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OFFERING MEMORANDUM SUPPLEMENT

NOT FOR GENERAL CIRCULATION
IN THE UNITED STATES OR ISRAEL

$10,000,000 $7^{7}/_{8}$% Senior Secured Notes due 2019
€10,000,000 8% Senior Secured Notes due 2019

issued by

ALTICE FINANCING S.A.

$25,000,000 $9^{7}/_{8}$% Senior Notes due 2020

issued by

ALTICE FINCO S.A.

Altice Financing S.A. (the "Senior Secured Notes Issuer") is owned directly by Altice Finco S.A. (the "Senior Notes Issuer" and together with the Senior Secured Notes Issuer, the "Issuers"), which is in turn owned directly by Altice VII S.à r.l. ("Altice"). Altice is the direct parent company of Cool Holding Ltd. ("Cool Holding"), which is the owner of approximately 69% of the outstanding share capital of HOT-Telecommunication Systems Ltd. ("HOT"). The Senior Secured Notes Issuer offered $10 million aggregate principal amount of its $7^{7}/_{8}$% senior secured notes due 2019 (the "Additional Dollar Senior Secured Notes") and €10 million aggregate principal amount of its 8% senior secured notes due 2019 (the "Additional Euro Senior Secured Notes", and together with the Additional Dollar Senior Secured Notes, the "Additional Senior Secured Notes") and the Senior Notes Issuer offered $25 million aggregate principal amount of its $9^{7}/_{8}$% senior notes due 2020 (the "Additional Senior Notes" and together with the Additional Senior Secured Notes, the "Additional Notes"). The Issuers will pay interest on the Additional Notes semi-annually in cash in arrears on each June 15 and December 15, commencing on June 15, 2013. Interest will accrue from the Original Notes Issue Date (as defined below).

The Additional Senior Secured Notes were offered as additional notes under the Senior Secured Notes Indenture (defined below) pursuant to which, on December 12, 2012 (the "Original Notes Issue Date"), the Senior Secured Notes Issuer issued $450 million aggregate principal amount of its $7^{7}/_{8}$% senior secured notes due 2019 (the "Original Dollar Senior Secured Notes") and €200 million aggregate principal amount of its 8% senior secured notes due 2019 (the "Original Euro Senior Secured Notes", and together with the Original Dollar Senior Secured Notes, the "Original Senior Secured Notes"). The Additional Senior Secured Notes and the Original Senior Secured Notes (collectively, the "Senior Secured Notes") are and will be treated as one single class for all purposes under the Senior Secured Notes Indenture including, without limitation, waivers, amendments, redemptions (including any special mandatory redemptions) and offers to purchase. The Additional Senior Notes were offered as additional notes under the Senior Notes Indenture (defined below) pursuant to which, on the Original Issue Date, the Senior Notes Issuer issued $400 million aggregate principal amount of its $9^{7}/_{8}$% senior notes due 2020 (the "Original Senior Notes" and together with the Original Senior Secured Notes, the "Original Notes"). The Additional Senior Notes and the Original Senior Notes (collectively, the "Senior Notes") are and will be treated as one single class for all purposes under the Senior Notes Indenture including, without limitation, waivers, amendments, redemptions (including any special mandatory redemptions) and offers to purchase. The Original Notes were offered pursuant to an offering memorandum dated December 7, 2012 (the "Original Offering Memorandum") in connection with the financing of Cool Holding's proposed acquisition of all of the outstanding share capital of HOT not owned by Cool Holding or its subsidiaries (the "Take-Private Transaction") and the refinancing of all of the outstanding indebtedness of Cool Holding under the Cool Loan (as defined below) and the Cool Interest Loan (as defined below) (collectively, the "Cool Refinancing") and all of the outstanding indebtedness of HOT under the Existing HOT Loans (as defined below) (the "HOT Refinancing" and, together with the Cool Refinancing, the "Refinancings"). The Original Notes were listed pursuant to an offering memorandum dated December 17, 2012 (the "Listing Particulars").

The Listing Particulars are attached to this offering memorandum supplement (the "Supplement", and together with the Listing Particulars, the "Offering Memorandum"). This Supplement supplements the Listing Particulars and supersedes information in the Listing Particulars to the extent inconsistent with information included in the Supplement. Unless so supplemented or modified, information in the Listing Particulars is current as of the date of this Supplement. Investors should read the Listing Particulars together with this Supplement. The Additional Notes and Original Notes are referred to herein as the "Notes".

At any time prior to December 15, 2015, the Senior Secured Notes Issuer may redeem some or all of the Senior Secured Notes at a price equal to 100% of the principal amount plus a "make whole" premium. At any time on or after December 15, 2015, the Senior Secured Notes Issuer may redeem some or all of the Senior Secured Notes at the redemption prices set forth herein. In addition, at any time prior to December 15, 2015, the Senior Secured Notes Issuer may redeem up to 40% of each series of the Senior Secured Notes with the net proceeds from one or more specified equity offerings. Further, the Senior Secured Notes Issuer may redeem all of the Senior Secured Notes at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in tax law. If the Covenant Parties (as defined in "Description of Senior Secured Notes") and their respective subsidiaries sell certain of their assets, or if the Senior Secured Notes Issuer or the Covenant Parties experience specific kinds of changes in control, the Senior Secured Notes Issuer may be required to make an offer to repurchase the Senior Secured Notes. At any time prior to December 15, 2016, the Senior Notes Issuer may redeem some or all of the Senior Notes at a price equal to 100% of the principal amount plus a "make whole" premium. At any time on or after December 15, 2016, the Senior Notes Issuer may redeem some or all of the Senior Notes at the redemption prices set forth herein. In addition, at any time prior to December 15, 2015, the Senior Notes Issuer may redeem up to 40% of the Senior Notes with the net proceeds from one or more specified equity offerings. Further, the Senior Notes Issuer may redeem all of the Senior Notes at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in tax law. If the Covenant Parties (as defined in "Description of Senior Notes") and their respective subsidiaries sell certain of their assets, or if the Senior Notes Issuer or the Covenant Parties experience specific kinds of changes in control, the Senior Notes Issuer may be required to make an offer to repurchase the Senior Notes. In addition, upon certain Minority Shareholder Option Exercises (as defined in "Description of Senior Secured Notes" and the "Description of Senior Notes"), the Senior Secured Notes Issuer must offer to repurchase the Senior Secured Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with the net cash proceeds of such Minority Shareholder Option Exercises. In the event there are any remaining net cash proceeds after the completion of such offer, the Senior Notes Issuer must offer to repurchase the Senior Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with such remaining net cash proceeds.

Pending the consummation of the Transaction (as defined in the Listing Particulars), the Initial Purchasers (as defined below) will deposit (i) the gross proceeds from the offering of the Additional Senior Secured Notes into segregated escrow accounts, which will be the same escrow accounts into which the proceeds of the Original Senior Secured Notes were deposited, for the benefit of the holders of the Senior Secured Notes and (ii) the gross proceeds from the offering of the Additional Senior Notes into segregated escrow accounts, which will be the same escrow accounts into which the proceeds of the Original Senior Notes were deposited, for the benefit of the holders of the Senior Notes. The release of escrow proceeds will be subject to the delivery of an officer's certificate by each Issuer to the Escrow Agent certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon the release of the escrow proceeds.

See "Risk Factors" beginning on page S-25 of this Supplement and "Risk Factors" beginning on page 34 of the Listing Particulars for a discussion of certain risks that you should consider in connection with an investment in any of the Additional Notes.

The Additional Notes and the Guarantees (defined below) have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any other jurisdiction. The Issuers are offering the Additional Notes only to qualified institutional buyers in accordance with Rule 144A under the U.S. Securities Act and to non-U.S. persons outside the United States in accordance with Regulation S under the U.S. Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the sellers of the Additional Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A thereunder. For more information on eligible offerees and transfer restrictions see "Plan of Distribution" and "Transfer Restrictions".

Application has been made to the Luxembourg Stock Exchange for the Additional Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF Market, which is not a regulated market (pursuant to the provisions of Directive 2004/39/EC).

The Additional Dollar Senior Secured Notes and the Additional Senior Notes will be in registered form in denominations of $200,000 and integral multiples of $1,000 above $200,000. The Additional Euro Senior Secured Notes will be in registered form in denominations of €100,000 and integral multiples of €1,000 above €100,000. Each series of Additional Notes will be represented on issue by one or more global notes that will be delivered through The Depository Trust Company ("DTC") or Euroclear SA/NV ("Euroclear") and Clearstream Banking, *société anonyme*, as applicable, on or about December 20, 2012 (the "Issue Date"). Interests in each global note will be exchangeable for definitive notes only in certain limited circumstances. See "*Book-Entry, Delivery and Form*". The Additional Notes sold pursuant to Regulation S under the U.S. Securities Act will have different CUSIP numbers, international securities identification numbers and common codes (as applicable) from, and will not trade fungibly with, the corresponding Original Notes during the period prior to and including the 40th day following the Issue Date. After the 40th day following the Issue Date, certain selling restrictions with respect to the Additional Notes sold pursuant to Regulation S under the U.S. Securities Act will terminate and the Additional Notes will become fully fungible with, and have the same CUSIP numbers, international securities identification numbers and common codes as, the corresponding Original Notes. Please see "*Book-Entry, Delivery and Form*," "*Transfer Restrictions*" and "*Listing and General Information*."

Additional Dollar Senior Secured Notes price: 104.500% plus accrued and unpaid interest from the Original Notes Issue Date
Additional Euro Senior Secured Notes price: 104.500% plus accrued interest from the Original Notes Issue Date.
Additional Senior Notes price: 105.500% plus accrued interest from the Original Notes Issue Date.

Joint lead and book-running managers

Goldman Sachs International **HSBC** **Morgan Stanley**

The date of this Offering Memorandum Supplement is December 28, 2012

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Neither the Issuers, Cool Holding, nor any of their subsidiaries has authorized any dealer, salesperson or other person to give any information or represent anything to you other than the information contained in this Offering Memorandum. You must not rely on unauthorized information or representations.

This Offering Memorandum does not offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities.

The information in this Offering Memorandum is current only as of the date on the cover page, and may change after that date. For any time after the cover date of this Offering Memorandum, the Issuers and Cool Holding do not represent that their or HOT's affairs are the same as described or that the information in this Offering Memorandum is correct, nor do they imply those things by delivering this Offering Memorandum or selling securities to you.

The Issuers and the Initial Purchasers are offering to sell the Additional Notes only in places where offers and sales are permitted.

