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# ALTICE VII S.à r.l.

*Société à responsabilité limitée*

## 2011 Annual Report

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**ALTICE VII S.à r.l.**

Société à Responsabilité Limitée

L-2449 Luxembourg, 3, boulevard royal

R.C.S. Luxembourg number B 143.725

**(Hereinafter the “Group”)**

Dear Partners,

In accordance with the statutory and legal measures in force in Luxembourg, we hereby present you the management report of the Board of Managers for the financial year ended December 31, 2011 as a complement to the annual consolidated financial statements.

**Significant risks affecting our business**

**Risks Relating to Our Financial Profile**

***Our substantial leverage could adversely affect our business, financial condition and results of operations and ability to raise additional capital to fund our operations.***

We have significant outstanding debt and debt service requirements and may incur additional debt in the future. Our significant level of debt could have important consequences, including, but not limited to, the following:

- making it more difficult for us to satisfy our obligations with respect to our debt; requiring that a substantial portion of our cash flows from operations be dedicated to servicing debt, thereby reducing the funds available to us to finance our operations, capital expenditures, research and development and other business activities, including maintaining the quality of and upgrading our network;
- impeding our ability to obtain additional debt or equity financing, including financing for capital expenditures, and increasing the cost of any such funding, particularly due to the financial and other restrictive covenants contained in the agreements governing our existing debt;
- impeding our ability to compete with other providers of pay television, broadband Internet services, fixed-line telephony services, mobile services and B2B services in the regions in which we operate;
- restricting us from exploiting business opportunities or making acquisitions or investments;
- increasing our vulnerability to, and reducing our flexibility to respond to, adverse general economic or industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive and economic environment in which we operate; and
- Adversely affecting public perception of us and our brands.

Any of these or other consequences or events could have a material adverse effect on our business, financial condition and results of operations.

The terms of the agreements and instruments governing our debt restrict, but do not prohibit, us from incurring additional debt. We may refinance our debt, and we may increase our consolidated debt for various business reasons which might include, among other things, financing acquisitions, funding the prepayment premiums, if any, on debt we refinance, funding distributions to our equity holders or general corporate purposes. If new debt is added to our consolidated debt described above, the related risks that we now face will intensify.

***We may not generate sufficient cash flow to fund our capital expenditures, ongoing operations and debt obligations, and may be subject to certain liabilities.***

Our ability to service our debt and to fund our ongoing operations will depend on our ability to generate cash. We cannot assure you that our business will generate sufficient cash flow from operations or that future debt or equity financing will be available to us in an amount sufficient to enable us to pay our debt obligations when due. Our ability to generate cash flow and to fund our capital expenditures, ongoing operations and debt obligations are dependent on many factors, including:

- our future operating performance;
- the demand and price levels for our current and planned products and services;
- our ability to maintain the required level of technical capability in our networks and in the subscriber equipment and other relevant equipment connected to our networks;
- our ability to successfully introduce new products and services;
- our ability to reduce churn;
- general economic conditions and other conditions affecting customer spending;
- competition;
- sufficient distributable reserves, as required under applicable law;
- the outcome of certain litigation in which we are involved; and
- Legal, tax and regulatory developments affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow, we may not be able to repay our debt, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, including capital expenditures and payment of dividends, if any. If we are unable to meet our debt service obligations, we may have to sell assets, attempt to restructure or refinance our existing indebtedness or seek additional funding in the form of debt or equity capital. We may not be able to do so on satisfactory terms, if at all. In addition, our ability to refinance our indebtedness, on favourable terms, or at all, will depend in part on our financial condition at the time of any contemplated refinancing. Any refinancing of our indebtedness could be at higher interest rates than our current debt and we may be required to comply with more onerous financial and other covenants, which could further restrict our business operations and may have a material adverse effect on our business, financial condition, results of operations and prospects. We cannot assure you that we will be able to refinance our indebtedness as it comes due on commercially acceptable terms or at all and, in connection with the refinancing of our debt or otherwise, we may seek additional refinancing, dispose of certain assets, reduce or delay capital investments, cease any dividend payments to our equity holders or seek to raise additional capital.

We expect that a significant amount of our cash flow will consist of payments of dividends or interest by Israeli companies in our Group. In general, payments of dividends or interest by companies that are Israeli residents for tax purposes are subject to withholding tax. With respect to payments to Luxembourg tax residents or residents of other countries who have a tax treaty with Israel, such withholding tax may be reduced from the rates generally applicable under Israeli law to the rates applicable under the tax treaty between Israel and Luxembourg or the other applicable treaty. In order to enjoy the reduced rate of withholding tax, it is necessary to file with the Israel Tax Authority a request for relief from withholding prior to payment of the dividend and/or interest. If a withholding tax exemption or relief certificate is received from the Israel Tax Authority prior to the payment of the dividend and/or interest, the payer will be able to make the dividend/interest payment at such reduced withholding tax rate. However, if such request is denied or delayed and such certificate is not available at the time of payment, withholding will be made at the full statutory rates. Any changes in the tax rates on dividends or interest could significantly affect our ability to meet our debt service obligations under the agreements and instruments governing our debt and our ability to fund our operations outside Israel.

***The agreements and instruments governing our debt contain restrictions and limitations that could adversely affect our ability to operate our business.***

The terms of the agreements and instruments governing our debt contain a number of significant covenants or other provisions that could adversely affect our ability to operate our business. These covenants restrict our ability, and the ability of our subsidiaries, to, among other things:

- pay dividends or make other distributions;
- make certain investments or acquisitions, including participating in joint ventures;
- make capital expenditures;
- engage in transactions with affiliates and other related parties;
- dispose of assets other than in the ordinary course of business;
- merge with other companies;
- incur additional debt and grant guarantees;
- repurchase or redeem equity interests and subordinated debt or issue shares of subsidiaries;
- grant liens and pledge assets; and
- Change our business plan.

All of these limitations will be subject to certain exceptions and qualifications. However, these covenants could limit our ability to pay dividends to our equity holders, finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. In addition, our ability to comply with these restrictions may be affected by events beyond our control. In addition, we will also be subject to the affirmative covenants contained in the agreements and instruments governing our debt. Certain debt agreements and instruments also require us to maintain specified financial ratios. Our ability to meet these financial ratios may be affected by events beyond our control and, as a result, we cannot assure you that we will be able to meet these ratios.

In addition to limiting our flexibility in operating our business, the breach of any covenants or obligations under the agreements and instruments governing our debt will result in a default under the applicable debt agreement or instrument and could trigger acceleration of the related debt, which in turn could trigger defaults under other agreements governing our debt. A default under any of the agreements governing our debt could materially adversely affect our growth, financial condition and results of operations.

***We are exposed to interest rate risks. Shifts in such rates may adversely affect our debt service obligations.***

An increase in the interest rates on our debt will reduce the funds available to repay our debt and to finance our operations, capital expenditures and future business opportunities. We have not entered into interest rate hedges and hence are exposed to interest rate fluctuations with respect to our floating rate debt.

***Currency fluctuations and interest rate and other hedging risks could adversely affect our earnings and cash flow.***

Our business is exposed to fluctuations in currency exchange rates. The HOT Group's primary functional currency is the New Israel Shekel. The primary functional currency of Green and Green Datacentre is Swiss Francs. The primary functional currency of the Company and its other operating subsidiaries is the euro. We conduct, and will continue to conduct, transactions in currencies other than such primary functional currencies, particularly the U.S. dollar. Our existing debt is primarily denominated in U.S. dollars, euros and New Israeli Shekels although the amounts incurred in euros and New Israeli Shekels do not necessarily match the cash flows generated from operations in such currencies. The exchange rate between the U.S. dollar and the New Israeli Shekel, euro and Swiss Franc has fluctuated significantly in recent years and may continue to fluctuate significantly in the future. We have historically covered a portion of our U.S. dollar and euro cash outflows arising on anticipated and committed obligations through the use of foreign exchange derivative instruments. Further, while we manage the risk of certain currency fluctuations in respect of a portion of our existing debt and to hedge our exposure to interest rate changes in respect of indebtedness linked to interest rates, these arrangements may be costly and may not insulate us completely from such exposure. There can be no guarantee that our hedging strategies will adequately protect our operating results from the effects of exchange rate fluctuation or changes in interest rates, or that these hedges will not limit any benefit that we might otherwise receive from favourable movements in exchange rates or interest rates.

***Negative changes in our credit rating may have a material adverse effect on our financial condition.***

A downgrade in our credit rating may negatively affect our ability to obtain funds from financial institutions, retain investors and banks and may increase our financing costs by increasing the interest rates of our outstanding debt or the interest rates at which we are able to refinance existing debt or incur new debt.

## **Risks Relating to Our Business, Technology and Competition**

***We face significant competition in each of the industries in which we operate and competitive pressures could have a material adverse effect on our business.***

We face significant competition from established and new competitors in each of the countries and segments in which we operate. The nature and level of the competition we face vary for each of the products and services we offer. Our competitors include, but are not limited to, providers of television, broadband Internet, fixed-line telephony and B2B services using DSL or fibre connections, providers of television services using technologies such as IPTV, providers of television by satellite, DTT providers, mobile network operators, and providers of emerging digital entertainment technologies.

In some instances, we compete against companies which may have easier access to financing, more comprehensive product ranges, greater financial, technical, marketing and personnel resources, larger subscriber bases, wider geographical coverage for their cable or mobile networks, greater brand name recognition and experience or longer established relationships with regulatory authorities, suppliers and customers. Some of our competitors may have fewer regulatory burdens with which they are required to comply because, among other reasons, they use different technologies to provide their services, do not own their own fixed-line network, or are not subject to obligations applicable to operators with significant market power.

Because the telecommunications and mobile markets in certain of the geographic markets in which we operate, including our largest market, Israel, are reaching saturation, there are a limited number of new subscribers entering the market and therefore in order to increase our market share we are dependent on attracting our competitors' existing subscribers, which intensifies the competitive pressures we are subject to. The competitive landscape in the countries in which we operate is generally characterised by increasing competition, tiered offerings that include lower priced entry level products and a focus on multiple-play offerings including special promotions and discounts for customers who subscribe for multiple-play services, which may contribute to increased average revenue per unique customer relationship, but will likely reduce our ARPU on a per-service basis for each service included in a multiple-play package. We expect additional competitive pressure to result from the convergence of broadcasting and communication technologies, as a result of which participants in the media and telecommunications industries seek to offer packages of fixed and mobile voice, Internet and video broadcast services. In addition, we expect competition to increase as a result of changes in the regulatory regime seeking to increase competition in the markets in which we operate, such as allowing third party access to cable networks on a wholesale basis.

Our products and services are also subject to increasing competition from alternative new technologies or improvements in existing technologies. For example, our pay television services in certain jurisdictions compete with providers who provide IPTV services to customers in our network areas utilizing DSL or very high bitrate DSL ("VDSL") broadband Internet connections. In the broadband Internet market, we generally face competition from mobile operators as they are increasingly able to utilize a combination of progressively powerful handsets and high bandwidth technologies, such as UMTS and, potentially, long-term-evolution ("LTE") technology. Mobile services, including those offering advanced higher speed, higher bandwidth technologies and mobile virtual network operators ("MVNOs"), also contribute to the competitive pressures that we face as a fixed-line telephony operator. In the past, mobile operators have engaged in "cut the line" campaigns and used attractive mobile calling tariffs to encourage customers with both fixed-line and mobile services to retain only their mobile services. This substitution, in addition to the increasing use of alternative communications technologies, tends to negatively affect our fixed-line call usage volumes and subscriber growth. At the same time, incumbent fixed-line operators have also applied resources to "win-back" activities that can entice our existing telephony customers, as well as prospective telephony customers, to return or remain with the incumbent by offering certain economic incentives. The following is a summary of the competitive landscape in Israel, Belgium and Luxembourg and the French Overseas Territories:

### *Israel*

*Pay Television.* In the multi-channel television market our main competitor is D.B.S. Satellite Services (1998) Ltd, an associate of Bezeq, which provides satellite technology based multi-channel television services under the brand "YES". Other factors that have a material impact on competition in the market include the availability of free-to-air DTT channels and the increasing availability of video content that may be offered via the Internet. In addition, we believe that the implementation of certain regulatory changes may have an impact on competition in the market, including the expansion in the number of free-to-air DTT channels, the "narrow" television package and the increased scope of special broadcasting licenses pursuant to which we are required to broadcast television channels owned by special broadcasting license holders on our network under certain terms.

*Broadband Internet Infrastructure Access.* Our high-speed broadband Internet infrastructure access service competes primarily with Bezeq, which provides high-speed broadband access over DSLs, holds the highest market share in broadband Internet infrastructure access in Israel, and offers a range of products with different download speeds, data transfer limits and other value added services. Continued upgrades to the quality of Bezeq's DSL-based broadband Internet infrastructure access service to very high bitrate DSL ("VDSL") and potentially even faster DSL variants and the possibility of widespread fibre-to-the-home installations which it has announced could have a negative impact on our competitive position in the broadband Internet infrastructure market and may also require us to revise our marketing strategy and make potentially significant capital expenditures. Further, the Israeli Ministry of Communications has issued regulatory instructions in an attempt to create a wholesale market for broadband Internet infrastructure access which would allow service providers (such as ISPs, VOB providers and IPTV providers) to provide services to their customers by using our cable network. Competition may also increase following the creation of a public private joint venture in June 2013 between the government owned Israeli Electric Corporation ("IEC") and a private company, which proposes to use the electric transmission and distribution network in Israel owned by IEC to provide wholesale products to telecommunication services providers via optical fibre, and thus compete with HOT and Bezeq in the wholesale market as well as providing such services directly to large business customers.

*Fixed-Line Telephony.* Competition in providing fixed-line telephony service is intense, with providers having introduced substantial price reductions over the past few years. Bezeq, our principal competitor in the Israeli market and the largest provider of fixed-line telephony services, has an extensive fixed-line telephone network throughout Israel, strong market knowledge, high brand recognition and substantial capital resources. We believe that competition in this market will increase due to the low barriers to entry primarily as a result of regulations pursuant to which new service providers, who receive a license, can provide telephony services using voice over internet protocol ("VoIP") or voice over broadband ("VOB") technology over the infrastructure network owned by either us or Bezeq (the end user will still need to purchase access to the infrastructure network directly from us or from Bezeq). As a result of the wholesale market implementation, the VOB service provider may be entitled to procure the access to the network infrastructure by itself. The Israeli Ministry of Communications requires the various telephony service providers to provide interconnection access in return for payment of an "interconnection fee" set by it. Competition may also increase following the commencement of operations by the proposed IEC joint venture, if successful, and as the result of the policy to develop a wholesale market in telecommunications services. Although our market share in this segment is increasing, we may not have the resources of, or benefit from the economies of scale available to, Bezeq and other competitors.

*Mobile Services.* The mobile market in Israel is characterized by saturation and a very high penetration level in excess of 100%, as a result of which competition is focused primarily on customers moving from one mobile operator to another. Our mobile service competes with three principal mobile network operators in Israel and with an additional new mobile network operator (as well as several MVNOs). As such, the brand names of the three principal mobile network operators in Israel are better recognized as mobile service providers than our brand, they have better established sales, marketing and distribution capabilities, and are more experienced in the provision of mobile services. While we acquired HOT Mobile in November 2011, which had an existing iDEN-based mobile network and service offering, we only began offering our 3G based mobile services under the HOT brand in May 2012 and expect that we will continue to face the challenge that the brand names of our competitors are better recognized as mobile service providers and that these competing providers are part of larger, more established companies than us. We may be required to invest significantly in marketing, other promotional activities and our infrastructure to overcome this challenge. We may also face increased competition in the future from Golan Telecom, which launched its services at the same time as HOT Mobile, and MVNOs that provide mobile services under their own brand using the network infrastructure of another service provider. In addition, the Israeli Ministry of Communications has granted a special license to a few of the new operators to conduct a marketing experiment that will examine the provision of domestic telephony services using VoC (VoIP over Mobile) technology. VoC services may provide an alternative to traditional mobile services or virtual mobile networks, offering an easier and more cost efficient service. In addition, a licensed VoC service improves user experience, since it has a standard phone number and can be ported in and out with number portability. If the VoC marketing experiment is successful and the Israeli Ministry of Communications grants licenses to offer VoC service, demand for our mobile services may be reduced, which would negatively impact revenues and profits from that segment. In the future, the Israeli Ministry of Communications may auction additional spectrum for LTE services at prices or on terms which we do not consider attractive. In the event that we successfully bid for such additional spectrum and decide to accept the terms on which it is offered to us, we would need to deploy 4G LTE infrastructure in order to commercialise such services. It is unclear whether the regulator would allow us to deploy an LTE network before we complete the roll-out of our UMTS network. If we are not granted such permission, we could incur significant delay in rolling out our 4G LTE network compared to our competitors



which have already completed the roll-out of their UMTS 3G network. A delay in the introduction of 4G LTE services or a failure on our part to provide such services at all could negatively affect our ability to compete with mobile operators who can provide such services to Israeli subscribers.

*Multiple-play offerings.* We are currently the only provider of triple-play services combining pay television, broadband Internet infrastructure access and fixed-line telephony services at a bundled price below what a subscriber would pay for each service individually. Bezeq, our principal competitor, is currently limited under its license from providing, although it can apply for approval to the Israeli Ministry of Communications to provide, triple-play services. However, with approval of the Israeli Ministry of Communications, Bezeq has the capability to offer such triple-play services to its customers through an associate which provides pay television services under the brand “YES” on a standalone basis. Bezeq can also currently provide double-play services including broadband Internet infrastructure access and ISP services at a bundled price. The ability of our competitors to provide multiple-play services in the future as a result of regulatory changes, consolidation in the industry, advances in technology or other factors, or regulatory changes that might require us to provide, on a standalone basis, the services that currently form our triple-play bundle at the bundled rates, could have a material effect on our business, financial condition and results of operations.

*Business Services.* Competition in the provision of Internet, data and voice products to business customers is intense, with Bezeq, several local telephony operators through VoB and several international telephony operators among our competitors. In addition to competitive activity, we continue to see challenges in this segment of the market as a result of price erosion in existing products and the need to invest in new product development to satisfy the evolving preferences of prospective customers.

#### *Belgium and Luxembourg*

In the pay television market within our footprint in Belgium, we compete with Belgacom, which has a DSL-based network and is the only operator that offers national coverage. Generally, competition has been limited due to a lack of overlap among cable operators with Telenet operating predominantly in Flanders, VOO in the French speaking part of Belgium and us predominately in Brussels (with Telenet and VOO also present in the capital). Due to changes in the regulatory regime allowing third party access to cable networks, with wholesale offers required to be in place by autumn 2013, we may face competition in the pay television market from new providers who will be given access to use our cable infrastructure. Furthermore, Belgacom has extensively developed its service offering, with a full range of broadcast television and premium content which is likely to increase competition in the pay television market. Also, we do not currently offer television on mobile devices, such as mobile handsets and iPods, while both Belgacom and Mobistar are starting to do so. We are currently in the process of rolling out a mobile television application. If we fail to provide more attractive service offerings or to successfully roll out our mobile television applications we may experience an increased churn of our customer base to our competitors which may have an adverse effect on our business. Although smaller compared to cable, satellite television and DTT also constitute a competitive presence in Belgium. In the broadband Internet market in Belgium, we compete primarily with the incumbent DSL provider Belgacom. DSL remains the leading technology by which broadband Internet access services are being provided in Belgium and despite cable overtaking DSL in Flanders and certain other regions, DSL retains a higher market share in Belgium. Although current trends indicate that cable technology has become an attractive and sought after alternative to DSL due to the speed and higher reliability it can offer, we may not be able to take advantage of this trend due to the competitive nature of the broadband Internet market, which may adversely affect our business. Furthermore high speed package access and LTE technology have presented a viable alternative to DSL and cable due to their ability to provide higher speeds. In the fixed-line telephony market in Belgium, we compete primarily with the incumbent DSL provider Belgacom and the saturated market has led to intensive price reductions over the years. Telephony is also increasingly bundled together with other fixed-line products rather than being sold as a standalone service. Belgacom has invested significantly in upgrading its technology, for example, by investing in VDSL and adding other services such as Wifi hotspots. Although we have seen an increase in our fixed-line telephony RGUs due to the increase in uptake of our triple-play bundles, we may not be able to uphold this increase if Belgacom is successful in realising growth in the triple play service offerings. The mobile telephony market in Belgium, which we entered in September 2012 as a mobile virtual network operator, has three major operators: the incumbent Belgacom, Mobistar and BASE. Although operators accessing the market through MVNOs, like us, have in recent years contributed to the intensification of competition in the mobile telephony market, our ability to build and increase our market share is subject to strong competition from the incumbent operators who, amongst other things, benefit from greater brand name recognition. With respect to our multiple-play products in Belgium, we compete primarily with the incumbent Belgacom. We may face aggressive pricing from Belgacom which we may not be able to compete with. If we consider price reductions for our multiple-play packages, we may have to reduce costs and investments in other areas of our business. If we fail to attract



customers despite our aggressive pricing or are unable to materialize any gains, this may have a material adverse effect on our results of operation.

Our primary competitor in the pay television broadband internet and fixed-line telephony market in Luxembourg is the incumbent Post Telecom S.A. In the multiple-play market, we compete with certain other smaller operators since Post Telecom S.A. is currently prohibited from bundling its television offering with its broadband and telephony services. Competitive factors, particularly in the fixed-line telephony market, have led to substantial price reductions over the past years and despite our efforts to provide our customers with the most competitive price plans across all of our products, we may not be able to sustain further price reductions in the future. Our inability to keep up with the competitive price plans may lead to a reduction in our customer base and may have a material adverse effect on our business.

#### *French Overseas Territories*

We experience significant competition in the various markets in which we operate in the French Overseas Territories. Key competitors of our broadband Internet and fixed-line business include (i) Orange as the incumbent operator in the French Overseas Territories with an overall market share above 50%, (ii) MediaServ as the DSL operator with an estimated 85,000 subscribers in all French Overseas Territories (except Mayotte), and (iii) other competitors in La Réunion including DSL providers (SRR and IZI) and a cable operator (ZeOP). Competition in the Indian Ocean region has been particularly intense, which has had a negative impact on revenues from the region. We also expect the broadband Internet and fixed-line market in the French Overseas Territories to undergo some consolidation in the future, which may increase competition.

In the mobile market, we compete against large telecommunications conglomerates such as Orange, SRR (the local affiliate of SFR in the Indian Ocean, area and Digicel (only located in the Caribbean). We expect to face additional pricing pressure in future periods as competitors respond to our attractively priced offers.

In the pay television market we mainly compete with Canal Plus and Parabole Réunion, among the strongest satellite operators in the region. Although we believe that growing demand for bandwidth and triple-play packages is going to increase to alternative access technologies such as cable, we may not be able to be successful in gaining market share, as we compete with well-known incumbent satellite operators who dominate the market.

We are currently the only operator providing quadruple-play packages in the French Overseas Territories. However, we may face competition from new operators in the future which may have an adverse effect on our growth prospects and our results of operation. Further, in the event regulations currently prohibiting larger operators such as Orange and SRR from bundling are repealed or modified, we risk facing strong competition on bundled product offerings and we may not be able to successfully maintain our market share or compete with such competition.

We further expect competition, including further price competition, from existing competitors, new start-ups and other companies to increase in the future and we cannot assure you that the tiered offerings, bundled packages and other measures that we have introduced in response to these developments will be successful in attracting and retaining customers.

#### ***A weak economy and negative economic development in Israel, Belgium, the French Overseas Territories, Luxembourg or Switzerland may jeopardize our growth targets and may have a material adverse effect on our business, financial condition and results of operations.***

Negative developments in, or the general weakness of, the economy in Israel, Belgium, the French Overseas Territories, Luxembourg or Switzerland, in particular increasing levels of unemployment, may have a direct negative impact on the spending patterns of retail consumers, both in terms of the products they subscribe for and usage levels. Because a substantial portion of our revenue is derived from residential subscribers who may be impacted by these conditions, it may be (i) more difficult to attract new subscribers, (ii) more likely that certain of our subscribers will downgrade or disconnect their services and (iii) more difficult to maintain ARPUs at existing levels. In addition, we can provide no assurances that a deterioration of any of these economies will not lead to a higher number of non-paying customers or generally result in service disconnections. Therefore, a weak economy and negative economic development in the markets in which we operate may jeopardize our growth targets and may have a material adverse effect on our business, financial condition and results of operations. We are currently unable to predict the extent of any of these potential adverse effects. Recently, the general economic, labour market and capital market conditions in the EMEA region (including Israel), Europe, including certain of the jurisdictions in which we operate, and other parts of the world have undergone significant turmoil. In addition, general market volatility has resulted from uncertainty about sovereign debt and fear that the governments of countries such as Cyprus, Greece, Portugal, Spain, Ireland and Italy may default on

their financial obligations. Furthermore, continued hostilities in the Middle East and recent tensions in North Africa could adversely affect the Israeli economy. These conditions have also adversely affected access to capital and increased the cost of capital. Although we believe that our capital structure will provide sufficient liquidity, there is no assurance that our liquidity will not be affected by changes in the financial markets or that our capital resources will at all times be sufficient to satisfy our liquidity needs. If these conditions continue or become worse, our future cost of debt and equity capital and access to the capital markets could be adversely affected.

***The political and military conditions in Israel may adversely affect our financial condition and results of operations.***

A significant portion of our operations, our networks and some of our suppliers are located in Israel and are affected by political and military conditions. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighbouring countries. Hostilities involving Israel, any interruption or curtailment of trade between Israel and its trading partners and political instability within Israel or its neighbouring countries are likely to cause our revenues to fall and harm our business. In particular, in recent conflicts, missile attacks have occurred on civilian areas, which could cause substantial damage to our networks, reducing our ability to continue serving our customers as well as our overall network capacity. In addition, in the event that recent political unrest and instability in the Middle East, including changes in some of the governments in the region, cause investor concerns resulting in a reduction in the value of the New Israeli Shekel, our expenses in non-shekel currencies may increase, with a material adverse effect on our financial results.

During an emergency, including a major communications crisis in Israel's national communications network, a natural disaster, or a special security situation in Israel, control of our networks may be assumed by a lawfully authorized person in order to protect the security of the State of Israel or to ensure the provision of necessary services to the public. During such circumstances, the government also has the right to withdraw temporarily some of the mobile spectrum granted to us. Under the Equipment Registration and Mobilization to the Israel Defence Forces Law, 1987, the Israel Defence Forces may mobilize our engineering equipment for their use, compensating us for the use and damage. This may materially harm our ability to provide services to our subscribers in such emergency circumstances and have a negative impact on our revenue and results of operations.

Moreover, the Prime Minister of Israel may, under powers which the Communications Law (Telecommunication and Broadcasting), 5742 - 1982 (the "Communications Law") grants him for reasons of state security or public welfare, order us to provide services to the security forces, to perform telecommunications activities and to set up telecommunications facilities required by the security forces to carry out their duties. While the Communications Law provides that we will be compensated for rendering such services to security forces, the government is seeking a change in the Communications Law which would require us to bear some of the cost involved with complying with the instructions of security forces. Such costs may be significant and have a negative impact on our revenue and results of operations.

Some of our officers and employees are currently obligated to perform annual reserve duty. All reservists are subject to being called to active duty at any time under emergency circumstances. In addition, some of our employees may be forced to stay at home during emergency circumstances in their area. We cannot assess the full impact of these requirements on our workforce and business if such circumstances arise.

More generally, any armed conflicts, terrorist activities or political instability in the region would likely negatively affect business conditions and could harm our results of operations, including following termination of such conflicts, due to a decrease in the number of tourists visiting Israel. Beginning in 2010 and continuing to date several countries in the region, including Egypt and Syria, have been experiencing increased political instability and armed conflict, which have led to change in government in some of these countries, the effects of which are currently difficult to assess. Further, tensions have increased recently between Israel and Iran over Iran's nuclear program. In the event the conflict escalates, especially if Iran has nuclear weapons capabilities, the impact on our business could be significant.

***Terrorist attacks and threats, escalation of military activity in response to such attacks or acts of war may negatively affect our cash flows, results of operations or financial condition.***

Our business is affected by general economic conditions, fluctuations in consumer confidence and spending, and market liquidity which can decline as a result of numerous factors outside of our control, such as terrorist attacks and acts of war. In Israel, the ongoing hostilities with the Palestinians, future terrorist attacks, rumours or threats

of war, actual conflicts in which it or its allies might be involved, or military or trade disruptions affecting us or our customers may adversely affect our operations.

***Our growth prospects depend on a continued demand for cable based and mobile products and services and an increased demand for bundled and premium offerings.***

The use of Internet, television and fixed-line telephony and mobile services in certain of the jurisdictions in which we operate has increased sharply in recent years. For example, Israel, our largest market, has become one of the most highly penetrated countries for such services in the world, broadly in line with countries in Western Europe. We have benefited from this growth in recent years and our growth and profitability depend, in part, on a continued demand for these services in the coming years. We rely on our multiple-play and premium television services in most of the jurisdictions in which we operate to attract new customers and to increase our revenue per customer by migrating existing customers to such services. Therefore, if demand for multiple-play products and premium television services does not increase as expected, this could have a material adverse effect on our business, financial condition and results of operations.

***Our business is capital intensive and our capital expenditures may not generate a positive return or we may be unable or unwilling to make additional capital expenditures.***

The pay television, broadband Internet, fixed-line telephony, mobile and B2B businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labour costs. In Israel, we recently completed an upgrade to our cable network that made our entire network U.S. Docsis 3.0-enabled, which enables us to expand the transfer volume on the network to improve the provision of services that require substantial bandwidth like VOD and increase the number of channels that we can offer our subscribers. We are also in the process of selectively rolling out “FTTx” improvements to our last mile fixed-line network and may need to make similar capital expenditures in the future to keep up with technological advancements. In addition, we are continuing to invest in the expansion of our UMTS mobile network to provide 3G mobile services, which we launched on May 15, 2012 and which offers subscribers faster network capabilities and better roaming coverage as compared to our iDEN platform and the ability to use 3G phones. It is expected that the relevant authorities in Israel will initiate an application process to award spectrum for the provision of LTE mobile telephony services in the short to medium term. In case of a successful award, we will need to upgrade our mobile network and roll out an LTE network, which could involve a significant amount of capital expenditure. We have, in recent years, also made significant investments in cable and mobile networks in Belgium and Luxembourg, the French Overseas Territories and Portugal. No assurance can be given that our recent or future capital expenditures will generate a positive return or that we will have adequate capital available to finance future upgrades or acquire additional licenses. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks, or making our other planned or unplanned capital expenditures, our growth and our competitive position may be materially adversely affected.

***We are subject to increasing operating costs and inflation risks which may adversely affect our earnings.***

While we attempt to increase our subscription rates to offset increases in operating costs, there is no assurance that we will be able to do so due to competitive and other factors. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on our cash flow and results of operations. We are also affected by inflationary increases in salaries, wages, benefits and other administrative costs which we may not be in a position to pass on to our customers, which in turn could have a material adverse effect on our business, financial condition and results of operations.

***If we fail to successfully introduce new technologies or services, or to respond to technological developments, our business and level of revenue may be adversely affected and we may not be able to recover the cost of investments that we have made.***

Our business is characterized by rapid technological change and the introduction of new products and services. If any new or enhanced technologies, products or services that we introduce fail to achieve broad market acceptance or experience technical difficulties, our revenue growth, margins and cash flows may be adversely affected. As a result, we may not recover investments that we make in order to deploy these technologies and services. Enhanced television, fixed-line telephony, broadband Internet infrastructure access and mobile services provided by competing operators may be more appealing to customers, and new technologies may enable our competitors to offer not only new services, but to also offer existing standard services at lower prices. We may not be able to fund the capital expenditures necessary to keep pace with technological developments. Our inability to obtain the funding or other resources necessary to expand or further upgrade our systems and provide

advanced services in a timely manner, or successfully anticipate the demands of the marketplace, could adversely affect our ability to attract and retain customers and generate revenue.

We anticipate that over time, new products and services we may introduce will require upgraded or new customer premises equipment, which may therefore constrain our ability to market and distribute such new services. For example, we do not expect that previously installed Internet modems or set-top boxes will be able to support all the enhancements we may introduce to our broadband Internet or pay television services over time. A portion of our subscribers will therefore require some form of upgrade or potentially a replacement of their customer premises equipment. Implementing such upgrades may entail additional costs to us and could delay the introduction of enhanced services and therefore reduce our cash flow and profitability, particularly where customers rent such customer premise equipment from us.

***Our business may be adversely affected by actual or perceived health risks and other environmental requirements relating to mobile telecommunications transmission equipment and devices, including the location of antennas.***

A number of studies have been conducted to examine the health effects of mobile phone use and network sites, and some of these studies have been construed as indicating that radiation from mobile phone use causes adverse health effects. Media reports have suggested that radio frequency emissions from mobile network sites, mobile handsets and other mobile telecommunication devices may raise various health concerns. While, to the best of our knowledge, the handsets that we market comply with the applicable laws that relate to acceptable Specific Absorption Rate (“SAR”) levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers’ approvals refer to a prototype handset, and not for each and every handset, we have no information as to the actual level of SAR of the handsets along the lifecycle of the handsets. Furthermore, we only own mobile networks in Israel and the French Overseas Territories and our mobile network sites comply with the International Council on Non-Ionizing Radiation Protection standard, a part of the World Health Organization.

In May 2011, the International Agency for Research on Cancer (“IARC”), which is part of the World Health Organization (“WHO”), published a press release according to which it classified radiofrequency electromagnetic fields as possibly carcinogenic to humans based on an increased risk for adverse health effects associated with wireless phone use. We have complied with and are committed to continue to comply with the rules of the authorized governmental institutions with respect to the precautionary rules regarding the use of mobile telephones.

In June 2011, WHO published a fact sheet (no. 193) in which it was noted that “A large number of studies have been performed over the last two decades to assess whether mobile phones pose a potential health risk. To date, no adverse health effects have been established as being caused by mobile phone use”. It was also noted by WHO that “While an increased risk of brain tumours is not established, the increasing use of mobile phones and the lack of data for mobile phone use over time periods longer than 15 years warrant further research of mobile phone use and brain cancer risk in particular, with the recent popularity of mobile phone use among younger people, and therefore a potentially longer lifetime of exposure”. WHO notified that in response to public and governmental concern it will conduct a formal risk assessment of all studied health outcomes from radiofrequency fields exposure.

