceeds received from the sale of a 49.99% stake in our tower business (€1,767 million), offset by lower debt issued in 2018 (€99 million compared to €577 million in 2017), resulting from the refinancing of our debts that was performed in 2017 and 2018 and the monetisation of latent gains on certain cross currency swaps.

### **Other disclosures**

#### *Unrecognized Contractual Commitments*

We have other contractual obligations incurred in the ordinary course of business, including commitments relating to building or upgrading network infrastructure, purchase of set-top boxes, modems, mobile handsets and other end-user equipment and various maintenance and support contracts primarily relating to the maintenance and support of network infrastructure and equipment, purchase commitments for content, royalty payments to regulatory authorities and authors' rights to societies and commitments under interconnection contracts. See Note 32 to the audited consolidated financial statements of Altice France for the year ended December 31, 2018.

#### *Defined Benefit and Defined Contribution Pension Plans*

In addition, we have obligations under defined benefit and defined contribution pension plans. Our cash outflow relating to these obligations will vary depending on many factors. In the case of defined benefit plans, we have recognized a liability regarding employee benefits in the statement of financial position of Altice France which represents the present value of the defined benefits liability less the fair value of the plan assets, and the past service costs. The liability in respect of defined benefit plans is determined using actuarial valuations. The

actuarial valuation involves making assumptions with regards to, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to uncertainty. Actuarial gains and losses are reflected in the statement of income and statement of other comprehensive income in the period in which they arise, as part of the salary costs. Deposits in a defined contribution plan in respect of severance pay or in respect of emoluments are recognized as an expense at the time of the deposit in the plan, in parallel to the receipt of the labour services from the employee and no additional provision is recognized in the financial statements. As of December 31, 2018, our total defined benefit plans liabilities were €132 million. See Note 26 to the audited consolidated financial statements of Altice France for the year ended December 31, 2018 for more details.

### **Post-Balance Sheet Date Events**

On March 27, 2019, the Group announced the closing of the transaction to sell 49.99% of equity stake in SFR FTTH. The consideration received was €1.7 billion. Please refer to Note 4.15 - *Partnership around fiber business in Altice France*. SFR FTTH was fully consolidated until the closing date of the transaction (March 27, 2019) and will be accounted for as an associate thereon.

### **Related Party Transactions**

Other than as disclosed in the consolidated financial statements of Altice France as of and for the full year ended December 31, 2018, the Group did not have any material transactions with related parties. See Note 31 to the audited consolidated financial statements of Altice France for the year ended December 31, 2018.

### **Off Balance Sheet Arrangements**

We are not party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditure or capital resources, other than the contractual commitments relating to purchase of property plant, and equipment, operating leases or as disclosed below or in the audited consolidated financial statements of Altice France (*note 32*) as of and for the year ended December 31, 2018.

### **Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks relating to fluctuations in interest rates and foreign exchange rates, primarily as between the U.S. dollar and Euro, and use financial instruments to manage our exposure to interest rate and foreign exchange rate fluctuations. See notes 25 and 30 to the audited consolidated financial statements of Altice France for the year ended December 31, 2018 for more details.

### ***Credit Risk***

The Group does not have significant concentrations of credit risk. Credit risk may arise from the exposures of commitments under a number of financial instruments with one counterparty or as the result of commitments with a number of groups of debtors with similar economic characteristics, whose ability to meet their commitments could be similarly affected by economic or other changes.

The Group's income mainly derives from customers in France. The majority of our B2C clients are on direct debit, thus reducing credit and recovery risk from our biggest operating segment. The Group regularly monitors its customers' debts and provisions for doubtful debts are recorded in the consolidated financial statements, which provide a fair value of the loss that is inherent to debts whose collection lies in doubt.

### ***Liquidity Risk***

Ultimate responsibility for liquidity risk management rests with the Board of Managers, which manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The Group has a strong track record of driving operating free cash flow generation and specializes in turning around struggling businesses and improving the cash generation of existing businesses. As all external debt is issued and managed centrally, the executive directors of the Group have a significant amount of control and visibility over the payments required to satisfy obligations under the different external debts.