IN CONNECTION WITH THIS OFFERING OF ADDITIONAL NOTES, GOLDMAN SACHS INTERNATIONAL (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT ADDITIONAL NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE ADDITIONAL NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILIZING MANAGER) WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. SUCH STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE ADDITIONAL NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUERS RECEIVED THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE ADDITIONAL NOTES.

The Issuers offered the Additional Notes in reliance on exemptions from the registration requirements of the U.S. Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering. The Additional Notes have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the "SEC") or any other securities commission or regulatory authority, nor has the SEC or any such securities commission or authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.

This Offering Memorandum is being provided for informational use solely in connection with consideration of a purchase of the Additional Notes (i) to U.S. investors that the Issuers reasonably believe to be qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act, and (ii) to certain non-U.S. persons in offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. Its use for any other purpose is not authorized.

This Offering Memorandum is for distribution only to persons who (i) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSM Act")) in connection with the issue or sale of any Additional Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

This Offering Memorandum has been prepared on the basis that all offers of the Additional Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (the "Prospective Directive"), as implemented in member states of the European Economic Area (the "EEA"), from the requirement to produce a prospectus for offers of the Additional Notes. Accordingly, any person making or intending to make any offer within the EEA of the Additional Notes should only do so in circumstances in which no obligation arises for the Issuers or any of the Initial Purchasers to produce a prospectus for such offer. Neither the Issuers nor the Initial Purchasers has authorized, nor do any of them authorize, the making of any offer of the Additional Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final placement of the Additional Notes contemplated in this Offering Memorandum.

This Offering Memorandum constitutes a prospectus for the purpose of part IV of the Luxembourg act dated 10 July 2005 on prospectuses for securities, as amended (the "Prospectus Act") and for the purpose of the rules and regulations of the Luxembourg Stock Exchange.

The Issuers and Cool Holding have prepared this Offering Memorandum solely for use in connection with this offering and for applying to the Luxembourg Stock Exchange for the Additional Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

You are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own counsel, accountant and other advisers as to legal, tax, business, financial and related aspects of a purchase of the Additional Notes. You are responsible for making your own examination of the Issuers, Cool Holding and HOT and your own assessment of the merits and risks of investing in the Additional Notes. The Issuers are not and the Initial Purchasers are not making any representation to you regarding the legality of an investment in the Additional Notes by you.

The information contained in this Offering Memorandum has been furnished by the Issuers, Cool Holding and other sources they believe to be reliable. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of any of the information set out in this Offering Memorandum, and nothing contained in this Offering Memorandum is or shall be relied upon as a promise or representation by the Initial Purchasers, whether as to the past or the future. This Offering Memorandum contains summaries, believed by the Issuers and Cool Holding to be accurate, of some of the terms of specified documents, but reference is made to the actual documents, copies of which will be made available by the Issuers upon request, for the complete information contained in those documents. Copies of such documents and other information relating to the issuance of the Additional Notes will also be available for inspection upon request at the specified offices of the Principal Paying Agent (as defined in this Offering Memorandum) in Luxembourg. All summaries of the documents contained herein are qualified in their entirety by this reference.

The Issuers and Cool Holding accept responsibility for the information contained in this Offering Memorandum. They have made all reasonable inquiries and confirmed to the best of each of their knowledge, information and belief that the information contained in this Offering Memorandum with regard to them, each of their subsidiaries and affiliates, and the Additional Notes is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held, and that they are not aware of any other facts the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

The information contained herein regarding HOT and its subsidiaries is primarily based on HOT's public filings with the Israel Securities Authority. Neither HOT nor any of its subsidiaries, nor any of their representatives, officers, employees or advisers, assumes any responsibility for the accuracy or completeness of the information contained herein, and such parties do not have any liability with respect to the Additional Notes.

No person is authorized in connection with any offering made pursuant to this Offering Memorandum to give any information or to make any representation not contained in this Offering Memorandum, and, if given or made, any other information or representation must not be relied upon as having been authorized by the Issuers or the Initial Purchasers. The information contained in this Offering Memorandum is current at the date hereof. Neither the delivery of this Offering Memorandum at any time nor any subsequent commitment to enter into any financing shall, under any circumstances, create any implication that there has been no change in the information set out in this Offering Memorandum or in the Issuers' or Cool Holding's affairs since the date of this Offering Memorandum.

The Issuers reserve the right to withdraw this offering of the Additional Notes at any time, and the Issuers and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Additional Notes in whole or in part and to allot to you less than the full amount of Additional Notes subscribed for by you.

The distribution of this Offering Memorandum and the offer and sale of the Additional Notes may be restricted by law in some jurisdictions. Persons into whose possession this Offering Memorandum or any of the Additional Notes come must inform themselves about, and observe, any restrictions on the transfer and exchange of the Additional Notes. See "*Plan of Distribution"* and *"Transfer Restrictions*".

This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Additional Notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. You must comply with all laws that apply to you in any place in which you buy, offer or sell any Additional Notes or possess this Offering Memorandum. You must also obtain any consents or approvals that you need in order to purchase any Additional Notes. The Issuers and the Initial Purchasers are not responsible for your compliance with these legal requirements.

The Additional Notes are subject to restrictions on resale and transfer except as permitted under the U.S. Securities Act and all other applicable securities laws as described under "Plan of Distribution" and "Transfer Restrictions". By purchasing any Additional Notes, you will be deemed to have made certain acknowledgments, representations and agreements as described in those sections of this Offering Memorandum. You may be required to bear the financial risks of investing in the Additional Notes for an indefinite period of time.

Internal Revenue Service Circular 230 Disclosure

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, YOU ARE HEREBY INFORMED THAT ANY DISCUSSION HEREIN OF U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DISCUSSION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED. SUCH DESCRIPTION WAS WRITTEN IN CONNECTION WITH THE MARKETING BY THE ISSUERS OF THE ADDITIONAL NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYERS' PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO U.S. INVESTORS

Each purchaser of the Additional Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Memorandum under "Transfer Restrictions". The Additional Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act or any other applicable securities laws, pursuant to registration or an exemption therefrom. Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Additional Notes, see "*Transfer Restrictions*". The Additional Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of Additional Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Additional Notes shall require the publication by the Issuers or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospective Directive other than in reliance of Article 3(2)(b).

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any Additional Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Additional Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Additional Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each subscriber for or purchaser of the Additional Notes in the offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. The Issuers, the Initial Purchasers and their affiliates, and others will rely upon the trust and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Initial Purchasers of such fact in writing may, with the consent of the Initial Purchasers, be permitted to subscribe for or purchase the Additional Notes in the offering.

NOTICE TO CERTAIN EUROPEAN INVESTORS

Austria This Offering Memorandum has not been or will not be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*) as amended. Neither this Offering Memorandum nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Offering Memorandum nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria. No steps may be taken that would constitute a public offering of the Additional Notes in Austria and the offering of the Additional Notes may not be advertised in Austria. Any offer of the Additional Notes in Austria will only be made in compliance with the provisions of the Austrian Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

Luxembourg This Offering Memorandum has not been approved by and will not be submitted for approval to the Luxembourg Supervision Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*) for purposes of a public offering or sale in Luxembourg. Accordingly, the Additional Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Prospectus Act and implementing the Prospectus Directive.

Germany The Additional Notes may be offered and sold in Germany only in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as amended, the Commission Regulation (EC) No 809/2004 of April 29, 2004 as amended, or any other laws applicable in Germany governing the issue, offering and sale of securities. The Offering Memorandum has not been approved under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) or the Directive 2003/71/EC and accordingly the Additional Notes may not be offered publicly in Germany.

France This Offering Memorandum has not been prepared in the context of a public offering in France within the meaning of Article L. 411-1 of the *Code Monétaire et Financier and Title I of Book II of the Règlement Général of the Autorité des marchés financiers* (the "AMF") and therefore has not been submitted for clearance to the AMF. Consequently, the Additional Notes may not be, directly or indirectly, offered or sold to the public in France, and offers and sales of the Additional Notes will only be made in France to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour le compte de tiers*) and/or to qualified investors (*investisseurs qualifiés*) and/or to a closed circle of investors (*cercle restreint d'investisseurs*) acting for their own accounts, as defined in and in accordance with Articles L. 411-2 and D. 411-1 of the *Code of Monétaire et Financier*. Neither this Offering Memorandum nor any other offering material may be distributed to the public in France.

Italy None of this Offering Memorandum or any other documents or materials relating to the Additional Notes have been or will be submitted to the clearance procedure of the Commissione Nazionale per le Società e Ia Borsa ("CONSOB"). Therefore, the Additional Notes may only be offered or sold in the Republic of Italy ("Italy") pursuant to an exemption under article 101-bis, paragraph 3-bis of the Legislative Decree No. 58 of 24 February 1998, as amended (the "Financial Services Act") and article 35-bis, paragraph 3, of CONSOB Regulation No. 11971 of 14 May 1999, as amended. Accordingly, the Additional Notes are not addressed to, and neither the Offering Memorandum nor any other documents, materials or information relating, directly or indirectly, to the Additional Notes can be distributed or otherwise made available (either directly or indirectly) to any person in Italy other than to qualified investors (investitori qualificati) pursuant to article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, acting on their own account.

The Netherlands The Additional Notes (including rights representing an interest in each global note that represents the Additional Notes) may only be offered or sold in The Netherlands to qualified investors (as defined in the Prospectus Directive), unless a prospectus relating to the offer is available to the public which is approved by the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) or by a supervisory authority of another member state of the European Union (the "EU"). Article 5:3 Financial Supervision Act (the "FSA") and article 53 paragraph 2 and 3 Exemption Regulation FSA provide for several exceptions to the obligation to make a prospectus available such as an offer to qualified investors within the meaning of article 5:3 FSA

Spain This offering has not been registered with the Comisión Nacional del Mercado de Valores and therefore the Additional Notes may not be offered in Spain by any means, except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 30 bis of the Securities Market Act ("*Ley 24/1988, de 28 de julio del Mercado de Valores*") as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005 ("*Real Decreto 1310/2005, de 4 de noviembre por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*").

Switzerland The Additional Notes offered hereby are being offered in Switzerland on the basis of a private placement only. This Offering Memorandum does not constitute a prospectus within the meaning of Art. 652A of the Swiss Federal Code of Obligations.