In Israel, the Israeli Ministry of Health published in July 2008 recommendations regarding precautionary measures when using mobile handsets. It indicated that although the findings of an international study on whether mobile phone usage increases the risk of developing certain tumours were not yet finalized, partial results of several of the studies were published, and a relationship between prolonged mobile phone usage and tumour development was observed in some of these studies. For example, we refer our customers in Israel to the precautionary rules that have been recommended by the Israeli Ministry of Health, as may be amended from time to time. These studies, as well as the precautionary recommendations published by the Israeli Ministry of Health, have increased concerns of the Israeli public with regards to the connection between mobile phone exposure and illnesses.

Several lawsuits have been filed against mobile operators and other participants in the mobile industry alleging adverse health effects and other claims relating to radio frequency transmissions to and from sites, handsets and other mobile telecommunications devices, including lawsuits against HOT, which were settled during 2012 with no material expenses incurred in such settlements.

The perception of increased health risks related to mobile network sites may also cause us increased difficulty in obtaining leases for new mobile network site locations or renewing leases for existing locations or otherwise in installing mobile telecommunication devices. If it is ever determined that health risks existed or that there was a



deviation from radiation standards which would result in a health risk from sites, other mobile devices or handsets, this would have a material adverse effect on our business, operations and financial condition, including through exposure to potential liability, a reduction in subscribers and reduced usage per subscriber. Furthermore, we do not expect to be able to obtain insurance with respect to such liability.

***If we cannot obtain or maintain favourable roaming arrangements for our mobile services, our services may be less attractive or less profitable.***

In Israel, we rely on agreements to provide roaming capability to our subscribers in many areas inside and outside Israel, including with Pelephone for roaming services to our 3G mobile customers within areas in Israel not currently covered by our UMTS network while we build-out our UMTS network and with Vodafone for roaming services outside Israel. In addition, in the French Overseas Territories we rely on third party operators to provide international roaming services for our mobile subscribers. In Belgium, we do not own a mobile network and we rely on a mobile virtual network operator agreement with Mobistar to provide mobile services. We cannot control the quality of the service that any such operators provide and it may be inferior to the quality of service that we provide. Equally, our subscribers may not be able to use some of the advanced features that they enjoy when making calls on our mobile network. Some of our competitors may be able to obtain lower roaming or MVNO rates than we do because they may have larger call volumes. If our competitors' providers can deliver a higher quality or a more cost effective service, then subscribers may migrate to those competitors and our results of operation could be adversely affected. Further, we may not be able to compel providers to participate in our technology migration and enhancement strategies. As a result, our ability to implement technological innovations could be adversely affected if these overseas providers are unable or unwilling to cooperate with the further development of our mobile network or if they cease to provide services comparable to those we offer on our network. In Israel, our agreement with Pelephone is scheduled to expire in December 2014 with an option for us to extend for an additional three years and our agreement with Vodafone automatically renews until one of the parties gives written notice of termination and may be terminated in the event of a material breach or the commencement of liquidation or insolvency proceedings. In Belgium, our mobile virtual network operator agreement with Mobistar is valid for an initial term of three years expiring in 2014 and will automatically extend for an additional period of two years unless the agreement is terminated by either party, for any reason. If we are unable to renew or replace services provided by Pelephone through the build-out of our own UMTS network in Israel or the services provided by Vodafone with respect to roaming services outside Israel or similar agreements with other mobile operators with respect to our businesses in other jurisdictions (including Mobistar in Belgium) on favourable terms, our business and results of operations may be negatively affected.

***We rely on interconnecting telecommunications providers and could be adversely affected if these providers fail to provide these services without disruption and on a consistent basis.***

Our ability to provide commercially viable telephone services in the jurisdictions in which we operate depends upon our ability to interconnect with the telecommunications networks of fixed-line, mobile and international operators in such jurisdictions in order to complete calls between our subscribers and parties on a fixed-line or other mobile telephone network, as well as third parties abroad. Generally, fixed-line telephony, mobile and international operators in the jurisdictions in which we operate are obliged by law to provide interconnection to, and not to discriminate against, any other licensed telecommunications operator. We have no control over the quality and timing of the investment and maintenance activities that are necessary for these entities to provide us with interconnection to their respective telecommunications networks. In Israel, for instance, the implementation of number portability requires us to rely further on other providers, since our ability to implement number portability, provide our services and our basic ability to port numbers between operators are dependent on the manner of number portability implementation by interconnecting local operators.

The failure of these or other telecommunications providers to provide reliable interconnections to us on a consistent basis and under terms that are favourable to us could have an adverse effect on our business, financial condition or results of operations.

***We rely on third parties for access to and the operation of certain parts of our network.***

We are generally dependent on access to sites belonging to, and network infrastructure owned by, third parties, including for cable duct space used for our networks and facility space (colocation). In this respect, we have generally obtained leases, rights and licences from network operators, including incumbent operators, governmental authorities and individuals. Our ability to offer our services to customers depends on the performance of these third parties of their obligations under such leases, licenses and rights. In certain cases we are reliant on such third parties to provide installation and maintenance services, such as in Israel where we rely on our competitor and incumbent operator Bezeq to provide installation and maintenance services on certain parts of our cable network. With respect to our operations in Belgium and Luxembourg, our subsidiary Coditel

Holding has also entered into an arrangement with Numericable France, valid for an initial term until 2017, pursuant to which it permitted to deliver television channels' signal and existing data flows over Numericable France's backbone. If these third parties refuse to or only partially fulfil their obligations under or terminate these licenses or prevent the required access to certain of all of such sites, it could prevent or delay the connection to sites or customers, limit the growth of our offerings and influence our ability to supply high quality service to our customers in a timely and cost effective manner. In addition, the costs of providing services is dependent on the pricing and technical terms under which we are given such access and any change in such terms may have a material adverse effect on our business. In many cases, we may not be able to find suitable alternatives at comparable cost or within a reasonable timeframe.

***If we are unable to obtain attractive programming on satisfactory terms for our pay television services, the demand for these services could be reduced, thereby lowering revenue and profitability.***

The success of our basic and premium pay television services depends on access to an attractive selection of television programming from content providers. The ability to provide movie, sports and other popular programming, including VOD content, is a major factor that attracts subscribers to pay television services, especially premium services.

We rely on digital programming suppliers for a significant portion of our programming content and VOD services. We may not be able to obtain sufficient high-quality programming from third party producers for our digital cable television services on satisfactory terms or at all in order to offer compelling digital cable television services. Further, with respect to our operations in Israel, we cannot assure you that the local content we are required to develop in conjunction with our partner studios will continue to be successful. The inability to obtain high-quality content, may also limit our ability to migrate customers from lower tier programming to higher tier programming, thereby inhibiting our ability to execute our business strategy. In addition, we are currently subject to "must carry" requirements in certain of the jurisdictions in which we operate that may consume channel capacity otherwise available for other services. Any or all of these factors could result in reduced demand for, and lower revenue and profitability from, our digital cable television services.

Also, some of our programming contracts require us to pay prices for the programming based on a guaranteed minimum number of subscribers, even if that number is larger than the number of actual subscribers. In addition, some of our programming contracts are based on a flat fee irrespective of the popularity of the content purchased under such contract. As a result, if we misjudge anticipated demand for the programming or if the programming we acquire does not attract the number of viewers we anticipated, the profitability of our television services may be impaired.

Furthermore, as we purchase a significant portion of our content from various content providers under relatively short-term contracts, the prices we pay to purchase such content are subject to change and may increase significantly in the future, which could have a material adverse effect on our results of operations.

***An increase in the rate of our annual royalty or other payments with respect to our licenses could adversely affect or results of operations.***

We are required to make certain royalty payments to the State of Israel in connection with our domestic license with respect to our broadband and fixed-line services, our broadcasting license, our mobile license and our international long distance telephony services. In Israel, although the royalty payments due to the Israeli Ministry of Communication have decreased in recent years and have been reduced to zero with effect from January 2013, there is no assurance that the Israeli Ministry of Communications would not reinstate or increase them in the future. We are still required to make annual payments until January 2015, to the State of Israel for the use of cable infrastructure. If the Israeli Ministry of Communications and the Israeli Ministry of Finance or in the other jurisdictions in which we operate increase the royalty or other payments we are required to make pursuant to our licenses or otherwise, it may have a material effect on our revenue and results of operations.

***We depend on hardware, software and other providers of outsourced services, who may discontinue their services or products, seek to charge us prices that are not competitive or choose not to renew contracts with us.***

We have important relationships with several suppliers of hardware, software and related services that we use to operate our pay television, broadband Internet, fixed-line telephony, mobile and B2B businesses. In certain cases, we have made substantial investments in the equipment or software of a particular supplier, making it difficult for us to quickly change supply and maintenance relationships in the event that our initial supplier refuses to offer us favourable prices or ceases to produce equipment or provide the support that we require. For example, while we continue to promote a rapid take up of our premium triple-play services, which combines premium television services including, VOD functionality, HD technology and recording capabilities, very high-



speed Internet and fixed-line telephony, using a single set-top box in several of our geographies including Belgium and Luxembourg (and which we plan to roll out in Israel in 2014), we face potential risks in securing the required customer set-top box equipment to maintain this roll out as we currently rely on a single provider to provide us such equipment. Currently, we have a sufficient supply of these boxes available, but a future shortage may involve significant delays in seeking an alternative supply, may constrain our ability to meet customer demand and may result in increased customer churn. Further, in the event that hardware or software products or related services are defective, it may be difficult or impossible to enforce recourse claims against suppliers, especially if warranties included in contracts with suppliers have expired or are exceeded by those in our contracts with our subscribers, in individual cases, or if the suppliers are insolvent, in whole or in part. In addition, there can be no assurances that we will be able to obtain the hardware, software and services we need for the operation of our business, in a timely manner, at competitive terms and in adequate amounts. In particular, in the case of an industry-wide cyclical upturn, our suppliers of software, hardware and other services may receive customer orders beyond the capacity of their operations, which could result in late delivery to us, should these suppliers elect to fulfil the accounts of other customers first.

We also outsource some of our support services, including parts of our subscriber services, information technology support, technical services, and maintenance operations. Should any of these arrangements be terminated by either contract party, this could result in delays or disruptions to our operations and could result in us incurring additional costs, including if the outsourcing counterparty increases pricing or if we are required to locate alternative service providers or in-source previously outsourced services.

Further, we are dependent on certain suppliers with respect to our mobile services in Israel who we may not be able to replace without incurring significant costs. With respect to our 3G mobile operations, we have engaged NSN Nokia Solutions and Networks (“NSN”) as a turnkey contractor to plan and build the new UMTS network. With respect to our iDEN-based mobile services, we are dependent on Motorola Solutions which, to the best of our knowledge, holds all the rights to and is the sole provider of infrastructure equipment and end-user equipment for this technology. A cessation or interruption in the supply of the products and/or services by NSN or Motorola Solutions may harm our ability to provide our mobile services to our subscribers.

Our ability to renew our existing contracts with suppliers of products or services, or enter in to new contractual relationships, upon the expiration of such contracts, either on commercially attractive terms, or at all, depends on a range of commercial and operational factors and events, which may be beyond our control. The occurrence of any of these risks could create technical problems, damage our reputation, result in the loss of customer relationships and have a material adverse effect on our business, financial condition and results of operations.

***Failure in our technology or telecommunications systems could significantly disrupt our operations, which could reduce our customer base and result in lost revenue.***

Our success depends, in part, on the continued and uninterrupted performance of our information technology and network systems as well as our customer service centres. The hardware supporting a large number of critical systems for our cable networks and mobile networks is housed in a relatively small number of locations. Our systems are vulnerable to damage from a variety of sources, including telecommunications failures, power loss, malicious human acts and natural disasters. Moreover, despite security measures, our servers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Despite the precautions we have taken, unanticipated problems affecting our systems could cause failures in our information technology systems or disruption in the transmission of signals over our networks. Sustained or repeated system failures that interrupt our ability to provide service to our customers or otherwise meet our business obligations in a timely manner would adversely affect our reputation and result in a loss of customers and revenues.

If any part of our cable or mobile networks, including our information technology systems, is subject to a flood, fire or other natural disaster, terrorism, acts of war, a computer virus, a power loss, other catastrophe or unauthorized access, our operations and customer relations could be materially adversely affected. For example, although our cable networks are generally built in resilient rings to ensure the continuity of network availability in the event of any damage to its underground fibres, if any ring is cut twice in different locations, transmission signals will not be able to pass through, which could cause significant damage to our business. In the event of a power outage or other shortage, we do not have a back-up or alternative supply source for all of our network components.

Additionally, our businesses are also dependent on certain sophisticated critical systems, including our switches, billing and customer service systems, which could be damaged by any of the aforementioned risks. For example, if we experience problems in the operation of our billing systems, it may be difficult to resolve the issue in a timely and cost effective manner. In addition, the hardware that supports our switches, billing and customer service systems is housed in a relatively small number of locations and if damage were to occur to any of such

locations, or if those systems develop other problems, it could have a material adverse effect on our business. Moreover, we may incur liabilities and reputational damages to the extent that any accident or security breach results in a loss of or damage to customers' data or applications, or inappropriate disclosure of confidential information.

As the number of our customers and the services that we offer our customers increases, the complexity of our product offerings and network architecture also increases, as does network congestion. A failure to manage the growth and complexity of our networks could lead to a degradation of service and network disruptions that could harm our reputation and result in a loss of subscribers. In Israel, any delays or technical difficulties in establishing our UMTS network may affect our results of operations. Further, although many of our products and services are built on standardized platforms, they have been adapted or tailored to our networks and the offerings we have designed, as a result of which we face the risk of any newly implemented technology that there may be unexpected operational issues that arise. If we were to experience a breakdown of equipment or technology that we cannot timely repair, we might lose subscribers.

We are not generally insured against war, terrorism (except to a limited extent under our general property insurance) and cyber risks and do not generally insure the coaxial portion of our network. Any catastrophe or other damage that affects any of our networks in the jurisdictions in which we operate could result in substantial uninsured losses. In addition, disaster recovery, security and service continuity protection measures that we have or may in the future undertake, and our monitoring of network performance (including in Israel from our network operating centre in Yakum), may be insufficient to prevent losses.

In addition, although so far no incidents have occurred in numbers that are statistically significant, our technical equipment has been and may continue to be subject to occasional malfunctioning due to technical shortcomings or imperfect interfaces with equipment in private homes, the networks of other operators or our own network or with other surrounding equipment. We might incur liabilities or reputational damages as a result thereof.

***Customer churn, or the threat of customer churn, may adversely affect our business.***

Our ability to attract and retain subscribers to our cable based and mobile services or to increase profitability from existing subscribers will depend in large part on our ability to stimulate and increase subscriber usage, convince subscribers to switch from competitors' services to our services and our ability to minimize customer "churn". Customer churn is a measure of the number of customers who stop subscribing for one or more of our products or services. Churn arises mainly as a result of competitive influences, introduction of new products and technologies, deterioration of personal financial circumstances, price increases and regulatory developments. In Israel, the regulatory framework prohibits, among other things, cable based service providers and mobile operators from charging exit fees, except in limited circumstances, to subscribers who wish to terminate their services and mobile operators from selling locked handsets or linking the terms of sale of handsets to the terms of mobile services, including discounts and other benefits, which has increased churn rates for many cable based service providers and mobile operators. If we fail to effectively communicate the benefits of our networks through our marketing advertising efforts, we may not be able to attract new customers and our efforts to attract and retain customers may prove unsuccessful. In addition, any interruption of our services or the removal or unavailability of programming, which may not be under our control, could contribute to increased customer churn. Further our competitors may improve their ability to attract new customers, for example by offering new product bundles or product offerings at lower prices than us, which would make it difficult for us to retain our current subscribers, and the cost of retaining and acquiring new subscribers could increase. Increased customer churn may have a material adverse effect on our business, financial condition and results of operation.

***Acquisitions and other strategic transactions present many risks including the risk that we may not be able to integrate newly acquired operations into our business, which may prevent us from realizing the strategic and financial goals contemplated at the time of any such transaction and thus adversely affect our business.***

Historically, our business has grown, in part, through selective acquisitions, that enabled us to take advantage of existing networks, service offerings and management expertise. Since 2010, Altice has acquired the HOT telecommunications group in Israel and Cabovisão in Portugal as well as majority controlling equity interests in Coditel with operations in Belgium and Luxembourg. We expect to continue growing our business through acquisitions of cable and telecommunications businesses that we believe will present opportunities to create value by generating strong cash flows and operational synergies.

Any acquisition we may undertake in the future could result in the incurrence of debt and contingent liabilities and an increase in interest expenses and amortization expenses related to goodwill and other intangible assets or in the use by us of available cash on hand to finance any such acquisitions. We may experience difficulties in integrating acquired operations into our business, incur higher than expected costs and not realize all the

anticipated benefits or synergies of these acquisitions, if any. Such transactions may also disrupt our relationships with current and new employees, customers and suppliers. In addition, our management may be distracted by such acquisitions and the integration of the acquired businesses. Thus, if we consummate any further acquisitions or fail to integrate any previous acquisitions, there could be a material adverse effect on our business, financial condition or results of operations. In addition, our debt burden may increase if we borrow funds to finance any future acquisition, which could have a negative impact on our cash flows and our ability to finance our overall operations. If we use available cash on hand to finance acquisitions pursuant to our acquisition strategy, our ability to make dividend payments may be limited or we may not be able to make such dividend payments at all. We cannot assure you that we will be successful in completing business acquisitions or integrating previously acquired companies.

Furthermore, acquisitions of additional telecommunications companies may require the approval of governmental authorities (either at country or, in the case of the EU, European level), which can block, impose conditions on, or delay the process which could result in a failure on our part to proceed with announced transactions on a timely basis or at all, thus hampering our opportunities for growth. In the event conditions are imposed and we fail to meet them in a timely manner, the relevant governmental authority may impose fines and, if in connection with a merger transaction, may require restorative measures, such as mandatory disposition of assets or divestiture of operations.

***We may be unable to allocate sufficient managerial and operational resources to meet our needs as our business grows, and our current operational and financial systems and managerial controls and procedures may become inadequate.***

Historically, our business has grown, in part, through selective acquisitions. As a result, the operating complexity of our business, as well as the responsibilities of management, has increased, which may place significant strain on our managerial and operational resources.

Although we consider the operational and financial systems and the managerial controls and procedures that we currently have in place to be adequate for our purposes, we recognize that the efficacy of these systems, controls and procedures needs to be kept under regular review as our business grows. We will have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Management of growth will also require, among other things, continued development of financial and management controls and information technology systems.

Any failure to apply the necessary managerial and operational resources to our growing business and any weaknesses in our operational and financial systems or managerial controls and procedures may impact our ability to produce reliable financial statements and may adversely affect our business, financial condition and results of operations.

***Disruptions in the credit and equity markets could increase the risk of default by the counterparties to our financial instruments, undrawn debt facilities and cash investments and may impact our future financial position.***

Although we seek to manage the credit risks associated with our financial instruments, cash and cash equivalents and undrawn debt facilities, disruptions in credit and equity markets could increase the risk that our counterparties could default on their obligations to us. Were one or more of our counterparties to fail or otherwise be unable to meet its obligations to us, our cash flows, results of operations and financial condition could be adversely affected. It is not possible to predict how disruptions in the credit and equity markets and the associated difficult economic conditions could impact our future financial position. In this regard, (i) the financial failures of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) sustained or further tightening of the credit markets could adversely impact our ability to access debt financing on favourable terms, or at all.

***Our brands are subject to reputational risks.***

The brands under which we sell our products and services, including HOT, Numericable, Cabovisão and Only are well-recognized brands in Israel, Belgium and Luxembourg, Portugal and the French Overseas Territories, as applicable. We have developed the brands we use through extensive marketing campaigns, website promotions, customer referrals, and the use of a dedicated sales force and dealer networks.

Our brands represent a material and valuable asset to us. Although we try to manage our brands, we cannot guarantee that our brands will not be damaged by circumstances that are outside our control or by third parties

such as hackers, sponsors, or interfaces with its clients, such as subcontractors' employees or sales forces, with a resulting negative impact on our activities.

In addition, we market our products and services in Belgium and Luxembourg and the French Overseas Territories under the Numericable brand pursuant to trademark licensing agreements between our subsidiaries and Numericable France. These agreements contain usual termination clauses for breach of contract or insolvency, but also a termination right for Numericable France in case of a change of control of our subsidiaries. There is no assurance that the agreements will be renewed at the end of their terms, or that they could not be terminated earlier by Numericable France. In such a case we would probably not be able to find similar advantageous arrangements with other parties. If we were to lose the benefits that these agreements provide, it may have a material adverse effect on our business and results of operations.

***Our business may suffer if we cannot continue to license or enforce the intellectual property rights on which our business depends.***

We rely on patent, copyright, trademark and trade secret laws and licenses and other agreements with our employees, customers, suppliers and other parties to establish and maintain our intellectual property rights in content, technology and products and services used to conduct our businesses. However, our intellectual property rights or those of our licensors could be challenged or invalidated, we could have difficulty protecting or obtaining such rights or the rights may not be sufficient to permit us to take advantage of business opportunities, which could result in costly redesign efforts, discontinuance of certain product and service offerings or other competitive harm.

***We have been, and may be in the future, subject to claims of intellectual property infringement, which could have an adverse impact on our business or operating results.***

We have received and may receive in the future claims of infringement or misappropriation of other parties' proprietary rights, particularly creative rights with respect to broadcasted programs. In addition to claims relating to broadcasts on channels which we own, we may be subject to intellectual property infringement claims with respect to programs broadcast on the other channels, including foreign channels that we carry. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. Generally, law relating to intellectual property contains provisions allowing the owner of an intellectual property right to apply to courts to grant various enforcement measures and other remedies, such as temporary and permanent injunctive relief, a right to confiscate infringing goods and damages. Successful challenges to our rights to intellectual property or claims of infringement of a third party's intellectual property could require us to enter into royalty or licensing agreements on unfavourable terms, incur substantial monetary liability or be temporarily or permanently prohibited from further use of the intellectual property in question. This could require us to change our business practices and limit our ability to provide our customers with the content that they expect. If we are required to take any of these actions, it could have an adverse impact on our businesses or operating results. Even if we believe that the claims of intellectual property infringement are without merit, defending against the claims can be time-consuming and costly and divert management's attention and resources away from its businesses.

***The operation of our conditional access systems is dependent on licensed technology and subject to illegal piracy risks.***

We operate conditional access systems to transmit encrypted digital programs, including our digital pay television packages. For example, in Israel, we have entered into an agreement with NDS Limited, pursuant to which NDS Limited has agreed to sell and install parts of our conditional access system for our cable distribution, including hardware equipment, to grant licenses for the respective intellectual property rights for the conditional access system and to provide maintenance, support and security services. We are currently in the process of reviewing our contractual arrangements with NDS Limited for the provision of these products and services. Billing and revenue generation for our services rely on the proper functioning of our conditional access systems. We are also party to similar agreements with Cisco, the parent company of NDS Limited, across our operations.

Even though we require our conditional access system providers to provide state-of-the-art security for the conditional access systems, the security of our conditional access systems may be compromised by illegal piracy and other means. In addition, our set top boxes require smart cards before subscribers can receive programming and our smart cards have been and may continue to be illegally duplicated, providing unlawful access to our television signals. While we work diligently to reduce the effect of piracy, we cannot assure you that we will be able to successfully eliminate the piracy we currently face. In addition, we cannot assure you that any new conditional access system security that we may put in place will not be circumvented. Encryption failures could



result in lower revenue, higher costs and increased basic cable subscriber churn or otherwise have a material adverse effect on our business, financial condition and results of operations.

***We collect and process subscriber data as part of our daily business and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and subscriber churn and adversely affect our business.***

We accumulate, store and use data in the ordinary course of our operations that is protected by data protection laws. Regulatory authorities in the jurisdictions in which we operate our businesses have the right to audit us and impose fines if they find we have not complied with applicable laws and adequately protected customer data. Although we take precautions to protect subscriber data in accordance with the applicable privacy requirements in the jurisdictions in which we operate, we may fail to do so and certain subscriber data may be leaked or otherwise used inappropriately. We work with independent and third party sales agents, service providers and call centre agents, and although our contracts with these third parties generally restrict the use of subscriber data, we can provide no assurances that they will abide by the contractual terms or that the contracts will be found to be in compliance with data protection laws. Violation of data protection laws may result in fines, loss of reputation and subscriber churn and could have an adverse effect on our business, financial condition and results of operations. There can be no guarantee that our assessment of risk will be accurate or that provisions made will be sufficient.

***We are exposed to, and currently engaged in, a variety of legal proceedings, including several existing and potential class action lawsuits in Israel.***

In addition to a number of legal and administrative proceedings arising in the ordinary course of our business, we have been named as defendants in a number of civil proceedings related to our cable and mobile services, which may result in civil liabilities against us or our officers and directors. These include, amongst other, consumer claims regarding, for example, our tariff plans and billing methods and claims by competitors, which may result in significant monetary damages and civil penalties. The costs that may result from these lawsuits are only accrued when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded in our historical consolidated financial statements as of December 31, 2012 in respect of each lawsuit, which in the aggregate amounted to EUR 15,8 million, is based on a case-by-case assessment of the risk level of each individual lawsuit, and events arising during the course of legal proceedings may require a reassessment of this risk. Our assessment of risk is based both on the advice of legal counsel and on our estimate of the probable settlement amounts that are expected to be incurred, if such a settlement will be agreed by both parties.

In Israel, plaintiffs in these proceedings are often seeking certification as class actions. These claims are generally for significant amounts and may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims or claims that may arise in the future succeed, we may be forced to pay damages or undertake other actions which could affect our business and results of operations.

***There are uncertainties about the legal framework under which we own and operate our network in Belgium and Luxembourg.***

In Belgium and in Luxembourg, we built our network pursuant to agreements which we entered into during the 1960s and the 1970s with municipalities which authorized us to build and operate a television cable network in their territory. Since then, the regulatory framework has changed. In particular, the right of certain of the municipalities to receive royalty payments in consideration for the grant of the authorization, to reclaim ownership of the network and to regulate the prices at which we offer our services are incompatible with the liberalization of the telecommunications market within the European Union. These uncertainties are compounded by the fact that the national laws adopted to implement European Union directives did not necessarily deal with these issues, that these agreements were sometimes renewed after the new regulatory regime was entered into force but were not amended to reflect such changes and by the lack of authoritative case law on the subject creating uncertainties as to the status of these networks and the rights of the different interested parties. Furthermore, there is no uniformity among these agreements. These uncertainties have led to litigation, including with the Roeser and Junglinster municipalities in Luxembourg which are currently pending on appeal. If we were to lose what we believe is the ownership of our network and our right to operate it in such litigation or in any new litigation, or because of any new law or regulation that would be favourable to the municipalities' claims, this would have a material adverse effect on our business, results of operations and financial condition.

***We are exposed to local business risks in many different countries.***

We conduct our business in multiple jurisdictions, including in Israel, Belgium, the French Overseas Territories, Luxembourg, Portugal and Switzerland. In addition, we may expand into additional markets in the future by entering into acquisitions or other strategic transactions. Accordingly, our business is subject to risks resulting from differing legal, political, social and economic conditions and regulatory requirements and unforeseeable developments in a variety of jurisdictions, including in emerging markets. These risks include, among other things:

- differing economic cycles and adverse economic conditions;
- political instability;
- the burden of complying with a wide variety of foreign laws and regulations;
- unexpected changes in the regulatory environment;
- varying tax regimes;
- fluctuations in currency exchange rates;
- inability to collect payments or seek recourse under or comply with ambiguous or vague commercial or other laws;
- varying degrees of concentration among suppliers and customers;
- insufficient protection against violations of our intellectual property rights;
- foreign exchange controls and restrictions on repatriation of funds; and
- difficulties in attracting and retaining qualified management and employees, or further rationalizing our work force; and
- Challenges caused by distance, language and cultural differences.

Our overall success as a business depends to a considerable extent on our ability to anticipate and effectively manage differing legal, political, social and economic conditions and regulatory requirements and unforeseeable developments. We may not continue to succeed in developing and implementing policies and strategies which will be effective in each location where we do business or may do business in the future.

***The liquidity and value of our interests in certain of our subsidiaries and our ability to take certain corporate actions may be adversely affected by shareholder agreements and other similar agreements to which we are a party.***

Certain of our operations including our operations in Israel, Belgium and Luxembourg and the French Overseas Territories are conducted through subsidiaries in which third parties hold a minority equity interest or with respect to which we have provided third parties with rights to acquire minority equity interests in the future. Our equity interests in these subsidiaries are subject to shareholder agreements, partnership agreements and other instruments and agreements that contain provisions that affect the liquidity, and therefore the realizable value, of those interests. Most of these agreements subject the transfer of such equity interests to consent rights, preemptive rights or rights of first refusal of the other equity holders or partners. Some of our subsidiaries are parties to loan agreements and Indentures that restrict changes in ownership of the borrower without the consent of the lenders or note holders. All of these provisions will restrict the ability to sell those equity interests and may adversely affect the prices at which those interests may be sold. In addition, the present or potential future minority equity holders in our subsidiaries have the ability to block certain transactions or decisions that we would otherwise undertake. Although the terms of our investments vary, our operations may be affected if disagreements develop with other equity participants in our subsidiaries. Failure to resolve such disputes could have an adverse effect on our business.

**Risks Relating to Legislative and Regulatory Matters**

***We are subject to significant government regulation and supervision, which could require us to make additional expenditures or limit our revenues and otherwise adversely affect our business, and further regulatory changes could also adversely affect our business.***

Our activities as a cable television, broadband Internet infrastructure access provider, ISP, fixed-line and international long distance telephony and mobile operator are subject to regulation and supervision by various regulatory bodies, including local and national authorities in the jurisdictions in which we operate. Such



regulation and supervision, as well as future changes in laws or regulations or in their interpretation or enforcement that affect us, our competitors or our industry, strongly influence how we operate our business. Complying with existing and future law and regulations may increase our operational and administrative expenses, restrict our ability or make it more difficult to implement price increases, affect our ability to introduce new services, force us to change our marketing and other business practices, and/or otherwise limit our revenues. In particular, our business could be materially and adversely affected by any changes in relevant laws or regulations (or in their interpretation) regarding, for example, licensing requirements, access and price regulation, interconnection arrangements or the imposition of universal service obligations, or any change in policy allowing more favourable conditions for other operators or increasing competition. We cannot assure you that the provision of our services will not be subject to greater regulation in the future.

In addition to regulation specific to the telecommunications industry, we are from time to time subject to review by competition authorities concerning whether we exhibit significant market power. Regulatory authorities may also require us to grant third parties access to our bandwidth, frequency capacity, facilities or services to distribute their own services or resell our services to end customers.

### *Israel*

In Israel, we are subject to, among other things:

- price regulation for certain services that we provide, specifically analogue television;
- rules governing the interconnection between different telephone networks and the interconnection rates that we can charge and that we pay;
- regulations requiring us to maintain structural separation between our cable television, broadband Internet infrastructure access and fixed-line telephony, ISP and mobile subsidiaries;
- regulations governing the prohibition of exit-fees or cancellation charges;
- regulations requiring us to grant third party ISPs access to our cable network;
- regulations restricting the number of channels we can own and specifying the minimum investment we are required to make in local content productions;
- regulations governing roaming charges and other billing and customer service matters;
- requirements that, under specified circumstances, a cable system carry certain television stations or obtain consent to carry certain television stations according to telecommunication laws;
- rules for authorizations, licensing, acquisitions, renewals and transfers of licenses;
- requirements that we extend our cable television, broadband Internet infrastructure access and fixed-line telephony services to areas of Israel even where it is not economically profitable to do so;
- rules and regulations relating to subscriber privacy;
- laws requiring levels of responsiveness to customer service calls;
- anti-trust law and regulations and specific terms within the anti-trust authority's approval for the Israeli cable consolidation;
- requirements that we provide or contribute to the provision of certain universal services; and
- other requirements covering a variety of operational areas such as land use, health and safety and environmental protection, moving the cables in our network underground, equal employment opportunity, technical standards and subscriber service requirements.

The Israeli Ministry of Communications has recently taken active steps to increase competition in the fixed-line and mobile telecommunications industries, including providing licenses to MVNOs and eliminating termination fees that operators can charge, except in limited circumstances, and prohibiting the linkage of the price and terms of handsets to the services or benefits of the mobile contract. The Israeli Ministry of Communications has also introduced a policy for the establishment of a wholesale market for broadband Internet infrastructure access pursuant to which certain limitations on structural separation and bundling of products may be reduced, but we would also be required to provide access to our network infrastructure to other service providers on a wholesale basis. The price for such access would be determined based on a commercial agreement between us and any such service provider, but the Israeli Minister of Communications will be entitled to intervene in the determination of

the terms or the price that have been agreed or that is demanded by us if it should find that such price is either unreasonable or could harm the competition, or if we have been unable to enter into a commercial agreement with the service provider. Should the wholesale market develop, certain requirements for structural separation and bundling of products that apply to Bezeq and us may be lifted, and thus competition in the broadband Internet infrastructure access market may increase significantly which could negatively affect or results of operations.

#### *European Union*

The regulations applicable to our operations within the EU often derive from EU Directives. The various Directives require EU Member States to harmonize their laws on communications and cover such issues as access, user rights, privacy and competition. These Directives are reviewed by the EU from time to time and any changes to them could lead to substantial changes in the way in which our businesses in the relevant jurisdictions are regulated and to which we would have to adapt. Any changes to these EU Directives could lead to substantial changes in the way in which our businesses in the European Union are regulated.

*Belgium and Luxembourg.* In Belgium and Luxembourg, telecommunication activities are subject to significant regulation and supervision by various regulatory bodies. In addition, specific requirements can also be imposed in Belgium and Luxembourg on entities that are deemed, by the Belgium Institute for Postal Services (the “BIPT”) or the Luxembourg Regulatory Institute (the “LRI”) and/or radio and television regulatory authorities, to have a significant power in relevant markets that are not sufficiently competitive, including grant of access, non-discrimination and transparency obligations.