Additionally, as of December 31, 2018, the Group has access to revolving credit facilities of up to €1,125 million to cover any liquidity needs not met by operating cash flow generation.

### ***Interest Rate and Related Risk***

For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Accordingly, interest rate risk and changes in fair market value should not have a significant effect on the fixed rate debt until we would be required to refinance such debt at maturity. On a consolidated basis, taking into account our swap portfolio, our primary fixed rate debt obligations were in an amount equivalent to €9,511 million, while our primary floating rate debt obligations were equivalent to €7,381 million.

### ***Foreign Currency Risk***

As part of its financial risk management strategy, the Group has entered into certain hedging operations. These are split mainly into either fixed to fixed or floating to floating cross-currency and interest rate swaps that cover against foreign currency and interest rate risk, FX forwards that cover against foreign exchange risk only, or interest rate swaps covering interest rate risk only. For details regarding the Group's outstanding derivative instruments to secure foreign currency liabilities and to reduce foreign currency exposure, see Note 25.4 to the audited consolidated financial statements of Altice France as of and for the year ended December 31, 2018.

### **Critical Accounting Policies, Judgments and Estimates**

For details regarding the Group's critical accounting policies, judgments and estimates, see Note 2 to the audited consolidated financial statements of Altice France as of and for the year ended December 31, 2018.

For details regarding the Group's adoption of IFRS 15 and its impact on its revenue recognition, see Note 1.2 *New standards and interpretations* and Note 38 *Restated information* to the audited consolidated financial statements of Altice France for the full year ended December 31, 2018.

### **Key Income Statement Items**

#### ***Revenue***

Revenue consists of income generated from the delivery of fixed-based services to our B2C and B2B customers, mobile services to our B2C and B2B customers, wholesale and other services. Revenue is recognized at the fair value of the consideration received or receivable net of value added tax, returns, rebates and discounts and after eliminating intercompany sales within the Group.

*Fixed-based B2C services:* Revenue from fixed-based services consists of revenue from pay television services, including related services such as Video on Demand ("VoD"), broadband internet services, fixed-line telephony services and ISP services to our customers. This primarily includes (i) recurring subscription revenue for pay television services, broadband internet and fixed-line telephony (which are recognized in revenue on a straight-line basis over the subscription period), (ii) variable usage fees from VoD and fixed-line telephony calls (which are recognized in revenue when the service is rendered), (iii) installation fees (which are recognized in revenue when the service is rendered if consideration received is lower than the direct costs to acquire the contractual relationship) and (iv) interconnection revenue received for calls that terminate on our cable network.

*Mobile B2C services:* Revenue from mobile telephony services primarily consists of (i) recurring subscription revenue for our post-paid mobile services (which are recognized in revenue on a straight-line basis over the subscription period), (ii) revenue from purchases of our pre-paid mobile services (which are recognized in revenue when the service is rendered), (iii) variable usage fees for mobile telephony calls (which are recognized in revenue when the service is rendered), (iv) revenue from the sale of handsets (which are recognized on the date of transfer of ownership), and (v) interconnection revenue received for calls that terminate on our mobile network.

*Wholesale and B2B fixed and mobile services:* Revenue from wholesale services primarily consists of revenues derived from renting our network infrastructure services, including IRUs and bandwidth capacity on its network, to other telecommunications operators, including mobile virtual network operations ("MVNOs") as well as related maintenance services. Revenue from B2B services is the same as the above fixed and mobile services, but for the business sector.

*Others:* Revenue from our other services primarily consists of revenue from other businesses, such as (i) datacenter activities, (ii) content production and distribution, (iii) advertising, (iv) customer services, (v) technical services, and (vi) other activities that are not related to our core fixed or mobile businesses.

*Intersegment Eliminations:* Intersegment costs, which primarily relate to services rendered by certain centralized Group functions (such content production and customer service) to the operational segments of the Group, are eliminated in consolidation.