United Kingdom This Offering Memorandum is directed solely at persons who (i) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order") (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotion Order (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FMSA) in connection with the issue or sale of any Additional Notes may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

NOTICE TO ISRAELI INVESTORS

The Additional Notes may not be offered or sold to any Israeli investor, unless (i) it is a "Qualified Investor" within the meaning of the first Appendix to the Israeli Securities Law, who is not an individual (a "Qualified Israeli Investor"), (ii) such investor has completed and signed a questionnaire regarding qualification as a Qualified Israeli Investor and delivered it to Goldman Sachs International and (iii) such investor has certified that it has an exemption from Israeli withholding taxes on interest and has delivered a copy of such certification to Goldman Sachs International.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE ADDITIONAL NOTES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Data

Unless otherwise indicated, (i) the historical consolidated financial information of HOT presented in this Offering Memorandum has been prepared in accordance with International Financial Reporting Standards as adopted by Israel ("Israeli IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010; (ii) the historical consolidated financial information of Cool Holding presented in this Offering Memorandum has been prepared in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board ("IASB IFRS") and (iii) the financial information of the Issuers presented in this Offering Memorandum has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). In this Offering Memorandum, we use the term "IFRS" to refer to Israeli IFRS, IASB IFRS, EU IFRS or all three as the context requires.

This Offering Memorandum includes:

- the unaudited consolidated interim financial statements of HOT and its subsidiaries, as of and for the nine and three months ended September 30, 2012;
- the audited consolidated financial statements of HOT and its subsidiaries, as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, which, with respect to the years ended December 31, 2010 and 2011 have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer and with respect to the year ended December 31, 2009 have been audited jointly by Ernst & Young, Kost Forer Gabbay & Kasierer and Somekh Chaikin (KPMG Israel);
- the unaudited consolidated interim financial statements of Cool Holding, as of and for the nine and three months ended September 30, 2012;
- the audited consolidated financial statements of Cool Holding as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 which have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer; and
- the audited financial statements of HOT Mobile and its subsidiaries as of and for the year ended December 31, 2010 which have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer.

This Offering Memorandum also includes each Issuer's opening balance sheet as of its date of incorporation. Each Issuer intends to publish its first annual financial statements in respect of the year ended December 31, 2012. Financial statements will be published by each Issuer on an annual basis and neither Issuer will prepare interim financial statements.

Annex A of this Offering Memorandum also includes certain information derived from the unaudited consolidated interim financial statements of HOT and its subsidiaries as of and for the six months ended June 30, 2012 as well as management's discussion and analysis thereof.

The historical results of the companies mentioned above do not necessarily indicate results that may be expected for any future period. Cool Holding's, HOT Mobile's and HOT's financial results are reported in New Israeli Shekels denominations.

HOT completed the acquisition of HOT Mobile on November 28, 2011 after which date the results of operations of HOT Mobile are consolidated in the financial statements of HOT and Cool Holding. Accordingly, the financial statements of HOT for the year ended December 31, 2011 included in this Offering Memorandum include the results of operations of HOT Mobile for the period from November 28, 2011 to December 31, 2011 and the financial statements of HOT for the nine and three months ended September 30, 2012 included in this Offering Memorandum include the results of operations of HOT Mobile for the nine and three months ended September 30, 2012. In order to provide a meaningful comparison of our results of operations and financial condition, we have included (A) the unaudited pro forma condensed consolidated financial statements of HOT and its subsidiaries for the year ended December 31, 2011 (the "2011 Pro Forma Financial Statements") and (B) the unaudited pro forma condensed consolidated interim financial statements of HOT and its subsidiaries for the nine and three months ended September 30, 2011 (the "September 2011 Pro Forma Financial Statements"), each giving effect to the acquisition of HOT Mobile as if it had occurred on January 1, 2011 and which have been prepared by applying certain pro forma adjustments to the financial statements of HOT for the year ended December 31, 2011 and the financial statements of HOT for the nine and three months ended September 30, 2011, respectively. The 2011 Pro Forma Financial Statements and September 2011 Pro Forma Financial Statements should be read in conjunction with the assumptions underlying the pro forma adjustments which are described in the notes

accompanying them. The 2011 Pro Forma Financial Statements and September 2011 Pro Forma Financial Statements and the pro forma adjustments, among other things:

- are based on upon available information and assumptions that we believe are reasonable under the circumstances;
- are presented for informational purposes only;
- have not been audited in accordance with any generally accepted auditing standards;
- do not purport to represent what our results of operations or financial condition would have been had the acquisition of HOT Mobile actually occurred on the dates indicated; and
- do not purport to project our results of operations or financial condition for any future period or as of any future date.

Except as stated above, we have not included in this Offering Memorandum any pro forma financial statements or information giving effect to the acquisition of HOT Mobile for any other period. The unaudited pro forma financial data included in this Offering Memorandum has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive, the Israeli Securities Regulation (Annual Financial Statements) 2010, or any generally accepted accounting standards. Neither the assumptions underlying the pro forma adjustments nor the resulting pro forma financial information have been audited in accordance with any generally accepted auditing standards.

This Offering Memorandum includes certain segment information relating to HOT's cable television business unit, telecom business unit and cellular business unit which are derived from HOT's audited consolidated financial statements and the notes thereto as of and for the fiscal years ended December 31, 2009, 2010 and 2011 and HOT's unaudited financial statements as of and for the nine and three months ended September 30, 2012. The segment information eliminates effects of certain inter-segment sales, primarily in connection with services provided by the telecom business unit to the cable television business unit and the cable television unit to the cellular business unit.

This Offering Memorandum includes certain financial information on an as adjusted basis to give effect to the Transaction, including this offering and the application of the proceeds therefrom, including combined financial data as adjusted to reflect the effect of the Transaction on our indebtedness as if the Transaction had occurred on September 30, 2012 and our interest expense as if the Transaction occurred on October 1, 2011. The as adjusted financial information has been prepared for illustrative purposes only and does not represent what our indebtedness would have been had the Transaction occurred on September 30, 2012 or October 1, 2011, respectively; nor does it purport to project our indebtedness or interest expense at any future date. The as adjusted financial information has not been prepared in accordance with IFRS. Neither the assumptions underlying the adjustments nor the resulting as adjusted financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

This Offering Memorandum contains non-IFRS measures and ratios, including EBITDA and cash flow conversion, that are not required by, or presented in accordance with, IFRS. We define EBITDA as profit before net financing income, taxes on income, depreciation and amortization, expenses in respect of options, expenses (income) derived from updates in actuary assumptions and other expenses (income), net and network set up expenses. We define cash flow conversion as (x) EBITDA minus capital expenditure divided by (y) EBITDA.

We present non-IFRS measures for HOT and Cool Holding because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures may not be comparable to similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of HOT's and Cool Holding's operating results as reported under IFRS. The non-IFRS measures may also be defined differently than the corresponding terms under the Indenture (as defined below). Non-IFRS measures and ratios such as EBITDA are not measurements of HOT's or Cool Holding's performance or liquidity under IFRS or any other generally accepted accounting principles. In particular, you should not consider EBITDA as an alternative to (a) operating profit or profit for the period (as determined in accordance with IFRS) as a measure of HOT's or Cool Holding's operating performance, (b) cash flows from operating, investing and financing activities as a measure of HOT's ability to meet its cash needs or (c) any other measures of performance under generally accepted accounting principles. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for, an analysis of HOT's or Cool Holding's results as reported under IFRS. Some of these limitations are:

- it does not reflect HOT's or Cool Holding's cash expenditures or future requirements for capital expenditures or contractual commitments;

- it does not reflect changes in, or cash requirements for, HOT's working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on HOT's or Cool Holding's debts;
- although depreciation, amortization and impairment are non-cash charges, the assets being depreciated and amortized will generally need to be replaced in the future and EBITDA does not reflect any cash requirements that would be required for such replacements; and
- some of the exceptional items that HOT eliminates in calculating EBITDA reflect cash payments that were made, or will in the future be made.

Unless otherwise indicated, convenience translations into dollars have been calculated as of September 30, 2012. Certain amounts and percentages presented in this Offering Memorandum have been rounded and, accordingly, the sum of amounts presented may not equal the total.

All references in this document to NIS and ILS refer to New Israeli Shekels and all references to "U.S.$" or "$" are to U.S. dollars. All references to "€" are to euro.

Definitions

Capitalized terms used in this Supplement and not otherwise defined in this Supplement shall have the meanings assigned to them in the Listing Particulars.

"Additional Dollar Senior Secured Notes" refers to the Senior Secured Notes Issuer's $10 million aggregate principal amount of 7⁷/₈% senior secured notes due 2019 offered hereby.

"Additional Euro Senior Secured Notes" refers to the Senior Secured Notes Issuer's €10 million aggregate principal amount of 8% senior secured notes due 2019 offered hereby.

"Additional Notes" refers to, collectively, the Additional Senior Secured Notes and the Additional Senior Notes.

"Additional Senior Notes" refers to the Senior Notes Issuer's $25 million aggregate principal amount of 9⁷/₈% senior notes due 2020 offered hereby.

"Additional Senior Secured Notes" refers to, collectively, the Additional Dollar Senior Secured Notes and the Additional Euro Senior Secured Notes.

"Notes" refers to, collectively, the Additional Notes and the Original Notes.

"Original Dollar Senior Secured Notes" refers to the Senior Secured Notes Issuer's $450 million aggregate principal amount of 7⁷/₈% senior secured notes due 2019 issued on December 12, 2012 under the Senior Secured Notes Indenture.

"Original Euro Senior Secured Notes" refers to the Senior Secured Notes Issuer's €200 million aggregate principal amount of 8% senior secured notes due 2019 issued on December 12, 2012 under the Senior Secured Notes Indenture.

"Original Notes" refers to, collectively, the Original Senior Secured Notes and the Original Senior Notes.

"Original Senior Notes" refers to the $400 million aggregate principal amount of 9⁷/₈% senior notes due 2020 issued on December 12, 2012 under the Senior Notes Indenture.

"Original Senior Secured Notes" refers to, collectively, the Original Euro Senior Secured Notes and the Original Dollar Senior Secured Notes.

"Senior Notes" refers to, collectively, the Original Senior Notes and the Additional Senior Notes.

"Senior Notes Indenture" refers to the indenture dated as of December 12, 2012 by and among, *inter alios*, the Senior Notes Issuer, as Issuer, the guarantors party thereto, Citibank, N.A., London Branch, as Trustee, and Citibank, N.A., London Branch, as Security Agent, governing the Original Senior Notes and the Additional Senior Notes.

"Senior Secured Notes" refers to, collectively, the Original Senior Secured Notes and the Additional Senior Secured Notes.

"Senior Secured Notes Indenture" refers to the indenture dated as of December 12, 2012 by and among, *inter alios*, the Senior Secured Notes Issuer, as Issuer, the guarantors party thereto, Citibank, N.A., London Branch, as Trustee, and Citibank, N.A., London Branch, as Security Agent, governing the Original Senior Secured Notes and the Additional Senior Secured Notes.