In Belgium and Luxembourg, we are subject to, among other things:

- price regulation for certain services that we provide in Belgium (for instance, the Belgian Ministry for Economic Affairs must consent to any increase in the prices that we charge our subscribers for providing basic cable television);
- rules governing the interconnection between different networks and the interconnection rates that we can charge and that we pay;
- rules and remedies imposed on electronic communications services providers with “significant market power” as defined in Directive 2002/21/EC of the European Parliament (as amended and updated from time to time) and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services;
- risk of regulatory authorities granting third parties access to our network;
- requirements that, under specified circumstances, a cable system carry certain broadcast stations or obtain consent to carry a broadcast station;
- rules for authorizations, licensing, acquisitions, renewals and transfers of licenses;
- rules and regulations relating to subscriber privacy;
- requirements that we provide or contribute to the provision of certain universal services, including requirements to provide certain “social” tariffs;
- taxes imposed on our public rights of way; and
- other requirements covering a variety of operational areas such as land use and environmental protection, moving the cables in our network underground, equal employment opportunity, technical standards, subscriber service requirements and the implementation of data retention obligations in Belgium.

*French Overseas Territories.* In the French Overseas Territories, our existing and planned activities in the cable television, broadband Internet and telephony industries are subject to significant regulation and supervision by various regulatory bodies, including national and EU authorities.

Regulation of our service includes price controls (for termination charges), service quality standards, requirements to carry specified programming, requirements to grant network access to competitors and content providers, and programming content restrictions. In particular, we are subject, for our activities in the French Overseas Territories to:

- rules regarding declarations and registrations with telecommunication regulatory authorities;

- price regulation with respect to call termination charges;
- rules regarding the interconnection of our network with those of other network operators;
- requirements that a network operator carry certain channels (the must carry obligation);
- rules relating to the quality of the landline networks;
- specific rules relating to the access to new-generation optical fibre networks;
- Rules relating to the content of electronic communications, antitrust regulations; and specific tax regimes.

In addition, the expiry of one of Le Cable Guadeloupe's 28 cable network agreements (that of Point-à-Pitre,) is due on November 22, 2014. While we are currently negotiating to buy back this network, we cannot guarantee what will eventually happen at the expiry.

Further, the payment activity we conduct in the French Overseas Territories through our subsidiary OPS SAS, is subject to the control of the French *Autorité de Contrôle Prudentiel* ("ACP"). In connection with this activity, OPS SAS is subject to the control of the ACP covering matters such as, for instance, its level of equity capital, its management standards and the protection of the funds it receives.

***We can only operate our business for as long as we have licenses from the relevant governmental authorities in the jurisdictions in which we operate.***

We are required to hold governmental licenses to own and operate our networks and to broadcast our signal to our customers. These licenses generally require that we comply with applicable laws and regulations, meet certain solvency requirements and maintain minimum levels of service.

For example, in Israel, we conduct our operations pursuant to licenses granted to us by the Israeli Ministry of Communications for specified periods, which may be extended for additional periods upon our request to the Israeli Ministry of Communications and confirmation that we have met certain performance requirements. Our broadcast license is valid until 2017, our domestic operator license for fixed-line telephony and broadband Internet infrastructure access is valid until 2023, our UMTS-based mobile license is valid until 2031 and our general international telecommunications service provider license is valid until 2032. There is no certainty, however, that the licenses will be renewed or extended in the future or that they will not be cancelled or changed by the Israeli Ministry of Communications. Any cancellation or change in the terms of our licenses may materially affect our business and results of operations. Furthermore, although we believe that we are currently in compliance with all material requirements of our licenses, the interpretation and application of the technical standards used to measure these requirements, including the requirements regarding population coverage and minimum quality standards and other license provisions, disagreements have arisen and may arise in the future between the Israeli Ministry of Communications and us. We have provided significant bank guarantees to the Israeli Ministry of Communications to guarantee our performance under our licenses, including pursuant to our mobile license. If we are found to be in material breach of our licenses, the guarantees may be forfeited and our licenses may be revoked. In addition, the Israeli Ministry of Communications is authorized to levy significant fines on us for breaches of our licenses.

Should we fail to comply with these requirements or the requirements of any of our other licenses, we may be subject to financial penalties from the relevant authorities and there may also be a risk that licenses could be partially or totally withdrawn. The imposition of fines and/or the withdrawal or non-renewal of licenses could have a material adverse effect on our results of operations and financial condition and prevent us from conducting our business.

***We do not have complete control over the programming that we provide or over some of the prices that we charge, which exposes us to third party risks and may adversely affect our business and results of operations.***

In certain jurisdictions, we are required to carry certain broadcast and other channels on our cable system that we would not necessarily carry voluntarily. For example, in Israel, these "must carry" obligations apply to: (i) two specific governmental channels; (ii) two specific commercial channels; (iii) the "Knesset" channel, which is a channel broadcasting content from the Israeli parliament; (iv) one educational channel and (v) channels from a special license broadcaster that we deliver to all of our pay television subscribers. We cannot guarantee that the remuneration, if any, that we receive for providing these required channels will cover our actual costs of broadcasting these channels, or provide the return that we would otherwise receive if we were allowed to freely choose the programming we offer on our system.

***We may incur significant costs to comply with city planning laws.***

We are subject to planning laws when we upgrade or expand our networks. In particular, our current installation of the UMTS network in Israel is subject to compliance with the National Zoning Plan 36 (TAMA 36) and the directives issued thereunder, which are aimed at reducing the danger of radiation and the damage to the environment. The cost of complying with TAMA 36 can be substantial and there is currently a regulatory process underway to amend TAMA 36 which would place substantial limitations and further increase the cost of erecting our UMTS network. In addition, the local loop of our networks is generally located aboveground. Local municipal governments generally have the authority to require us to move these network lines underground. Usually, we are able to coordinate with other utility suppliers to share the costs associated with moving lines underground but no assurance can be given that we will always be able to do so. Nevertheless, the costs of complying with municipal orders can be substantial and not subsidised by such municipal government, and may require us to incur significant costs in the future.

***We have had difficulties obtaining some of the building and environmental permits required for the erection and operation of our mobile network sites in Israel, and some building permits have not been applied for or may not be fully complied with. These difficulties could have an adverse effect on the coverage, quality and capacity of our mobile network. Operating mobile network sites without building or other required permits, or in a manner that deviates from the applicable permit, may result in criminal or civil liability to us or to our officers and directors.***

Our ability to maintain and improve the extent, quality and capacity of our mobile network coverage in Israel depends in part on our ability to obtain appropriate sites and approvals to install our mobile network infrastructure, including mobile network sites. The erection and operation of most of these mobile network sites require building permits from local or regional planning and building authorities, as well as a number of additional permits from other governmental and regulatory authorities. In addition, as part of our UMTS network build-out, we are erecting additional mobile network sites and making modifications to our existing mobile network sites for which we may be required to obtain new consents and approvals.

For the reasons described in further detail below, we have had difficulties obtaining some of the building permits required for the erection and operation of our mobile network sites.

Mobile network site operation without required permits or that deviates from the permit has in some cases resulted in the filing of criminal charges and civil proceedings against our subsidiaries in Israel and its officers and directors, and monetary penalties against such subsidiaries, as well as demolition orders. In the future, we may face additional monetary penalties, criminal charges and demolition orders. The prosecutor's office has set up a national unit to enforce planning and building laws. The unit has stiffened the punishments regarding violations of planning and building laws, particularly against commercial companies and its directors. If we continue to experience difficulties in obtaining approvals for the erection and operation of mobile network sites and other mobile network infrastructure, this could have an adverse effect on the extent, coverage and capacity of our mobile network, thus impacting the quality of our voice and data services, and on our ability to continue to market our products and services effectively. In addition, as we seek to improve the range and quality of our mobile telephony services, we need to further expand our mobile network, and difficulties in obtaining required permits may delay, increase the costs or prevent us from achieving these goals in full. Our inability to resolve these issues in a timely manner could also prevent us from achieving or maintaining the mobile network coverage and quality requirements contained in our license.

Since June 2002, following the approval of the National Building Plan 36 (the "Plan"), which regulates network site construction and operation, building permits for our mobile network sites (where required) have been issued in reliance on the Plan.

We have set up several hundred small communications devices, called wireless access devices, pursuant to a provision in the Planning and Construction Law, which exempts such devices from the need to obtain a building permit. A claim was raised that the exemption does not apply to mobile communications devices and the matter reached first instance courts a number of times, resulting in conflicting decisions. This claim is included in an application to certify a class action filed against certain Israeli mobile telephone operators, but we were not included in this claim. In May 2008, a district court ruling adopted the position that the exemption does not apply to wireless access devices. The mobile telephone operators filed a request to appeal this ruling to the Supreme Court. In May 2008, the Israeli Attorney General filed an opinion regarding this matter stating that the exemption applies to wireless radio access devices under certain conditions. Subsequently, two petitions were filed with the High Court of Justice in opposition to the Israeli Attorney General's opinion. The matter is still pending before the Supreme Court and the High Court of Justice.

In September 2010, adopting the position of the Israeli Attorney General, the Israeli Supreme Court issued an interim order prohibiting further construction of radio access devices for mobile networks in reliance on the exemption mentioned above. In September 2011, the Supreme Court permitted HOT Mobile and Golan Telecom to use the exemption in order to erect their new UMTS networks until September 30, 2013, provided, however, that no more than 40% of the facilities that the operator erects are within the jurisdiction of any municipality, an affidavit is submitted in advance to the municipality's engineer and the safety zone does not exceed four meters and does not deviate from the boundaries of the lot. On August 28, 2013 we submitted a formal request with the Israeli Supreme Court, requesting a renewal of the exemption. On September 30, we received a response from the Supreme Court stating that they had requested a formal reply from the state on this subject matter. Until a final decision has been passed by the Supreme Court, HOT Mobile will be allowed to continue the deployment of its UMTS network. If this exemption is not extended, we will have to seek permits, which could result in substantial delays and costs and as a result, we may be unable to meet our license requirements.

If a definitive court judgment holds that the exemption does not apply to mobile devices at all, we may be required to remove the existing devices and would not be able to install new devices on the basis of the exemption. As a result, our mobile network capacity and coverage would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

We, like the other mobile telephone operators in Israel, provide repeaters, also known as bi-directional amplifiers, to subscribers seeking an interim solution to weak signal reception within specific indoor locations. In light of the lack of a clear policy of the local planning and building authorities, and in light of the practice of the other mobile telephone operators, we have not requested permits under the Planning and Building Law for the repeaters. However, we have received an approval to connect the repeaters to our communications network from the Israeli Ministry of Communications and have received from the Israeli Ministry of Environmental Protection permit types for all our repeaters. If the local planning and building authorities determine that permits under the Planning and Building Law are also necessary for the installation of these devices, or any other receptors that we believe do not require a building permit, it could have a negative impact on our ability to obtain permits for our repeaters.

The Israeli Ministry of Environmental Protection notified us of a new condition for all of our 3G mobile network site operation permits, according to which we must install systems software (provided by the Israeli Ministry of Environmental Protection) that continuously monitors and reports the level of power created in real time from the operation of our 3G mobile network sites (the "Monitoring System"). Since May 2012, we started erecting our new UMTS cell sites according to construction permits received in November 2011. We have also made practical examinations to all our new UMTS cell sites. All of the examinations showed that our new UMTS cell sites comply with the safety standard determined by the Israeli Ministry of Environmental Protection. As of August 2012, we began to apply requests for operation permits to our sites to the Commissioner. We also applied to the Commissioner for extended time to connect to the monitoring system. As of November 2012, we started receiving operation permits, which are subject to the demand to connect to the monitoring system no later than February 5, 2013. On February 4, 2013, we were notified by the Israeli Ministry of Environmental Protection that we have complied with all of its requirements for connecting to the monitoring system.

We are of the opinion that all of the antennas that we operate comply with the conditions of the safety permits that we were granted by the Israeli Ministry of Environmental Protection. However, implementation of the monitoring software increases our exposure and our directors and senior officers to civil and criminal proceedings in the event that any antennas are found to not meet the conditions of the permits granted to us and the maximum permitted power. In addition, if our antennas are found to not meet the conditions of the permits granted to us and the maximum permitted power, the Israeli Ministry of Environmental Protection may revoke existing permits, which would require us to dismantle existing mobile network sites. As a result, our network capacity and coverage would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

***We may be required to indemnify certain local planning and building committees in Israel with respect to claims against them.***

In Israel, under the Planning and Building Law, 1965, local planning committees may be held liable for the depreciation of the value of nearby properties as a result of approving a building plan. Under the Non-Ionizing Radiation Law, 2006, the National Council for Planning and Building requires indemnification undertakings from mobile companies as a precondition for obtaining a building permit for new or existing mobile network sites. The National Council has decided that until the Plan is amended to reflect a different indemnification amount, mobile companies will be required to undertake to indemnify the committees in full against all losses resulting from claims against a committee for reductions in property values as a result of granting a permit to the



mobile network site. On June 1, 2010, the National Council for Planning and Building approved the National Building Plan No. 36/A/1 version that incorporates all of the amendments to the Plan (the “Amended Plan”). The Amended Plan is subject to government approval in accordance with the Planning and Building Law.

As of the date of this report, we had approximately 335 indemnification letters outstanding to local planning and building committees as of September 15, 2013 although no claims have been filed against us under such letters. Calls upon our indemnification letters may have a material adverse effect on our financial condition and results of operations.

In addition, the requirement to provide indemnification in connection with new building permits may impede our ability to obtain building permits for existing mobile network sites or to expand our mobile network with the erection of new mobile network sites. The indemnification requirement may also cause us to change the location of our mobile network sites to less suitable locations or to dismantle existing mobile network sites, which may have an adverse effect on the quality and capacity of our mobile network coverage.

In 2007, the Israeli Ministry of Interior Affairs extended the limitation period within which depreciation claims may be brought under the Planning and Building Law from three years from approval of the building plan to the later of one year from receiving a building permit for a mobile network site under the Plan and six months from the construction of a mobile network site. The Israeli Ministry retains the general authority to extend such period further. This extension of the limitation period increases our potential exposure to depreciation claims.

***Adverse decisions of tax authorities or changes in tax treaties, laws, rules or interpretations could have a material adverse effect on our results of operations and cash flow.***

The tax laws and regulations in the jurisdictions in which we operate may be subject to change and there may be changes in the content as well as in the interpretation and enforcement of tax law. As a result, we may face increases in taxes payable if tax rates increase, or if tax laws and regulations are modified by the competent authorities in an adverse manner.

In addition, the tax authorities in the jurisdictions in which we operate periodically examine our activities. We regularly assess the likelihood of such outcomes and have established tax allowances which represent management’s best estimate of the potential assessments. In December 2009 and during 2010, the Israeli Tax Authority issued certain tax assessments with respect to HOT for 2006-2008, which if accepted, may adversely affect our results of operations. In general, these tax assessments may give rise to the imposition of a tax payment in the amount of NIS 120 million and the cancellation or postponement of net operating losses in the amount of NIS 1.1 billion. In addition this may have adverse tax consequences for years subsequent to 2008. In this regard, HOT has included a reserve in its financial statements.

On May 31, 2013, HOT received a tax assessment on HOT Vision, one of its subsidiaries, for the 2009-2010 tax year. The Tax Authority identified NIS 38 million of taxable income for this period. On June 27, 2013, HOT appealed against this tax assessment. The proceeding is still pending. The outcome of this tax assessment could also impact tax years not covered by this tax assessment. We are also subject to certain tax assessments in Portugal relating to financial years 2003, 2005 and 2006 which we are contesting. Those tax assessments may give rise to the imposition of a tax payment in the amount of up to EUR 10 million.

The resolution of any of these and future tax matters could differ from the amount reserved, which could have a material adverse effect on our cash flows, business, financial condition and results of operations for any affected reporting period.

**Risks Relating to Our Employees, Management, Principal Selling Shareholder and Related Parties**

***The loss of our Principal Selling Shareholder, certain key executives and personnel or a failure to sustain a good working relationship with employee representatives, including workers’ unions, could harm our business.***

We depend on the continued contributions of our senior management and other key personnel and in particular, Patrick Drahi, who is our non-executive chairman and the Principal Selling Shareholder. We cannot assure you that we will be successful in retaining their services or that we would be successful in hiring and training suitable replacements without undue costs or delays. As a result, the loss of our non-executive chairman or any of these key executives and employees could cause significant disruptions in our business operations, which could materially adversely affect our results of operations.

In our business, we rely on sales forces and call centre employees to interface with the major part of our residential customers. Their reliability is key, as is our relationship with employee representatives. Some of our employees currently belong to organized unions and works councils, and we cannot assure you that more



employees will not form or join unions in the future. An increase in the number of our unionised employees could lead to an increased likelihood of strikes, work stoppages and other industrial actions which could disrupt our operations, cause reputational or financial harm or make it more difficult to operate our businesses.

***The Company is incorporated under and subject to Luxembourg law.***

The Company is a public limited liability company (*société anonyme*), incorporated under the laws of Luxembourg. The rights of holders of Ordinary Shares and the responsibilities of the Company to the holders of Offer Shares under Luxembourg law may be materially different from those with regard to equivalent instruments under the laws of the jurisdiction in which the Offer Shares are offered.

Insolvency proceedings may be brought against the Company or its subsidiaries and such proceedings may proceed under, and be governed by, Luxembourg insolvency laws. The insolvency laws of Luxembourg may not be as favourable to your interests as creditors as the laws of the United States or other jurisdictions with which you may be familiar.

***The Principal Selling Shareholder has the benefit of Warrant Instruments not made available to other Investors***

The Company has granted the Principal Selling Shareholder a warrant that may be exercised in a number of circumstances including in the event any person acquires (whether individually or acting in concert with another) 20% or more of the Ordinary Shares (“**Trigger Event**”). For so long as the Principal Selling Shareholder continues to hold 30% or more of the Ordinary Shares, he may, upon the occurrence of a Trigger Event, exercise the Warrant. Upon exercise, the Principal Selling Shareholder will be issued Warrant Shares which could increase his holding of the issued share capital of the Company on a fully diluted basis to either 66.67% or 75% and thereby significantly dilute the voting rights of all other equity holders (but without significantly diluting the economic interest of other equity holders). Therefore, notwithstanding that the Principal Selling Shareholders holding of Ordinary Shares may decrease, he shall continue to be able to control and/or significantly influence matters requiring the approval of the General Meeting and any vote in a way which the other equity holders do not agree.

***If securities or industry analysts do not publish research or reports about our business, or if they downgrade their recommendations regarding our common stock, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us downgrade our common stock, our common stock price would likely decline. If analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our common stock price or trading volume to decline.

***We may in the future seek to raise capital by conducting equity offerings, which may dilute investors’ shareholdings.***

We may in the future seek to raise capital through public or private debt or equity financings by issuing additional Ordinary Shares or other shares, debt or equity securities convertible into Ordinary Shares or rights to acquire these securities and exclude the pre-emptive rights pertaining to the then outstanding Ordinary Shares. Any additional capital raised through the issue of additional Ordinary Shares may dilute an investor’s shareholding interest in the Company. Furthermore, any additional financing the Group may need may not be available on terms favourable to the Group or at all, which could adversely affect our future plans. Any additional offering of Ordinary Shares by us, or the public perception that an offering may occur, could also have a negative impact on the trading price of the Ordinary Shares and could increase the volatility in the trading price of the Ordinary Shares.

***Our ability to pay dividends to Shareholders may be constrained.***

We are a holding company and our ability to generate income and pay dividends is dependent on the ability of our subsidiaries to declare and pay dividends or lend funds to us. The actual payment of future dividends by us and the payment of dividends to us by our subsidiaries, if any, and the amounts thereof, will depend on a number of factors, including (but not limited to) the amount of distributable profits and reserves and investment plans, earnings, level of profitability, ratio of debt to equity, credit ratings, applicable restrictions on the payment of dividends under applicable laws and financial restrictions on the debt instruments of our subsidiaries, compliance with covenants in our debt instruments, the level of dividends paid by other comparable listed companies and such other factors as the Board may deem relevant from time to time. As a result, our ability to pay dividends in the future may be limited and/or our dividend policy may change. If dividends are not paid in the future, capital appreciation, if any, of the Ordinary Shares would be investors’ sole source of gains.

***You may be unable to effect service of process on the Company and/or members of our Board in the U.S. or enforce judgments obtained in U.S. courts for U.S. securities laws violations.***

The Company is organised under the laws of the Grand-Duchy of Luxembourg and does not have any material assets in the U.S. It is anticipated that some or all of the members of the Company's Board will be non-residents of the U.S. and that all or a majority of their assets will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the U.S. upon the Company or members of its Board, or to enforce any judgments obtained in U.S. courts predicated upon civil liability provisions of the U.S. securities laws. In addition, the Company cannot assure you that civil liabilities predicated upon the federal securities laws of the U.S. will be enforceable in Luxembourg.

***Transfers of the Offer Shares are restricted, which may adversely affect the value of the Offer Shares.***

The Offer Shares are being offered and sold pursuant to an exemption from registration under the U.S. Securities Act and applicable state securities laws of the U.S. The Ordinary Shares have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws. Therefore you may not transfer or sell the Ordinary Shares in the U.S. except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement, and you may be required to bear the risk of your investment in the Ordinary Shares for an indefinite period of time. It is your obligation to ensure that your offers and sales of Ordinary Shares within the U.S. and other countries comply with applicable securities laws.

***Holders of Ordinary Shares outside Luxembourg may not be able to exercise pre-emptive rights in future offerings.***

In the event of an increase in our Ordinary Share capital, holders of Ordinary Shares are generally entitled to full pre-emptive rights unless these rights are restricted or excluded by a resolution of the General Meeting at the proposal of the Board. However, certain holders of Ordinary Shares outside Luxembourg may not be able to exercise pre-emptive rights unless local securities laws have been complied with.

U.S. holders of Ordinary Shares may not be able to exercise their pre-emptive rights or participate in a rights offer, as the case may be, unless such rights and Ordinary Shares are registered under the U.S. Securities Act or an exemption from the registration requirements is available. We intend to evaluate at the time of any issue of Ordinary Shares subject to pre-emptive rights or in a rights offer, as the case may be, the costs and potential liabilities associated with any such registration or other means of making the rights available to U.S. holders, as well as the indirect benefits to it of enabling the exercise of U.S. holders of their pre-emptive rights to Ordinary Shares or participation in a rights offer, as the case may be, and any other factors considered appropriate at the time and then to make a decision as to whether to file such a registration statement or take other steps to enable such holders to participate in the rights offer.

***Investors with a reference currency other than the euro will become subject to foreign exchange risks when investing in the Ordinary Shares.***

Our Ordinary Shares are denominated in and will trade in euro, and all dividends on the Ordinary Shares will be paid by us in euro. Investors whose reference currency is a currency other than the euro may be adversely affected by any reduction in the value of the euro relative to the value of the investor's reference currency. In addition, such investors could incur additional transaction costs in converting euro into another currency. Investors whose reference currency is a currency other than euro are therefore urged to consult their financial advisers.

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

Our results of operations for the year ended December 31, 2012 were significantly impacted by the acquisition of a controlling equity interest in Cabovisão, a Portuguese telecommunications company, by the Company in February 2012 (the results of which are consolidated in the Historical Consolidated Financial Information of the Company with effect from February 28, 2012). Cabovisão contributed EUR 98,2 million to revenue, EUR 12,8 million to operating profit and EUR 29,8 million to EBITDA of the Company in the year ended December 31, 2012.

In addition, in the fourth quarter of 2012, the Company completed the take-private transaction of the HOT Group whereby it acquired substantially all of the equity interests in HOT-Telecommunication Systems Ltd. it did not previously own.

Our results of operations for the year ended December 31, 2011 were significantly impacted by the following events:

- In March 2011, the Company increased its ownership in HOT-Telecommunication Systems Ltd. thereby acquiring a majority equity ownership in the HOT Telecom Group (as a result of which the financial information of the HOT Telecom Group is consolidated in the Historical Consolidated Financial Information of the Company with effect from March 31, 2011). In 2011, the HOT Telecom Group had EUR 165,1 million of revenue, EUR 5,3 million of operating loss and EUR 34,9 million of EBITDA, which are not consolidated in the Historical Consolidated Financial Information of the Company, whereas HOT Telecom Group contributed EUR 499,7 million to revenue, EUR 98,4 million to operating profit and EUR 212,4 million to EBITDA of the Company on a consolidated basis in the year ended December 31, 2011 since March 31, 2011.
- In May 2011, the Company's subsidiary MIRS Communications Ltd. was awarded a license to provide UMTS based 3G mobile services pursuant to which it began building out its UMTS mobile network and launched 3G mobile services in May 2012, resulting in us incurring significant capital expenditures and operating costs.
- in the second quarter of 2011, the Company acquired a controlling equity interest in Coditel Brabant S.p.r.l in Belgium and Coditel S.à r.l. in Luxembourg through an intermediate holding company, Coditel Holding S.A. (the financial information of which is consolidated in the Historical Consolidated Financial Information of the Company with effect from July 1, 2011). In 2011, Coditel Brabant S.p.r.l and Coditel S.à r.l. together had EUR 37,7 million of revenue, EUR 12,2 million of operating profit and EUR 24,2 million of EBITDA, which are not consolidated in the Historical Consolidated Financial Information of the Company whereas Coditel Holding S.A. contributed EUR 34,8 million to revenue, EUR (1.4) million to operating profit and EUR 20,4 million to EBITDA of the Company on a consolidated basis in the year ended December 31, 2011 since June 30, 2011.

In addition, in the fourth quarter of 2011, MIRS Communications Ltd. was acquired by the HOT Telecom Group from a subsidiary of the Company and renamed HOT Mobile Ltd. The HOT Telecom Group and HOT Mobile Ltd. are collectively referred to herein as the "HOT Group".

## Revenue

### *Historical Consolidated Basis*

For the year ended December 31, 2011, we generated total revenue of EUR 784,2 million. Our total revenue by our key regions in the years ended December 31 2011, were: (i) in Israel EUR 680,4 million, (ii) Belgium and Luxembourg, EUR 34,8 million, and (iii) in the French Overseas Territories, EUR 23,6 million.

Cable based services: For the year ended December 31, 2011, we generated cable based services revenue of EUR 560,3 million. The increase was driven by the global integration of HOT Telecom and the acquisition of Coditel Belgium and Luxembourg in 2011.

Mobile services: For the year ended December 31, 2011, we generated mobile services revenue of EUR 180,6 million for the year ended December 31, 2011.

B2B and others: For the year ended December 31, 2011, we generated B2B and other services revenue of EUR 43,3 million.

Foreign exchange translation movements between the CHF and euro had a positive impact of EUR 1,0 million on B2B revenue.

### **Significant events post-closing**

On February 28, 2012, Altice VII acquired the entire issued capital of the company RightProposal – Telecomunicações S.A. for an amount of EUR 50 000.

In February 2012, Altice VII completed the takeover of Cabovisao from Cogeco, a Canadian cable operator. Cabovisao is the second cable operator in Portugal and possesses a high quality cable network. The acquisition price was EUR 45 million.

On March 12, 2012, Altice VII has sold to Codilink S.à r.l. 20 000 of the shares of RightProposal – Telecomunicações S.A., representing 40% of RightProposal's capital.

On March 26, 2012, RightProposal – Telecomunicações S.A. has changed its name into Altice Portugal S.A.

On August 17, 2012, Altice VII decided the incorporation of ALTICE FINCO S.A. a public limited company incorporated under the law of the Grand-Duchy of Luxembourg by the subscription of all the shares, for a total amount of EUR 35 000. The group holds 100% of the share capital of ALTICE FINCO S.A.

On August 17, 2012, ALTICE FINCO decided the incorporation of ALTICE FINANCING, a public company incorporated under the law of the Grand-Duchy of Luxembourg by the subscription of all shares, for a total amount of EUR 28 872.

In August 2012, the Altice Group invested USD 20 million in convertible bonds in Wananchi, a Kenya based cable operator, with activities in other East African markets. This investment was made in tranches of USD 5 million each and the bonds were converted to shares in Dec. 2012.

On December 27, 2012, Altice Financing S.A. and Altice Finco S.A. (the “Issuers”) announced that the proceeds (the “Escrow Proceeds”) of their offerings of (i) USD 460 million in aggregate principal amount of 7% senior secured notes due 2019 and EUR 210 million in aggregate principal amount of 8% senior secured notes due 2019 of Altice Financing S.A. (together, the “Senior Secured Notes”) and (ii) USD 425 million in aggregate principal amount of 9% senior notes due 2020 of Altice Finco S.A. (the “Senior Notes”, together with the Senior Secured Notes, the “Notes”) were released from escrow following successful satisfaction of the Condition (as defined below). It was a condition (the “Condition”) to the release of the Escrow Proceeds that the Issuers certify, amongst other things, to the escrow agent that promptly upon release of the Escrow Proceeds (i) the acquisition by a wholly-owned subsidiary of Cool Holding Ltd (“Cool”), an affiliate of the Issuers, of the remaining shares of HOT Telecommunication Systems Ltd. (“HOT”) not currently owned by Cool would be consummated (the “Take-Private Transaction”) and (ii) certain existing indebtedness of Cool and HOT would be repaid (the “Refinancing” and, together with the Take-Private Transaction, the “Transactions”). On December 27, 2012, the Escrow Proceeds were used to consummate the Transactions.

On May 31, 2013, Altice Holdings entered into a sale and purchase agreement to acquire Winreason (the “ONI Purchase Agreement”), the owner of the Portuguese telecommunications group, ONI, pursuant to which Cabovisao purchased all of the outstanding shares of ONI and refinanced the outstanding indebtedness of ONI (the “ONI Transaction”). The deal was consummated on August 8, 2013.

On June 7, 2013, Altice VII and certain of its subsidiaries entered into a sale and purchase agreement (the “Outremer Purchase Agreement”) with the owners of OMT Invest and certain of its affiliates pursuant to which (i) the Group had agreed to purchase all of the outstanding share capital of OMT Invest other than shares to be contributed separately pursuant to the Outremer Investment Agreement on completion of the Outremer Transaction and (ii) all of the outstanding indebtedness of OMT Invest and its subsidiaries were to be refinanced using a portion of the proceeds of the June 24, 2013 bond issuance (see below). The parties to the Outremer Purchase Agreement entered into an investment agreement (the “Outremer Investment Agreement”) pursuant to which (i) the Group contributed all of the outstanding share capital of MTVC and WSG and (ii) managers of OMT Invest contributed all of the outstanding shares of OMT Invest not sold to the Group under the Outremer Purchase Agreement. The transaction was completed on July 5, 2013.

On June 14, 2013, Altice Finco issued EUR 250 million aggregate principal amount of its 9% senior notes due 2023 (the “2013 Senior Notes”).

On June 24, 2013, Altice Financing entered into a senior secured term loan credit facility (as amended from time to time, the “2013 Term Loan Facility”) which provides for U.S. dollar term loans (the “2013 Term Loans”) up to an aggregate principal amount equivalent to USD 1.034 billion. Altice Financing may draw under the 2013 Term Loan, in up to four tranches, at any time on or prior to November 30, 2013, as long as, among other things, the incurrence of the indebtedness would have been permitted by the covenants in the existing Altice Financing debt documents. On July 2, 2013 and July 5, 2013, Altice Financing borrowed USD 584.2 million and U.S. dollar-equivalent USD 81.9 million under the 2013 Term Loan (the “First Draw”). The proceeds, together with the proceeds of the 2013 Senior Notes and cash on the balance sheet of the Group were applied to complete the Cabovisao Refinancing, the Coditel Refinancing, the Le Cable Refinancing and the ABO Refinancing on July 2, 2013 (described below), and the Outremer Transaction on July 5, 2013.

On March 7, 2013, Altice VII purchased the 40% remaining shares held by Codilink S.à r.l in Altice Portugal S.A.

### **Cabovisao Refinancing**

On July 2, 2013, Altice Financing repaid the outstanding indebtedness under the existing Cabovisao Bridge Facility of EUR 203 million (the “Cabovisao Refinancing”).

### **Coditel Refinancing**

In July 2, 2013, Coditel Holding prepaid approximately EUR 7 million of its EUR 138 million indebtedness outstanding under the existing Coditel Senior Facility and Altice Holdings purchased substantially all of the remaining interests of the existing lenders under the existing Coditel Senior Facility.

### **ABO Refinancing**

On July 2, 2013 ABO refinanced approximately EUR 70 million of its existing indebtedness to third parties (the “ABO Refinancing”).

### **Le Cable Refinancing**

MTVC (“Le Cable Martinique”) and WSG (“Le Cable Guadeloupe”) are indirect subsidiaries of the Group. On July 2, 2013, Altice Pool refinanced approximately (x) EUR 8 million of indebtedness of Le Cable Martinique and (y) EUR 14 million of indebtedness of Le Cable Guadeloupe (collectively, the “Le Cable Refinancing”).

In June 2013, the Group decided to merge all the different classes of shares into one single class of ordinary shares. No dividends were paid to any the equity holders during any period since the inception of the Group.

### **MCS & SportV**

In October 2013, the Group completed the acquisition of two sports based content delivery channels, Ma Chaine Sport and SportV. This acquisition was completed in October 2013 and total consideration paid amounted to EUR 15 million. These channels are focussed on providing quality sports programming and are intended to serve as a platform for the potential new business segment for the Company (Content). The acquisition was fully financed using equity holders’ equity.

### **Tricom**

In November, the Group confirmed that it has signed an agreement to acquire a controlling stake in Tricom, the second largest cable operator in the Dominican Republic. This acquisition is expected to explore significant synergies with the Group’s French Overseas Territories operations.



## **Network Sharing Agreement**

On November 8, 2013, HOT Mobile entered in to a network sharing agreement (the “Network Sharing Agreement”) with Partner Communications Company Ltd. Pursuant to the terms of the Network Sharing Agreement, HOT Mobile and Partner will each own 50% of a newly formed limited partnership, which shall hold, develop and operate an advanced shared mobile network for both companies. Network Sharing Agreement enables HOT Mobile and Partner to share antennas and frequencies, and facilitates optimum utilization of the spectrum. In addition, while HOT Mobile and Partner will continue to maintain and operate separate core networks, Partner has agreed to grant HOT Mobile a right of use in its cellular communication network for the purpose of providing nation-wide cellular coverage to HOT Mobile’s customers.

Also, as part of the engagement the Group will grant a guarantee on behalf of Hot Mobile Ltd. In addition, in several cases as determined in the agreements the Company will be required to grant an additional guarantee for example in case of a change in the finance ranking of the Company. The Network Sharing Agreement is subject to regulatory approvals of the Ministry of communication and the restrictive trade practices controller, which as of the balance sheet date were not achieved.

As a result of this new agreement, the existing agreement with Pelephone will be phased out until the contractual end of the agreement in 2014.

## **Reduction of Guarantees to the State of Israel**

HOT Mobile has informed the Ministry of Communications that as of September 26, 2013, it had reached an average market share in the private sector of 11,3%, constituting an addition of 9,52% on HOT Mobile’s market share at the time of the expansion of the general license for the provision of mobile radio telephone services under the cellular method (hereinafter - the license), on September 26, 2011.