### **Impact of IFRS 15 on Revenue Recognition**

In May 2014, the International Accounting Standards Board issued IFRS 15, which establishes a single comprehensive 5-step model to account for revenue arising from contracts with customers. IFRS 15 will supersede all current revenue recognition guidance when it becomes effective for annual periods on or after January 1, 2018. The Group is required to retrospectively apply IFRS 15 to all contracts that are not complete on the date of initial application and has the option to either (i) restate each prior period and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at the beginning of the earliest period presented or (ii) retain prior period figures as reported under the previous standards and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at the date of initial application. The Group has decided to adopt IFRS 15 based on the full retrospective approach.

The Group anticipates that the application of IFRS 15 may have a material impact on the amounts reported and the disclosures made in its consolidated financial statements. The assessment phase has now been completed and the implementation plan is in progress. The most significant anticipated effects of IFRS 15 on the Group's reporting are outlined below.

*Mobile Activities:* The most significant impact is expected in the Group's mobile activities (B2C and B2B transactions) as some arrangements include multiple elements that are bundled, such as a discounted handset sale coupled with a communication service component. In applying IFRS 15, the Group has identified such bundled items as separate performance obligations. Total revenue will be allocated to both elements based on their standalone selling price, leading to more revenue being allocated to the handset up-front, even though total revenue would not change in most cases over the life of the contract. Other IFRS 15 impacts include (i) the capitalization of commissions which will be broader than the current capitalization model, along with depreciation patterns which will require estimates relating to contract duration in some instances and (ii) the impact of early termination and early renewals as well as contract modifications. Further, B2B transactions will be affected by variable considerations such as bonuses and, in some instances, the identification of options for additional handsets at discounted prices.

*Fixed Activities:* In most cases, fixed services and equipment will not be considered as distinct performance obligations. Additional services will be examined separately. Connection fees, related costs and the capitalization of commissions will also be affected, including the determination of the depreciation period for capitalized assets based on the length of contractual periods and any additional periods related to anticipated contracts that the Group can specifically identify.

*Wholesale Activities:* No major impact has been identified except for the effect of any constraints on variable consideration.

*Other Activities:* No major impact has been identified so far on the Group's other revenue streams, such as media, customer and technical services.

### **Purchasing and subcontracting services**

Purchasing and subcontracting services consist of direct costs associated with the delivery of fixed-based services to our B2C and B2B customers, mobile services to our B2C and B2B customers, wholesale and other services. We present purchasing and subcontracting services paid for the procurement of the following services:

*Fixed-based services:* Purchasing and subcontracting services associated with fixed-based services consist of all direct costs related to the (i) procurement of non-exclusive television content, royalties and licenses to broadcast, (ii) transmission of data services and (iii) interconnection costs related to fixed-line telephony. In addition, it includes costs incurred in providing VoD or other interactive services to subscribers and accounting variations

arising from changes in inventories of customer premises equipment (such as modems, set-top boxes and decoders).

*Mobile services:* Purchasing and subcontracting services associated with mobile services consist primarily of mobile interconnection fees, including roaming charges and accounting variations arising from the changes in inventories of mobile handsets.

*Wholesale:* Purchasing and subcontracting services associated with wholesale primarily consist of costs associated with delivering wholesale services to other operators.

*Others:* Other purchasing and subcontracting services consist of the (i) cost of renting space for datacenters (subject to certain exceptions), (ii) utility costs related to the operation of datacenters (such as power and water supply costs), (iii) in relation to the content activity of the Group, technical costs associated with the delivery of content, such as satellite rental costs, (iv) in our technical services business, the cost of raw materials used in the technical activities related to the construction and maintenance of the network, cables for customer connections, etc., and sub-contractor fees associated with the performance of basic field work and the supervision of such sub-contractors, and (v) direct costs related to our call centers operations, such as service expenses, telecom consumption subscriptions and energy costs, in our customer services functions.