EXCHANGE RATE INFORMATION

Cool Holding, HOT and HOT Mobile present their consolidated financial statements in NIS. We have set forth in the table below, for the periods and dates indicated, certain information regarding the exchange rates between U.S. dollars and NIS based on the market rates at 6:00 p.m. London time. We have provided this exchange rate information solely for your convenience. We do not make any representation that any amount of currencies specified in the table below has been, or could be, converted into the applicable currency at the rates indicated or any other rate. The market rate at 6:00 p.m. London time of the NIS on December 31, 2011 was $0.262 = NIS1.00 and the market rate at 6:00 p.m. London time of the NIS on September 30, 2012 was $0.255 = NIS1.00. The market rate at 6:00 p.m. London time of the euro on September 30, 2012 was $1.286 = €1.00.

	U.S.$ per NIS1.00			
	Period Average[1]	**High**	**Low**	**Period End**
Year				
2007	0.244	0.261	0.231	0.258
2008	0.280	0.311	0.248	0.260
2009	0.255	0.271	0.235	0.263
2010	0.268	0.280	0.257	0.279
2011	0.280	0.298	0.263	0.263
Month				
January 2012	0.263	0.267	0.259	0.267
February 2012	0.267	0.270	0.264	0.264
March 2012	0.266	0.270	0.262	0.269
April 2012	0.267	0.267	0.265	0.265
May 2012	0.261	0.265	0.256	0.256
June 2012	0.257	0.260	0.253	0.256
July 2012	0.251	0.256	0.245	0.251
August 2012	0.249	0.254	0.247	0.249
September 2012	0.254	0.257	0.248	0.255
October 2012	0.259	0.263	0.256	0.257
November 2012	0.257	0.262	0.252	0.261
December 2012 (through December 14, 2012)	0.262	0.265	0.261	0.264

(1) Period Average means the average of the market rates at 6:00 pm London time during the relevant period.

(2) Represents the exchange rate on the last business day of the applicable period.

FORWARD LOOKING STATEMENTS

This Offering Memorandum contains "forward-looking statements" as that term is defined by the U.S. federal securities laws. These forward-looking statements include, but are not limited to, statements other than statements of historical facts contained in this Offering Memorandum, including, but without limitation, those regarding our future financial condition, results of operations and business, our product, acquisition, disposition and finance strategies, our capital expenditure priorities, regulatory or technological developments in the market, subscriber growth and retention rates, competitive and economic factors, the maturity of our markets, anticipated cost increases, liquidity, credit risk and target leverage levels. In some cases, you can identify these statements by terminology such as "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "potential", "predict", "project", "should", and "will" and similar words used in this Offering Memorandum.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of these assumptions, risks and uncertainties are beyond our control. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we operate. We caution readers not to place undue reliance on the statements, which speak only as of the date of this Offering Memorandum, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this Offering Memorandum include those described under "*Risk Factors*" in this Supplement and under "*Risk Factors*" beginning on page 34 of the Listing Particulars.

The following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- our substantial leverage and debt service obligations;
- our ability to generate sufficient cash flow to service our debt and to control and finance our capital expenditures and operations;
- restrictions and limitations contained in the agreements governing our debt;
- our ability to raise additional financing or refinance or existing indebtedness;
- fluctuations in currency exchange rates, inflation and interest rates;
- risks associated with our structure, this offering, and our other indebtedness;
- risks related to the Transaction;
- the competitive environment and downward price pressure in the broadband communications, television sector and cellular telephony in Israel in which we and the entities in which we have interests operate;
- risks related to royalties payments and our licenses;
- economic and business conditions and trends in the industries in which we and the entities in which we have interests operate;
- changes in consumer television viewing preferences and habits and our ability to maintain and increase the number of subscriptions to our digital television, telephony and broadband Internet services and the average revenue per household;
- capital spending for the acquisition and/or development of telecommunications networks and services and equipment and competitor responses to our products and services, and the products and services of the entities in which we have interests;

- consumer acceptance of existing service offerings, including our analog and digital video, fixed-line and cellular telephony and broadband Internet services and or multiple-play packages and consumer acceptance of new technology, programming alternatives and broadband services that we may offer;

- perceived or actual health risks and other environmental requirements relating to our mobile operations;

- our ability to maintain favorable roaming arrangements for our cellular services;

- the availability of attractive programming for our analog and digital video services or necessary equipment at reasonable costs;

- technical failures, equipment defects, physical or electronic break-ins to the services, computer viruses and similar description problems;

- the ability of third party suppliers and vendors to timely deliver qualitative products, network infrastructure, equipment, software and services;

- our ability to protect our intellectual property rights and avoid any infringement of any third party's intellectual property rights;

- our ability to successfully integrate and recognize anticipated efficiencies from the businesses we may acquire;

- any disruptions in the credit and equity markets which could affect our credit instruments and cash investments;

- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;

- changes in laws or treaties relating to taxation in Israel and/or Luxembourg, or the interpretation thereof;

- our ability to maintain subscriber data and comply with data privacy laws;

- our ability to manage our brand;

- changes in, or failure or inability to comply with, government regulations in Israel and adverse outcomes from regulatory proceedings;

- the application of law generally and government intervention that opens our fixed-line and cellular networks to competitors, which may have the effect of increasing competition and reducing our ability to reach the expected returns on investment;

- our ability to obtain building and environmental permits for the building and upgrading of our cellular network, and to comply generally with city planning laws;

- our inability to completely control the prices we charge to customers or the programming we provide;

- the outcome of any pending or threatened litigation;

- the loss of key employees and the availability of qualified personnel and a deterioration of the relationship with employee representatives;

- our ultimate parent's interest may conflict with our interests;

- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;

- events that are outside of our control, such as political unrest in international markets, terrorist attacks, natural disasters, pandemics and other similar events; and

- other factors discussed in this Offering Memorandum.

The cable television, broadband Internet infrastructure access, fixed-line telephony, ISP services and cellular services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this

Offering Memorandum are subject to a significant degree of risk. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Offering Memorandum, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Offering Memorandum.

We disclose important factors that could cause our actual results to differ materially from our expectations in this Offering Memorandum. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial and other conditions, results of operations and ability to make payments under the Notes.

TAX CONSIDERATIONS

Prospective purchasers of the Additional Notes are advised to consult their own tax advisors as to the consequences of purchasing, holding and disposing of the Additional Notes, including, without limitation, the application of U.S. federal tax laws to their particular situations, as well as any consequences to them under the laws of any other taxing jurisdiction, and the consequences of purchasing the Additional Notes at a price other than the initial issue price in the offering. See "*Tax Considerations*".

DESCRIPTION OF THE OFFERING OF THE ADDITIONAL NOTES

This description of the offering of the Additional Notes highlights selected information contained in this Offering Memorandum regarding the Additional Notes. It does not contain all the information you should consider prior to investing in the Additional Notes. You should read the entire Offering Memorandum carefully including the "Risk Factors", the financial statements and notes thereto, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT" included in this Offering Memorandum.

Pending the consummation of the Take-Private Transaction and the Refinancings, the Initial Purchasers will deposit the gross proceeds from the offering of the Additional Senior Secured Notes hereby into the same segregated escrow accounts into which the proceeds of the Original Senior Secured Notes were deposited for the benefit of the holders of the relevant Senior Secured Notes and will deposit the gross proceeds from the offering of the Additional Senior Notes hereby into the same escrow accounts into which the proceeds of the Original Senior Notes were deposited for the benefit of the holders of the Senior Notes. The escrow accounts for the Senior Secured Notes will be controlled by and subject to security on a first-ranking basis in favor of the Trustee on behalf of the holders of the relevant Senior Secured Notes and the escrow accounts for the Senior Notes will be controlled by and subject to security on a first-ranking basis in favor of the Trustee on behalf of the holders of the Senior Notes.

Upon release of the proceeds from escrow, the Senior Notes Issuer will use the proceeds of the offering of Additional Senior Notes, together with the proceeds of the Original Senior Notes to make the Senior Notes Proceeds Loan and the Senior Secured Notes Issuer will, in turn, use certain amounts borrowed under the Senior Notes Proceeds Loan, the proceeds of the offering of Additional Senior Secured Notes and a portion of the proceeds from the Original Senior Secured Notes to purchase an intercompany note (the "Cool Proceeds Note") issued by Cool Holding. A portion of the proceeds from the Cool Proceeds Note equal to the amount of the proceeds of the offering of the Additional Notes will be used for general corporate purposes.

For a description of the Cool Proceeds Note and the Senior Notes Proceeds Loan, see "*Description of Other Indebtedness*".

THE OFFERING OF THE ADDITIONAL NOTES

The summary below describes the principal terms of the Additional Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of Senior Secured Notes" and "Description of Senior Notes" sections of the Listing Particulars contain a more detailed description of the terms and conditions of the Additional Notes, including the definitions of certain terms used in this summary.

Issuers

Additional Senior Secured Notes..... Altice Financing S.A. (the "Senior Secured Notes Issuer").

Additional Senior Notes.................. Altice Finco S.A. (the "Senior Notes Issuer" and together with the Senior Secured Notes Issuer, the "Issuers").

Notes Offered

Additional Senior Secured Notes..... $10 million aggregate principal amount of 7$^{7}/_{8}$% senior secured notes due 2019 (the "Additional Dollar Senior Secured Notes").

€10 million aggregate principal amount of 8% senior secured notes due 2019 (the "Additional Euro Senior Secured Notes") and together with the Additional Dollar Senior Secured Notes, the "Additional Senior Secured Notes").

Additional Senior Notes.................. $25 million aggregate principal amount of 9$^{7}/_{8}$% senior notes due 2020 (the "Additional Senior Notes" and together with the Additional Senior Secured Notes, the "Additional Notes").

Maturity

Additional Senior Secured Notes..... December 15, 2019

Additional Senior Notes.................. December 15, 2020

Interest

Additional Dollar Senior Secured Notes.. 7.875%

Additional Euro Senior Secured Notes.. 8.000%

Additional Senior Notes.................. 9.875%

In the event we are unable to obtain regulatory approvals with respect to pledges over HOT's and the HOT Refinancing Note Guarantors' License Assets to secure HOT's and the HOT Refinancing Note Guarantors' obligations under the HOT Refinancing Note within 180 days of December 12, 2012 (the "Original Notes Issue Date"), the interest rates on each series of Senior Secured Notes will increase by 100 basis points and the interest rate on the Senior Notes will increase by 100 basis points, see "—*Security*".

Interest Payment Dates................. Semi-annually in cash in arrears on each June 15 and December 15, commencing June 15, 2013. Interest will accrue from the Original Notes Issue Date.