In the light of HOT Mobile achieving the market share that is required as of the time of the first check, HOT Mobile has requested the Ministry to reduce the amount of the guarantee that was deposited by HOT Mobile, from an amount of NIS 695,0 (EUR 144,6 million) million to an amount of NIS 80 (EUR 16,6 million) million. This was in addition to an amount of NIS 10,0 (EUR 2,0 million) million that it paid upon the receipt of the license.

As of the date of the approval of the financial statements, the response of the Ministry of Communications has not yet been received and the guarantee therefore remained in the same amount.

## **Significant events at Group Operating Companies**

### **HOT Group:**

On November 28, 2011, the HOT Group was formally created with the acquisition of HOT Mobile (previously MIRS) by HOT Telecom from Altice Securities. This move ties-in with the Group strategy of leveraging synergies between the two businesses and of creating a common brand identity.

For the year ended December 31, 2011, we generated revenue of NIS 3 374 million, a 3,7% increase compared to NIS 3 254 million for the year ended December 31, 2010. Our revenue was impacted by the acquisition of HOT Mobile, which resulted in an increase in revenue of NIS 66 million in the year ended December 31, 2011.

Revenues from fixed line telephony decreased by 0,3% compared to the FY2010 and amounted to NIS 2 004 million (vs. NIS 2 010 million). The decrease in revenue is primarily due to lower fixed-line telephony revenue due to lower interconnect fees from January 2011 as a result of regulatory changes and offset by an increase in revenue due to higher Average Revenue Per Users (“ARPU”) for broadband Internet infrastructure access as a result of increased bandwidth offerings at higher prices.

Cable revenues increased by 3,3% vs. FY2010 to reach NIS 2 299 million, mainly driven by an increase in the ARPU of add-on services such as Video on Demande (“VOD”) etc.

Our EBITDA experienced substantial growth in FY11, and registered a 13% increase YoY, driven by the aforementioned increase in revenues and a decrease in operating expenses, which were helped by better call completion rates and favourable regulatory changes. Sales and Marketing expenses increased as a result of change in accounting policies and general and administrative costs increased mainly due to additional costs related to the acquisition of HOT Mobile.

The HOT Group generated NIS 218 million of operating cash for FY2011, a decrease of 2,1% compared to FY2010 and mainly driven by a loss in net income vs. FY2010 (-NIS 43 million).

### **CODITEL Group:**

In Belgium, we noticed a decrease in the number of digital TV subscribers during the current FY. Internet customers grew by 46 164 and telephony subscribers grew by 44 719. The increase in sales can be attributed mainly to this increase in customers.

Coditel Brabant continued its investment in the modernisation of its network, by providing more FTTH (Fibre To The Home) connections and by substantially improving bandwidth and voice quality of its networks.

These investments have allowed the company to improve its offering of digital services and internet speeds, which contributed to the increase in the customer base.

In Luxembourg, our client base stood at 27 514 TV subscribers, 8 501 high speed internet subscribers and 7 495 telephony subscribers. We launched digital subscription offers this year and already have 21 720 migrations from the previous analogue base.

### **Permanent establishment**

Altice VII S.à r.l. is based in Luxembourg and registered with the Luxembourg tax authorities. The Company has no branches.

### **Share repurchase**

Altice VII S.à r.l. does not hold any of its own shares and did not participate in any share buyback programs during the fiscal year.

### **R&D policy**

Altice VII S.à r.l. has chosen not to disclose any information about R&D as this might prove prejudicial to the Company and its subsidiaries.

The Board of Managers

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**Jérémie BONNIN, Manager**

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**Laurent GODINEAU, Manager**

To the Partners of  
Altice VII S.à r.l.  
3, boulevard Royal  
L-2449 Luxembourg  
Grand-Duchy of Luxembourg

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the consolidated financial statements

Following our appointment by the Board of Managers, we have audited the accompanying consolidated financial statements of Altice VII S.à r.l., which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Board of Managers for the consolidated financial statements*

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the réviseur d'entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the *réviseur d'entreprises agréé*'s judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managers, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Altice VII S.à r.l. as of December 31, 2011, and of its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

#### **Report on other legal and regulatory requirements**

The consolidated management report, which is the responsibility of the Board of Managers, is consistent with the consolidated financial statements.

For Deloitte Audit, *Cabinet de révision agréé*



John Psaila, *Réviseur d'entreprises agréé*  
Partner

November 8, 2013



**Altice VII S.à r.l.**  
**Consolidated statement of income**  
**Year ended December 31, 2011**

*(in millions of euros)*

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Revenues	24	784,2	167,2
Purchases and subcontracting services	24	(175,4)	(54,0)
Other operating expenses	25	(195,4)	(21,9)
Staff costs and employee benefits expenses	26	(24,8)	(21,3)
General and administrative expenses		(26,4)	(10,3)
Other sales and marketing expenses		(64,4)	(11,6)
<b>Operating profit before depreciation and amortization (*)</b>		<b>297,8</b>	<b>48,1</b>
Depreciation and amortization		(176,4)	(26,5)
Other expenses, net	27	(5,6)	(7,4)
Management fees		(3,1)	(0,8)
Restructuring and other non-recurring costs	28	(7,6)	(3,9)
<b>Operating profit</b>		<b>105,1</b>	<b>9,5</b>
Gain arising on step acquisitions	28	134,8	1,0
Share of profit of associates	7	11,7	6,8
Finance income	28	16,6	43,2
Finance costs	28	(111,6)	(18,0)
<b>Profit before income tax expenses</b>		<b>156,6</b>	<b>42,5</b>
Income tax expenses	23	(32,5)	(2,2)
<b>Profit for the year</b>		<b>123,9</b>	<b>40,3</b>
<i>Attributable to equity holders of the parent</i>		<i>118,4</i>	<i>40,2</i>
<i>Attributable to non-controlling interests</i>		<i>5,5</i>	<i>-</i>

(\*) Operating profit before depreciation and amortization is further referred to as “EBITDA” in these consolidated financial statements.

The accompanying notes form an integral part of these consolidated financial statements.

**Altice VII S.à r.l.**  
**Consolidated statement of comprehensive income**  
**Year ended December 31, 2011**

*(in millions of euros)*

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
<b>Profit for the year</b>		<b>123,9</b>	<b>40,3</b>
Other comprehensive income			
Exchange differences on translation foreign operations		0,4	(1,6)
Net fair value gain on available-for-sale financial assets		0,3	-
<b>Total comprehensive income for the year</b>		<b>124,6</b>	<b>38,7</b>
<i>Attributable to equity holders of the parent</i>		<i>117,2</i>	<i>38,6</i>
<i>Attributable to non-controlling interests</i>		<i>7,4</i>	<i>0,1</i>

The accompanying notes form an integral part of these consolidated financial statements.

**Altice VII S.à r.l.**  
**Consolidated statement of financial position**  
**Year ended December 31, 2011**

<i>(in millions of euros)</i>	Notes	December 31, 2011	December 31, 2010	January 1, 2010 (unaudited)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	12	19,8	18,6	6,8
Trade receivables	11	102,7	50,9	6,8
Other receivables	11	22,1	18,9	7,3
Inventories	10	6,1	7,5	0,2
<b>Total Current assets</b>		<b>150,8</b>	<b>95,8</b>	<b>21,1</b>
<b>Non-current assets</b>				
Restricted cash	8	41,4	0,2	0,1
Deferred tax assets	23	0,3	-	1,0
Investments in associates	7	-	284,9	240,7
Investments in financial assets available for sale	8	8,5	-	-
Long term trade receivables	8	2,4	3,0	0,4
Other long-term trade receivables	9	28,4	-	-
Property, Plant & Equipment	6	901,7	149,7	49,2
Other Intangible assets	5	458,3	90,1	51,3
Goodwill	4	911,9	17,8	17,8
<b>Total non-current assets</b>		<b>2 352,9</b>	<b>545,7</b>	<b>360,6</b>
<b>Total assets</b>		<b>2 503,7</b>	<b>641,5</b>	<b>381,7</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowing from banking corporations and debentures	18	241,8	81,3	65,0
Trade payables	20	208,2	52,8	26,5
Others payables	20	98,4	46,6	24,0
Current loans from related parties	18	2,9	0,4	0,2
Provisions	16	-	0,2	-
Current tax liabilities	20	7,2	2,4	0,8
<b>Total current liabilities</b>		<b>558,5</b>	<b>183,5</b>	<b>116,5</b>
<b>Non-current liabilities</b>				
Borrowings from banking corporations and debentures	18	835,2	71,4	-
Non-current loans from related parties	18	127,1	61,9	13,6
Other financial liabilities	18	32,1	5,5	3,6
Provisions	16	40,5	1,5	1,5
Other non-current liabilities	21	46,1	0,7	0,9
Retirement benefit obligations	17	6,9	1,2	0,9
Deferred tax liabilities	23	123,7	26,2	18,5
<b>Total non-current liabilities</b>		<b>1 211,6</b>	<b>168,4</b>	<b>39,0</b>
<b>Equity</b>				
Issued capital	13	7,4	7,8	-
Other reserves		232,9	254,9	239,7
Retained earnings (accumulated losses)		25,8	(13,7)	(3,6)
Net income (loss) - attributable to the equity holders		118,4	40,2	(10,1)
<b>Equity attributable to equity holders of the parent</b>		<b>384,5</b>	<b>289,2</b>	<b>226,1</b>
<b>Non-controlling interests</b>		<b>349,2</b>	<b>0,4</b>	<b>0,2</b>
<b>Total equity</b>		<b>733,6</b>	<b>289,6</b>	<b>226,3</b>
<b>Total equity and liabilities</b>		<b>2 503,7</b>	<b>641,5</b>	<b>381,7</b>

The accompanying notes form an integral part of these consolidated financial statements.

**Altice VII S.à r.l.**  
**Consolidated statement of changes in equity**  
**Year ended December 31, 2011**

<i>(in millions of euros)</i>	Issued capital	Other reserves	Retained earnings	Net income	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
<b>Equity at January 1, 2010</b>	-	239,7	(3,6)	(10,1)	226,1	0,2	226,3
Allocation to retained earnings			(10,1)	10,1			
Profit for the year				40,2	40,2	-	40,3
Variation in CPEC		19,1			19,1		19,1
Employee benefits		0,1			0,1		0,1
Increase in share capital	7,8				7,8		7,8
Variation in Currency Translation Reserve		(1,6)			(1,6)	-	(1,6)
Increase or decrease of ownership interest		(0,6)			(0,6)	0,1	(0,5)
Other variations		(1,9)			(1,9)		(1,9)
<b>Equity at December 31, 2010</b>	<b>7,8</b>	<b>254,9</b>	<b>(13,7)</b>	<b>40,2</b>	<b>289,2</b>	<b>0,4</b>	<b>289,6</b>
Allocation to retained earnings			40,2	(40,2)			
Profit for the year				118,4	118,4	5,5	123,9
Variation in CPEC		(22,7)			(22,7)		(22,7)
Employee benefits		0,1			0,1	0,3	0,4
Decrease in share capital	(0,4)				(0,4)		(0,4)
Variation in Currency Translation Reserve		(1,4)			(1,4)	1,8	0,4
Increase or decrease of ownership interest		4,5			4,5	(2,5)	2,0
Acquisition of an associates		(3,7)			(3,7)	343,5	339,8
Other variations		1,2	(0,8)		0,4	0,2	0,7
<b>Equity at December 31, 2011</b>	<b>7,4</b>	<b>232,9</b>	<b>25,8</b>	<b>118,4</b>	<b>384,5</b>	<b>349,2</b>	<b>733,6</b>

The accompanying notes form an integral part of these consolidated financial statements.

**Altice VII S.à r.l.**  
**Consolidated statement of cash flows**  
**Year ended December 31, 2011**

<i>(in millions of euros)</i>	Notes	December 31, 2011	December 31, 2010
<b>Net income (loss), including non-controlling interests</b>		<b>123,9</b>	<b>40,3</b>
Adjustments for :			
Share of profit of associates	7	(11,7)	(6,8)
Depreciation and amortization		176,4	26,5
Gains and losses on disposals		6,0	(0,7)
Other non-cash operating gains and losses		(168,5)	3,1
<b>Net cash provided by operating activities after changes in working capital, finance costs and income tax</b>		<b>126,1</b>	<b>62,4</b>
Finance costs/(income), net		89,3	(25,4)
Income tax expense recognized in profit and loss		32,5	2,2
Income tax paid		(1,8)	(1,4)
Changes in working capital		60,2	(81,2)
<b>Net cash provided by / (used in) operating activities</b>		<b>306,4</b>	<b>(43,4)</b>
Purchase of tangible and intangible assets		(189,8)	(49,9)
Proceeds from disposal of tangible, intangible and financial assets		0,4	8,0
Increase / (decrease) in loans and other non-current financial assets		1,2	(2,3)
Use of restricted cash		(40,8)	-
Net cash (outflow) / inflow on acquisition of subsidiaries	3.3	(347,3)	9,0
<b>Net cash provided used by investing activities</b>		<b>(576,2)</b>	<b>(35,3)</b>
Proceeds from issue of equity instruments	13	(0,4)	7,8
Proceeds from issue of debts	18	823,0	185,5
Repayment of debt	18	(481,2)	(98,3)
Interest paid		(69,0)	(7,3)
<b>Net cash provided in financing activities</b>		<b>272,4</b>	<b>87,7</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(0,9)	2,4
<b>Net increase in cash and cash equivalents</b>		<b>1,6</b>	<b>11,4</b>
Cash and cash equivalents at beginning of year	12	18,2	6,8
Net increase in cash and cash equivalents		1,6	11,4
<b>Cash and cash equivalents at end of year</b>	<b>12</b>	<b>19,8</b>	<b>18,2</b>

The accompanying notes form an integral part of these consolidated financial statements.



## 1 General description of the Group and its activities

Altice VII (the “Company”) is a private limited liability company (*société à responsabilité limitée*) incorporated under the laws of the Grand-Duchy of Luxembourg on December 15, 2008, and registered under the number B143.725 in Luxembourg. The Group refers to the Company and its subsidiaries. The company was initially established as a public limited company (*société anonyme*) and converted to a private limited liability company on October 7, 2009.

The registered office of the Company is established at 3, boulevard Royal, L-2449 Luxembourg, and its sole equity holder is NEXT LP. The ultimate controlling party is considered to be Patrick Drahi.

The Group offers a variety of services over its cable and mobile infrastructure, including, but not limited to, pay television, broadband Internet access, fixed-line telephony and mobile telephony to residential customers, and, to a lesser extent, corporate customers, depending on the country. Available cable-based service offerings depend on the bandwidth capacity of its cable networks and whether they have been upgraded for two-way communications. Where possible, the Group intends to deploy the same technologies and equipments across its footprints to generate economies of scale and common knowledge. In addition, the group companies aim at sharing skills and best practices across the various operations of the Group.

Television service offerings include basic and premium programming, and, in most markets, incremental product and service offerings such as enhanced pay-per-view programming, including video-on-demand (“VoD”) and near-video-on-demand (“NVOD”), digital video recorders (“DVR”), high definition (“HD”) television services and, in certain areas, exclusive content, purchased or produced. The Group tailors its basic and premium channel line-up to each country of operation according to culture, demographics, programming preferences and local regulation. The Group also offers broadband Internet access services and fixed-line telephony in all its footprints. It also owns and operates mobile infrastructures in certain geographies (French Overseas Territories) and offers mobile services through an MVNO (Mobile Virtual Network Operator) arrangement in Belgium.

## 2 Principles governing the preparation of the consolidated financial statements

### 2.1 Basis of preparation of the consolidated financial statements:

The consolidated financial statements for the period ending on December 31, 2011 are the first consolidated financial statements established by the group in accordance with paragraph 28 of the IFRS 1 standard. For comparative purposes, they include the statement of the financial position, the statement of comprehensive income, the statement of cash flow and the statement of changes in equity for the year ended December 31, 2010. These financial statements have been established in application of the provisions enacted by IFRS 1 “First time application of IFRS”.

The Group therefore considered that the date of transition was January 1, 2010. No financial statements have been issued for the period before December 31, 2010.

The consolidated financial statements have been prepared on the historical cost basis, except for the liability in respect of share based payment transaction, derivatives and financial instruments at fair value through profit and loss, available for sale financial assets. The principal accounting policies are set out below. These consolidated financial statements constitute the largest and smallest group of undertakings.

#### 2.1.1 Compliance with accounting standards

The 2011 consolidated financial statements of the Altice VII group, thereafter “the Group”, have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

### **2.1.2 Standards issued but not yet effective**

In its financial statements, the Group has not anticipated the following standards and interpretations, for which application is not mandatory for periods opened from January 1, 2011. Their impact on the Group's financial statements is estimated not to be significant and/or not applicable. This essentially relates to:

- IFRIC 20 "Overdraft expenses".
- IFRS 1 amended "First application of IFRS" concerning serious hyperinflation and the abolition of dates set for the first adopters, published by the IASB on December 20, 2010 and adopted by the European Union on December 29, 2012. Application of this standard is obligatory from January 1, 2013.
- IAS 19 "Revised Employee Benefits".

## ***2.2 Significant accounting judgments and estimates used in the preparation of the financial statements***

### **2.2.1 Judgments**

In the process of applying the significant accounting policies, the Group has exercised its judgment and has taken into account matters which have the most significant impact on the amounts that have been recognized in the consolidated financial statements.

### **2.2.2 Estimates and assumptions**

The preparation of the financial statements requires the Group to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period in which the estimate changes.

### **2.2.3 Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the managers to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill as at December 31, 2011 was EUR 911,9 million (December 31, 2010: EUR 17,8 million). No impairment loss has been accounted for in 2010 and 2011 respectively.

### **2.2.4 Legal claims**

In estimating the likelihood of outcome of legal claims filed against the Group and its investees, the Group companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

### **2.2.5 Post employment benefits**

The liability in respect of post employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, 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.

### **2.2.6 Deferred tax asset**

Deferred tax assets are recognized for deductible temporary differences and carried forward tax losses as and when management estimates that it is probable that future taxable profits will be available to utilize those temporary differences and tax losses.

### **2.2.7 Discounting of Yield Free Preferred Equity Certificates (YFPEC)**

The Group has loans with its equity holder which are currently non-interest bearing and therefore considered as not being at arm's length. In determining the present value, a discount rate of 4,76% has been used.

## **2.3 *Basis of consolidation***

### **2.3.1 Subsidiaries**

All companies in which the Group has a controlling interest are fully consolidated. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are identified separately from the Group's equity therein.

### **2.3.2 Associates**

Investments, over which the Group exercises significant influence, but not control, are accounted for under the equity method. Such investees are referred to as "associates" throughout these consolidated financial statements.

Significant influence is presumed to exist when the Group holds at least 20% of the voting power in the associates. Associates are initially recognized at cost at acquisition date. The Consolidated Financial Statements include the Group's share of income and expenses, from the date significant influence commences until the date that significant influence ceases.

### **2.3.3 Dates**

The consolidated financial statements of the Group have been prepared as of the same date and for identical periods on a going concern basis. The accounting policies in the financial statements of the subsidiaries have been implemented in a uniform manner throughout the Group.

## **2.4 *Functional currency***

The consolidated financial statements are presented in millions of euros. Euro is the functional currency of Altice VII, the parent company, and the presentation currency of the Group as well.

The functional currency, which is the currency that best reflects the economic environment in which the Group operates and conducts its transactions, is separately determined for each Group entity, including an associate accounted for using the equity method, and is used to measure its financial position and operating results.

## 2.5 Foreign currency translation

The presentation currency of the Group is euro. In individual companies, transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are accounted for in the income statement. On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into euro, the Group's presentation currency, using the year-end exchange rates. Income and expense items are translated into euro at the annual weighted average exchange rate or at the rate of the date the transaction occurred for significant items.

Differences arising from the translation of opening net assets of Group entities, together with differences arising from the restatement of the net results for the year of Group entities, are recognized in other comprehensive income.

## 2.6 Goodwill and business combinations

Business combinations are accounted for in accordance with the purchase method. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business combinations" are recognized at their fair value at acquisition date.

The Group recognizes goodwill as of the acquisition date and is measured as the excess of (a) over (b) as follows :

*a) The aggregate of:*

- The consideration transferred, which generally requires acquisition-date fair value;
- The amount of any non-controlling interests in the acquiree measured;
- In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

*b) The net of the acquisition-date balances of the identifiable assets acquired and the liabilities measured in accordance with IFRS 3.*

Any excess of the cost of acquisition over the Group's share in the fair value of all identified assets and liabilities is recognized as goodwill.

The goodwill is determined provisionally by the end of the period. The Group recognizes any adjustments to those provisional values within twelve months after the acquisition date.

During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

If the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the purchase price, a gain is recognized immediately.

Subsequently, goodwill is measured at its initial amount less recorded accumulated impairment losses. Impairment loss for goodwill is recorded in the income statement as a deduction from operating income (account "Depreciation and amortization") and is never reversed subsequently.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

## 2.7 Other intangible assets

Intangible assets acquired separately are recorded at cost on initial recognition, with the addition of direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and less any accumulated impairment losses. In our Israeli entity, the costs of producing in-house content is also considered to be an intangible assets and recognized at the cost of production of the shows. Following initial recognition, these intangible assets are carried at cost less any accumulated amortization and less any accumulated impairment losses.

According to management, intangible assets have either definite or indefinite useful lives.

Assets with definite useful lives are amortized over their useful lives and assessed for impairment signs which would indicate an impairment in value. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits that are expected to derive from the asset are treated as a change in an accounting estimate which is treated prospectively. The amortization expenses regarding intangible assets with finite useful lives are recognized in the income statement.

The useful lives of the intangible assets are as follows:

	Duration
Software	3 years
Customer relations	7 to 37 years
Licences	5 years
Customer relations with a defined contractual term	3 years
Subscriber purchase costs	based on average duration of subscriptions

Assets with indefinite useful lives are tested for impairment annually as well as where there is an indication that it may be impaired by comparing their carrying amount with their recoverable amount.

## 2.8 Impairment of tangible and intangible assets

Each time events or changes in the economic environment indicate a current risk of impairment of goodwill, other intangible assets, property, plant and equipment and assets in progress, the Group re-examines the value of these assets. In addition, goodwill, other intangible assets with an indefinite useful life, and intangible assets in progress are all subject to an impairment test performed annually.

This test is performed in order to compare the recoverable amount of an asset to its carrying amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Recoverable amount 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 that case, recoverable amount is determined for the cash-generating unit to which the asset belongs. A Cash Generating Unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The value in use of each asset or group of assets is determined as the discounted value of future cash flows (discounted cash flow method or "DCF") by using a discount rate after tax specific to each asset or group of assets concerned.

The fair value less costs to sell is the amount obtained from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell.



When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the caption “Depreciation and amortization” in the income statement. Only impairment loss recognized on assets other than goodwill such as depreciable intangible assets, intangible assets with indefinite useful life and property, plant and equipment, may be reversed.

## ***2.9 Property, plant and equipment***

Property, plant and equipment are presented at cost with the addition of direct purchase costs less accumulated depreciation and accumulated losses on impairment and they do not include routine maintenance expenses. The cost includes spare parts and ancillary equipment that can only be used in connection with the plant and machinery.

Depreciation is calculated using the straight line method over the estimated useful lives of the assets, as follows:

	<b>Duration</b>
Buildings	25 to 50 years
Cables Network	4 to 20 years
Call center (primarily electronic equipment)	5 to 9 years
Converters and modems	7 years
Computers and ancillary equipment	3 to 6 years
Office furniture and equipment	6 to 16 years
Communication network infrastructure	6 to 16 years
Leasehold contracts	see below

Leasehold contracts are depreciated according to the straight line method during the rental period (including the option period for an extension by the Group, which it intends to exercise) or the estimated useful lifetime of the improvement.

Elements of a fixed asset item, having a cost that is significant in comparison to the overall cost of the item, are depreciated separately, using the components method. The depreciation is calculated in accordance with the straight line method at annual rates that are considered to be sufficient in order to depreciate the assets over the length of their estimated useful lives.

The useful life, depreciation method and residual value of an asset are reviewed at least annually and any changes are accounted for prospectively as a change in accounting estimate.

## ***2.10 Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### **2.10.1 The Group as lessor**

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated in an accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Rental income from the leasing of customer premises equipment (set top boxes, modems and decoders) is recognized on a straight-line basis over the term of the subscription held by the client. At the end of the contract or in case of voluntary contract termination by the client, this equipment is repossessed and thus remains in the inventory of the Group.

### **2.10.2 The Group as lessee**

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see note 2.11 below). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## **2.11 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. According to management, it does not take a substantial period of time to get ready for the intended use because of the incremental deployment of the network. This standard has consequently no impact on the consolidated financial statements.

## **2.12 Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

## **2.13 Financial assets**

The Group classifies financial assets in four categories: available-for-sale, loans and receivables, held-to-maturity and financial assets at fair value through profit and loss. They are classified as current assets and non-current assets according to IAS 1 "Presentation of financial statements".

Purchases and sales of all financial assets are recognized on a trade date basis.

### **2.13.1 Available-for-sale financial assets**

Available-for-sale financial assets are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, they are reported at their fair value. Gains and losses arising from changes in their fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Available-for-sale financial assets consist mainly of shares in non-consolidated companies. Fair value corresponds to quote price for listed securities. For non-listed securities, and when a reliable estimate of fair value cannot be made using valuation techniques, the group values financial assets at historical cost, less any impairment losses.

When there is objective evidence that available-for-sale assets are impaired, the cumulative impairment loss included in equity is reclassified from other comprehensive income to income. Objective evidence that an available-for-sale financial asset is impaired includes, among other things, a decrease in the estimated future cash flows arising from these assets, as a result of significant financial difficulty of the issuer, a material decrease in expected future profitability or a prolonged decrease in the fair value of the security. Impairment losses recognized in profit or loss for equity instruments classified as available-for-sale are never reversed through profit or loss.

### **2.13.2 Loans and receivables**

Loans and receivables are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition. After initial recognition, they are measured at amortized cost using the effective interest rate method.

This category mainly includes trade receivables.

If there is objective evidence that an impairment loss has occurred, the amount of this loss, measured as the difference between the financial assets' carrying value and its recoverable amount is recognized in the income statement. Impairment losses may be reversed if the recoverable amount of the asset subsequently increases in the future.

### **2.13.3 Held-to-maturity financial assets**

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has both the intention and ability to hold to maturity. Financial assets that are designated as held-to-maturity are measured at amortized cost, in accordance with the effective interest rate method.

They are reviewed for impairment on an individual basis if there is any indication that they may be impaired.

The Group currently does not hold any held to maturity financial assets.

### **2.13.4 Financial assets measured at fair value through profit or loss**

These financial assets are measured at fair value with gains and losses recorded as finance income or costs.

This category mainly includes:

- Assets held for trading which the Group intends to sell in the near future (primarily marketable securities);
- Assets voluntarily classified at inception in this category;
- Derivatives financial assets.

## ***2.14 Inventories***

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs.

Cost of inventories is determined using the weighted average cost method.

The Group periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

## ***2.15 Cash and cash equivalents***

Cash consists of cash in banks and deposits.

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

## ***2.16 Restricted cash***

Restricted cash is considered to be cash that is dedicated to the repayment of the Group's liabilities to banking entities in accordance with the Group's credit agreement.

## ***2.17 Derivatives***

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently reassessed at their fair value.

The Group enters into interest rate swaps and caps to manage its interest or foreign currency exchange rate exposure. These contracts do not qualify as hedges for accounting purposes according to IAS 39, as there was no formal designation and documentation of the hedging relationship at inception. Changes in the fair value of any of these derivative instruments are recognized immediately in the income statement within financial income and expenses.

## ***2.18 Share based payment arrangements***

The Group's employees are entitled to remuneration in the form of equity-settled share-based payment transactions and certain employees are entitled to remuneration in the form of cash-settled share-based payment transactions that are measured based on the increase in the Company's share price. These stock options based remunerations mainly concerned the Israeli entity, HOT Telecom and these plans were terminated post the take private of the company in December 2012 and the delisting of all active shares of HOT Telecom on the Tel Aviv stock exchange.

## **2.19 Financial liabilities**

Financial liabilities other than derivative instruments include:

### **2.19.1 Financial liabilities at amortized cost**

These financial liabilities are measured at amortized cost calculated based on the effective interest rate method according to IAS 39. The effective interest rate is the internal yield rate that exactly discounts future cash flows through the term of the financial liability. Fees, debt issuance and transaction costs are included in the calculation of the effective interest rate over the expected life of the instrument. The accrued interests are included in “Current portion of financial liabilities” in the statement of financial position.

### **2.19.2 Financial liabilities that are measured at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivatives, including bifurcated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument may be designated as a financial liability at fair value through profit or loss only upon initial recognition.

The Group assesses whether embedded derivatives are required to be bifurcated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The fair value of financial instruments that are traded in an active market is determined by reference to quoted market prices at the close of business on the balance sheet date. For financial instruments for which there is no active market, fair value is determined by the use of valuation techniques. Such techniques include evaluation based on transactions that have been executed recently under market terms, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

### **2.19.3 Classification as debt or equity**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

### **2.19.4 Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the value of the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

The Group also issued some CPECs (Convertible Preferred Equity Certificates). Details of these subordinated financial instruments are set out in note 18.4.

## **2.20 Other liabilities**

### **2.20.1 Provisions**

A provision in accordance with IAS 37 is recognized in the statement of financial position when the Group has a present obligation (legal or implicit) as the result of a past event and it is expected that the use of economic resources will be required in order to settle the obligation and it is possible to reliably estimate it. Where the impact is significant, the provision is measured by discounting the forecasted future cash flows, using a pre-tax interest rate that reflects the expectations of the market in respect of the time frame of the money and in certain cases, the risks that are specific to the liability.

The following types of provisions are recorded in the financial statements:

#### **2.20.1.1 Legal claims**

A provision regarding legal claims is recognized when the Group has a present legal commitment or an implicit commitment resulting from a past event; when it is more likely than not that the Group will be required to expend economic resources to clear the commitment, when it is possible to estimate it reliably and when the effect of time is significant, the provision is measured according to the present value.

#### **2.20.1.2 Warranty**

The Group recognizes a provision for warranty for the sale of its products. The warranty is limited to malfunctions as defined by the Group and does not include warranty for damages incurred by the customer.

#### **2.20.1.3 Onerous contracts**

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

#### **2.20.1.4 Restructuring**

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### **2.20.2 Liabilities for employment benefits**

In accordance with the laws and practices of each country in which it operates, the Group participates in, or maintains, several employee benefits. There are as follows:

#### **2.20.2.1 Short-term benefits for employees**

Short-term benefits for employees include salaries, vacation pay, sick leave, recuperation pay and employers' deposits for national insurance and are recognized as an expense when the services are provided. A liability in respect of a cash bonus or a profits participation scheme is recognized where the Group has a legal or an implicit commitment to pay the said amount in respect of service that has been provided by the employee in the past and where the amount can be reliably estimated.



#### **2.20.2.2 Post-retirement benefits**

In Israel, the Group operates a defined benefits plan in respect of the payment of severance pay in accordance with the Israeli Severance Pay Law. According to this law, employees are entitled to receive severance pay if they are dismissed or on their retirement. The liability in respect of the termination of employee-employer relations is measured in accordance with the actuarial value of a forecast unit of entitlement method. The actuarial calculation takes into account increases in salaries in the future and the rate at which employees leave the Group and this on the basis of an estimate of the timing of the payment. The amounts are presented on the basis of the discounting of the forecast future cash flows, in accordance with government bonds' interest rates, whose repayment dates are close to the period relating to the liability in respect of severance pay.

The Group deposits funds in respect of its severance pay liability in pension funds and insurance companies (hereafter - the plan assets). The plan assets are assets that are held by the employee benefits plan for the long-term or in qualifying insurance policies. The plan assets are not available for use by the Group's creditors, and cannot be paid directly to the Group.

The liability regarding employee benefits presented in the statement of financial position represents the present value of the defined benefits obligation less the fair value of the plan assets, and the past service costs. Actuarial gains and losses are reflected in the income statement in the period in which they arise, as part of the salary costs.

The Group has defined contribution plans pursuant to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

#### **2.20.2.3 Other long-term employee benefits**

The Group's employees are entitled to benefits and other long-service grants. These benefits are accounted for as other long-term benefits since the Group estimates that these benefits will be used and the respective Group's obligation will be settled during the employment period and after one year from the end of the reporting period.

The Group's net obligation regarding other long-term employee benefits is in respect of the future benefit amount due to employees for services rendered in current and prior periods. This amount of benefits is discounted to its present value and the fair value of the assets relating to this obligation is deducted from said amount. The discount rate is determined by reference to the yields on Government bonds whose currency and term are consistent with the currency and term of the Group's obligation. The obligation is calculated using the projected unit credit method. Actuarial gains and losses are recognized in profit or loss in the period in which they occur.

#### **2.20.2.4 Benefits in respect of the termination of employment**

Severance pay for employees is reflected as an expense when the Group has made an undertaking, with no real possibility of cancellation, for the dismissal of employees before they reach the customary retirement age in accordance with a detailed formal plan. The benefits that are given to the employees who take voluntary retirement when the Group has offered the employees a plan that encourages voluntary retirement, it is expected that the offer will be accepted and the number of persons accepting the offer can be reliably estimated.

### **2.21 Income taxes**

Taxes on income in the income statement include current taxes and deferred taxes. The tax expenses or income in respect of current taxes or deferred taxes are recognized in profit or loss unless they relate to items that are recorded directly in equity, in these cases the tax effect is reflected under the relevant equity item.

### **2.21.1 Current taxes**

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

### **2.21.2 Deferred taxes**

Differences existing at closing between the tax base value of assets and liabilities and their carrying value in the Consolidated Statement of Financial Position give rise to temporary differences. Pursuant to the liability method, these temporary differences result in the accounting of:

- Deferred tax assets, when the tax base value is greater than the carrying value (expected future tax saving),
- Deferred tax liabilities, when the tax base value is lower than the carrying value (expected future tax expense).

Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted by the closing date. They are reviewed at the end of each year, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, tax loss carry-forwards and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists to make use of those deductible temporary differences, tax loss carry-forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact earnings, nor income tax profit or loss.

For deductible temporary differences arising from investments in subsidiaries, joint ventures and other associated entities, deferred tax assets are recorded to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized.