*Intersegment Eliminations:* Intersegment costs, which primarily relate to services rendered by certain centralized Group functions (such content production and customer service) to the operational segments of the Group, are eliminated in consolidation.

#### ***Other operating expenses***

Other operating expenses mainly consist of the following subcategories:

*Customer service costs:* Customer service costs include all costs related to billing systems, bank commissions, external costs associated with operating call centers, allowances for bad customer debts and recovery costs associated therewith.

*Technical and maintenance:* Technical and maintenance costs include all costs related to infrastructure rental, equipment, equipment repair, costs of external subcontractors, maintenance of backbone equipment and datacenter equipment, maintenance and upkeep of the fixed-based and mobile networks, costs of utilities to run network equipment and those costs related to customer installations that are not capitalized (such as service visits, disconnection and reconnection costs).

*Business taxes:* Business taxes include all costs related to payroll and professional taxes or fees.

*General and administrative expenses:* General and administrative expenses consist of office rent and maintenance, professional and legal advice, recruitment and placement, welfare and other administrative expenses.

*Other sales and marketing expenses:* Other sales and marketing expenses consist of advertising and sales promotion expenses, office rent and maintenance, commissions for marketers, external sales and storage and other expenses related to sales and marketing efforts.

#### ***Staff costs and employee benefits***

Staff costs and employee benefits are comprised of all costs related to wages and salaries, bonuses, social security, pension contributions and other outlays paid to Group employees.

#### ***Depreciation, amortization and impairment***

Depreciation and amortization includes depreciation of tangible assets related to production, sales and administrative functions and the amortization of intangible assets. Impairment losses include the write-off of any goodwill or tangible and intangible assets that have been recognized on the acquisition of assets based upon a re-evaluation of the cash generating capacity of such assets compared to the initial valuation thereof.

#### ***Non-recurring expenses and income***

Non-recurring expenses and income includes any one-off or non-recurring income or expenses incurred during the on-going financial year. This includes deal fees paid to external consultants for merger and acquisition

activities, restructuring and other non-recurring costs related to those acquisitions or the business in general, any non-cash operating gains or losses realized on the disposal of tangible and intangible assets and management fees paid to related parties.

***Interest relative to gross financial debt***

Interest relative to gross financial debt includes interest expenses recognized on third party debt (excluding other long term liabilities, short term liabilities and other finance leases) incurred by the Group.

***Other financial expenses***

Other financial expenses include other financial expenses not related to the third party debt (excluding other long term liabilities and short term liabilities, other than finance leases) incurred by the Group. Such expenses mainly include interest costs of finance leases, variations in the fair value of non-hedged derivative instruments and the inefficient portion of hedged derivative instruments.

***Financial income***

Financial income consists of changes in the net fair value of the financial derivatives, gains from the disposal of financial assets, net exchange rate differences, and other financial income.

***Share in net income/(loss) of associates***

Share of profit of associates consists of the net result arising from activities that are accounted for using the equity method in the consolidation perimeter of the Group.

***Income tax expense/(income)***

Income tax expenses are comprised of current tax and deferred tax. Taxes on income are recognized in the income statement except when the underlying transaction is recognized in other comprehensive income, at which point the associated tax effect is also recognized under other comprehensive income or in equity.

***Adjusted EBITDA***

Adjusted EBITDA is defined as operating profit before depreciation and amortization, impairment and losses, other operating and non-recurring items (including management fees) and other adjustments (equity-based compensation expenses) in EBITDA. Adjusted EBITDA is unaudited and is not required by or presented in accordance with IFRS or any other generally accepted accounting standards. We believe that this measure is useful to readers of our financial as it provides them with a measure of the operating results which excludes certain items we consider outside of our recurring operating activities or that are non-cash, making trends more easily observable and providing information regarding our operating results and cash flow generation that allows investors to better identify trends in its financial performance. Adjusted EBITDA should not be considered as a substitute measure for operating income and may not be comparable to similarly titled measures used by other companies.