Denomination................................. The Additional Dollar Senior Secured Notes and the Additional Senior Notes will be in denominations of $200,000 and any integral multiples of $1,000 in excess of $200,000. Additional Dollar Senior Secured Notes and Additional Senior Notes in denominations of less than $200,000 will not be available. Additional Euro Senior Secured Notes will be in denominations of €100,000 and any integral multiples of €1,000 in excess of €100,000, Additional Euro Senior Secured Notes in denominations of less than €100,000 will not be available.

Issue Price

Additional Dollar Senior Secured Notes	104.500% plus accrued interest, if any, from the Original Notes Issue Date.
Additional Euro Senior Secured Notes	104.500% plus accrued interest, if any, from the Original Notes Issue Date.
Additional Senior Notes	105.500% plus accrued interest, if any, from the Original Notes Issue Date.

Ranking

Additional Senior Secured Notes..... The Additional Senior Secured Notes will:

- be general obligations of the Senior Secured Notes Issuer;
- be secured as set forth under "—*Security*";
- rank *pari passu* in right of payment with any future Indebtedness of the Senior Secured Notes Issuer that is not subordinated in right of payment to the Senior Secured Notes;
- rank senior in right of payment to any future Indebtedness of the Senior Secured Notes Issuer that is expressly subordinated in right of payment to the Senior Secured Notes;
- be effectively subordinated to any future Indebtedness of the Senior Secured Notes Issuer that is secured by property or assets that do not secure the Senior Secured Notes, to the extent of the value of the property and assets securing such Indebtedness; and
- together with the Original Senior Secured Notes, be the only Indebtedness, other than the subordinated obligations of the Senior Secured Notes Issuer under the Senior Notes Proceeds Loan, of the Senior Secured Notes Issuer outstanding on the Completion Date.

Additional Senior Notes.................. The Additional Senior Notes will:

- be general obligations of the Senior Notes Issuer;
- be secured as set forth under "—*Security*";
- rank *pari passu* in right of payment with any future Indebtedness of the Senior Notes Issuer that is not subordinated in right of payment to the Senior Notes;
- rank senior in right of payment to any future Indebtedness of the Senior Notes Issuer that is expressly subordinated in right of payment to the Senior Notes;
- be effectively subordinated to any future Indebtedness of the Senior Notes Issuer that is secured by property or assets that do not secure the Senior Notes, to the extent of the value of the property and assets securing such Indebtedness; and
- together with the Original Senior Notes, be the only Indebtedness of the Senior Notes Issuer outstanding on the Completion Date.

Guarantees

Additional Senior Secured Notes..... The Additional Senior Secured Notes will not be guaranteed on the Issue Date. On the Completion Date, the Additional Senior Secured Notes will be guaranteed on a senior basis (the "Senior Secured Notes Guarantees") by Cool Holding and SPV1

(the "Senior Secured Notes Guarantors").

On the Completion Date, the HOT Refinancing Note will be guaranteed by the HOT Refinancing Note Guarantors.

Additional Senior Notes .... The Additional Senior Notes will not be guaranteed on the Issue Date. On the Completion Date, the Additional Senior Notes will be guaranteed on a senior subordinated basis (the "Senior Notes Guarantees" and together with the Senior Secured Notes Guarantees, the "Guarantees") by Cool Holding, SPV1 and the Senior Secured Notes Issuer (the "Senior Notes Guarantors" and together with the Senior Secured Notes Guarantors, the "Guarantors").

Ranking of the Guarantees

Additional Senior Secured Notes..... Each Senior Secured Notes Guarantee will, on the Completion Date,

- be a general obligation of the relevant Senior Secured Notes Guarantor;
- rank *pari passu* in right of payment with any existing and future Indebtedness of the relevant Senior Secured Notes Guarantor that is not subordinated in right of payment to such Senior Secured Notes Guarantor's Senior Secured Notes Guarantee;
- rank senior in right of payment to all existing and future Indebtedness of the relevant Senior Secured Notes Guarantor that is expressly subordinated in right of payment to such Senior Secured Notes Guarantor's Senior Secured Notes Guarantee;
- be effectively subordinated to any existing and future Indebtedness of the relevant Senior Secured Notes Guarantor that is secured by property or assets that do not secure such Senior Secured Notes Guarantor's Senior Secured Notes Guarantee, to the extent of the value of the property and assets securing such Indebtedness; and
- be effectively subordinated to the Indebtedness and other obligations of any member of the Group that does not guarantee the Additional Senior Secured Notes.

The Senior Secured Notes Guarantees will be subject to the terms of the Intercreditor Agreement. See "*Description of Other Indebtedness—The Intercreditor Agreement*" in the Listing Particulars attached hereto.

The Senior Secured Notes Guarantees will be subject to release under certain circumstances. See "*Description of Senior Secured Notes—The Note Guarantees*" in the Listing Particulars attached hereto.

Additional Senior Notes .... Each Senior Notes Guarantee will, on the Completion Date,

- be a general senior subordinated obligation of the relevant Senior Notes Guarantor;
- be subordinated in right of payment with any existing and future Indebtedness of the relevant Senior Notes Guarantor that is not subordinated in right of payment to such Senior Notes Guarantor's Senior Notes Guarantee;
- rank *pari passu* in right of payment to all existing and future senior subordinated Indebtedness of the relevant Senior Notes Guarantor;
- rank senior in right of payment to all existing and future Indebtedness of the relevant Senior Notes Guarantor that is expressly subordinated in right of payment to such Senior Notes Guarantor's Senior Notes Guarantee;
- be effectively subordinated to any existing and future Indebtedness of the

relevant Senior Notes Guarantor that is secured by property or assets that do not secure such Senior Notes Guarantor's Senior Notes Guarantee, to the extent of the value of the property and assets securing such Indebtedness; and

- be effectively subordinated to the Indebtedness and other obligations of any member of the Group that does not guarantee the Additional Senior Notes.

The Senior Notes Guarantees will be subject to the terms of the Intercreditor Agreement, including payment blockage upon a senior default and standstills on enforcement. See "*Description of Other Indebtedness—The Intercreditor Agreement*" in the Listing Particulars attached hereto.

The Senior Notes Guarantees will be subject to release under certain circumstances. See "*Description of Senior Notes—The Note Guarantees*" in the Listing Particulars attached hereto.

Security

Additional Senior Secured Notes ..... On the Issue Date, the Additional Senior Secured Notes will be secured by a security interest over the rights of the Senior Secured Notes Issuer under the Senior Secured Notes Escrow Agreement (as defined below) and the assets in the Senior Secured Notes Escrow Accounts (as defined below).

On the Completion Date, the Additional Senior Secured Notes will be secured on a first-ranking basis by:

- share pledges over all of the share capital of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors;

- a pledge over the bank accounts and all receivables of the Senior Secured Notes Issuer, including the Pledged Proceeds Notes;

- a pledge over all of the assets of each of the Senior Secured Notes Guarantors, including all of the share capital of HOT (other than the Minority Shareholder Call Options and the Management Options);

- a pledge over the Senior Notes Proceeds Loan; and

- a pledge over the Shareholder Loan.

Prior to the receipt of regulatory approvals with respect to the granting of security over License Assets (as defined in "*Description of Senior Secured Notes*" in the Listing Particulars attached hereto), the HOT Refinancing Note will be secured by a pledge over the non-License Assets of HOT (including all of the share capital of HOT Mobile) and of the HOT Refinancing Guarantors and, following receipt of such regulatory approvals, will be secured by a pledge over substantially all of the assets of HOT (including the share capital of HOT Mobile) and the HOT Refinancing Guarantors but, in each case, excluding licenses issued by the Israeli Ministry of Communications and certain end-user equipment with respect to which we are not permitted to grant a security interest (the "HOT Refinancing Note Collateral"). The granting of pledges over License Assets and the appointment of the security agent in respect of such License Assets is subject to the prior receipt of regulatory approvals from the Israeli Ministry of Communications which may not be received as of the Completion Date. License Assets constitute a substantial portion of the assets of HOT and the HOT Refinancing Note Guarantees. We have submitted an application to the Israeli Ministry of Communications for such approvals and have agreed to use commercially reasonable efforts to obtain such approvals within 180 days of the Original Notes Issue Date. If we fail to obtain the approvals of the Israeli Ministry of Communications within 180 days of the Original Notes Issue Date (x) the HOT Refinancing Note and the HOT Refinancing Note Guarantees will not benefit, and as a result the Additional Senior Secured Notes will not indirectly benefit, from pledges over a substantial portion of HOT's and the HOT Refinancing Guarantors' assets and, (y) on the date which

is 180 days from the Original Notes Issue Date, the interest rate on each series of the Additional Senior Secured Notes will increase by 100 basis points and the interest rate on the Additional Senior Notes will increase by 100 basis points. See "*Description of Senior Secured Notes—Security—The Collateral*" and "*Description of Senior Notes—Security—The Collateral*" in the Listing Particulars attached hereto.

Additional Senior Notes .... On the Issue Date, the Additional Senior Notes will be secured by a security interest over the rights of the Senior Notes Issuer under the Senior Notes Escrow Agreement (as defined below) and the assets in the Senior Notes Escrow Account (as defined below).

On the Completion Date, the Additional Senior Notes will be secured by:

- a first-ranking share pledge over all of the share capital of the Senior Notes Issuer;
- second-ranking share pledges over all of the share capital of the Senior Secured Notes Issuer and Cool Holding;
- a second-ranking pledge over the Shareholder Loan; and
- a second-ranking pledge over the Senior Notes Proceeds Loan.

Escrow of Proceeds; Special Mandatory Redemption............ Pending consummation of the Take-Private Transaction and the Refinancings and the satisfaction of certain other conditions as described below, the Initial Purchasers will, concurrently with the closing of the offering of the Additional Notes on the Issue Date, (i) deposit the gross proceeds of this offering of Additional Senior Secured Notes into segregated escrow accounts (the "Senior Secured Notes Escrow Accounts," which will be the same escrow accounts into which the proceeds of the Original Senior Secured Notes were deposited) pursuant to the terms of an escrow deed (the "Senior Secured Notes Escrow Agreement") dated as of the Original Notes Issue Date among, *inter alios*, the Senior Secured Notes Issuer, the Trustee and Citibank, N.A., London Branch, as escrow agent (the "Escrow Agent") and (ii) deposit the gross proceeds of this offering of Senior Notes into escrow accounts (the "Senior Notes Escrow Accounts," which will be the same escrow accounts into which the proceeds of the Original Senior Notes were deposited) pursuant to the terms of an escrow deed (the "Senior Notes Escrow Agreement") dated as of the Original Notes Issue Date among, *inter alios*, the Senior Notes Issuer, the Trustee and the Escrow Agent. The Senior Secured Notes Escrow Accounts will be controlled by, and pledged on a first-ranking basis in favor of, the Trustee on behalf of the holders of the relevant Senior Secured Notes. The Senior Notes Escrow Accounts will be controlled by, and pledged on a first-ranking basis in favor of, the Senior Notes Trustee on behalf of the holders of the Senior Notes. Upon delivery to the Escrow Agent of officer's certificates certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon the release of the escrow proceeds, the escrowed funds will be released to the Issuers and utilized as described in "*Use of Proceeds*" as well as the sections captioned "*The Transaction*", "*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*" and "*Description of Senior Notes—Escrow of Proceeds Special Mandatory Redemption*" included in the Listing Particulars attached hereto.