The carrying value of deferred tax assets is reviewed at each closing date, and revalued or reduced to the extent that it is more or less probable that a taxable profit will be available to allow the deferred tax asset to be utilized. When assessing the probability of a taxable profit being available, account is taken, primarily, of prior years' results, forecasted future results, non-recurring items unlikely to occur in the future and the tax strategy. As such, the assessment of the group's ability to utilize tax losses carried forward is to a large extent judgment-based. If the future taxable results of the group proved to differ significantly from those expected, the group would be required to increase or decrease the carrying value of deferred tax assets with a potentially material impact on the Statement of Financial Position and Income Statement of the group.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability results from goodwill or initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact earnings, nor income tax profit or loss.

For taxable temporary differences arising from investments in subsidiaries, joint ventures and other associated entities, deferred tax liabilities are recorded except to the extent that both of the following conditions are satisfied: the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

Current tax and deferred tax shall be charged or credited directly to other comprehensive income, and not earnings, if the tax relates to items that are credited or charged directly to other comprehensive income.

## 2.22 Revenue recognition

Revenue from the Group's activities is mainly composed of television, broadband Internet, fixed and mobile telephony subscription and installations fees invoiced to residential and business clients.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating intercompany sales within the group.

Revenues on bundle packages sold by the Group are split into and recognised under each individual service sold in the bundle. For example, tripe play package revenues are booked under 'triple play television', 'triple play data' and 'triple play telephony' on a straight-line basis over their subscription period and revenues from telephone calls are recognized in revenue when the service is rendered.

Revenue is recognized as follows, in accordance with IAS 18 *Revenue*:

- Revenues from subscriptions for basic cable services, digital television pay, Internet and telephony are recognized in revenue on a straight-line basis over the subscription period; revenues from telephone calls are recognized in revenue when the service is rendered.
- When a promotion not related to a customer's past consumption and purchases (such as subscription's rate discount, service free period) is offered to customer in relation to a subscription, the Group recognizes the total amount of billable revenue on a straight-line basis over the term of the contract.
- Installation and set-up fees (including connection) for residential customers are accounted for as revenues when the service is rendered, if consideration received is lower than the sales direct costs to acquire the contractual relationship. Service access fees for business clients, when they are only allowed access to the services that are sold associated to an equipment or a service, are deferred and the corresponding revenue is recognized along the statistical client lifetime duration and generally spread over the contractual engagement period.
- The revenue related to transmission capacity on terrestrial cables under indefeasible rights of use: Indefeasible Rights of Use ("IRU") arrangements are recognized on a straight-line basis over the life of the contract.

## 2.23 Operating profit before depreciation and amortization

The Group has included the subtotal "Operating profit before depreciation and amortization" on the face of the consolidated statement of income (please refer to the Consolidated Statement of Income). The Group believes that this subtotal is useful to users of the Group's financial statements as it provides them with a measure of the operating results which excludes non-cash elements such as depreciation and amortization as well as non-recurring transactions and management fees, enhancing the predictive value of the Group's financial statements and providing information regarding the results of the Group's ongoing trading activities and cash-flow generation that allows investors to better identify trends in the Group's financial performance.

This non-IFRS measure is used by the Group internally to manage and assess the results of its operations, make decisions with respect to investments and allocation of resources, and assess the performance of management personnel.

The Group's subtotal within operating income may not be comparable to similarly titled measures used by other entities. Further, this measure should not be considered as an alternative for operating income as the effects of depreciation, amortization and impairment, excluded from this measure do ultimately affect the operating results. Similarly, the Group's subtotal do not take into account impact of management fees paid to related parties, in order to better reflect economic underlying of the business operated.

## 2.24 Finance costs

Finance costs primarily comprise:

- Interest charges and other expenses paid for financing operations recognized at amortized costs,
- Changes in the fair value of interest rate derivative instruments that do not qualify as hedges for accounting purposes according to "IAS 39",
- Interest income relating to cash and cash equivalents,
- Gains on extinguishment of debt.

## 3 Scope of consolidation

### 3.1 The entities included in the scope of consolidation

Name of subsidiary	Country	Method of consolidation		Proportion of ownership interest and voting power held by the group	
		December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Altice VII S.à r.l.	Luxembourg	Parent Company	Parent Company	-	-
Cool Holding LTD	Israel	Full consolidation	Full consolidation	100%	100%
Hot Telecom Limited Partnership	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Mobile LTD	Israel	Full consolidation	Full consolidation	64,70%	100%
Hot Cable Telecommunications Systems LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Investments and Finance LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Properties LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Vision LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Nonstop Ventures LTD	Israel	Equity method	Equity method	32,35%	22,39%
South Saron Communications LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Iscarable LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot TLM Subscription Television LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Red LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Iden Cables Systems LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Israel Cables Systems LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Gold LTD	Israel	Full consolidation	Equity method	64,70%	44,77%
Hot Net Limited Partnership	Israel	Full consolidation	Equity method	64,70%	44,77%
Altice Securities S.à r.l.	Luxembourg	Full consolidation	Full consolidation	100%	100%
Altice Africa S.à r.l.	Luxembourg	Full consolidation	Full consolidation	100%	100%
Altice Blue One S.A.S.	France	Full consolidation	Full consolidation	100%	100%
MTVC S.A.	France	Full consolidation	Full consolidation	100%	100%
WSG S.A.	France	Full consolidation	Full consolidation	99,95%	99,95%
Green ch. (Solutions 25) (1)	Switzerland	Full consolidation	Full consolidation	99,12%	99,12%
Valvision S.A.S.	France	Full consolidation	Full consolidation	100%	100%
Auberimmo S.A.S.	France	Full consolidation	Full consolidation	100%	100%
Everido (2)	Cyprus	-	-	-	-
Green Datacenter AG	Switzerland	Full consolidation	Full consolidation	97%	97%
Deficom Telecom S.à r.l.	Luxembourg	Full consolidation	-	74%	-
Coditel Holding Lux II S.à r.l.	Luxembourg	Full consolidation	-	44,39%	-
Coditel Holding Lux S.à r.l.	Luxembourg	Full consolidation	-	44,39%	-
Coditel Holding S.A.	Luxembourg	Full consolidation	-	44,39%	-
Coditel Brabant S.p.r.l.	Belgium	Full consolidation	-	44,39%	-
Coditel S.à r.l.	Luxembourg	Full consolidation	-	44,39%	-
Coditel Management S.à r.l.	Luxembourg	Full consolidation	-	44,39%	-

(1) Solutions 25 changed its name to Green ch as the result of the merger of Green ch by Solutions 25 in 2010

(2) Everido was merged into Altice VII in 2010

## 3.2 *Modification of the scope of consolidation*

### 3.2.1 Main acquisitions in 2009 and 2010

#### 3.2.1.1 Everido/Green

On December 1, 2009, the Company Altice VII decided to acquire the Everido group for an amount of EUR 19 253 115 representing 100 % of share capital. This group was made up of Solutions 25 and Green.ch.

As of the date of that transaction, Everido was the 100% mother company of Solution 25, which holds 100% shares of Green.ch.

Green.ch is a leading Swiss Internet Service Provider for Small and Medium Enterprises and demanding private users with notable presence in the German-speaking part of the country.

Goodwill has been computed based on the accounts as of December 31, 2009.

While carrying out the purchase price allocation, the following identifiable assets have been identified:

*a) Brand:*

The Green brand has been valued using a royalty relief approach. The Green brand's valuation has been valued using an indefinite useful life.

*b) Clients:*

The portfolio of clients has been valued through the excess earnings approach and based upon following key parameters:

- Ebit margin rate: 18,81%,
- Attrition rate: 2,7%,
- Discount rate: 7,33%.

#### 3.2.1.2 Hot Mobile (ex MIRS Communications Ltd)

In 2010, Altice Securities S.à r.l. decided to incorporate Altice Acquisition Ltd, a company incorporated under the laws of Israel. On December 9, 2009, the company entered into an acquisition agreement which was amended on February 4, 2010, pursuant to which, the company acquired all the shares held in MIRS Communications Ltd ("Hot Mobile"), by way of a merger with and into Hot Mobile of the shares held in Altice Acquisition Ltd. This merger became effective on May 27, 2010.

### 3.2.2 Main acquisitions in 2011

#### 3.2.2.1 The HOT group

On October 26, 2010, the Group entered into two acquisition agreements with the HOT Telecommunications equity holders, the Fishman Group and the Yediot Communications Ltd. Group, which as of the date of the above mentioned agreements held about 12,61% and 16,79% of HOT shares, respectively. On November 28, 2011 the transaction was consummated.

On March 16, 2011, Hot Telecommunications completed a private placement for approximately 2% of HOT issued share capital which was entirely subscribed by the Group. At completion of this placement, the Group held approximately 64,7% of HOT's shares.

Until March 16, 2011, the Group held about 44,7% of HOT shares which until that date had been accounted for as an investment in associate using the equity method.

Since March 16, 2011, the Group consolidates HOT and the Group elected to measure the non-controlling interests in the acquiree at fair value at the date when control had been achieved.

The Group has recognized the fair value of the assets that were acquired and the liabilities that were taken on within the framework of the business combination in accordance with an evaluation by an independent external expert. As of the time of the approval of the financial statements a final evaluation from an external expert has been received in relation to the fair value of the identified assets that were acquired and the liabilities that have been taken up. The amount of the investment prior to achieving control, in accordance with the equity method of accounting, as aforesaid, has been revalued in accordance with the share price as of the said time (approximately EUR 12,14), such that the financial statements as of March 31, 2011 income has been recorded on the revaluation of the investment in the affiliate, which became a consolidated company, in an amount of approximately EUR 133,0 million.

*a) Customer relations*

The customer relations were valued on the basis of the fair value of the existing customers in accordance with the contracts with them, through the excess earnings method for multiple periods. The amortization period for customer contracts ranges from 7 to 14 years under the straight line method.

*b) Customer relations with a defined contractual term*

This intangible asset was estimated based on the cash flows expected from existing orders or signed agreements of existing customers according to the surplus earning method for multiple periods. The amortization period for this asset is 3 years according to the existing agreements data.

*c) Brand name*

The "HOT" brand and "Mirs" brand were valued within the framework of the business combination in accordance with the "relief from royalties" method.

*d) Backlog of contracts*

The backlog of contracts was valued within the framework of the business combination on the basis of the cash flows that were expected as a result of the acquisition, which derived from orders associated with signed contracts, with the addition of an appropriate profit margin, in accordance with the excess earnings method for multiple periods.

*e) Subscriber purchase costs*

The HOT Group has an intangible asset that was created in respect of the costs associated with the purchase of subscribers. The additional direct sales commissions that are paid in respect of sales to subscribers that have signed on a commitment to remain customers of the Group are recognized as an intangible asset up to the maximum fine that exists according to their contractor obligation. The expenses relating to the amortization of the purchase of the subscribers are recorded in the income statement over the period of the subscribers' average contractual commitment.

*f) Software*

The Group's assets include computer systems that contain both software and hardware. Software that constitutes an integral part of the hardware, which cannot operate without the software that is installed therein, are classified as fixed assets. On the contrary, licenses from stand-alone software which add additional functionalities for the hardware are classified as intangible assets.



### **3.2.2.2 Coditel Brabant S.p.r.l. et Coditel S.à r.l.:**

The Coditel reporting entity, Coditel Holding S.A. (“Coditel Holding”) was incorporated on May 12, 2011 for the purpose of acquiring Coditel Brabant S.p.r.l. (“Coditel Belgium”) and Coditel S.à r.l. (“Coditel Luxembourg”), which acquisition was completed on July 31, 2011.

As at the end of 2011, Altice VII holds an indirect interest of 44,4% in Coditel Brabant S.p.r.l. and Coditel S.à r.l.. Through various holding vehicles, Altice VII controls Coditel Brabant and Coditel S.à r.l.. Control is obtained via the majority position on the board of these entities by the Altice VII representatives.

#### *a) Coditel Brabant*

Altice VII acquired 44,4% of Coditel Brabant S.p.r.l. as of June 30, 2011. The goodwill has been calculated based on the accounts as of June 30, 2011.

While carrying out the purchase price allocation, the following identifiable assets have been identified:

- Brands

The Numericable and Coditel brands have been valued using a royalty relief approach.

Valuation periods amount to:

- 6 years for the Numericable brand (in accordance with provisions of trade mark license agreement)
- Indefinite useful life for Coditel

- Clients

The portfolio of clients has been valued using the excess earnings approach, and based upon the following key parameters:

- Ebit margin rate: 50,9%;
- Attrition rate: 17,6%;
- Discount rate: 8,8%.

*b) Coditel S.à r.l..*

Coditel Brabant acquired 100% of Coditel S.à r.l. as at June 30, 2011. The goodwill has been calculated based on the accounts as of June 30, 2011.

While carrying out the purchase price allocation, the following identifiable assets have been identified:

- Brands

The Numericable and Coditel brands have been valued using a royalty relief approach.

Valuation periods amount to:

- 6 years for the Numericable brand (in accordance with provisions of trade mark license agreement);
- Indefinite useful life for Coditel.

- Clients

Portfolio of clients has been valued using the excess earnings approach, and based upon the following key parameters:

- Ebit margin rate: 39,1%;
- Attrition rate: 18,7%;
- Discount rate: 8,8%.

### 3.3 Acquisitions of businesses

Business combinations that occurred during the reporting period are described in note 3.2..

The major classes of assets acquired and liabilities assumed at the acquisition date are:

<i>(in millions of euros)</i>	<b>Total Business Combinations</b>	<b>Hot Telecom</b>	<b>Coditel Brabant S.p.r.l.</b>	<b>Coditel S.à r.l.</b>
Cost of acquisition	1 292,2	941,1	244,3	106,8
<b>ASSET</b>				
Intangible assets	415,0	367,8	40,0	7,2
Property, plant and equipment	763,3	718,8	25,1	19,4
Deferred tax assets	20,8	20,8	-	-
Other non-current assets	23,1	21,5	1,6	-
Inventories	0,8	-	0,3	0,4
Trade accounts receivable and other	43,2	30,3	10,4	2,5
Cash and cash equivalents	9,2	8,3	0,6	0,3
Other current assets	3,8	3,4	0,3	-
<b>Total assets</b>	<b>1 279,1</b>	<b>1 170,8</b>	<b>78,4</b>	<b>30,0</b>
<b>EQUITY AND LIABILITIES</b>				
Non-current liabilities	644,8	625,3	17,2	2,2
Current liabilities	267,5	234,1	26,1	7,3
<b>Total liabilities</b>	<b>912,3</b>	<b>859,4</b>	<b>43,3</b>	<b>9,5</b>
<b>Net assets</b>	<b>366,9</b>	<b>311,3</b>	<b>35,1</b>	<b>20,5</b>
<b>Residual goodwill</b>	<b>925,3</b>	<b>629,8</b>	<b>209,2</b>	<b>86,4</b>
<i>Including impact of non controlling interest on goodwill</i>	<i>164,3</i>	<i>-</i>	<i>116,3</i>	<i>48,0</i>

The net cash outflow for the acquisitions mentioned above is of EUR 347,3 million and consists of the following :

- acquisition of Coditel Brabant S.p.r.l. and Coditel S.à r.l. : EUR 159,4 million;
- acquisition of Hot Telecom : EUR 197,1 million;
- Cash acquired : EUR – 9,2 million.

**Altice VII S.à r.l.**  
**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

The main figures of the entity, since the beginning of the year, and until the business combination, are presented as follows:

<i>(in millions of euros)</i>	<b>Coditel Brabant S.p.r.l.</b>	<b>Coditel S.à r.l.</b>	<b>Hot Telecom</b>
<b>Revenues</b>	<b>24,4</b>	<b>7,9</b>	<b>165,2</b>
Cost of sales	(3,6)	(1,4)	(86,6)
<b>Gross Profit</b>	<b>20,7</b>	<b>6,5</b>	<b>78,6</b>
Other operating expenses	(2,8)	(0,9)	-
General and administrative expenses	(3,0)	(0,9)	(5,4)
Other sales and marketing expenses	(1,3)	(0,1)	(9,8)
<b>Operating profit before depreciation and amortization</b>	<b>13,6</b>	<b>4,5</b>	<b>63,3</b>
Depreciation and amortization	(6,2)	(1,7)	(32,1)
Other expenses, net	-	-	(0,2)
Management fees	-	-	-
Reorganization and non-recurring costs	(0,5)	-	-
Share of profit of associates	-	-	-
<b>Operating profit</b>	<b>7,0</b>	<b>2,9</b>	<b>30,9</b>
<b>Profit for the year (including non-controlling interests)</b>	<b>2,4</b>	<b>0,6</b>	<b>30,5</b>

## 4 Goodwill

(in millions of euros)	December 31, 2010	Business combinations	Impairment losses	Changes in foreign currency translation	December 31, 2011
WSG	4,6	-	-	-	4,6
Valvision	1,4	-	-	-	1,4
Everido	17,8	-	-	-	17,8
Coditel Brabant	-	209,2	-	-	209,2
Coditel S.à r.l.	-	86,4	-	-	86,4
Hot Telecom	-	629,8	-	(29,6)	600,2
<b>Total Gross Value</b>	<b>23,7</b>	<b>925,3</b>	<b>-</b>	<b>(29,6)</b>	<b>919,4</b>
WSG	(4,6)	-	-	-	(4,6)
Valvision	(1,4)	-	-	-	(1,4)
Everido	-	-	-	-	-
Coditel Brabant	-	-	-	-	-
Coditel S.à r.l.	-	-	-	-	-
Hot Telecom	-	(1,6)	-	0,1	(1,6)
<b>Total Cumulative impairment</b>	<b>(5,9)</b>	<b>(1,6)</b>	<b>-</b>	<b>0,1</b>	<b>(7,5)</b>
WSG	-	-	-	-	-
Valvision	-	-	-	-	-
Everido	17,8	-	-	-	17,8
Coditel Brabant	-	209,2	-	-	209,2
Coditel S.à r.l.	-	86,4	-	-	86,4
Hot Telecom	-	628,1	-	(29,5)	598,6
<b>Total Net book value</b>	<b>17,8</b>	<b>923,7</b>	<b>-</b>	<b>(29,5)</b>	<b>911,9</b>

**Altice VII S.à r.l.**  
**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

<b>(in millions of euros)</b>	<b>January 1, 2010 (unaudited)</b>	<b>Business combinations</b>	<b>Impairment losses</b>	<b>Changes in foreign currency translation</b>	<b>December 31, 2010</b>
WSG	4,6	-	-	-	4,6
Valvision	1,4	-	-	-	1,4
Everido	17,8	-	-	-	17,8
<b>Total Gross Value</b>	<b>23,7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,7</b>
WSG	(4,6)	-	-	-	(4,6)
Valvision	(1,4)	-	-	-	(1,4)
Everido	-	-	-	-	-
<b>Total Cumulative impairment</b>	<b>(5,9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,9)</b>
WSG	-	-	-	-	-
Valvision	-	-	-	-	-
Everido	17,8	-	-	-	17,8
<b>Total Net book value</b>	<b>17,8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,8</b>

Management monitors its different businesses by geography. The businesses are split into different geographies as mentioned below:

- Israel
- Belgium and Luxembourg
- French overseas Territories
- Switzerland
- Others



In addition to this geographical split, for the purpose of the testing for impairment of goodwill and intangible assets with an indefinite useful life, the goodwill, brand name and customer relationships have been allocated to the local businesses that represent cash-generating units (CGU) as follows:

- WSG
- Valvision
- Everido
- Coditel Brabant
- Coditel S.à r.l.
- Hot Telecom

Goodwill is tested at the cash-generating units (“CGU”) level for impairment annually, as of December 31, or whenever changes in circumstances indicate that the carrying amount may not be recoverable. In all cases, the CGU represents the lowest level at which goodwill is monitored for internal management purposes. The recoverable amounts of the CGUs are determined based on their value in use. The key assumptions for the value in use calculations are primarily the discount rates, growth rates, expected changes to telecom prices and direct costs during the period.

The value in use of each CGU was determined by estimating cash flows for a period of five years for the operating activities. Cash flow forecasts are derived from the most recent business plans approved by the Board of Managers. Beyond the specifically forecasted period of five years, the Company extrapolates cash flows for the remaining years based on an estimated constant growth rate between 1,5-2%. This rate does not exceed the average long-term growth rate for the relevant markets. Discount rates have been computed using WACC approach and range from 7% to 7,5%.

The Board of Managers estimates discount rates using pre-tax rates that reflect current market rates for investments of similar risk. The rate for each CGU was estimated from the weighted average cost of capital.

The Board of Managers has performed an impairment analysis for the purpose of issuing these consolidated financial statements and determined that no impairment should be recorded for the year ended December 31, 2011.

## 5 Other intangible assets

(in millions of euros)

	December 31, 2010	Additions and related depreciation and amortization	Disposals	Business Combinations	Changes in foreign currency translation adjustment	Other	December 31, 2011
Software	6,0	19,8	(0,1)	13,7	(2,3)	-	37,1
Brand name	16,4	0,1	-	34,6	(1,0)	-	50,0
Customer relations (1)	38,9	-	-	290,5	(13,0)	-	316,4
Licenses	8,9	9,2	-	1,3	(0,1)	-	19,2
Start up costs	-	-	-	-	-	-	-
Research and development costs	-	-	-	-	-	-	-
Subscriber purchase costs (2)	145,4	7,3	-	7,7	(8,4)	-	152,1
Intangible assets under construction	0,2	-	-	-	-	(0,2)	-
Other intangible assets	7,3	23,0	-	67,2	(2,3)	0,1	95,3
<b>Total Gross Value</b>	<b>223,2</b>	<b>59,4</b>	<b>(0,1)</b>	<b>414,9</b>	<b>(27,1)</b>	<b>(0,1)</b>	<b>670,3</b>
Software	(2,5)	(9,9)	0,1	-	1,6	-	(10,8)
Brand name	-	(0,7)	(0,6)	-	0,2	-	(1,1)
Customer relations (1)	(2,3)	(17,9)	(3,4)	-	1,9	-	(21,6)
Licenses	(6,1)	(1,1)	-	-	0,1	-	(7,1)
Start up costs	-	-	-	-	-	-	-
Research and development costs	-	-	-	-	-	-	-
Subscriber purchase costs (2)	(118,4)	(28,6)	-	-	6,6	-	(140,4)
Intangible assets under construction	-	-	-	-	-	-	-
Other intangible assets	(3,8)	(10,9)	(14,5)	-	(0,3)	-	(30,9)
<b>Total Cumulative amortization and depreciation</b>	<b>(133,1)</b>	<b>(69,1)</b>	<b>(18,4)</b>	<b>-</b>	<b>10,2</b>	<b>-</b>	<b>(211,9)</b>
Software	3,5	9,8	-	13,7	(0,7)	-	26,3
Brand name	16,4	(0,6)	(0,6)	34,6	(0,8)	-	48,9
Customer relations (1)	36,6	(17,9)	(3,4)	290,5	(11,1)	-	294,8
Licenses	2,7	8,1	-	1,3	-	-	12,1
Start up costs	-	-	-	-	-	-	-
Research and development costs	-	-	-	-	-	-	-
Subscriber purchase costs (2)	27,1	(21,3)	-	7,7	(1,8)	-	11,7
Intangible assets under construction	0,2	-	-	-	-	(0,2)	-
Other intangible assets	3,5	10,6	(14,5)	67,2	(2,6)	0,1	64,4
<b>Total Net book value</b>	<b>90,1</b>	<b>(11,2)</b>	<b>(18,5)</b>	<b>414,9</b>	<b>(16,9)</b>	<b>(0,1)</b>	<b>458,3</b>

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**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

<i>(in millions of euros)</i>	January 1, 2010 (unaudited)	Additions and related depreciation and amortization	Disposals	Business Combinations	Changes in foreign currency translation adjustment	Other	December 31, 2010
Software	0,7	1,1	-	2,3	0,7	-	6,0
Brand name	13,8	-	-	-	2,6	-	16,4
Customer relations (1)	32,8	-	-	-	6,1	-	38,9
Licenses	5,1	-	-	1,1	0,5	-	6,7
Start up costs	-	-	-	-	-	-	-
Research and development costs	-	-	-	-	-	-	-
Subscriber purchase costs (2)	-	8,2	-	26,9	18,9	-	54,0
Intangible assets under construction	-	0,2	-	-	-	-	0,2
Other intangible assets	4,1	2,2	-	-	1,0	-	7,3
<b>Total Gross Value</b>	<b>56,6</b>	<b>11,7</b>	<b>-</b>	<b>30,4</b>	<b>29,8</b>	<b>-</b>	<b>128,4</b>
Software	(0,4)	(0,7)	-	-	(0,2)	-	(1,3)
Brand name	-	-	-	-	-	-	-
Customer relations (1)	-	(2,1)	-	-	(0,2)	-	(2,3)
Licenses	(3,5)	(0,2)	-	-	(0,3)	-	(4,0)
Start up costs	-	-	-	-	-	-	-
Research and development costs	-	-	-	-	-	-	-
Subscriber purchase costs (2)	-	(12,0)	-	-	(14,9)	-	(26,9)
Intangible assets under construction	-	-	-	-	-	-	-
Other intangible assets	(1,4)	(2,0)	-	-	(0,4)	0,1	(3,8)
<b>Total Cumulative amortization and depreciation</b>	<b>(5,3)</b>	<b>(17,0)</b>	<b>-</b>	<b>-</b>	<b>(16,1)</b>	<b>0,1</b>	<b>(38,3)</b>
Software	0,3	0,4	-	2,3	0,4	-	3,5
Brand name	13,8	-	-	-	2,6	-	16,4
Customer relations (1)	32,8	(2,1)	-	-	5,9	-	36,6
Licenses	1,6	(0,2)	-	1,1	0,2	-	2,7
Start up costs	-	-	-	-	-	-	-
Research and development costs	-	-	-	-	-	-	-
Subscriber purchase costs (2)	-	(3,9)	-	26,9	4,0	-	27,1
Intangible assets under construction	-	0,2	-	-	-	-	0,2
Other intangible assets	2,7	0,2	-	-	0,5	0,1	3,5
<b>Total Net book value</b>	<b>51,3</b>	<b>(5,3)</b>	<b>-</b>	<b>30,4</b>	<b>13,7</b>	<b>0,1</b>	<b>90,1</b>

(1) Customer relations have been valued on the basis of the fair value of the existing customers. The amortization expenses are in accordance with the benefits expected for each customers in each period.

(2) Subscriber purchase costs were recognized in respect of the costs of linked acquisition costs of subscribers (including additional sales commissions). The amortization expenses are related to the length of the average financial commitment of the subscribers.

The majority of the intangible assets movements for the year ended December 31, 2011 are related to the Hot Telecom and Coditel business combinations.

## 6 Property, Plant & Equipment

<i>(in millions of euros)</i>	December 31, 2010	Additions and related depreciation and amortization	Disposals	Business Combinations	Changes in foreign currency translation adjustment	Other	December 31, 2011
Land	2,5	-	-	0,1	-	-	2,6
Buildings	17,9	13,0	-	14,6	(1,7)	11,7	55,5
Cable networks (1)	13,0	31,3	-	481,9	(45,9)	-	480,3
Call centers (primarily electronic equipment) (2)	-	14,1	-	64,9	(9,9)	-	68,3
Converters and modems	0,7	30,1	(2,0)	151,7	(18,6)	-	161,8
Computers and ancillary equipment	22,4	4,8	-	4,6	(2,6)	-	29,1
Office furniture and equipment (3)	29,4	15,2	(1,0)	43,6	0,4	10,0	97,7
Communication network infrastructure (4)	288,3	24,9	-	-	(11,4)	-	301,9
Other data center equipment	2,2	0,7	-	-	0,1	-	3,0
Tangible assets under construction	21,8	6,4	-	-	0,3	(21,3)	7,2
Prepayments on tangible assets	0,5	-	-	-	-	(0,4)	0,1
Other tangible assets	3,6	0,5	-	2,8	(0,7)	-	6,2
<b>Total Gross Value</b>	<b>402,3</b>	<b>141,1</b>	<b>(3,1)</b>	<b>763,3</b>	<b>(89,9)</b>	<b>-</b>	<b>1 213,7</b>
Buildings	(6,1)	(3,4)	-	-	0,9	-	(8,7)
Cable networks (1)	(1,4)	(46,6)	-	-	23,3	-	(24,7)
Call center (primarily electronic equipment) (2)	-	(12,7)	-	-	6,9	-	(5,8)
Converters and modems	(0,2)	(24,2)	1,8	-	11,6	-	(11,0)
Computers and ancillary equipment	(20,3)	(2,5)	-	-	2,3	-	(20,4)
Office furniture and equipment (3)	(15,8)	(8,6)	0,9	-	(0,1)	-	(23,7)
Communication network infrastructure (4)	(205,9)	(14,7)	-	-	8,3	-	(212,3)
Other data center equipment	(0,8)	(0,2)	-	-	-	-	(1,1)
Tangible assets under construction	-	(0,1)	-	-	-	-	(0,1)
Prepayments on tangible assets	-	-	-	-	-	-	-
Other tangible assets	(2,1)	(2,5)	-	-	0,5	-	(4,1)
<b>Total Cumulative amortization and depreciation</b>	<b>(252,7)</b>	<b>(115,5)</b>	<b>2,7</b>	<b>-</b>	<b>53,5</b>	<b>-</b>	<b>(311,9)</b>
Land	2,5	-	-	0,1	-	-	2,6
Buildings	11,8	9,5	-	14,6	(0,8)	11,7	46,8
Cable networks (1)	11,6	(15,2)	-	481,9	(22,6)	-	455,6
Call center (primarily electronic equipment) (2)	-	1,4	-	64,2	(3,0)	-	62,6
Converters and modems	0,5	5,9	(0,2)	151,7	(7,1)	-	150,8
Computers and ancillary equipment	2,1	2,3	-	4,6	(0,3)	-	8,7
Office furniture and equipment (3)	13,5	6,6	(0,1)	43,6	0,3	10,0	74,0
Communication network infrastructure (4)	82,4	10,2	-	-	(3,1)	-	89,6
Leasehold contracts	-	-	-	-	-	-	-
Other data center equipment	1,4	0,4	-	-	-	-	1,9
Tangible assets under construction	21,8	6,3	-	-	0,3	(21,3)	7,1
Prepayments on tangible assets	0,5	-	-	-	-	(0,4)	0,1
Other tangible assets	1,5	(2,1)	-	2,8	(0,2)	-	2,0
<b>Total Net book value</b>	<b>149,7</b>	<b>25,6</b>	<b>(0,4)</b>	<b>763,3</b>	<b>(36,4)</b>	<b>-</b>	<b>901,7</b>

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**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

<i>(in millions of euros)</i>	<b>January 1, 2010 (unaudited)</b>	<b>Additions and related depreciation and amortization</b>	<b>Disposals</b>	<b>Business Combinations</b>	<b>Changes in foreign currency translation adjustment</b>	<b>Other</b>	<b>December 31, 2010</b>
Land	1,2	2,5	(1,2)	-	-	-	2,5
Buildings	7,5	3,3	(4,1)	5,0	2,1	-	13,8
Cable networks (1)	11,9	-	-	-	1,1	-	13,0
Call center (primarily electronic equipment) (2)	-	-	-	-	-	-	-
Converters and modems	0,4	0,5	(0,2)	-	-	-	0,7
Computers and ancillary equipment	0,1	0,8	-	1,6	2,9	-	5,4
Office furniture and equipment (3)	20,6	6,1	-	2,0	0,7	-	29,4
Communication network infrastructure (4)	43,8	6,5	(0,2)	57,3	32,9	-	140,4
Leasehold contracts	-	-	-	-	-	-	-
Computer equipment	-	0,6	-	1,4	0,2	-	2,2
Tangible assets under construction	0,3	19,6	-	-	1,9	-	21,8
Prepayments on tangible assets	1,8	-	(1,3)	-	-	-	0,5
Other tangible assets	1,4	(1,7)	(0,2)	3,3	0,2	-	3,1
<b>Total Gross Value</b>	<b>89,2</b>	<b>38,3</b>	<b>(7,2)</b>	<b>70,6</b>	<b>41,9</b>	<b>-</b>	<b>232,8</b>
Land	-	-	-	-	-	-	-
Buildings	(1,0)	(0,7)	0,1	-	(0,7)	0,2	(2,0)
Cable networks (1)	-	(1,2)	-	-	(0,1)	-	(1,4)
Call center (primarily electronic equipment) (2)	-	-	-	-	-	-	-
Converters and modems	(0,2)	(0,2)	-	-	-	0,2	(0,2)
Computers and ancillary equipment	(0,1)	(0,6)	-	-	(2,7)	-	(3,3)
Office furniture and equipment (3)	(11,8)	(2,2)	-	-	(0,3)	(1,6)	(15,8)
Communication network infrastructure (4)	(25,9)	(10,5)	0,1	-	(23,5)	2,0	(68,0)
Leasehold contracts	-	-	-	-	-	-	-
Other data center equipment	-	(0,2)	-	-	(0,1)	(0,6)	(0,8)
Tangible assets under construction	-	-	-	-	-	-	-
Prepayments on tangible assets	-	-	-	-	-	-	-
Other tangible assets	(1,0)	(0,4)	-	-	(0,1)	(0,2)	(1,6)
<b>Total Cumulative amortization and depreciation</b>	<b>(40,0)</b>	<b>(15,9)</b>	<b>0,3</b>	<b>-</b>	<b>(27,5)</b>	<b>(0,1)</b>	<b>(83,2)</b>
Land	1,2	2,5	(1,2)	-	-	-	2,5
Buildings	6,5	2,6	(3,9)	5,0	1,4	0,2	11,8
Cable networks (1)	11,9	(1,2)	-	-	0,9	-	11,6
Call center (primarily electronic equipment) (2)	-	-	-	-	-	-	-
Converters and modems	0,2	0,3	(0,2)	-	-	0,2	0,5
Computers and ancillary equipment	0,1	0,2	-	1,6	0,3	-	2,1
Office furniture and equipment (3)	8,9	4,0	-	2,0	0,3	(1,6)	13,5
Communication network infrastructure (4)	17,9	(4,0)	(0,2)	57,3	9,4	2,0	82,4
Leasehold contracts	-	-	-	-	-	-	-
Other data center equipment	-	0,5	-	1,4	0,1	(0,6)	1,4
Tangible assets under construction	0,3	19,6	-	-	1,9	-	21,8
Prepayments on tangible assets	1,8	-	(1,3)	-	-	-	0,5
Other tangible assets	0,5	(2,1)	(0,1)	3,3	0,1	(0,2)	1,5
<b>Total Net book value</b>	<b>49,2</b>	<b>22,4</b>	<b>(6,9)</b>	<b>70,6</b>	<b>14,4</b>	<b>(0,1)</b>	<b>149,7</b>

(1) Cable networks: the Group owns, directly and indirectly through its subsidiaries, cable or fibre network which allow it to supply cable-based pay television, broadband internet and fixed-line telephony services to its subscribers.

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**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

- (2) *Call center represents centralized offices used for the purpose of receiving or transmitting a large volume of administrative, technical or commercial requests by telephone.*
- (3) *Office furniture and equipment refers to furnishings and IT equipment.*
- (4) *The Communication network infrastructure includes the digital technologies for the transmission of multi-channel television services.*

Most of the tangible assets increases as of December 31, 2011 come from the Coditel and Hot Telecom business combinations (see Note 3.3).

The additions in capital expenditures mainly come from Hot Telecom activity:

- Modems and converters related capital expenditures represented EUR 29,3 million for the year ended December 31, 2011. The weaker amount of modems and converters related capital expenditures resulted from a delay in the delivery of the HOT Magic HD set top boxes which the local management initially expected to receive during the second quarter of 2011 and ended up not receiving until the fourth quarter of 2011.
- Cable network related (including centers) capital expenditures represented EUR 43,4 million for the year ended December 31, 2011 and was related to investments in the Israeli UFI-channel in 2011.

## 7 Investments in associates

The breakdown of the investments in associates in 2010 and 2011 is detailed as follows:

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	
	<b>Group's share of profits of associates</b>	<b>Group's share of net assets of associates</b>
HOT TELECOM (and its subsidiaries)	11,7	-
<b>Total</b>	<b>11,7</b>	<b>-</b>

<i>(in millions of euros)</i>	<b>December 31, 2010</b>	
	<b>Group's share of profits of associates</b>	<b>Group's share of net assets of associates</b>
HOT TELECOM (and its subsidiaries)	6,8	284,9
<b>Total</b>	<b>6,8</b>	<b>284,9</b>

The Hot Telecom figures are detailed as follows:

<i>(in millions of euros)</i>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Current assets	70,3	68,6
Non current assets	1 421,9	1 245,8
Current liabilities	(284,2)	(381,5)
Non current liabilities	(571,2)	(395,2)
<b>Total Equity</b>	<b>636,8</b>	<b>537,6</b>
<b>% of interest = 44,77%</b>	<b>284,9</b>	<b>240,7</b>
Revenue for the year	656,8	
Profit for the year	21,4	
Other comprehensive income for the year	20,6	

## 8 Financial assets

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010 (unaudited)</b>
Assets available for sale (1)	8,5	-	0,1
Loan term trade receivables	2,4	3,0	0,4
Restricted cash (2)	41,4	0,2	0,2
<b>Total Gross Value</b>	<b>52,3</b>	<b>3,3</b>	<b>0,7</b>
Assets available for sale (1)	-	-	-
Loan term trade receivables	-	-	-
Restricted cash (2)	-	-	-
<b>Total Cumulative amortization and depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>
Assets available for sale (1)	8,5	-	0,1
Loan term trade receivables	2,4	3,0	0,4
Restricted cash (2)	41,4	0,2	0,2
<b>Total Net book value</b>	<b>52,3</b>	<b>3,3</b>	<b>0,7</b>

(1) *Investment in available for sale financial asset:*

A subsidiary company, operating through Hot Net Internet Services Ltd. (formerly Hot Properties) and Finance Ltd. (hereinafter – Hot Net) holds 1 454 663 regular shares in Partner Communications Ltd. (hereinafter – Partner), constituting approximately 0,9% of Partner's share capital which is engaged in the provision of mobile communications services and whose shares are traded on stock exchanges in the United States of America, in the United Kingdom and in Israel. Partner's shares are subject to Israeli restrictions in accordance with the Radio Mobile Telephone license that was granted to Partner, in accordance with which the shares can only be sold to an Israeli buyer, as defined in the said license.

The subsidiary companies present the investment in Partner as an investment in an available for sale financial asset, which is measured at fair value.

(2) *Restricted cash (see Note 2.17).*

The restricted cash has been deposited in financial institutions and as of the statement of financial position date it bears interest based on the interest rate on daily bank deposits. It is restricted to repayment of certain interests on bank borrowings and debentures.



## 9 Other long-term trade receivables

<i>(in millions of euros)</i>	December 31, 2011	December 31, 2010	January 1, 2010 (unaudited)
Income taxes	-	-	-
Prepaid expenses	5,9	-	-
Other current receivables	22,5	-	-
<b>Total Gross Value</b>	<b>28,4</b>	<b>-</b>	<b>-</b>
Income taxes	-	-	-
Prepaid expenses	-	-	-
Other current receivables	-	-	-
<b>Total Cumulative amortization and depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>
Income taxes	-	-	-
Prepaid expenses	5,9	-	-
Other current receivables	22,5	-	-
<b>Total Net book value</b>	<b>28,4</b>	<b>-</b>	<b>-</b>

## 10 Inventories

<i>(in millions of euros)</i>	December 31, 2011	December 31, 2010	January 1, 2010 (unaudited)
Work in progress	0,1	0,1	0,2
Finished/semi-finished goods	7,9	7,9	-
<b>Total Gross Value</b>	<b>8,0</b>	<b>8,1</b>	<b>0,2</b>
Work in progress	-	-	-
Finished/semi-finished goods	(1,9)	(0,6)	-
<b>Total Cumulative amortization and depreciation</b>	<b>(1,9)</b>	<b>(0,6)</b>	<b>-</b>
Work in progress	0,1	0,1	0,2
Finished/semi-finished goods	6,1	7,3	-
<b>Total Net book value</b>	<b>6,1</b>	<b>7,5</b>	<b>0,2</b>

Movement for allowance for obsolescence of inventory or slow moving inventory:

<i>(in millions of euros)</i>	December 31, 2010	Business Combinations	Addition	Reversal	Divestitures, changes in foreign currency translation adjustments and other	December 31, 2011
Finished/semi-finished goods	(0,6)	(1,3)	-	-	-	(1,9)
<b>Total Cumulative amortization and depreciation</b>	<b>(0,6)</b>	<b>(1,3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,9)</b>

  

<i>(in millions of euros)</i>	January 1, 2010 (unaudited)	Business Combinations	Addition	Reversal	Divestitures, changes in foreign currency translation adjustments and other	December 31, 2010
Finished/semi-finished goods	-	(0,6)	-	-	-	(0,6)
<b>Total Cumulative amortization and depreciation</b>	<b>-</b>	<b>(0,6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0,6)</b>

## 11 Trade and other receivables

### 11.1 Trade receivables

<i>(in millions of euros)</i>	December 31, 2010	Business Combinations	Addition	Reversal	Divestitures, changes in foreign currency translation adjustments and other	December 31, 2011
Trade receivables	60,8	62,2	8,1	-	(2,0)	129,1
Allowance for doubtful debts	(9,9)	(14,7)	(4,0)	1,5	0,8	(26,4)
<b>Trade receivable, net</b>	<b>50,9</b>	<b>47,5</b>	<b>4,1</b>	<b>1,5</b>	<b>(1,2)</b>	<b>102,7</b>

<i>(in millions of euros)</i>	<b>January 1, 2010 (unaudited)</b>	<b>Business Combinations</b>	<b>Addition</b>	<b>Reversal</b>	<b>Divestitures, changes in foreign currency translation adjustments and other</b>	<b>December 31, 2010</b>
Trade receivables	9,1	36,6	7,9	-	7,2	60,8
Allowance for doubtful debts	(2,3)	(5,1)	(1,7)	-	(0,9)	(9,9)
<b>Trade receivable, net</b>	<b>6,8</b>	<b>31,5</b>	<b>6,2</b>	<b>-</b>	<b>6,3</b>	<b>50,9</b>

#### 11.1.1 Age of receivables that are past due but not impaired

<i>(in millions of euros)</i>	<b>December 31, 2011</b>
Not yet payable	78,3
30-90 days	10,1
91-121 days	14,3
<b>Total</b>	<b>102,7</b>

## 11.2 Other receivables

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010 (unaudited)</b>
Loans to related party	1,8	2,5	1,1
Tax and social security receivables	5,1	2,6	1,1
Prepaid expenses	4,3	1,0	1,3
Other current receivables (1)	10,9	12,8	3,8
<b>Total</b>	<b>22,1</b>	<b>18,9</b>	<b>7,3</b>

(1) The main contributions to the other current receivables in 2011 are:

- Derivative instruments: EUR 4,3 million,
- Income receivable: EUR 1,6 million,
- Advances to suppliers: EUR 1,8 million.

The Group provides services on credit for an average of 16 days, 24 days and 96 days in average to its customers in the cable television field, in the in-country fixed line communications field and in the mobile communication field, respectively. The Group routinely evaluates the credit that is provided to its customers, while checking their financial situations; however it does not demand collateral for those debts. The Group records a provision for doubtful debts, based on the factors that affect the credit risks of certain customers, past experience and other information.

## 12 Cash and cash equivalents

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010 (unaudited)</b>
Time deposits	0,1	-	0,1
Bank balances	19,7	18,6	6,7
<b>Cash equivalents</b>	<b>19,8</b>	<b>18,6</b>	<b>6,8</b>
Bank overdrafts	-	0,4	-
<b>Bank overdrafts</b>	<b>-</b>	<b>0,4</b>	<b>-</b>
<b>Cash and cash equivalents presented in the consolidated statements of cash flows</b>	<b>19,8</b>	<b>18,2</b>	<b>6,8</b>

## 13 Issued capital

On December 31, 2011, the share capital amounts to EUR 7,4 million and is divided into 741 811 200 fully paid shares with a nominal value of EUR 0,01.

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010 (unaudited)</b>
Share capital	7,4	7,8	-
<b>Total</b>	<b>7,4</b>	<b>7,8</b>	<b>-</b>

The details of the different classes of shares are provided in the table below. The Group has defined three share classes; Shares designated with the letters A through G are referred to as specific shares. Shares designated 1A through 1G are referred to as Class 1 shares and when grouped together with their corresponding letters (i.e. Class A shares with Class 1A shares), form a share category referred to as the specific share class (*'classe spécifique'*). In addition to this class, the other two classes of shares are: Ordinary shares (*'part sociale ordinaire'*) and Class M shares (*'classe M'*). All these shares put together make up the total shares of the Group.

Each specific share class is linked to the investment in the assets of companies acquired by the Group and hence intrinsically linked to the financial performance of these entities (tracking shares). Each specific class allows its holder to obtain a share of the net profit of the Group in a proportion determined by the Board of Managers.

In addition to the profit sharing defined above, the economic benefit arising from investment in any of the specific share classes is determined as follows:

At the end of the financial year, the Group reports a net income from its activities and based on this net income, attributes it to the different specific classes, as if the investment to which they are related were the only asset held by the Group. Any profits arising from this distribution may be credited to a specific account. Thus, a separate account must be maintained for each specific share class.

Dividends may be issued from these accounts only to the holders of the shares linked to each account.

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Holders of ordinary and class M shares are eligible to receive a share of profits, if any such profits remain after distribution to the holders of the specific share classes. None of the class of shares are subordinated to each other.

Each share class allows the holder one right to vote in general assembly meetings, provided that there is one single representative holder of the share class. If shares in a class are held by more than one person, the voting right is suspended till the holder designates a single legal representative.

Different classes of shares are summarized below:

<b>December 31, 2011</b>			
<i>Class of corporate units</i>	<b>number</b>	<i>Class of corporate units</i>	<b>Number</b>
Class A	14 832 900	Class 1B	5 386 000
Class B	71 747 100	Class 1D	4 603 900
Class C	98 886 400	Class 1E	19 337 000
Class D	64 226 800	Class 1F	25 657 900
Class E	98 886 400	Class 1O	44 600
Class F	98 886 400	Class 1G	79 600
Class G	1 058 610	Class M	31 000 000
Class 1A	1 113 600	Ordinary	3 955 400

<b>December 31, 2010</b>			
<i>Class of corporate units</i>	<b>Number</b>	<i>Class of corporate units</i>	<b>Number</b>
Class A	14 832 900	Class 1B	5 386 000
Class B	71 747 100	Class 1C	205 660 800
Class C	98 886 400	Class 1D	4 603 900
Class D	64 226 800	Class 1E	19 337 000
Class E	98 886 400	Class 1F	63 645 600
Class F	98 886 400	Class M	31 000 000
Class G	1 058 610	Ordinary	4 000 000 3 955 400
Class 1A	1 113 600		

<b>January 1, 2010 (unaudited)</b>	
<i>Class of corporate units</i>	<b>Number</b>
Class A	8 000
Class B	8 000
Class C	8 000
Class D	8 000
Class E	8 000

The movements of the number of shares during the year are as follows:

<i>Number of shares</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Opening balance</b>	<b>783 283 510</b>	<b>4 000 000</b>
Issuance	124 2000	779 283 510
Redemption	(41 596 200)	-
<b>Closing balance</b>	<b>741 811 510</b>	<b>783 283 510</b>

The movements in share capital during the year ended December 31, 2011 are as follows:

On April 28, 2011, the Extraordinary General Meeting decided to:

- create new classes of shares called 1G and 1O;
- convert 12 000 shares of class G into 12 000 corporate units class 1G with a nominal value per unit of EUR 0,01;
- convert 44 600 Ordinary shares into 44 600 shares of class 1O with a nominal value per unit of EUR 0,01;
- decrease the capital of the Company by an amount of EUR 415 396 so as to arise it from EUR 7 832 835,10 to EUR 7 417 439,10 by the cancellation of the following corporate units:
  - 3 551 900 class 1C shares;
  - 37 987 700 class 1F shares.
- Increase the capital of the Company by an amount of EUR 676 so as to arise it from EUR 7 417 439,10 to EUR 7 418 115,10 by the issuance of 67 600 new 1G shares with a nominal value per unit of EUR 0,01.

## **14 Earnings per share (EPS)**

Non diluted EPS for 2011 has been computed dividing 2011's net income by weighted average number of shares as of December 31, 2011.

Diluted EPS for 2011 has been computed based on the assumption that the CPECs (Convertible Preferred Equity Certificates) would be converted at a 1 to 1 ratio.

Taking into account the redemption of EUR 41,5 million occurred in April 2011, EPS for 2010 has been computed using the same weighted average number of shares as in 2011.

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Net income (in millions of euros)	123,9	40,3
Non diluted weighted average number of shares	755 105 274	755 105 274
<b>Basic earnings per share</b>	<b>0,16</b>	<b>0,05</b>
Diluted weighted average number of shares	984 854 233	984 854 233
<b>Diluted earnings per share</b>	<b>0,13</b>	<b>0,04</b>

In June 2013, all the different classes of tracking shares were merged into one single class of ordinary shares. No dividends were paid to any of the equity holders during any period since the inception of the Group. The Board of Managers has determined that the disclosure of EPS metrics for each class of share in issuance during 2011 and 2012 is not qualitatively relevant to the users of the financial statements and has hence elected to disclose EPS on the basis of the merged single class of ordinary shares.

## 15 Reserves

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
CPEC'S	201,7	224,4
YFPEC'S	21,6	21,6
Employee benefits	0,2	0,1
Currency Translation Reserve	(3,0)	(1,6)
Impact of changes in ownership interest	13,1	8,6
Other	(0,7)	1,7
<b>Group reserves</b>	<b><u>232,9</u></b>	<b><u>254,9</u></b>

- According to the Luxemburg legal provisions, 5% of net profits must be obligatorily credited to a legal reserve account. The obligation to make this contribution ends when the legal reserves equal 10% or more of the share capital of the Group. No allocation to the legal reserve has been made for the year ended December 31, 2011.
- CPEC, which maturity comprises between 2058 and 2061, decreases from EUR 224,5 million in 2010 to EUR 219,1 million in 2011, due to subscriptions of EUR 33,4 million and EUR 38,9 million of redemption. In substance, CPECs subordinated financial instruments (about EUR 219,1 million as at the end of 2011) are equity instruments as:
- CPECs give issuer the opportunity to avoid delivering cash;
- CPECs do not bear interests.
- The YFPECs have been valued using a discount rate of 4,76% given its preferred interest rate which therefore values the liabilities at EUR 4,1 million as at December 31, 2011.



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Details of YFPECS and CPECS are presented as follows:

Name	Maturity date	Interest rate	Convertible	Amount as at the end 2010 in millions of euros	Principal amount as at the end 2011 in millions of euros
YFPECS C	14/05/2058	0%	No	22,07	22,07
YFPECS C	03/12/2058	0%	No	4,51	4,51
YFPECS C	15/06/2060	0%	No	0,10	0,10
YFPECS C	26/08/2011	0%	No	0,11	0,11
YFPECS C	28/11/2011	0%	No	2,51	2,51
YFPECS C	03/12/2058	0%	No	4,00	4,00
YFPECS E	01/12/2058	0%	No	1,88	1,88
YFPECS F	17/06/2059	0%	No	2,86	-
<b>Total</b>				<b>38,04</b>	<b>35,18</b>
CPECS A	14/05/2058	0%	Yes (to the benefit of the issuer)	0,84	0,84
CPECS B	01/12/2058	0%	Yes (to the benefit of the issuer)	3,61	3,61
CPECS B	14/05/2058	0%	Yes (to the benefit of the issuer)	0,46	0,46
CPECS B	14/05/2058	0%	Yes (to the benefit of the issuer)	-	15,42
CPECS C	03/12/2058	0%	Yes (to the benefit of the issuer)	23,48	23,48
CPECS C	03/12/2058	0%	Yes (to the benefit of the issuer)	22,67	22,67
CPECS C	14/05/2058	0%	Yes (to the benefit of the issuer)	132,30	132,30
CPECS D	03/12/2058	0%	Yes (to the benefit of the issuer)	3,45	3,45
CPECS E	01/12/2058	0%	Yes (to the benefit of the issuer)	16,18	16,18
CPECS F	01/12/2058	0%	Yes (to the benefit of the issuer)	21,42	-
CPECS G	18/03/2058	0%	Yes (to the benefit of the issuer)	0,06	0,06
<b>Total</b>				<b>224,46</b>	<b>219,07</b>

- Information on the parameters used to calculate the employee benefits is presented in note 21.
  - Exchange rate differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve.
- Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation.
- The decrease of ownership interest in Hot Mobile results in positive impact in reserves for an amount of EUR 4,5 million. The decrease of ownership interest consists of a transaction with non-controlling interests.

## 16 Provisions

<i>(in millions of euros)</i>	December 31, 2010	Business Combinations	Addition	Utilization	Reversal	Divestitures, changes in foreign currency translation adjustments and other	December 31, 2011
Provision for retirement benefits	1,2	5,4	0,4	(2,5)	-	2,4	6,9
Litigations (1)	0,7	67,4	0,7	(26,6)	-	(3,4)	38,8
Other risks (2)	0,8	0,9	-	-	-	-	1,7
Provisions for other expenses	0,2	-	-	(0,2)	-	-	-
<b>TOTAL</b>	<b>2,9</b>	<b>73,7</b>	<b>1,1</b>	<b>(29,3)</b>	<b>-</b>	<b>(0,9)</b>	<b>47,4</b>

<i>(in millions of euros)</i>	January 1, 2010 (unaudited)	Business Combinations	Addition	Utilization	Reversal	Divestitures, changes in foreign currency translation adjustments and other	December 31, 2010
Provision for retirement benefits	0,9	-	0,2	-	-	0,1	1,2
Litigations	0,2	-	0,5	-	-	-	0,7
Restructuring costs	1,4	-	-	(0,6)	-	(0,8)	-
Other risks	-	-	-	-	-	0,8	0,8
Provisions for other expenses	-	-	-	-	-	0,2	0,2
<b>TOTAL</b>	<b>2,4</b>	<b>-</b>	<b>0,7</b>	<b>(0,6)</b>	<b>-</b>	<b>0,3</b>	<b>2,9</b>

- (1) The increase in provisions for risks and litigation was mainly driven by the finalization of the acquisition of HOT Telecom on a fully consolidated basis from FY11 onwards. A large majority of provisions for litigations were recorded at HOT Telecom, arising from claims for royalty payments from the producers of audio-visual or musical content. The main litigations for the year ended December 31, 2011 were (i) Tali, a claim for royalties by a third party on behalf of writers and directors of audio-visual content, who are producers of their own local content. This claim was provisioned for a total amount of EUR 5,8 million; (ii) A claim by AKUM, provisioned for EUR 17,3 million, also relating to claims on royalties for musical writers, composers and publishers and (iii) a provision of EUR 8,6 million, brought forward by AGICOA, for the payment of fees to audio-visual producers for the retransmission of their locally produced content.
- (2) In addition to the claims mentioned above, other provisions for risk mainly concerned legal claims made by former employees for wrongful dismissal in the French Caribbean subsidiaries (EUR 0,38 million), a provision for penalties stemming from an inspection by the labour department in Martinique (EUR 0,33 million) and a wrongful termination claim by a content provider (EUR 0,15 million).

## 17 Employee benefits

Breakdown of the employee benefits by entity:

<i>(in millions of euros)</i>	December 31, 2011	December 31, 2010	Notes
Coditel Brabant	0,9	-	17.1
Hot Telecom	4,7	-	
Green ch	1,4	1,2	
<b>Total</b>	<b>6,9</b>	<b>1,2</b>	

## 17.1 Hot Telecom

### a) Defined Benefit Plans :

The portion of the severance pay payments that is not covered by deposits, is treated by the Group as a defined benefit plan in accordance with which a liability is recorded in respect of employee benefits, and the Group deposits amounts in central severance pay funds and in appropriate insurance policies in respect of it.

The Group has defined contribution plans, in accordance with section 9 of the Israeli Severance Pay Law, in accordance with which the Group makes regular payments without it having a legal or implicit commitment to pay additional payments even if sufficient funds have not accumulated in the funds to pay all of the benefits to an employee that relate to the employee's employment in the current period and in previous periods.

Deposits in a defined contribution plan in respect of severance pay or in respect of emoluments are recognized as expense at the time of the deposit in the plan, in parallel to the receipt of the labor services from the employee and no additional provision is required in the financial statements.

### b) Expenses reflected in the statement of comprehensive income:

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Current service cost	4,00	-
Interest expenses in respect of the benefit obligations	1,00	-
Expected yield in the plan assets	(1,00)	-
Net actuarial loss (gain) which has been recognized in the year	2,00	-
<b>Total expenses in respect of employee benefit</b>	<b>6,00</b>	<b>-</b>

### c) The plan assets (liabilities):

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Liabilities in respect of a defined benefit plan	(25,00)	-
Fair value of the plan assets	21,00	-
	-	-
<b>Total net liabilities</b>	<b>(5,00)</b>	<b>-</b>

Cumulative amounts in respect of the value of the liabilities and in respect of the value of the rights in the plan assets.

### d) Changes in the present value of the liability in respect of a defined plan:

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Balance as of January 1</b>	<b>24,00</b>	<b>-</b>
Interest expenses	1,00	-
Current service cost	4,00	-
Benefits paid	(3,00)	-
Net actuarial loss (profit)	2,00	-
<b>Balance as of December 31</b>	<b>25,00</b>	<b>-</b>

e) *The plan assets:*

- The plan assets:

The plan assets include assets that are held by a long-term employee benefit fund as well as in appropriate insurance policies.

- The movement in the fair value of the plan assets:

<i>(in millions of euros)</i>	December 31, 2011	December 31, 2010
<b>Balance as of January 1</b>	<b>20,00</b>	-
Expected yield	1,00	-
Deposits by the employer into the plan	4,00	-
Benefits paid	(2,00)	-
Net actuarial loss	(2,00)	-
<b>Balance as of December 31</b>	<b>21,00</b>	-

f) *The principal assumptions:*

<i>(in %)</i>	December 31, 2011	December 31, 2010
Discount rate	4,34	-
Expected yield on the plan assets	4,51	-
Expected yield of salary increases	2 - 4	-

## 18 Borrowings and other financial liabilities

Total financial liabilities are broken down as follows:

<i>(in millions of euros)</i>	December 31, 2011	December 31, 2010	January 1, 2010 (unaudited)
Bonds	291,4	-	-
Related party bonds	73,9	61,9	13,6
Bank credit facilities	536,6	70,0	-
Finance leases	7,3	1,4	-
Other financial liabilities	85,3	5,5	3,6
<b>Non-current</b>	<b>994,4</b>	<b>138,8</b>	<b>17,2</b>
Bonds	12,4	-	-
Bank credit facilities	228,8	80,5	65,0
Finance leases	0,6	0,4	-
Bank overdraft	-	0,4	-
Other financial liabilities	0,7	0,4	0,2
Accrued interest	2,2	-	-
<b>Current</b>	<b>244,7</b>	<b>81,6</b>	<b>65,2</b>

During the year ended December 31, 2011, bonds include the debentures issued by Hot Telecom (see also note 18.3):

- The Series A' debentures – EUR 167,0 million (NIS 825 million par value), linked to the Consumer Prices Index for the month of February, 2011, that bear interest at a rate of 3,9% a year. Series A' debentures are repayable in 13 semi-annual payments commencing on September 30, 2012 and up to September 30, 2018.
- The Series B' debentures – EUR 137,0 million (NIS 675 million par value) that bear interest at a fixed rate of 6,9% a year. Series B' debentures are repayable in 13 semi-annual payments commencing on September 30, 2012 and up to September 30, 2018.

During the year ended December 31, 2011, bank credit facilities mainly includes the following:

- In Coditel Holding S.A. a EUR 260,0 million credit, bearing an interest of 8,53% and with a maturity date on May 19, 2018. On December 2, 2011, the Sole Director of Coditel Holding S.A. has decided to reimburse this facility. This facility has been refinanced as follows: EUR 140,0 million of senior secured loan facilities and EUR 100,0 million of mezzanine term loan facility;
- A finance agreement in Cool Holding of EUR 172,0 million (NIS 850,0 million credit) with a maturity of 7 years and EUR 61,0 million (NIS 300,0 million) bridge loan with a maturity of 6 months with Mizrahi Tfahot Bank Ltd and other lenders.
- Three credit facilities taken up by Hot Telecom.

## **18.1 Covenants**

### **18.1.1 Hot**

The unsecured debentures issued on the Tel Aviv stock exchange by the Group's subsidiary Hot Telecom include financial covenants measured on Hot Telecom performance, which mainly include:

- a debt to EBITDA ratio, which is not to exceed 6 for a period that exceeds two consecutive quarters;
- no distribution of a dividend at a time when Hot Telecom exceeds a debt to EBITDA ratio of 5,5.

As of December 31, 2011, Hot Telecom was in compliance with all of the required financial covenants.

Financial covenants have been set for Hot Mobile, which include:

- the making available of a fixed charge on a Shekel deposit, in favor of the banks, in accordance with a formula that was detailed in the letter of undertaking;
- a minimal ratio between the amounts of the increase in the shareholders' equity and Mirc cumulative free cash flows; as of December 31, 2011 Hot Mobile is in compliance with the financial covenants that have been set for it.

### **18.1.2 Altice Blue One**

As part of the Altice Blue One ("ABO") financing arranged in 2009, ABO was required to respect certain covenants calculated on the basis of its consolidated annual accounts. As of December 31, 2011, ABO was in default of its financial covenants, though it was not in default of any scheduled payments due to the lenders. As per the debt contracts, one consequence of this default could be early or accelerated repayment of the debts, if and only if such repayments are unanimously reclaimed by all of the lending agencies.

As a result, the whole amount of debt has been reclassified as current borrowings from banking corporations and debentures (EUR 70,4 million).

Nevertheless, ABO's management does not believe that these covenant defaults affect in any way the ability of the Group to effectively pursue its operations. This hypothesis was supported by advanced level talks with the lending parties, and based on the fact that none of the lenders ever demanded early repayment of the loan. Thus ABO's accounts for 2011 were closed and approved based on the hypotheses outlined above. On July 2, 2013, ABO refinanced the relevant facilities with funds granted by the Group, thereby resolving any default situation.

## **18.2 Bonds**

<b>Issuer</b>	<b>Face value in millions of euros December 31, 2011</b>	<b>Effective interest rate</b>	<b>Year of maturity</b>	<b>Carrying amount December 31, 2011</b>	<b>Carrying amount December 31, 2010</b>
<b><u>Bonds</u></b>					
Hot Telecom - Debentures	29 1,4	Variable (3,9 % and 6,9 % + Consumer Price Index)	2018	291,4	-
<b><u>Related party bonds</u></b>					
Altice VII - Alpecs	69,8	Variable	2057 to 2061	69,8	58,0
- Yfpecs	4,1	4,76%	2058 to 2061	4,1	3,9
<b>Nominal value of bonds</b>	<b>418,4</b>			<b>365,3</b>	<b>61,9</b>
Of which due within one year					-
Of which due after one year	418,4			365,3	61,9

The fair value of bonds amounts to EUR 418,4 million (2010: EUR 61,9 million). This value includes accrued interest of EUR 4,2 million on Alpecs (Altice VII) and EUR 8,6 million on Pecs (Coditel Holding).

As at the end of 2011, fair value of PECs issued by Coditel Holding is assumed not to be significantly different from their book value, as far as interest rate of 12,98% result from contracts signed in December 2011.

## **18.3 Subordinated financial instruments**

Subordinated financial instruments have been issued by Altice VII and Coditel Holding.

### *a) Altice VII*

Subordinated financial instruments have been issued by Altice VII consists of:

- YFPECs: Yield Free Preferred Equity Certificates;
- ALPECs: Asset Linked Preferred Equity Certificate;
- ALN: Asset Linked Notes.

Conversely, according to our appreciation, and upon a strict application of IAS 32/39, following instruments have to be classified as debt instruments:

- ALPECs instruments (about EUR 65,5 million nominal value as at the end of 2011);
- YFPECs instruments (about EUR 35,2 million nominal value as at the end of 2011).

The YFPECs have been valued using a discount rate of 4,76% given its preferred interest rate which therefore values the liabilities at EUR 4,1 million as at December 31, 2011.

Different categories of subordinated financial instruments are summarized in the table below (YFPECs are presented before impact of discounting):

Name	Maturity date	Interest rate	Convertible	Amount as at the end 2010 (including interests) in millions of EUR	Principal amount as at the end 2011 in millions of EUR	Interest
ALPECs A	14/05/2058	Loan Auberimmo - 25 bp	No	4,6	1,0	-
ALPECs B1	31/12/2057	Loan ABO - 25 bp	No	4,5	4,5	1 2
ALPECs B3	31/07/2058	Loan ICC France - 25 bp	No	1,0	1,0	0,1
ALPECs F (US dollar)	27/05/2059	Loan Mirs - 25 bp	No	46,4	-	-
ALPECs H	16/11/2060	Business Unit (1) - 25 bp	No		59,0	2,9
<b>Total</b>				<b>56,5</b>	<b>65,5</b>	<b>4,3</b>

(1) As per the agreements, Business Unit means any interests and proceeds received by the Issuer by virtue of the Subsidiary's PECs. Each instrument is linked to a specific acquisition and hence to a specific asset.

## 18.4 Other financial liabilities

Included in other financial liabilities are PECs (Preferred Equity Certificates). Each PEC bears a yield and shall have a maturity of 49 years.

As at the end of 2011, total of PECs instruments amounts to EUR 53,2 million (including interests):

	Issuing date	Maturity date	Number of instruments	Nominal value per instrument (in €)	Interest rate	Convertible ?	Amount as at the end of 2011 (in millions of euros) - including interests
PECs C	30/06/2011	30/06/2060	44,23	1	12,98%	No	44,23
PECs C	02/12/2011	02/12/2060	9,00	1	12,98%	No	9,00
<b>TOTAL</b>			<b>53,23</b>				<b>53,23</b>



### 18.5 Maturity of financial liabilities

<i>(in millions of euros)</i>	<b>Total December 31, 2011</b>	<b>&lt; 1 year</b>	<b>Between 1 and 5 years</b>	<b>&gt; 5 years</b>
Bonds	303,8	12,4	102,0	189,3
Related party bonds	73,9	-	-	73,9
Bank credit facilities	764,9	228,3	161,5	376,6
Finance leases	8,4	1,1	1,3	4,4
Accrued interest	2,2	2,2	-	-
Bank overdraft	-	-	-	-
Other financial liabilities	86,0	0,7	2,8	82,5
Financial instruments	-	-	-	-
<b>Total nominal value of borrowings</b>	<b>1 239,2</b>	<b>244,7</b>	<b>267,6</b>	<b>726,7</b>

<i>(in millions of euros)</i>	<b>Total December 31, 2010</b>	<b>&lt; 1 year</b>	<b>Between 1 and 5 years</b>	<b>&gt; 5 years</b>
Bonds	-	-	-	-
Related party bonds	61,9	-	-	61,9
Bank credit facilities	150,4	80,5	35,5	34,5
Finance leases	1,8	0,4	1,4	-
Accrued interest	-	-	-	-
Bank overdraft	0,4	0,4	-	-
Other financial liabilities	5,9	0,4	2,9	2,7
Financial instruments	-	-	-	-
<b>Total nominal value of borrowings</b>	<b>220,4</b>	<b>81,6</b>	<b>39,7</b>	<b>99,1</b>

## 18.6 Currency of financial liabilities

<i>(in millions of euros)</i>	<b>Total December 31, 2011</b>	<b>Euro (EUR)</b>	<b>US Dollar (USD)</b>	<b>Israeli Shekel</b>	<b>Swiss Franc</b>	<b>other currencies</b>
Bonds	303,8	-	-	303,8	-	-
Related party bonds	73,9	73,9	-	-	-	-
Bank credit facilities	764,9	292,6	-	450,9	21,4	-
Finance leases	8,4	6,5	-	-	1,9	-
Accrued interest	2,2	2,2	-	0,1	-	-
Bank overdraft	-	-	-	-	-	-
Other financial liabilities	86,0	82,4	-	3,1	0,5	-
Financial instruments	-	-	-	-	-	-
<b>TOTAL</b>	<b>1 239,2</b>	<b>457,6</b>	<b>-</b>	<b>757,8</b>	<b>23,8</b>	<b>-</b>

<i>(in millions of euros)</i>	<b>Total December 31, 2010</b>	<b>Euro (EUR)</b>	<b>US Dollar (USD)</b>	<b>Israeli Shekel</b>	<b>Swiss Franc</b>	<b>other currencies</b>
Bonds	-	-	-	-	-	-
Related party bonds	61,9	15,4	46,4	-	-	-
Bank credit facilities	150,4	82,0	-	62,9	5,6	-
Finance leases	1,8	-	-	-	1,8	-
Accrued interest	-	-	-	-	-	-
Bank overdraft	0,4	0,4	-	-	-	-
Other financial liabilities	5,9	1,8	-	3,6	0,5	-
Financial instruments	-	-	-	-	-	-
<b>TOTAL</b>	<b>220,4</b>	<b>99,6</b>	<b>46,4</b>	<b>66,5</b>	<b>7,9</b>	<b>-</b>

## 18.7 Nature of interest rate

<i>(in millions of euros)</i>	<b>Total December 31, 2011</b>	<b>Fixed interest rate</b>	<b>Floating interest rate</b>
Bonds	303,8	-	303,8
Related party bonds	73,9	73,9	-
Bank credit facilities	764,9	245,2	519,7
Finance leases	8,4	1,9	6,5
Accrued interest	2,2	0,1	2,2
Bank overdraft	-	-	-
Other financial liabilities	86,0	83,5	2,5
Financial instruments	-	-	-
<b>TOTAL</b>	<b>1 239,2</b>	<b>404,6</b>	<b>834,6</b>

<i>(in millions of euros)</i>	<b>Total December 31, 2010</b>	<b>Fixed interest rate</b>	<b>Floating interest rate</b>
Bonds	-	-	-
Related party bonds	61,9	61,9	-
Bank credit facilities	150,4	66,6	83,8
Finance leases	1,8	1,8	-
Accrued interest	-	-	-
Bank overdraft	0,4	-	0,4
Other financial liabilities	5,9	1,8	4,1
Financial instruments	-	-	-
<b>TOTAL</b>	<b>220,4</b>	<b>132,1</b>	<b>88,3</b>

## 19 Financial risk factors

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk, market risk (including foreign currency risk and interest rate risk), commodity price risk and other risks (including equity price risk and settlement risk). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way the Group is managed. The Board of Managers establishes the Group's financial policies and the Chief Executive Officer establishes objectives in line with these policies.