The consummation of the Take-Private Transaction is subject to approval by certain lenders to HOT and regulatory approval by the Israeli Ministry of Communications and the Israeli Cable & Satellite Council, all of which have been received, and certain other conditions precedent and must be completed on or prior to March 31, 2013 (the "Long Stop Date"). If the Take-Private Transaction and the Refinancings are not consummated on or prior to the Long-Stop Date or upon the occurrence of certain other events the Notes will be redeemed at a price equal to 100% of the initial issue price of each Note plus accrued and unpaid interest and additional amounts, if any, from the Original Notes Issue Date to the special

mandatory redemption date. On the Original Notes Issue Date, Altice entered into a guarantee agreement pursuant to which it guaranteed the Issuers' obligations under the Original Senior Secured Notes and the Original Senior Notes in the event the purchase price payable on a special mandatory redemption of the Original Senior Secured Notes or the Original Senior Notes, as applicable, exceeds the proceeds in the relevant escrow account (the "Altice Guarantee"). On the Issue Date, Altice and the other parties thereto will amend or supplement the Altice Guarantee to guarantee the Issuers' corresponding obligations with respect to the Additional Notes. Altice has arranged committed financing in respect of the interest that will accrue on the Notes to the date of the special mandatory redemption and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it. See "*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*" and "*Description of Senior Notes—Escrow of Proceeds; Special Mandatory Redemption*" in the Listing Particulars attached hereto.

Change of Control .... Following a change of control as defined in the Senior Secured Notes Indenture at any time, the Senior Secured Notes Issuer will be required to offer to repurchase the Additional Senior Secured Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. See "*Description of Senior Secured Notes—Certain Covenants—Change of Control*" in the Listing Particulars attached hereto.

Following a change of control as defined in the Senior Notes Indenture at any time, the Senior Notes Issuer will be required to offer to repurchase the Additional Senior Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. See "*Description of Senior Notes—Certain Covenants—Change of Control*" in the Listing Particulars attached hereto.

Redemption with Minority Shareholder Option Proceeds ... Upon certain Minority Shareholder Option Exercises (as defined in "*Description of Senior Secured Notes*" and "*Description of Senior Notes*" in the Listing Particulars attached hereto), the Senior Secured Notes Issuer must offer to repurchase the Additional Senior Secured Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with the net cash proceeds of such Minority Shareholder Option Exercises. In the event there are any remaining net cash proceeds after the completion of such offer, the Senior Notes Issuer must offer to repurchase the Additional Senior Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with such remaining net cash proceeds. See "*Description of Senior Secured Notes—Redemption with Minority Shareholder Option Proceeds*" and "*Description of Senior Notes—Redemption with Minority Shareholder Option Proceeds*" in the Listing Particulars attached hereto.

Optional Redemption

Additional Senior Secured Notes..... Prior to December 15, 2015, the Senior Secured Notes Issuer may redeem all or a portion of the Additional Senior Secured Notes at a price equal to 100% of the principal amount plus a 'make-whole' premium. The Senior Secured Notes Issuer may redeem some or all of the Additional Senior Secured Notes at any time on or after December 15, 2015, at a redemption price equal to their principal amount plus a premium, accrued and unpaid interest and additional amounts, if any. See "*Description of Senior Secured Notes—Optional Redemption*" in the Listing Particulars attached hereto.

In addition, prior to December 15, 2015, the Senior Secured Notes Issuer may redeem up to 40% of the aggregate principal amount of each series of the Additional Senior Secured Notes with the proceeds of certain public equity offerings at a redemption price equal to 107.875% of the principal amount of the Additional Dollar Senior Secured Notes and 108.000% of the principal amount of the Additional Euro Senior Secured Notes, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, provided that at least 60% of the

original aggregate principal amount of each series of the Additional Senior Secured Notes remains outstanding after the redemption and the redemption occurs within 180 days after the closing of such equity offering. See "*Description of Senior Secured Notes—Optional Redemption*" in the Listing Particulars attached hereto.

Additional Senior Notes .... Prior to December 15, 2016, the Senior Notes Issuer may redeem all or a portion of the Additional Senior Notes at a price equal to 100% of the principal amount plus a make-whole premium. The Senior Notes Issuer may redeem some or all of the Additional Senior Notes at any time on or after December 15, 2016, at a redemption price equal to their principal amount plus a premium, accrued and unpaid interest and additional amounts, if any. See "*Description of Senior Notes—Optional Redemption*" in the Listing Particulars attached hereto.

In addition, prior to December 15, 2015, the Senior Notes Issuer may redeem up to 40% of the aggregate principal amount of the Additional Senior Notes with the proceeds of certain public equity offerings at a redemption price equal to 109.875% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, provided that at least 60% of the original aggregate principal amount of the Additional Senior Notes remains outstanding after the redemption and the redemption occurs within 180 days after the closing of such equity offering. See "*Description of Senior Notes—Optional Redemption*" in the Listing Particulars attached hereto.

Additional amounts; tax redemption .... All payments made under or in respect of the Additional Notes or the Guarantees will be made without withholding or deduction for any taxes, except to the extent required by law. If such withholding or deduction is required by law in any relevant tax jurisdiction, the relevant Issuer or the relevant Guarantor, as applicable, will pay additional amounts so that the net amount received by each holder is no less than that which it would have received in the absence of such withholding or deduction. See "*Description of Senior Secured Notes—Withholding Taxes*" and "*Description of Senior Notes—Withholding Taxes*" in the Listing Particulars attached hereto.

In the event of certain developments affecting taxation or certain other circumstances, the Senior Secured Notes Issuer or Senior Notes Issuer, as applicable may redeem the relevant Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "*Description of Senior Secured Notes—Redemption for Changes in Withholding Taxes*" and "*Description of Senior Notes—Redemption for Changes in Withholding Taxes*" in the Listing Particulars attached hereto.

Certain covenants .... The Issuers will issue the Additional Notes under the Indentures. The Indentures will, among other things, limit our ability, the ability of certain other Covenant Parties and the ability of the restricted subsidiaries to:

- incur or guarantee additional Indebtedness;
- make investments or other restricted payments;
- create liens;
- sell assets and subsidiary stock;
- pay dividends or make other distributions or repurchase or redeem our capital stock or subordinated debt;
- engage in certain transactions with affiliates;
- enter into agreements that restrict the payment of dividends by subsidiaries or the repayment of intercompany loans and advances; and
- engage in mergers or consolidations.

These covenants will be subject to a number of important exceptions and qualifications. For more details, see "*Description of Senior Secured Notes*" and "*Description of Senior Notes*" in the Listing Particulars attached hereto.

Transfer restrictions....................... The Additional Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Additional Notes are subject to restrictions on transfer and may only be offered or sold in transactions that are exempt from or not subject to the registration requirements of the U.S. Securities Act. See "*Transfer Restrictions" and "Plan of Distribution*".

Trading of the Additional Notes ... Although the Initial Purchasers have informed the Issuers that they intend to make a market in the Additional Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, the Issuers cannot assure you that a liquid market for the Additional Notes will develop or be maintained.

The Additional Notes sold pursuant to Regulation S under the U.S. Securities Act will have different CUSIP numbers, international securities identification numbers and common codes (as applicable) from, and will not be fungible with, the corresponding Original Notes during the period prior to and including the 40th day following the Issue Date. After the 40th day following the Issue Date, certain selling restrictions with respect to the Additional Notes sold pursuant to Regulation S under the U.S. Securities Act will terminate and the Additional Notes will become fully fungible with, and have the same CUSIP numbers, international securities identification numbers and common codes as, the corresponding Original Notes. Please see "*Book-Entry, Delivery and Form*" and "*Transfer Restrictions*."

Use of proceeds .... The gross proceeds from the sale of the Additional Senior Secured Notes will be deposited into segregated escrow accounts in the name of the Trustee on behalf of the holders of the relevant Senior Secured Notes and the gross proceeds from the sale of the Additional Senior Notes will be deposited in segregated escrow accounts in the name of the Trustee on behalf of the holders of the Additional Senior Notes, in each case, pending satisfaction of the conditions to release such proceeds. Upon release from escrow, the Senior Notes Issuer will use the proceeds of the offering of the Additional Senior Notes (together with the proceeds of the offering of the Original Senior Notes) to make the Senior Notes Proceeds Loan to the Senior Secured Notes Issuer which will, in turn, use the amounts borrowed under the Senior Notes Proceeds Loan, the proceeds of the offering of the Additional Senior Secured Notes and a portion of the proceeds of the offering of the Original Senior Secured Notes to purchase the Cool Proceeds Note issued by Cool Holding. Cool Holding will, in turn, use a portion of the Cool Proceeds Note equal to the proceeds of the Additional Notes for general corporate purposes. See "*Use of Proceeds*".

Listing .... Application has been made for the Additional Notes to be admitted to listing on the Official List and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

Trustee .... Citibank, N.A., London Branch.

Principal Paying Agent and Transfer Agent............................ Citibank, N.A., London Branch.

Registrar .... Citigroup Global Markets Deutschland AG.

Governing law................................. The Indentures and the Notes will be governed by the laws of the State of New York. The security documents governing the Collateral and the HOT Refinancing Note Collateral will be governed by and construed in accordance with the laws of Luxembourg, Israel and England, as applicable. See "*Description of Senior Secured Notes—Security*" and "*Description of Senior Notes—Security*" in the Listing Particulars attached hereto. The application of the provisions set out in Articles 86 to 94-8 of the Luxembourg law dated August 10, 1915 on commercial

	companies, as amended, is excluded.
Risk factors......................................	Please see “Risk Factors” for a description of certain of the risks you should carefully consider before investing in the Additional Notes as well as “Risk Factors” contained in the Listing Particulars attached hereto.
Certain U.S. federal income tax considerations	See “*Tax Considerations—Certain U.S. Federal Income Tax Considerations”*.
Certain ERISA considerations......	The Additional Notes and any interest therein may, subject to certain restrictions described herein under “Certain Employee Benefit Plan Considerations”, be sold and transferred to ERISA Plans (as defined in this Offering Memorandum). See “*Certain Employee Benefit Plan Considerations*” contained in the Listing Particulars attached hereto.