The Group is not subject to any externally imposed capital requirements.

### 19.1 Credit risk

The Group does not have significant concentrations of credit risk. The credit risk may arise from the exposures of commitments under a number of financial instruments with one body 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.

Qualities that could cause a concentration of risk include the significance of the activities that the debtors are involved in, such as the branch in which the geographical region in which they conduct their activities and the level of their financial stability.

The Group's income mainly derives from customers in Israel, in the French Overseas Territories and in Europe (Belgium, Luxembourg, France and Switzerland). The Group regularly monitors its customers' debts and provisions for doubtful debts are recorded in the financial statements, which provide a fair value of the loss that is inherent to debts whose collection lies in doubt.

The Group does not have significant concentration of credit risk, as a result of the Group's policy, which ensures that the sales are mostly made under standing orders or via credit cards.

## **19.2 Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the management, which have established an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements of the Group. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserves borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

## **19.3 Market risks**

The Group is exposed to risk from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities and anticipated future transactions.

### **19.3.1 Interest rate risk**

Interest rate risk comprises the interest price risk that results from borrowings at fixed rates and the interest cash flow risk that results from borrowings at variable rates.

The Group has an exposure to risk in respect of changes in the interest rate in the market, deriving from long-term loans that have been received and which bear variable rate interest.

Interest structure of non-current financial debt (including interest effects of derivatives):

<i>(in millions of euros)</i>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Financial debt at fixed rates	404,5	132,1
Financial debt at variable rates	834,6	88,3
<b>TOTAL</b>	<b>1 239,1</b>	<b>220,4</b>

Sensitivity tests for changes in interest rates are described as follows:

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Increase of 0.5% in the interest rate	0,4	(3,2)
Decrease of 0.5% in the interest rate	(0,4)	1,0

### **19.3.2 Israeli CPI risk**

The Group has borrowed from banks and issued debentures that are linked to the changes in the Israeli CPI. Also, the Group has deposits and gave loans that are linked to the changes in the Israeli CPI. The net amount of the financial instruments that are linked to the Israeli CPI and for which the Group is exposed to changes in the Israeli CPI amounted to approximately EUR 0,5 million (Hot Telecom) as of December 31, 2011.

### **19.3.3 Foreign currency risk**

The Group is exposed to foreign currency risk from transactions and translation. Transactional exposures are managed within a prudent and systematic hedging policy in accordance with the Group's specific business needs. Translation exposure arises from the consolidation of the financial statements of foreign operations in euros, which is, in principle, not hedged. The Group's objective is to manage its foreign currency exposure through the use of currency forwards, futures, swaps and options.

Exchange differences recorded in the income statement represented a loss of EUR 14,0 million in 2011 (2010: gain of EUR 33,8 million). They are allocated to the appropriate headings of expenses by function.

The Group estimates that a 10% variation of foreign currencies against euro parity is a relevant change of variables and reasonably possible risk in a year and the chart presented below allows assessing the impact of a 10% increase of foreign currencies against euro on net result and reserves. A 10% decrease would have a symmetrical impact with the same amounts but in the opposite direction.

#### ***December 31, 2011*** ***(in millions of euros)***

	<b>Israeli Shekel</b>	<b>Swiss Franc</b>	<b>Total</b>
<b>Profit for the year</b>			
Increase of 10% in exchange rate	(10,7)	(0,1)	(10,9)
Decrease of 10% in exchange rate	10,7	0,1	10,9
<b>Equity</b>			
Increase of 10% in exchange rate	(1,3)	(2,1)	(3,4)
Decrease of 10% in exchange rate	1,3	2,1	3,4

#### ***December 31, 2010*** ***(in millions of euros)***

	<b>Israeli Shekel</b>	<b>Swiss Franc</b>	<b>Total</b>
<b>Profit for the year</b>			
Increase of 10% in exchange rate	(0,7)	(1,9)	(2,6)
Decrease of 10% in exchange rate	0,7	1,9	2,6
<b>Equity</b>			
Increase of 10% in exchange rate	(6,2)	(0,3)	(6,5)
Decrease of 10% in exchange rate	6,2	0,3	6,5

#### 19.3.4 Price risk

The Group has investments in listed financial instruments, shares and debentures that are classified as available-for-sale financial assets and financial assets at fair value through profit or loss in respect of which the Group is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price. As of December 31, 2011, the carrying amount of these investments was EUR 8,5 million. An increase/decrease in the asset's market price of 10% would result in a change of EUR 0,850 million in the carrying amount of these investments.

### 19.4 Sensitivity tests in respect of a change in market factors

The sensitivity analysis in respect of financial instruments was performed under the assumption that the amount that was in force as of the statement of financial position date was in force throughout the reporting period.

The changes that have been selected as variables for the relevant risk were determined in accordance with management's assessment in respect of the possible reasonable changes in those risk variables.

### 19.5 Gearing computation

Gearing ratio (net debt (1) / total equity holders' equity (2)) amounts, respectively in 2011 and 2010, to 1,6 and 0,5.

#### Consolidated statement of financial position (in millions of euros)

	December 31, 2011	December 31, 2010
<b>Total assets in balance sheet</b>	<b>2 503,7</b>	<b>641,5</b>
Cash and cash equivalents	(19,8)	(18,6)
Trade payables	(208,2)	(52,8)
Other payables	(98,4)	(46,6)
Other non-current liabilities	(46,1)	(0,7)
Deferred tax liabilities	(123,7)	(26,2)
Current tax liabilities	(7,2)	(2,4)
<b>Total assets in balance sheet</b>	<b>2 000,4</b>	<b>494,3</b>
<b>Net Debt (short term and long term)</b>	<b>1 143,9</b>	<b>144,9</b>
Issued capital	7,4	7,8
Other reserves	232,9	254,9
Retained earnings	25,8	(13,7)
Retained earnings / (accumulated losses)	112,0	40,2
<b>Equity attributable to equity holders of the parent</b>	<b>378,1</b>	<b>289,2</b>
<b>Non-controlling interests</b>	<b>349,2</b>	<b>0,4</b>
<b>Total equity</b>	<b>727,2</b>	<b>289,6</b>
<b>Total equity and liabilities</b>	<b>1 871,2</b>	<b>434,5</b>
<b>Gearing</b>	<b>1,6</b>	<b>0,5</b>

(1) Excluding loan from related parties

## 20 Trade and other payables

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010 (unaudited)</b>
Trade payable	208,2	52,8	26,5
Trade payables - acquisition of assets	3,5	9,2	
Income tax	1,8	-	
Corporate and social security contributions	26,2	4,7	0,6
Corporate income tax payable	5,4	2,4	0,8
Current Deferred revenue	31,3	17,7	17,8
Other payables	37,4	12,6	5,6
Liabilities from related parties	-	2,3	-
<b>Total</b>	<b>313,8</b>	<b>101,7</b>	<b>51,3</b>

Most of the trade payables' and other payables' increases as of December 31, 2011 is a result of the Coditel and Hot Telecom business combination.

## 21 Other non current liabilities

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010 (unaudited)</b>
Non-current Deferred revenue	9,4	0,7	0,9
Other payables	36,7		-
<b>Total</b>	<b>46,1</b>	<b>0,7</b>	<b>0,9</b>

Other payables correspond to Israeli non-current payables: interest payable, royalties to the Israeli government, income in advance from customers (Hot Telecom Business combination).

## 22 Classification and fair value of financial assets and liabilities

On December 31, 2011 and 2010, the principles for measuring financial instruments and their market value breaks down as follows:

<i>(in millions of euros) - December 31, 2011</i>	<b>Book value</b>	<b>Amortised cost</b>	<b>Fair value through profit/loss</b>	<b>Fair value Assets available for sale</b>	<b>Derivative instruments</b>
<b>Current assets</b>					
Cash and cash equivalents	19,8	19,8	-	-	-
Trade receivables	102,7	102,7	-	-	-
Other receivables	17,2	17,2	-	-	-
<b>Non-current assets</b>					
Restricted cash	41,4	41,4	-	-	-
Investments in financial assets available for sale	-	-	-	-	-
Available for Sale	8,5	-	-	8,5	-
Long term trade receivables	2,4	2,4	-	-	-
Other long-term trade receivables	28,4	24,2	-	-	4,3
	<b>220,3</b>	<b>207,5</b>	<b>-</b>	<b>8,5</b>	<b>4,3</b>
<b>Current liabilities</b>					
Credit from banking corporations and debentures	241,8	241,8	-	-	-
Trade payables	208,2	208,2	-	-	-
Others payables	98,4	98,4	-	-	-
Short-term loans from related parties	2,9	2,9	-	-	-
<b>Non-current liabilities</b>					
Loans from banking corporations and debentures	835,2	835,2	-	-	-
Long-term loans from related parties	127,1	127,1	-	-	-
Other financial liabilities	32,1	28,3	3,8	-	-
Other non-current liabilities	46,1	46,1	-	-	-
	<b>1 591,8</b>	<b>1 588</b>	<b>3,8</b>	<b>-</b>	<b>-</b>



**Altice VII S.à r.l.**  
**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

<i>(in millions of euros) - December 31, 2010</i>	<b>Book value</b>	<b>Amortised cost</b>	<b>Fair value through profit/loss</b>	<b>Assets available for sale</b>	<b>Fair value Loans and receivables</b>	<b>Derivative instruments</b>
<b>Current assets</b>						
Cash and cash equivalents	18,6	18,6	-	-	-	-
Trade receivables	50,9	50,9	-	-	-	-
Other receivables	16,4	16,4	-	-	-	-
<b>Non-current assets</b>						
Restricted cash	0,2	0,2	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Available for Sale	-	-	-	-	-	-
Long term trade receivables	3,0	3,0	-	-	-	-
Other long-term trade receivables	-	-	-	-	-	-
	<b>89,1</b>	<b>89,1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>						
Credit from banking corporations and debentures	81,3	81,3	-	-	-	-
Trade payables	52,8	52,8	-	-	-	-
Others payables	46,6	46,6	-	-	-	-
Short-term loans from related parties	0,4	-	-	-	-	-
<b>Non-current liabilities</b>						
Loans from banking corporations and debentures	71,4	71,4	-	-	-	-
Long-term loans from related parties	61,9	61,9	-	-	-	-
Other financial liabilities	5,5	-	-	-	-	-
Other non-current liabilities	0,7	0,7	-	-	-	-
	<b>320,5</b>	<b>320,5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The classification of financial instruments in accordance with hierarchical levels for fair values:

The financial instruments that are presented in the statement of financial position in accordance with their fair value are classified in accordance with groups that have similar characteristics, into hierarchical levels for fair values, as aforesaid, which are determined in accordance with the source of the input that was used for determining the fair value:

- Level 1 - Quoted prices (without adjustments) in an active market for identical assets and liabilities. As of December 31, 2011 the Group has no financial assets or liabilities that meet the definition of Level 1.
- Level 2 - Inputs other than quoted prices that are included in level 1, which can be observed directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (an evaluation technique that does not use observable market data).

As of December 31, 2011, classification of financial instruments' issue mainly concerns HOT Telecom perimeter:

<i>HOT Telecom As of December 31, 2011, in millions of euros</i>	Level 2	Level 3
Available for sale financial asset:		
Shares		8,5
Financial assets at fair value through profit or loss:		
Forward contracts in foreign currency that are not defined as accounting hedges	5,1	
<b>Financial liabilities at fair value through profit or loss:</b>		
Embedded derivatives	(0,4)	
Interest rate swap contract	(0,2)	
Liability to the Ministry of Communications		(3,8)
	<u>4,5</u>	<u>4,7</u>

## 23 Taxes income

### 23.1 Income tax expense

<i>(in millions of euros)</i>	December 31, 2011	December 31, 2010
Current income tax	0,2	(1,6)
Carry back	(0,2)	-
Deferred taxes on deductible temporary differences	(32,4)	(0,5)
<b>TOTAL</b>	<u>(32,5)</u>	<u>(2,2)</u>

### 23.2 Deferred tax assets and liabilities

<i>(in millions of euros)</i>	December 31, 2010	Business combination	From equity	From profit and loss	December 31, 2011
Other	-	-	-	0,2	0,2
IAS 16, Property, Plant and Equipment	-	-	-	0,1	0,1
IAS 38, Intangible assets	-	-	-	-	-
<b>Total deferred taxes assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0,3</u>	<u>0,3</u>
<i>(in millions of euros)</i>	December 31, 2010	Business combination	From equity	From profit and loss	December 31, 2011
Customer relationships	6,9	44,0	(1,1)	2,3	52,0
Brand	3,1	6,0	0,1	0,1	9,3
Other Intangible assets	-	10,3	(0,3)	13,9	23,9
Revaluation of Tangible assets	1,0	10,6	(0,4)	(0,3)	11,0
IAS 23, Borrowing Costs	-	-	-	3,6	3,6
IAS 36, Depreciable fixed assets	-	1,5	(0,1)	(12,6)	(11,1)
Present value of YFPECS financial instrument	9,2	-	-	(0,2)	9,0
Temporary differences	6,5	-	(6,4)	22,8	22,8
Other	(0,4)	-	0,5	2,9	3,1
<b>Total deferred taxes liabilities</b>	<u>26,3</u>	<u>72,4</u>	<u>(7,6)</u>	<u>32,6</u>	<u>123,7</u>

### 23.3 Reconciliation between the effective tax rate and the theoretical tax rate

<i>(in millions of euros)</i>	<b>December 31, 2011</b>
<b>Net income</b>	<b>123,9</b>
<b>Share of net income - associates</b>	<b>(11,7)</b>
<b>Share of net income - shareowners</b>	<b>112,3</b>
Income tax expenses	(32,5)
<b>Earnings/(Loss) before tax</b>	<b>156,6</b>
Theoretical tax rate	28,80%
Income tax calculated on theoretical tax	(45,0)
<b>Impact of:</b>	
Effect of different tax rates of subsidiaries depending in other jurisdictions	7,9
Permanent differences	10,6
Restatements without tax impact	3,6
Carry-back	(0,2)
Tax loss carry forwards of the periods	(9,7)
Effect of unused tax losses not recognized as PTA	0,3
<b>Effective Tax</b>	<b>(32,5)</b>
<b>Effective tax rate</b>	<b>27,66%</b>

The permanent differences mainly consist of:

- Reversal of the amortization of goodwill booked in the annual accounts of Solution 25 (Green.ch) for an amount of EUR 1,1.
- Elimination of a profit on internal operation on the sale of the shares of HOT Mobile by Altice Securities S.à r.l. to HOT Telecom Ltd, amounting to EUR 10,8 million.

### 23.4 Tax assessments

In December 2009 and in the course of the year 2010, HOT received tax assessments for the 2006-2008 tax years, in accordance with section 145(A)(2)(b) of the Income Tax Ordinance in Israel. In accordance with the tax assessments, expenses amounting to approximately EUR 220 million were adjusted for HOT for tax purposes as of the end of the year 2008, and this was as a result of a disagreement between HOT and the Tax Authority in Israel, primarily in respect of the pace of the recognition of depreciation expenses in respect of the cables network and additional issues. If the said position of the Tax Authority in relation to the assessments that were issued to HOT in respect of the 2006, 2007 and 2008 tax years is received, HOT will be exposed to a demand for the payment of tax in a cumulative amount of EUR 24 million. Linkage differentials and interest will be added to this amount.

Furthermore, HOT will be exposed to a demand for the payment of additional taxation in significantly larger amounts in respect of the 2009 tax year, and this will be significantly different from HOT's position.

HOT's management, on the basis of its position in the self-assessments and based upon its legal advice, has presented an objection against the tax assessments for the years 2006 – 2008 and in the opinion of the HOT's management and its professional advisers, HOT has well founded arguments against the claims made in the tax assessments for the years 2006 – 2008, which could significantly change the results of the tax assessments for those years and in any event, also the implications deriving from them in respect of the tax years later than 2008.

At the present time, discussions are being held on the assessments, within the framework of Stage B for the years 2006 – 2008 and within the framework of Stage A for the 2009 tax year. A number of issues have come within the framework of the discussions including the manner of the amortization of the intangible assets – brand, goodwill and customer relationships. Up to the time of the publication of the financial statements, no assessment has yet been issued in respect of the aforesaid.

A provision of EUR 2 million has been recorded within the framework of the financial statements in respect of the HOT's estimated exposure in respect of the dispute with the tax authorities in respect of open tax years.

HOT has been issued with final tax assessments up to and including the 2005 tax year. The consolidated companies HOT Haifa and HOT Eidan have been issued with final tax assessments up to and including the 2001 tax year. The consolidated companies HOT Edom and Hot Net (formerly HOT Investments and Finance) have been issued with final tax assessments up to and including the 2002 tax year. The consolidated company HOT T.L.M. has been issued with final tax assessments up to and including the 2004 tax year. The consolidated companies Drom Hasharon and HOT Properties have been issued with final tax assessments up to and including the 2008 tax year.

The consolidated companies HOT T.L.M., HOT Eidan and HOT Haifa have tax assessments that are considered to be final up to and including the 2005 tax year. The consolidated companies HOT Edom, Hot Net (formerly HOT Investments and Finance) and Mirs have tax assessments that are considered to be final up to and including the 2006 tax year. The said assessments are considered to be final subject to the powers that have been afforded to the Director of the Tax Authority in Israel in accordance with sections 145, 147 and 152 of the Income Tax Ordinance.

### ***23.5 Unrecognized deferred tax assets***

As at December 31, 2011, unrecognized deferred tax assets amount to EUR 33,4 million and split as follows:

- Cool Holding: EUR 26,7 million
- Coditel Holding Lux S.à r.l.: EUR 5,8 million
- Coditel Brabant: EUR 0,9 million

## **24 Segment analysis**

### **24.1.1 Definitions of segments**

Given the geographic spread of the various Group entities, it logically follows that an analysis and control by geography is inalienable to Group strategy of managing its different businesses. It has thus been decided by the central management team to analyse the business across geographies and then by activity. The following geographies have been identified:

- Israel
- Belgium and Luxembourg (Western Europe)
- French Overseas Territories (Caribbeans and Indian Ocean)
- Other (Switzerland, Africa, etc.)

Activities have been split as follows:

- Cable
- Mobile
- Others (B2B/Content/etc.)

#### **24.1.1.1 Operational non-IFRS KPIs**

It has also been decided by the Board of Managers that local operational teams in each geography shall report operational non-IFRS KPIs every week and operational and financial KPIs every month using a standard reporting format defined by the central team.

The main operational non-IFRS KPIs that will be tracked will be:

- Subscriber base evolution (both cable and mobile)
- Average Revenues Per User (cable and mobile)
- Other relevant cost drivers

These non-IFRS KPIs are benchmark indicators followed throughout the industry and allow for a thorough and accurate analysis of the business and strategic decision making.

#### **24.1.1.2 Financial KPIs**

Each local operational company will also report the following financial KPIs by segment:

- Revenues (Cable/Mobile/Other)
- Gross Profit (Cable/Mobile/Other)
- Capex (Cable/Mobile/Other)

The central team believes that given the uniformity in the accounting and nature of operating expenses and given the experience and competence of the Group in managing operating costs, the main indicator that can vary between business units is the gross margin.

HOT Telecom will also report EBITDA on cable and mobile, in addition to the KPIs mentioned above. This derives from the size of the mobile business and the fact that historically, this business had separate reporting for these two activities and also because local regulation require operators to report the EBITDA on these segments.

Capital expenditure (Capex) is an important indicator to follow, as the profile varies greatly between the two activities:

- The cable business has discretionary fixed Capex requirements, but variable Capex are driven by commercial development, as an increase in customers drives the needs for Customer Premise Equipment (CPE) and installation.
- Mobile Capex are mainly driven by the roll-out of new mobile network and licences to operate. Once the Capex is engaged and the business operational, there is limited Capex requirement.

Thus, the Board of Managers places a great emphasis on the proper tracking of capital expenditures and reviewing them against the costs budgeted for the year.

Management believes that operations in Switzerland and activities such as B2B sales are not yet substantial enough to warrant a separate reporting segment and will be reported under 'Others'. However, as these activities grow, it is intended that they are also reported under a separate segment with relevant operating KPIs specific to the activity. Financial KPIs are expected to remain the same. The same applies to any new line(s) of business that the Group may decide to venture into (for e.g., content etc.).

## **24.1.2 Regional specificities**

### **24.1.2.1 Israel**

Israel is currently an important contributor to the Group revenues and EBITDA and, for this reason, is classified as a separate region. The Israeli market is characterised by high broadband and cable penetration and a technology savvy population. The market is matured and highly regulated, which means that while opportunities for growth exist, they may be limited by specific regulatory challenges and also by high competition, thus leading to price pressures on ARPU development.

Triple play penetration is still low and represents an important growth driver. Customer retention is difficult as contractual terms heavily favor the customer and, hence, price increases, even when coupled with high value content, can be negatively perceived and lead to an erosion of the customer base.

The regulatory environment does not yet allow for quadruple play packages, which heavily restricts achieving full integration and operational synergies with the mobile business. The prevailing political environment in the region can also have adverse impacts on the development of the business, as a deterioration of the situation may have serious repercussions on the market environment and may even lead to physical damage of the infrastructure.

### **24.1.2.2 Belgium and Luxembourg**

Even though Belgium/Luxembourg can be considered to be the same sub-region, the challenges posed by these two regions are quite different.

The Belgian and Luxembourg territories have a high standard of living and well developed economies, which translates into higher prices for services. The markets are quite mature, with high broadband penetration and a high percentage of triple play customers. Customers are willing to pay more for premium services (high ARPU per subscriber) and hence price pressure is low.

These regions are marked by the presence of many very local but well-established cable operators. Customer retention is a key factor there, to maintain strong profit margins.

Given the density and presence of mobile operators, the mobile strategy is driven by MVN operations, which allows the presence of quadruple play packages.

### **24.1.2.3 French Overseas Territories**

The French Overseas Territories represent an attractive market with high scope of growth in cable operations, owing to relatively limited competition and relatively low cable penetration. There is also a large scope for synergies between the cable and mobile businesses, and triple play penetration remains low and regulatory flexibility allows the marketing of quadruple play options.

Price pressure is low in these markets and customers, highly technology-savvy, are willing to pay more for value added services. Double play (TV and Internet) offers are predominant and the migration of new and existing customers to triple and quadruple play packages in the future will be an important factor in growing sales.

There are other opportunities for growth in the sector, most notably in the e-banking sector.

### 24.1.3 Segment information

Details regarding revenues, cost of sales and gross profit for our cable, mobile and other segments are as follows:

<b>December 31, 2011</b> <i>(in millions of euros)</i>	<b>Total</b>	<b>BeLux</b>	<b>Israel</b>	<b>French Overseas Territories</b>	<b>Others</b>
<b>Cable</b>					
Revenue	560,3	34,5	499,7	23,6	2,5
Costs of sales	(125,3)	(6,9)	(114,1)	(3,8)	(0,5)
<b>Gross Profit</b>	<b>435,0</b>	<b>27,6</b>	<b>385,6</b>	<b>19,8</b>	<b>1,9</b>
<b>Mobile</b>					
Revenue	180,6	-	180,6	-	-
Costs of sales	(31,0)	-	(31,0)	-	-
<b>Gross Profit</b>	<b>149,7</b>	<b>-</b>	<b>149,7</b>	<b>-</b>	<b>-</b>
<b>Other</b>					
Revenue	43,3	0,4	-	-	42,9
Costs of sales	(19,1)	(0,5)	-	-	(18,7)
<b>Gross Profit</b>	<b>24,1</b>	<b>(0,1)</b>	<b>-</b>	<b>-</b>	<b>24,2</b>
<b>Total</b>					
<b>Total Revenue</b>	<b>784,2</b>	<b>34,8</b>	<b>680,4</b>	<b>23,6</b>	<b>45,4</b>
<b>Total Costs of sales</b>	<b>(175,4)</b>	<b>(7,3)</b>	<b>(145,1)</b>	<b>(3,8)</b>	<b>(19,2)</b>
<b>Total Gross Profit</b>	<b>608,8</b>	<b>27,5</b>	<b>535,3</b>	<b>19,8</b>	<b>26,2</b>

**Altice VII S.à r.l.**  
**Notes to the consolidated financial statements (Continued)**  
**December 31, 2011**

<b>December 31, 2010</b> <i>(in millions of euros)</i>	<b>Total</b>	<b>BeLux</b>	<b>Israel</b>	<b>French Overseas Territories</b>	<b>Others</b>
<b>Cable</b>					
Revenue	22,5	-	-	19,9	2,6
Costs of sales	(3,4)	-	-	(2,9)	(0,5)
<b>Gross Profit</b>	<b>19,0</b>	<b>-</b>	<b>-</b>	<b>16,9</b>	<b>2,1</b>
<b>Mobile</b>					
Revenue	103,5	-	103,5	-	-
Costs of sales	(33,3)	-	(33,3)	-	-
<b>Gross Profit</b>	<b>70,1</b>	<b>-</b>	<b>70,1</b>	<b>-</b>	<b>-</b>
<b>Other</b>					
Revenue	41,2	-	-	-	41,2
Costs of sales	(17,2)	-	-	-	(17,2)
<b>Gross Profit</b>	<b>24,0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,0</b>
<b>Total</b>					
<b>Total Revenue</b>	<b>167,2</b>	<b>-</b>	<b>103,5</b>	<b>19,9</b>	<b>43,9</b>
<b>Total Costs of sales</b>	<b>(54,0)</b>	<b>-</b>	<b>(33,3)</b>	<b>(2,9)</b>	<b>(17,7)</b>
<b>Total Gross Profit</b>	<b>113,2</b>	<b>-</b>	<b>70,1</b>	<b>16,9</b>	<b>26,1</b>

**EBITDA split for Israel**

*(In millions of euros)*

	<b>2010</b>	<b>2011</b>
Cable	-	212,4
Mobile	24,1	43,7
<b>Total</b>	<b>24,1</b>	<b>256,1</b>



## 25 Operating expenses

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Technical and maintenance costs	(185,0)	(19,3)
Customer services	(9,9)	(2,4)
Personnel costs	(0,5)	(0,2)
<b>Total</b>	<b>(195,4)</b>	<b>(21,9)</b>

The increase in operating expenses at Group level between FY10 and FY11 is mainly explained by the various acquisitions made by the Group in FY11. The acquisition of Coditel Brabant and Coditel S.à r.l. and the change in consolidation method for HOT led to a EUR 114,5 million increase in Technical and Maintenance costs.

## 26 Staff costs and employee benefits expenses

Equity based compensations are included in the line item General & Administrative expenses for the year ended December 31, 2010 and amounted to EUR 2,4 million, fully attributable to HOT Telecom. For the year ended December 31, 2011 equity based compensations amounted to EUR 6,0 million, split as follows; EUR 3,6 million for HOT Telecom and EUR 2,4 million for Cool Holdings.

## 27 Other incomes and expenses

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Other incomes and expenses	(5,3)	(8,3)
Disposal of tangible assets - selling price and book value of disposal/tangible assets	(0,3)	0,8
<b>Other expenses, net</b>	<b>(5,6)</b>	<b>(7,4)</b>
Gain arising on step acquisition (1)	134,8	1,0
Expenses from prior periods	(7,5)	(3,9)
Restructuring costs	(0,1)	(0,2)
Subvention	-	0,2
<b>Reorganization and non-recurring costs</b>	<b>127,2</b>	<b>(2,9)</b>
<b>Total</b>	<b>121,5</b>	<b>(10,3)</b>

- (1) *Gain from achieving control (acquisition of Hot Telecom): the amount of the investment in HOT Telecom prior to achieving control, in accordance with the equity method of accounting has been revalued in accordance with the HOT's share price as of the said time, such that in the Altice VII financial statements as of December 31, 2011 income has been recorded on the revaluation of the investment in the affiliate, which became a consolidated company; as a result, HOT's assets and liabilities previously accounted for in accordance with equity method of accounting have been revalued for EUR 133,0 million.*

## 28 Net Finance costs

<i>(in millions of euros)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Gain arising on fair value financial instruments	6,4	-
Foreign exchange gains	6,8	42,2
Disposal of financial assets - selling price	3,0	(0,1)
Other financial incomes and expenses	0,4	1,0
<b>Finance income</b>	<b>16,6</b>	<b>43,2</b>
Interest charges on borrowings and overdrafts (1)	(70,2)	(7,3)
Other finance costs	-	(0,2)
Foreign exchange losses	(20,8)	(8,5)
Book-value of disposal/financial assets	(20,7)	(1,9)
<b>Finance costs</b>	<b>(111,6)</b>	<b>(18,0)</b>
<b>Total</b>	<b>(95,0)</b>	<b>25,2</b>

(1) Breakdown of interest charges on borrowings and overdrafts:

- Finance costs on bonds: EUR 19,4 million,
- Finance costs in respect of bank charges: EUR 22,3 million,
- Finance costs on long-term loans credit facilities: EUR 17,1 million.

## 29 Average workforce

The average workforce of the Group is detailed as follows:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Managers	280	173
Technicians	604	362
Employees	5 152	4 585
	<b>6 036</b>	<b>5 120</b>

## 30 Transaction with related parties

### 30.1 Trading and financial transaction

Transactions with related parties mainly related to the companies AdevinTel, Titan consulting and DOK, all consulting firms specialized in the management and operations of telecom companies. The fees paid to these companies include recurring fees paid based on service level agreements established with Altice VII, one-off success fees for the successful completion of acquisitions or negotiations with banks on debt contracts/bond issuance and reimbursement of any outlays and expenditures incurred by the employees of these companies when working on behalf of Altice VII.

Consolidated Income and expenses (in millions of euros)	Revenue		Operating expenses		financial expenses	
	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Equity holders	-	0,4	-	(3,1)	-	-
Executive directors	-	-	-	-	-	-
Remuneration and benefits in kind	-	-	-	(1,1)	-	-
Associate companies	-	-	-	-	-	(0,1)
<b>TOTAL</b>	<b>-</b>	<b>0,4</b>	<b>-</b>	<b>(4,2)</b>	<b>-</b>	<b>(0,1)</b>
<b>Assets</b>	<b>Loans and receivables</b>		<b>Trade accounts receivable and other</b>		<b>Current accounts</b>	
(in millions of euros)	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Equity holders	-	10,5	-	0,2	-	-
Executive directors	-	-	-	-	-	-
Associate companies	-	1,0	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>11,5</b>	<b>-</b>	<b>0,2</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>	<b>Other financial liabilities</b>		<b>Trade accounts payable and other</b>		<b>Current accounts</b>	
(in millions of euros)	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Equity holders	-	-	-	4,5	-	-
Executive directors	-	-	-	-	-	-
Associate companies	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,5</b>	<b>-</b>	<b>-</b>

### 30.2 Compensation of key management personnel

The compensation given to the managers, in respect of their duties as Chairman of the Executive Board or member of the Executive Board of Altice VII, for the financial year 2011, is EUR 0,9 million.

## 31 Contractual obligations and commercial commitments

### 31.1 Hot Telecom commitments

#### 31.1.1 Commitments

##### 31.1.1.1 Royalties to the ministry of Communications and other payments to the government

HOT is committed to pay annual royalties out of its overall income that is chargeable with royalties (hereinafter - the chargeable income) at rates of 2,5% in the year 2007, 2% in the course of the year 2008, 1,5% in the year 2009 and 1% in the year 2010. In accordance with the Telecommunications Regulations (Telecommunications and Broadcasts) (Royalties) (Temporary Directives) - 2011, which apply to the royalties that are paid by HOT Telecom in respect of national provider services, in the years 2011 - 2012 the royalties rates have been increased and they stand at a rate of 1,75%, which has been determined for the year 2011 and a rate of 2,5%, which has been set for the year 2012.

In addition, conditions have been set in the regulations, which if met will cause the expiration of the validity of the temporary directives.

In accordance with the Telecommunications Regulations (Telecommunications and Broadcasts) (Royalties) (Temporary Directives) - 2011 (hereinafter - The temporary directives), which apply to the royalties that are paid by HOT Telecom in respect of national provider services, the royalties will stand at 1% in the year 2013. It was further determined that in the event that competition arises in the sector by way of the entry of additional competitors, the said increases will be cancelled.

On June 13, 2011 the Finance Committee approved an amendment to the Concession Regulations, according to which the royalty rate will stand at 2,5% as from July 1, 2011 and until December 31, 2012. During the course of March 2011 HOT Telecom filed a petition in the High Court for the cancellation of the temporary directive. Petitions were also filed on this issue by the mobile telephone companies Pelephone, Partner and Cellcom as well as by Bezeq.