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL AND OTHER DATA

Certain as adjusted information

	As of and for the nine months ended September 30, 2012
	NIS in millions
As adjusted total net debt[1]	5,517
As adjusted senior net debt[6]	3,851
Pro forma LTM EBITDA[2][4]	1,476
Last two quarters annualized EBITDA[3][4]	1,446
As adjusted interest expense[5]	495
Ratio of as adjusted total net debt to pro forma LTM EBITDA	3.7x
Ratio of as adjusted senior net debt to pro forma LTM EBITDA	2.6x
Ratio of pro forma LTM EBITDA to as adjusted interest expense	3.0x

(1) As adjusted total net debt reflects the aggregate principal amount of our debt minus cash and cash equivalents, in each case on an as adjusted basis after giving effect to the Transaction and this offering of Additional Notes hereby. See "*Capitalization*".

(2) Pro forma LTM EBITDA gives effect to the acquisition of HOT Mobile as if such transaction had occurred on January 1, 2011, but does not give any effect to the Transaction or to this offering of Additional Notes hereby. Pro Forma LTM EBITDA has been derived by adding HOT's pro forma EBITDA for the year ended December 31, 2011 to its pro forma EBITDA for the nine months ended September 30, 2012 and subtracting its pro forma EBITDA for the nine months ended September 30, 2011.

(3) Annualized EBITDA is calculated by multiplying EBITDA for the two most recent reported quarters by two.

(4) Please note that the definition of EBITDA as presented here differs from the definition of Consolidated EBITDA in the Indentures. See "*Description of Senior Secured Notes*" and "*Description of Senior Notes*" in the Listing Particulars attached hereto.

(5) As adjusted interest expense represents the gross interest expense, which is calculated using the cash interest expense in connection with the debt incurred in connection with the Transaction and this offering of Additional Notes hereby (excluding any hedging expenses) and the Existing HOT Unsecured Notes, using an assumed blended average cash interest rate for the Notes and the Existing HOT Unsecured HOT Notes and assuming the Transaction and the issuance of the Additional Notes occurred on October 1, 2011 and the regulatory approvals for securing the HOT Refinancing Note with all of the HOT Refinancing Note Collateral were obtained within 180 days of the Original Notes Issue Date. As adjusted interest expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would actually have been had the Transaction and the issuance of Additional Notes occurred on October 1, 2011 nor does it purport to project our interest rate for any future period or financial condition at any future. Interest expense excludes (a) other financing costs relating to (i) foreign exchange transactions, collection costs and embedded derivatives, (ii) bank charges and credit card commissions, and (iii) refinancing and reorganization costs and (b) interest income.

(6) As adjusted senior net debt reflects the aggregate principal amount of our debt that is outstanding under the Senior Secured Notes, the Existing HOT Unsecured Notes and finance leases minus cash and cash equivalents, in each case, as adjusted after giving effect to the Transaction and this offering of Additional Senior Secured Notes hereby.

RISK FACTORS

An investment in the Additional Notes involves risks. Before purchasing the Additional Notes, you should consider carefully the specific risk factors set forth beginning on page 34 of the Listing Particulars, the amended risk factors set forth below as well as the other information contained in this Offering Memorandum. If any of the events described below, individually or in combination, were to occur, this could have a material adverse impact on our business, prospects, results of operations and financial condition and our ability to make payments on the Notes and could therefore have a negative effect on the trading price of the Notes. Described below and elsewhere in this document are the risks considered to be the most material, although there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our results of operations, financial condition, business or operations in the future. In addition, our past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

This Offering Memorandum also contains forward looking statements that involve risks and uncertainties. Actual results may differ materially from those anticipated in these forward looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum. See "Forward Looking Statements".

Risks Relating to Our Financial Profile

Our substantial leverage could adversely affect our business, financial condition and results of operations and prevent us from fulfilling our obligations under the Notes.

We have significant debt and debt service requirements and may incur additional debt in the future. As of September 30, 2012, as adjusted to give effect to the Transaction and this offering of Additional Notes, including the issuance of the Notes and application of the proceeds thereof, we had total long-term debt (including short-term maturities) of NIS 6.1 billion ($1.6 billion equivalent) on a consolidated basis. Of this as adjusted indebtedness, NIS 1.6 billion ($406 million equivalent) represents outstanding indebtedness (other than the Pledged Proceeds Notes) of HOT and its subsidiaries, including the Existing HOT Unsecured Notes. In addition, the Senior Secured Notes Issuer will also have the ability to borrow up to $80 million under the Revolving Credit Facility Agreement, which as of the Completion Date will be undrawn and which the Senior Secured Notes Issuer may on-lend to HOT pursuant to the HOT Refinancing RCF Note. See "*Description of Other Indebtedness—Revolving Credit Facility Agreement*".

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 under the Pledged Proceeds Notes and, in turn, the Senior Secured Notes Issuer's obligations under the Senior Notes Proceeds Loan and the Issuers' obligations under the Notes;
- 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 borrowing, particularly due to the financial and other restrictive covenants contained in the agreements governing our debt;
- impeding our ability to compete with other providers of pay television, broadband Internet infrastructure services, fixed-line telephony services and cellular services in Israel;
- 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 brand.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations under the Pledged Proceeds Notes and, in turn, the Senior Secured Notes Issuer's obligations under the Senior Notes Proceeds Loan and the Issuers' obligations under the Notes.

The terms of the Indentures and the Revolving Credit Facility Agreement 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, to finance acquisitions or in connection with the accession of new Covenant Parties to the Indentures, or to fund the prepayment premiums, if any, on debt we refinance, to fund distributions to our

shareholders or for general corporate purposes. If new debt is added to our consolidated debt described above, the related risks that we now face will intensify.

A substantial amount of our indebtedness will mature before the Notes, and we may not be able to repay this indebtedness or refinance this indebtedness at maturity on favorable terms, or at all.

The Existing HOT Unsecured Notes will mature in 2018. See "*Description of Other Indebtedness—The Existing HOT Unsecured Notes*" in the Listing Particulars attached hereto. Of the NIS 6.1 billion ($1.6 billion based on the exchange rate as of September 30, 2012) of total borrowings we would have had outstanding as of September 30, 2012, as adjusted to give effect to the Transaction (including the offering of the Original Notes and the application of the proceeds thereof) and this offering of Additional Notes and the application of the proceeds thereof, NIS 1.6 billion ($406 million based on the exchange rate as of September 30, 2012) of our borrowings, including the Existing HOT Unsecured Notes, will mature prior to the maturity dates of the Notes.

Our ability to refinance our indebtedness, on favorable 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 and the value of the Notes. 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, or seek to raise additional capital.

The Issuers cannot assure you that an active trading market will develop for the Additional Senior Secured Notes or the Additional Senior Notes, in which case your ability to sell the Additional Senior Secured Notes or the Additional Senior Notes will be limited.

The Issuers cannot assure you as to:

- the liquidity of any market that may develop for the Additional Senior Secured Notes or the Additional Senior Notes;
- your ability to sell your Additional Senior Secured Notes or the Additional Senior Notes; or
- the prices at which you would be able to sell your Additional Senior Secured Notes or the Additional Senior Notes.

Future trading prices of the Additional Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Additional Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. It is possible that the market for the Additional Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Additional Notes, regardless of our prospects and financial performance. The Initial Purchasers of the Additional Notes have advised the Issuers that they currently intend to make a market in the Additional Notes. However, the Initial Purchasers are not obliged to do so, and they may discontinue any market making activities at any time without notice. As a result, there is no assurance that an active trading market will develop for the Additional Notes. If no active trading market develops, you may not be able to resell your Additional Notes at a fair value, if at all.

Although the Issuers will, in the Indentures, agree to use commercially reasonable efforts to have the Additional Notes listed and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange within a reasonable period after the issue date of the Additional Notes and to maintain such listing as long as the Additional Notes are outstanding, the Issuers cannot assure you that the Additional Notes will become or remain listed. If the Issuers are unable or can no longer maintain the listing on the Luxembourg Stock Exchange or it becomes unduly burdensome to make or maintain such listing (for the avoidance of doubt, preparation of financial statements in accordance with IFRS or any other accounting standard other than the accounting standard pursuant to which the Issuers prepare their financial statements shall be deemed unduly burdensome), the Issuers may cease to make or maintain such listing on the Luxembourg Stock Exchange, provided that they will use reasonable best efforts to obtain and maintain the listing of the Notes on another stock exchange although there can be no assurance that the Issuers will be able to do so. Although no assurance is made as to the liquidity of the Additional Notes as a result of listing on the Luxembourg Stock Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, failure to be approved for listing or the delisting of the Additional Notes from the Luxembourg Stock Exchange or another listing exchange in accordance with the Indentures may have a material adverse effect on a holder's ability to resell Additional Notes in the secondary market.

In addition, unlike the Additional Notes sold pursuant to Rule 144A under the U.S. Securities Act, which will trade fungibly with the corresponding Original Notes from the Issue Date, the Additional Notes sold pursuant to Regulation S under the U.S. Securities Act will have different CUSIP numbers, international securities identification numbers and common codes (as applicable) from, and will not be fungible with, the corresponding Original Notes during the period prior to and including the 40th day following the Issue Date. Only after the 40th day following the Issue Date, will certain selling restrictions with respect to the Additional Notes sold pursuant to Regulation S under the U.S. Securities Act terminate and will the Additional Notes become fully fungible with, and have the same CUSIP numbers, international securities identification numbers and common codes as, the corresponding Original Notes. As a result, there is no pre-existing active trading market for the Additional Notes sold pursuant to Regulation S under the U.S. Securities Act and there can be no assurance that one will develop at all.

USE OF PROCEEDS

The gross proceeds from the sale of the Additional Notes will be deposited in the same escrow accounts as the proceeds of the Original Notes in the name of the Trustee on behalf of the holders of the Senior Secured Notes or Senior Notes, as applicable, pending delivery of officer's certificates to the Escrow Agent certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon release of the escrow proceeds. Upon release from escrow, the Senior Notes Issuer will use the proceeds of the offering of the Additional Senior Notes, along with the proceeds of the Original Senior Notes, to make the Senior Notes Proceeds Loan to the Senior Secured Notes Issuer and the Senior Secured Notes Issuer will, in turn, use the amounts borrowed under the Senior Notes Proceeds Loan, the proceeds of the offering of the Additional Senior Secured Notes and a portion of the proceeds of the offering of the Original Senior Secured Notes to purchase the Cool Proceeds Note issued by Cool Holding. Cool Holding will, in turn, use a portion of the Cool Proceeds Note equal to the proceeds of the Additional Notes for general corporate purposes. The net proceeds of the offering of the Additional Notes upon release from escrow will be approximately $50.26 million (equivalent).