In continuation of the compromise proposal, which was suggested by the Court and accepted by the State, on July 25, 2011 the Finance Committee of the Israeli parliament (The Knesset) approved an amendment to the concession regulations, according to which the royalties that are paid by a holder of a cable broadcasting license holder in the years 2011 and 2012 will stand at a rate of 1,75%. Furthermore, draft regulations were passed to the Legislation Sub-Committee in the Ministry of Justice according to which the rate of the royalties that are paid by HOT and by HOT Telecom, under the Concessions Regulations and the Royalties Regulations, respectively, at a rate of 1,75% in the years 2011 and 2012 and thereafter, in the year 2013 will be reduced to 0%.

In accordance with the decision handed down by the Court, on August 2, 2011, HOT Telecom announced that it was accepting the State's announcement and that it was asking that after the approval of the Regulations, the validity of a court judgment should be given to the agreement by the parties to the proposed compromise. Since the implementation of the arrangement that was proposed by the Court required the amendment of regulations, which are subject to the approval of the Finance Committee of the Knesset, the State announced to the Court that a draft of the regulations had been prepared accordingly. In continuation of this, on January 30, 2012 the Finance Committee approved an amendment to the Telecommunications Regulations (Concessions) according to which the royalties that are paid by a holder of a cable television broadcasting license will stand at a rate of 0% as from 2013. A parallel amendment to the Telecommunications Regulations (Royalties), which apply to HOT Telecom has not yet been approved by the Finance Committee.

In accordance with the Telecommunications Regulations (Telecommunications and Services) (Royalties) - 2001 (hereinafter - the Royalties Regulations), Mircs is required to pay royalties to the State each quarter, as a percentage of its income from radio telephone services, less the payments that Mircs has to pay to another license holder (in respect of a reciprocal connection or roaming services).

In January 2011 the Royalties Regulations were amended by means of a temporary directive, where according to the temporary directive the royalty rate for the years 2011 and 2012 is 1,75% and 2,5% respectively. It was also determined that the amendment would remain until the Director of the Ministry of Communications publishes an announcement in the Official Gazette that one of the following has been met: (a) A holder of a general license for the provision of radio telephone services has begun to provide In Country roaming services; (b) a holder of another license as a virtual operator (MVNO) has begun to operate, and the market share of all of the virtual radio telephone operators is at least 5%. After one of the two aforesaid situations has arisen, the royalties' rate will once again stand at 1%.

In March 2011 petitions were filed in the High Court seeking to cancel the temporary directive. During a hearing on the petitions, which was held on June 16, 2011, the Court raised a suggestion that the royalty rate should stand at 1,75% in 2012, whereas in respect of the following years the royalties rate should be reduced until the royalties were absolutely cancelled in 2012, unless "circumstances that have significantly adverse implications on the state of the economy at the relevant times" were to occur. In accordance with a decision by the Court, the State was required to announce its position in relation to the offer by August 1, 2011. On January 3, 2012 the State presented draft regulations for the approval of the Finance Committee of the Knesset. As of the date of the report, the Finance Committee has not yet approved a version of the draft regulations and no date has yet been set for an additional hearing.

In July 2001 the cables companies, including HOT, entered into a commitment under an agreement with the State of Israel on the subject of a solution to the disputes between the cable companies and the State in respect of the right of each company to operate the existing cables infrastructure in each of the concession areas after the end of the period of the concessions.

It was stipulated in the agreement that the State undertakes to waive all of its claims and its rights in respect of the cables infrastructure such that each cables company would be the owner of all of the rights, including property rights, in the cables infrastructure that it held in the area of its concession and that it would have available to it the right to continue to operate it even at the end of the concession period. In consideration for this, it was stipulated that each company was to pay to the State, on an annual basis and for a period of 12 years (commencing on January 1, 2003), its relative share, as determined in the agreement, of an amount that is equivalent to the multiple of certain incomes (as determined in the agreement) of each of the cable companies on a graduated scale (in accordance with the level of income, as aforesaid) at a rate of from 0% to 4%. The relative share of each company can be altered by agreement between the cables companies.

In addition, it was stipulated that each company is to pay approximately 12% of the overall consideration from the sale of operations that are executed through the cables infrastructure or which touch upon the cables infrastructure (as defined in the agreement) for a period of 12 years. It was also stipulated in the agreement that in so far as HOT has received any amount whatsoever in consideration for the issuance of its shares to the public or to an external investor or in consideration for the sale of shares of another company from among the cables companies, part of the consideration from the issue or the sale, as aforesaid, is to serve as an advance payment for the payment of the relevant portion of the consideration that remains to be paid under the agreement, in accordance with a formula that will be determined by the parties by agreement. It is further stipulated in the agreement that it shall apply to the cables companies or to any company that is split or merged even if structural changes are made of any sort whatsoever, and accordingly, with the completion of the merger, the agreement applies to HOT as a merged company.

In accordance with the Wireless Telegraph Regulations (Licensing, Certificate and Levies) – 1978, Mirs is required to pay a fixed annual payment for each frequency that it uses. *Mirs paid an amount of NIS 20 million in respect of the year 2011 (an amount of NIS 2 million in respect of December 2011).*

The license to operate a broadcasting center: It is determined in the broadcasting center operating license that the license holder is to pay a fee for the license at such rates and at such times as may be determined by the Ministry of Communications in accordance with the Communications Law and the Wireless Telegraph Ordinance (New Version) – 1972.

### **31.1.1.2 Other royalties**

Within the framework of the Group's routine operations in the field of broadcasting, the Group enters into commitments under arrangements and agreements under which the Group pays royalties to various authors' organizations. The amounts of the royalties that have been reflected by the Group within this context in the years 2011, 2010 and 2009 amounted to NIS 40 million, NIS 51 million and NIS 29 million, respectively.

On January 30, 2012 a draft of the Authors and Performers Law (Judgment on Royalties Issues) -2012 (hereinafter, in this section – the draft law) was placed before the Knesset. The draft law was intended to create a royalties court by empowering one of the District Court Judges to hear cases in royalties issues, royalty rates and disputes in royalty issues (in other words, a dispute on the issue of royalty rates between a collective management entity and a user or users of a repertoire).

This draft, if it is accepted, may have an implication for the issue of the payment of royalties to various organizations. HOT is unable to assess, as of the date of this report, what the impact of the said legislation, if passed, will be on its business results.

### **31.1.1.3 A commitment to invest in original productions**

In accordance with the provisions of the Communications Law, the rules of the communication and the decision made by the Council require HOT, inter alia, to invest amounts in original productions at a rate of 8% of its annual income from subscription fees. During the course of the years 2009, 2010 and 2011 HOT complied with the investment rate that is required, as aforesaid.

### **31.1.1.4 Agreement to deploy and maintain a cables network**

On January 1, 1990 and on May 1, 1989 Tevel International Transmission for Israel Ltd. and HOT Gold & Co. (hereinafter together – The cable companies) entered into commitments under agreements for the provision of planning, installation and maintenance services of the cables network with Bezeq (the provisions of both of the said agreements are similar, and they will hereinafter in this section be called - the agreement). This agreement was endorsed to HOT Telecom as part of the merger agreement.

In accordance with the agreement, Bezeq, Tevel and HOT Gold planned the cables network, inter alia, based on Bezeq's available infrastructure, which was deployed in the areas of the concession at the time of the signing of the agreement. Tevel and HOT Gold supplied Bezeq with the base equipment (as defined in the agreement) that comprises the cables network and Bezeq supplied the additional equipment (as defined in the agreement) that is used for setting up the cables network.

In accordance with the agreement, a cables network was set up and deployed in a number of major cities across Israel, and Bezeq conducts the routine maintenance of the cables network and also provides miss function repair services. The provisions of the agreement also relate, inter alia, to the possibility of the expansion of the cables network to additional facilities, the connection of new houses and of new neighborhoods.

It is determined in the agreement that it will remain in force for the length of the period of the concession, and that it will continue to be in force if the concession or the rights in the concession are transferred or afforded to another, in whole or in part and directly or indirectly, during the course of the original concession period or after the end of it. Bezeq is only entitled to cancel the agreement in respect of a breach for which notice has been given in writing, and which has not been repaired within six months.

A consideration mechanism was set in the agreement, according to which HOT Telecom pays sums against the performance of Bezeq's commitments to setup, to maintain and to provide missfunction repair services, which are calculated in accordance with the length of the cables networks that have been deployed, in accordance with the various types of networks and it also makes non-recurring payments in respect of certain activities. In accordance with the agreement, the amount of the consideration in respect of the length of the cable, as aforesaid, is reduced by approximately 65% after 12 years from the time of the handing over of each section.

The total of the expenses in HOT Telecom's accounting records for the network services payable to Bezeq in the years 2011, 2010 and 2009 amounted to NIS 46 million, NIS 43 million and NIS 42 million, respectively.

It should be noted that from time to time, during the routine course of business, disputes arrive in connection with the implementation of the agreement, inter alia in respect of the division of the costs that are involved in the performance of some of the services that are supplied by Bezeq under the agreement, however the parties are continuing to operate in accordance with the agreement. It is further noted that over the course of the years additions have been signed to the agreement, primarily in connection with enhancement and upgrading work on the cables network.

#### **31.1.1.5 Commitments to lease assets**

The Group has commitments under agreements for the leasing of buildings and motor vehicles for various periods up to the end of the year 2014. The minimal future rental fees in respect of the rental contracts as of December 31, 2011, exclusive of the option period, are as follows:

	<b>NIS in millions</b>	<b>EUR in millions</b>
2011	136	27,3
2012	106	21,3
2013	70	14,0
2014	48	9,6
2015 and thereafter	54	10,8
<b>TOTAL</b>	<b>414</b>	<b>83,0</b>

On July 19, 2011 HOT's Board of Directors approved a commitment under agreements for the execution of the upgrading of the fiber optic infrastructure (Fiber to the Building). In accordance with the said commitment, HOT Telecom will purchase advanced optic equipment, work and services from third parties, in order to upgrade the infrastructures, in accordance with the deployment and the timetables that will be agreed upon between the parties from time to time. The cost of the upgrading of the infrastructure, as aforesaid, which includes the cost of the purchase of the equipment and the services, for a period until the end of the year 2014, is estimated at NIS 550 million by HOT, at this stage (over the length of the said period). The updating of the infrastructure, as aforesaid, will enable the expansion of the traffic capacity on the network, in favor of the supply of enhanced VOD services, the increasing of the number of channels that the Group can offer to its subscribers, faster internet services and it will also enable HOT to deal with increased demand for traffic capacity on the network in the future, which is expected to arrive as a result of the increased use of applications that require a considerable band width.

On May 27, 2010 a facility agreement was signed between Mirs and Motorola for the purchase, licensing and instillation of the infrastructure equipment (hardware and software) which is required in order to operate Mirs' iDEN network. The agreement is in force for a period of five years from the time that it was signed (hereinafter –the initial period) and it will be renewed for additional periods of one year each (or for a longer period that is agreed between the parties), unless a party to the agreement gives notice to the other party, 90 days before the end of the initial period, or one of the extension periods, as the case may be, of its desire to terminate the commitment. The agreement arranged the commitment between the parties for the purpose of the execution of the work orders that will be presented to Motorola, from time to time, by Mirs for the purpose of the supply of equipment or software for the iDEN network.

Within the framework of the agreement, Motorola has undertaken that during the initial period it will hold an inventory of equipment that will enable it to immediately supply the components that are required for the proper functioning of Mirs' iDEN network, and so that it will be capable of supplying Mirs with the maintenance services for the equipment infrastructure and the software that is required to operate the network for a period of seven years from the time of the signing of the agreement, subject to the purchase of the said maintenance services by Mirs.

In consideration for Motorola's commitment to sell the equipment and the licenses to Mirs at the prices that are denoted in the agreement, Mirs has made a commitment to purchase the infrastructure equipment and the software that is required to operate the iDEN network exclusively from Motorola during the period of the agreement.

As part of the commitment with Motorola in respect of the infrastructure for the iDEN network, Mirs has signed on a system maintenance agreement with Motorola as well as on an agreement for the maintenance of the equipment and the hardware for the system, which arrange the manner of the repair of missfunctions and the provision of support by Motorola for Mirs' iDEN network.

In December 2011 the system maintenance agreement was extended for an additional period of three years, until the end of 2014.

On May 26, 2010, as part of the sale of the control in Mirs to Altice, Mirs entered into a commitment under an agreement with Mobility for the purchase of terminal equipment that supports the iDEN technology.

The agreement is in force for a period of 5 years and it will be renewed for additional periods of one year each time unless a party to the agreement gives notice to the other party, 60 days before the end of the initial period, or one of the extension periods, as the case may be, of its desire to terminate the commitment.

The agreement arranged a mechanism for the ordering and supply of the terminal equipment (including quarterly forecasts by Mirs) with Mirs being responsible for the importing of the terminal equipment from abroad.

The supplier has received an option and the right of first refusal for the repurchase from Mirs of all of the terminal equipment that it may be holding at the time of the termination of the agreement, in accordance with a mechanism that was set in the agreement.

Within the framework of the preparations for the setting up of the new network, Mirs entered into commitments under agreements with various suppliers for the purchase of terminal equipment that it will use on the UMTS network. During the course of February 2012 Mirs signed on framework agreements with additional suppliers. Furthermore, as of the date of the financial statements, Mirs is conducting negotiations in advance of signing agreements with additional suppliers.

On June 16, 2011 Mirs entered into a commitment with Nokia Siemens Networks Israel Ltd. (hereinafter – the supplier) for the setting up of the infrastructure for Mirs new network.

In accordance with the terms of the agreement, the supplier will plan and set up the new network for Mirs as a turnkey contractor.

In the first stage, which is expected to be completed during the course of 2012, the supplier will completed the setting up of the systems that are required for the purpose of operating the new system with a coverage of approximately 20%, which Mirs must meet in accordance with the terms of the tender within two years from the time of the receipt of the new radio telephone license. After the completion of the first stage, Mirs has been given the right to expand the new network, both from the perspective of the coverage and also from the perspective of the LTE capability.

The agreement arranges the work arrangements between the supplier and Mirs, the manner of the handing over of the system to Mirs and the manner of the maintenance of the system by the supplier.

The agreement is in force for 15 years, and it contains warranties for the proper functioning of the components of the system for a period of two years from the time of the handing over of each component in accordance with the agreement, as well as warranties for the entire period of the agreement that the system will operate in accordance with the system requirements that Mirs placed (in terms of availability, functioning and capacity), subject to their being a maintenance agreement in force between the parties.

In consideration for the completion of the first stage in accordance with the agreement and the performance of all of the supplier's commitments by the year 2013, the Group will pay the supplier an amount of USD 52 million. The overall consideration in the agreement for all of the services up to the year 2017 is approximately USD 120 million, according to Mirs assessment.



#### **31.1.1.6 Commitment with main customer**

Mirs supplies a range of services to the Ministry of Defense: mobile telephones, data telecommunications and PTT services. HOT's overall income from the Ministry of Defense in 2011 constitutes approximately 12,5% of Mirs income in that year (approximately 14,4% of Mirs income in December 2011) and the number of subscribers constitutes approximately 15,5% of Mirs' subscribers.

Mirs and the Ministry of Defense are acting under the force of a number of agreements with the largest and the most important being an agreement for the supply of mobile telephones, the tender for which was won by HOT in the year 2005. In October 2008 the Ministry of Defense exercised an option that was awarded it in the tender for the extension of the agreement until October 2011 (the year 2012 is considered to be a transition year).

On December 28, 2011 the Ministry of Defense published a tender for the supply of mobile equipment and services to the IDF. The tender is for some 68 000 subscribers with the possibility of increasing this to 120 000 subscribers. The tender includes threshold conditions, which prima facie prevent Mirs from having the possibility of competing within the framework of the tender. Mirs has presented an objection to the existence of these conditions. The objection was turned down by the Ministry of Defense and in the light of this Mirs is considering making an appropriate approach to the courts.

#### **31.1.1.7 Capitalized leasing rights on land from the Israel Land Authority**

Capitalized leasing rights on land from the Israel Lands Authority over an area of 14 296 square meters on which the Group's buildings are located. The amount that is attributed to the capitalized rights is presented as a prepaid expenses in respect of operating leases in the balance sheet and is amortized over the period of the leases. The lease periods end in the years 2021-2045.

### **31.1.2 Guarantees and liens**

As collateral for HOT's liabilities, the investee partnership HOT Telecom and the subsidiary company HOT Net vis-à-vis financial institutions in accordance with the credit agreement, first ranking fixed charges and endorsement by way of the charge have been placed in an unlimited amount.

As collateral for the commitments of HOT and the investee partnership HOT Telecom and the subsidiary company HOT Net, HOT and the partnership have given guarantees for the payment of their liabilities in unrestricted guarantees.

As collateral for commitments of HOT and the investee partnership HOT Telecom vis-à-vis financial institutions in accordance with the credit agreement, the following have been placed:

- First ranking fixed charges on the rights of the companies in the Group.
- Endorsements by way of a charge on:
  - (1) The Group's subscription agreements with its subscribers.
  - (2) The supplier numbers of companies in the Group with credit card companies.
  - (3) Rights under the agreement for the provision of services between HOT Telecom and HOT.
- Fixed charges on the equipment of companies in the Group.
- Fixed charges on the land assets of companies in the Group.
- Fixed charges on the bank accounts of companies in the Group.

The said charges are in unrestricted amounts, jointly and severally vis-à-vis HOT, the investee partnership – HOT Telecom and the subsidiary company - HOT Net.

As collateral for the commitments of HOT, the investee partnership HOT Telecom and the subsidiary company HOT Net, first ranking floating charges have been placed in unlimited amounts in favor of the borrowers, on all of the chargeable assets and the rights of companies in the Group and a fixed charge on the goodwill and the unpaid share capital of the Companies in the Group.

As collateral for HOT's commitments in respect of the royalties agreement, a second ranking floating charge has been placed in favor of the State.

As collateral for the Group's commitments, as determined in the Group's licenses and in the decision by the Director and the Council, the Group has issued a number of guarantees, as follows:

- Bank guarantees to the Ministry of Communications, in respect of the national operator license that was granted to HOT Telecom amounting to USD 8,4 million, in force until June 2012, December 2012 and December 2025.
- Guarantees in an amount of NIS 33,4 million (index-linked) to the Council in respect of the broadcasting license, which are in force until April, June and December 2012.
- A bank guarantee in an amount of USD 2 million to the Director in respect of HOT's compliance with the terms of the merger as determined by the Director, which are in force until December 2012.
- A bank guarantee in an amount of NIS 695 million, which was made available by Mirs within the framework of its win in a tender for the allocation of frequencies and as collateral for its commitment in favor of the Ministry of Communications, which is in force until December 31, 2018.

In accordance with the wording of the guarantee that was written by the Ministry of Communications, there is no restriction in the guarantee on the endorsement, assignment or transfer of the guarantee to a third party. Furthermore, Mirs has a duty to bear any expense that is involved in the exercise or the extension of the guarantee.

In the light of the aforesaid terms, MIRS has signed on a letter of undertaking and endorsement vis-à-vis a bank, according to which HOT waives and is prevented from raising any claim against the bank in connection with the wording of the said guarantee, and it will indemnify and compensate the bank in respect of any expenses incurred for the purpose of conducting administrative and legal proceedings in connection with the said issues.

On November 28, 2011, Mirs and the former parent company signed on an irrevocable letter of commitment vis-à-vis Bank Hapoalim Ltd. (hereinafter the bank). The letter of undertaking was signed as a condition for the making available of a bank guarantee in an amount of NIS 695 million, as collateral for HOT's commitments vis-à-vis the Ministry of Communications within the context of HOT's win in a frequencies tender for the setting up of a third generation mobile network (UMTS).

The second winner in the tender for the allocation of frequencies is the Golan Telecom Group, which offered a maximum amount of NIS 360 million in respect of the frequencies within the framework of the tender. Golan Telecom made the required bank guarantee, in an amount of NIS 350 million available (NIS 10 million was paid in cash). In the wake of this, HOT sent the Ministry of Communications a letter demanding the reduction of the level of the fee for its license to NIS 10 million (which is the minimal amount in the tender) and alternatively to equalize it with the level of Golan Telecom's winning offer – NIS 360 million. As of date of this report, no response has yet been received from the Ministry of Communications.

The Group has extended a number of bank guarantees to various bodies in an overall amount of NIS 15,5 million.

### **31.1.3 Guarantees to HOT Telecom**

- The Group has given guarantees in a cumulative amount of USD 16 million as collateral for payments by HOT Telecom to the Cisco company.
- The Group has extended a guarantee in an amount of NIS 238 million (index-linked) as collateral for HOT Telecom's commitments vis-à-vis an interested party with which it has signed a rental agreement.

There exist mutual guarantees between HOT and companies in the Group, in unrestricted amounts, in favor of financial institutions as collateral for the repayment of the Group's liabilities to those financial institutions.

### **31.1.4 Other contingent liabilities**

During the routine course of business, lawsuits have been filed against the companies in the Group and various legal proceedings are outstanding against it (hereinafter, "The Legal Claims").

In the opinion of the management of the Company and each of its subsidiaries, as at signature date, the amount of the additional exposure, in an amount of approximately NIS 3 billion (EUR 628,5 million) (over and above the provisions that have been recorded in these financial statements), as a result of the legal proceedings that have been filed against the Company's Subsidiaries on various matters, is as follows:

- a. An amount of approximately NIS 1,7 billion (EUR 356,1 million) in respect of claims, in respect of which in the assessment of the Company's management, in reliance on the opinion of its legal advisors, the chances of their being accepted do not exceed 50%.
- b. An amount of approximately NIS 0,1 billion (EUR 20,9 million) in respect of claims, which it is not yet possible, at this stage, to make an assessment, the main ones being in connection with applications for the approval of class actions that were presented close to the date of the financial statements.
- c. An amount of approximately NIS 1,42 billion (EUR 297,5 million) in respect of claims which, in the assessment of the Company's management, in reliance upon the opinions of its legal advisors, their chances of being accepted exceed 50% and in respect of which a provision has been recorded in accordance with the assessments of the managements of the Company's Subsidiaries, as aforesaid.

The following is an abbreviated summary of the Group's contingent liabilities effective as of signature date, in accordance with groupings having similar characteristics:

<b>The nature of the lawsuit (EUR in millions)</b>	<b>The amount of the additional exposure in excess of the provision recorded as of signature date</b>	<b>The amount of the lawsuits that cannot be assessed and which were presented close to the date of the financial statements (primarily applications for approval as class actions)</b>
Customers	574	21
Lawsuits after the balance sheet date in respect of customers	33	33
Suppliers	13	5
Employees	1	-
The merger transaction	50	-
<b>Total</b>	<b>671</b>	<b>59</b>

### ***31.2 Coditel Holding commitments***

As at December 31, 2011 off balance sheets commitments include:

- the 108 131 000 issued on June 29, 2011 by Coditel Holding S.A. in registered form, numbered 1 to 108 131 000 (including), having a par value of EUR 1 each,
- the 21 991 770 PECs issued on December 2, 2011 by Coditel Holding S.A. in registered form, number 1 to 21 991 770 (including), having a par value of EUR 1 each, are pledged in favor of ING BANK N.V. as Pledgee, acting as security agent, as a first-ranking pledge. The PECs may not be disposed of in any way without the prior written consent of ING BANK N.V.
- a ranking pledge agreement dated December 2, 2011, all the registered PECs owned from time to time by Coditel Holding Lux S.à r.l., and in particular:

### ***31.3 Other commitments***

As of December 31, 2011, ABO entity does no bear any off-balance sheet commitments.

## **32 Statutory Auditors' fees**

In 2011, an amount of EUR 1,1 million was paid to various network affiliates of the Group's auditors, of which 0,14 million was paid as fees for audit services and 0,97 million as fees for non-audit fee services.

## **33 Going concern**

During the year ended December 31, 2011, the company had a net current liability position of EUR 558,5 million (mainly due to short term bank debts of EUR 241,8 million and trade payables of EUR 208,2 million), a net gain of EUR 123,9 million, positive cash flow from operations of EUR 295,7, and negative working capital of EUR 184,7 million. The positive cash flow from operations balance was mainly due to strong earnings growth and EBITDA generation. The net working capital of EUR 185,7 million is mainly driven by trade receivables and payables.

The negative working capital position is structural and follows industry norms. Customers generally pay subscription revenues early or mid-month, with a short period between invoicing and cash collection and suppliers are paid in the beginning of the following month (with invoicing in the beginning of the month), thus generating a negative working capital, as evidenced by the difference in the level of receivables and payables (EUR 102,7 million vs. EUR 208,2 million). Payables due the following month are covered by revenues and operating cash (if needed). As of December 31, 2011, the company had many short term loan payments, due in less than 365 days (of which EUR 76 million at HOT and EUR 69 million at COOL Holding), which were refinanced in 2012 and converted to long term debts.

Despite the net current liability position, Management is of the view that the company will continue to act as a going concern for 12 months from the date of approval of these financial statements based on the following:

- The Group has a strong track record of generating positive operating income before amortization and depreciation and generated strong positive operating cash flows in 2011 (EUR 295,7 million). Operating income before depreciation and amortization amounted to EUR 297,8 million, an increase of 519% compared to FY10 (mainly driven by the change in accounting method for HOT accounts and the acquisitions of Coditel Belgium and Luxembourg, as well as the optimization of operating expenses in the French Antilles companies), thus reaffirming Management's ability to drive profits in the different operating companies,
- The group generated positive net profits of EUR 123,9 million in the year ended December 31, 2011,
- A financing mechanism has been put in place to cover short term cash needs, if required.

## **34 Events after the reporting period**

On February 28, 2012, Altice VII acquired the entire issued capital of the company RightProposal – Telecomunicações S.A. for an amount of EUR 50 000.

In February 2012, Altice VII completed the takeover of Cabovisao from Cogeco, a Canadian cable operator. Cabovisao is the second cable operator in Portugal and possesses a high quality cable network. The acquisition price was EUR 45 million.

On March 12, 2012, Altice VII has sold to Codilink S.à r.l. 20 000 of the shares of RightProposal – Telecomunicações S.A., representing 40% of RightProposal's capital.

On March 26, 2012, RightProposal – Telecomunicações S.A. has changed its name into Altice Portugal S.A..

On August 17, 2012, Altice VII decided the incorporation of ALTICE FINCO S.A. a public limited company incorporated under the law of the Grand-Duchy of Luxembourg by the subscription of all the shares, for a total amount of EUR 35 000. The group holds 100% of the share capital of ALTICE FINCO S.A..

On August 17, 2012, ALTICE FINCO decided the incorporation of ALTICE FINANCING, a public company incorporated under the law of the Grand-Duchy of Luxembourg by the subscription of all shares, for a total amount of EUR 28 872.

In August 2012, the Altice Group invested USD 20 million in convertible bonds in Wananchi, a Kenya based cable operator, with activities in other East African markets. This investment was made in tranches of USD 5 million each and the bonds were converted to shares in Dec. 2012.

On December 27, 2012, Altice Financing S.A. and Altice Finco S.A. (the "Issuers") announced that the proceeds (the "Escrow Proceeds") of their offerings of (i) USD 460 million in aggregate principal amount of 7% senior secured notes due 2019 and EUR 210 million in aggregate principal amount of 8% senior secured notes due 2019 of Altice Financing S.A. (together, the "Senior Secured Notes") and (ii) USD 425 million in aggregate principal amount of 9% senior notes due 2020 of Altice Finco S.A. (the "Senior Notes", together with the Senior Secured Notes, the "Notes") were released from escrow following successful satisfaction of the Condition (as defined below). It was a condition (the "Condition") to the release of the Escrow Proceeds that the Issuers certify, amongst other things, to the escrow agent that promptly upon release of the Escrow Proceeds (i) the acquisition by a wholly-owned subsidiary of Cool Holding Ltd ("Cool"), an affiliate of the Issuers, of the remaining shares of HOT Telecommunication Systems Ltd. ("HOT") not currently owned by Cool would be consummated (the "Take-Private Transaction") and (ii) certain existing indebtedness of Cool and HOT would be repaid (the "Refinancing" and, together with the Take-Private Transaction, the "Transactions"). On December 27, 2012, the Escrow Proceeds were used to consummate the Transactions.

On May 31, 2013, Altice Holdings entered into a sale and purchase agreement to acquire Winreason (the "ONI Purchase Agreement"), the owner of the Portuguese telecommunications group, ONI, pursuant to which Cabovisao purchased all of the outstanding shares of ONI and refinanced the outstanding indebtedness of ONI (the "ONI Transaction"). The deal was consummated on August 8, 2013.

On June 7, 2013, Altice VII and certain of its subsidiaries entered into a sale and purchase agreement (the "Outremer Purchase Agreement") with the owners of OMT Invest and certain of its affiliates pursuant to which (i) the Group had agreed to purchase all of the outstanding share capital of OMT Invest other than shares to be contributed separately pursuant to the Outremer Investment Agreement on completion of the Outremer Transaction and (ii) all of the outstanding indebtedness of OMT Invest and its subsidiaries were to be refinanced using a portion of the proceeds of the June 24, 2013 bond issuance (see below). The parties to the Outremer Purchase Agreement entered into an investment agreement (the "Outremer Investment Agreement") pursuant to which (i) the Group contributed all of the outstanding share capital of Le Cable Martinique and Le Cable Guadeloupe and (ii) managers of OMT Invest contributed all of the outstanding shares of OMT Invest not sold to the Group under the Outremer Purchase Agreement. The transaction was completed on the July 5, 2013.

On June 14, 2013, Altice Finco issued EUR 250 million aggregate principal amount of its 9% senior notes due 2023 (the “2013 Senior Notes”).

On June 24, 2013, Altice Financing entered into a senior secured term loan credit facility (as amended from time to time, the “2013 Term Loan Facility”) which provides for U.S. dollar term loans (the “2013 Term Loans”) up to an aggregate principal amount equivalent to USD 1 034 million. Altice Financing may draw under the 2013 Term Loan, in up to four tranches, at any time on or prior to November 30, 2013, as long as, among other things, the incurrence of the indebtedness would have been permitted by the covenants in the existing Altice Financing debt documents. On July 2, 2013 and July 5, 2013, Altice Financing borrowed USD 584,2 million and U.S. dollar-equivalent USD 81,9 million under the 2013 Term Loan (the “First Draw”). The proceeds, together with the proceeds of the 2013 Senior Notes and cash on the balance sheet of the Group were applied to complete the Cabovisao Refinancing, the Coditel Refinancing, the Le Cable Refinancing and the ABO Refinancing on July 2, 2013 (described below), and the Outremer Transaction on July 5, 2013.

On March 7, 2013, Altice VII purchased the 40% remaining shares held by Codilink S.à r.l in Altice Portugal S.A..

#### **Cabovisao Refinancing**

On July 2, 2013, Altice Financing repaid the outstanding indebtedness under the existing Cabovisao Bridge Facility of EUR 203 million (the “Cabovisao Refinancing”).

#### **Coditel Refinancing**

In July 2, 2013, Coditel Holding prepaid approximately EUR 7 million of its EUR 138 million indebtedness outstanding under the existing Coditel Senior Facility and Altice Holdings purchased substantially all of the remaining interests of the existing lenders under the existing Coditel Senior Facility.

#### **ABO Refinancing**

On July 2, 2013 ABO refinanced approximately EUR 70 million of its existing indebtedness to third parties (the “ABO Refinancing”).

#### **WSG and MTVC Refinancing**

WSG and MTVC are indirect subsidiaries of the Group. On July 2, 2013, Altice Pool refinanced approximately (x) EUR 8 million of indebtedness of MTVC and (y) EUR 14 million of indebtedness of WSG (collectively, the “Le Cable Refinancing”).

#### **MCS & SportV**

In October 2013, the Group completed the acquisition of two sports based content delivery channels, Ma Chaine Sport and SportV. This acquisition was completed in October 2013 and total consideration paid amounted to EUR 15 million. These channels are focussed on providing quality sports programming and are intended to serve as a platform for the potential new business segment for the Company (Content). The acquisition was fully financed using equity holders’ equity.

#### **Tricom**

In November 2013, the Group confirmed that it has signed an agreement to acquire a controlling stake in Tricom, the second largest cable operator in the Dominican Republic. This acquisition is expected to explore significant synergies with the Group’s French Overseas Territories operations.

### **Network Sharing Agreement**

On November 8, 2013, HOT Mobile entered in to a network sharing agreement (the “Network Sharing Agreement”) with Partner Communications Company Ltd. Pursuant to the terms of the Network Sharing Agreement, HOT Mobile and Partner will each own 50% of a newly formed limited partnership, which shall hold, develop and operate an advanced shared mobile network for both companies. Network Sharing Agreement enables HOT Mobile and Partner to share antennas and frequencies, and facilitates optimum utilization of the spectrum. In addition, while HOT Mobile and Partner will continue to maintain and operate separate core networks, Partner has agreed to grant HOT Mobile a right of use in its cellular communication network for the purpose of providing nation-wide cellular coverage to HOT Mobile’s customers.

Also, as part of the engagement the Group will grant a guarantee on behalf of Hot Mobile Ltd. In addition, in several cases as determined in the agreements the Company will be required to grant an additional guarantee for example in case of a change in the finance ranking of the Company. The Network Sharing Agreement is subject to regulatory approvals of the Ministry of communication and the restrictive trade practices controller, which as of the balance sheet date were not achieved.

As a result of this new agreement, the existing agreement with Pelephone will be phased out until the contractual end of the agreement in 2014.

### **Reduction of Guarantees to the State of Israel**

HOT Mobile has informed the Ministry of Communications that as of September 26, 2013, it had reached an average market share in the private sector of 11,3%, constituting an addition of 9,52% on HOT Mobile’s market share at the time of the expansion of the general license for the provision of mobile radio telephone services under the cellular method (hereinafter - the license), on September 26, 2011.

In the light of HOT Mobile achieving the market share that is required as of the time of the first check, HOT Mobile has requested the Ministry to reduce the amount of the guarantee that was deposited by HOT Mobile, from an amount of NIS 695,0 million (EUR 144,6 million) to an amount of NIS 80 million (EUR 16,6 million). This was in addition to an amount of NIS 10,0 million (EUR 2,0 million) that it paid upon the receipt of the license.

As of the date of the approval of the financial statements, the response of the Ministry of Communications has not yet been received and the guarantee therefore remained in the same amount.

## **35 Approval of the consolidated financial statements**

The consolidated financial statements were approved by the Board of Managers and authorized for issue on November 8, 2013.