CAPITALIZATION

The following table presents, in each case, the cash and cash equivalents and capitalization as of September 30, 2012 of the Group (i) on a historical combined basis and (ii) on an as adjusted combined basis after giving effect to the Transaction (including the issuance of the Original Notes) and the issuance of the Additional Notes and the application of the proceeds therefrom and the Refinancings. The as adjusted amounts are estimates and may not accurately reflect the amounts outstanding upon the Completion Date. This table should be read in conjunction with "*Use of Proceeds*", and the sections captioned "*Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT*" and "*Description of Other Indebtedness*" as well as the financial statements and notes thereto contained in the Listing Particulars attached hereto.

The impact of any derivative instruments that we may enter into to manage foreign currency risk associated with the Notes has not been reflected in the as adjusted data presented in the table. Except as set forth in the footnotes to this table, there have not been material changes to our capitalization since September 30, 2012.

	September 30, 2012	
	Actual	As Adjusted
	NIS in millions	
Cash and Cash Equivalents		
HOT and its subsidiaries	7	7
Cool Holding[1]	65	198
Senior Secured Notes Issuer	—	411
Total Cash and Cash Equivalents	72	615
Third-party Debt:		
Third-party senior debt		
Existing HOT Loans[2]	1,656	—
Existing HOT Unsecured Notes[3]	1,456	1,456
Finance leases	138	138
Original Senior Secured Notes[4]	—	2,782
Additional Senior Secured Notes offered hereby[4]		90
Revolving Credit Facility[5]	—	—
Total third-party senior debt (excluding other liabilities)[6]	3,250	4,466
Original Senior Notes[4]	—	1,569
Additional Senior Notes offered hereby[4]	—	98
Cool Loan	845	—
Total Third-party Debt (excluding other liabilities)[6]	4,095	6,132
Shareholder Loan	1,202	1,202
Total Shareholders Equity (including minority)	1,688	1,688
Total Capitalization	6,985	9,022

(1) Actual cash is restricted cash pledged for the benefit of the lenders under the Cool Loan. As adjusted cash will not be restricted following consummation of the Transaction and the issuance of the Additional Notes.

(2) The amount reflected above is reduced by capitalized debt issuance costs of NIS 12.6 million.

(3) The amount reflected above is reduced by capitalized debt issuance costs of NIS 11.7 million.

(4) Reflects the issuance of the Original Senior Notes and the Additional Senior Notes, the proceeds of which will be, upon release from the escrow account, loaned by the Senior Notes Issuer to the Senior Secured Notes Issuer pursuant to the Senior Notes Proceeds Loan, and the issuance of the Original Senior Secured Notes and the Additional Senior Secured Notes, the proceeds of which will be, upon release from the escrow accounts, along with amounts borrowed under the Senior Notes Proceeds Loan, used by the Senior Secured Notes Issuer to purchase the Acquisition Note, the Cool Proceeds Note and the HOT Refinancing Note from SPV1, Cool Holding and HOT, respectively, pay certain fees and expenses incurred in connection with the Transaction and for general corporate purposes. See "*Use of Proceeds*" and the sections captioned "*The Transaction*" and "*Use of Proceeds*" contained in the Listing Particulars attached hereto. The amount is based on the exchange rate as of December 7, 2012 of €0.771 = $1.00 and the exchange rate as of September 30, 2012 of $0.255 = NIS 1.00.

(5) The Revolving Credit Facility will not be drawn to consummate the Transaction. However, the Senior Secured Notes Issuer may draw on the Revolving Credit Facility on or after the Completion Date to support our working capital purposes.

(6) Excludes other long-term and short-term liabilities, other than finance leases, of the Group. Other long-term and short-term liabilities include, among other things, our obligations to the State of Israel related to our Cellular License and our ownership of the cable network, contingent consideration on behalf of the HOT Mobile acquisition, trade payables, other payables, provision for lawsuits, accrued severance liability, and deferred tax liability. See "*Description of our Business—Material Contracts*" and "*Certain Relationships and Related Party Transactions—HOT Mobile Earnout*" and note 16 to the financial statements of Cool Holding for the year ended December 31, 2011 included in the Listing Particulars attached hereto.

DESCRIPTION OF OTHER INDEBTEDNESS

Senior Notes Proceeds Loan

On the Completion Date, the Senior Notes Issuer will make an intercompany loan (the "Senior Notes Proceeds Loan") in aggregate principal amount of approximately $425 million pursuant to which it will loan the proceeds of the offering of the Original Senior Notes and the Additional Senior Notes to the Senior Secured Notes Issuer. The terms of the Senior Notes Proceeds Loan will be customary for intercompany proceeds loans. The Senior Notes Proceeds Loan will accrue interest at a rate equal to the interest rate of the Senior Notes. The maturity date of the Senior Notes Proceeds Loan will be the same as the maturity date of the Senior Notes. Payments on the Senior Notes Proceeds Loan will be subject to the Intercreditor Agreement.

Cool Proceeds Note

On the Completion Date, the Senior Secured Notes Issuer will purchase a NIS 1.1 billion ($274.6 million equivalent) intercompany note (the "Cool Proceeds Note") issued by Cool Holding, with a portion of the proceeds of the Original Notes and the proceeds of the offering of the Additional Notes. The actual amount may differ from the amount above based on several factors, including the exchange rate as in effect on the Completion Date. The terms of the Cool Proceeds Note will be customary for intercompany proceeds notes. The maturity date of the Cool Proceeds Note will be the same as the maturity date of the Senior Secured Notes.

The Cool Proceeds Note and the Acquisition Note will bear interest at rates, determined on the Completion Date such that, after taking into account the interest rate applicable to the HOT Refinancing Term Note, the blended weighted average interest rate of the Pledged Proceeds Notes will equal the weighted average interest rate of the Senior Secured Notes and the Senior Notes. Cool Holding and SPV1 will be entitled to capitalize the interest payable on any interest payment date under the Cool Proceeds Note and the Acquisition Note, as applicable, if the Senior Secured Notes Issuer has sufficient funds otherwise available to it to make its corresponding interest payments on the Senior Secured Notes and the Senior Notes Proceeds Loan on such interest payment date.

BOOK-ENTRY, DELIVERY AND FORM

Temporary Regulation S Global Notes

Each series of Additional Notes sold outside the United States pursuant to Regulation S will initially be represented by one or more temporary global notes in registered form without interest coupons attached (the "Temporary Regulation S Global Notes"). The Additional Notes sold pursuant to Regulation S under the U.S. Securities Act and represented by the Temporary Regulation S Global Notes will have different CUSIP numbers, international securities identification numbers and common codes (as applicable) from, and will not be fungible with, the corresponding Original Notes during the period prior to and including the 40th day following the Issue Date. After the 40th day following the Issue Date, the transfer restrictions described under "*Transfer Restrictions*" with respect to the Additional Notes sold pursuant to Regulation S under the U.S. Securities Act will terminate and the Additional Notes will become fully fungible with, and have the same CUSIP numbers, international securities identification numbers and common codes (as applicable) as, the corresponding Original Notes. The Temporary Regulation S Global Notes representing the Additional Dollar Senior Secured Notes (the "Temporary Regulation S Dollar Senior Secured Global Note") and the Additional Senior Notes (the "Temporary Regulation S Senior Global Note") will be deposited upon issuance with Citibank, N.A., as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC; the Temporary Regulation S Global Note representing the Additional Euro Senior Secured Notes (the "Temporary Regulation S Euro Senior Secured Global Note") will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream. After the 40th day following the Issue Date, (i) the Temporary Regulation S Dollar Senior Secured Global Note will be exchanged for a permanent Dollar Senior Secured Global Note representing the total aggregate principal amount of Original Dollar Senior Secured Notes and Additional Dollar Senior Secured Notes sold pursuant to Regulation S and thereupon cancelled, (ii) the Temporary Regulation S Senior Global Note will be exchanged for a permanent Dollar Senior Global Note representing the total aggregate principal amount of Original Senior Notes and Additional Senior Notes sold pursuant to Regulation S and thereupon cancelled, and (iii), the Temporary Regulation S Euro Senior Secured Global Note will be exchanged for a permanent Euro Senior Secured Global Note representing the total aggregate principal amount of Original Euro Senior Secured Notes and Additional Euro Senior Secured Notes sold pursuant to Regulation S and thereupon cancelled.

TRANSFER RESTRICTIONS

The Additional Notes have not been registered under the U.S. Securities Act or any other applicable securities laws, and unless so registered, the Additional Notes may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of any U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws. The Additional Notes are being offered, sold and issued to (i) qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A, (ii) non-U.S. persons as defined in Rule 902 under the U.S. Securities Act in offshore transactions in reliance on Regulation S or (iii) if to an Israeli person, then only to a "qualified investor" (as defined in the First Appendix to the Israeli Securities Law) who is not an individual (a "Qualified Israeli Investor"), who has (x) completed and signed a questionnaire regarding qualification as a Qualified Israeli Investor and delivered it to Goldman Sachs International and (y) certified that it has an exemption from Israeli withholding taxes on interest and delivered a copy of such certification to Goldman Sachs International.

By purchasing the Additional Notes, you will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the U.S. Securities Act are used herein as defined therein):

(1) You are not an "affiliate" (as defined in Rule 144 under the U.S. Securities Act) of the Issuer, you are not acting on behalf of the Issuer and you (A) (i) are a "qualified institutional buyer" (as defined in Rule 144A under the U.S. Securities Act), (ii) are aware that the sale to you is being made in reliance on Rule 144A; and (iii) are acquiring the Additional Notes for your own account or for the account of a qualified institutional buyer; or (B) are not a U.S. person (as defined in Regulation S under the U.S. Securities Act) (and are not purchasing the Additional Notes for the account or benefit of a U.S. person, other than a distributor) and are purchasing the Additional Notes in an offshore transaction pursuant to Regulation S.

(2) You understand that the Additional Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that the Additional Notes have not been and will not be registered under the U.S. Securities Act or any other applicable securities laws and that (A) if in the future you decide to offer, resell, pledge or otherwise transfer any of the Additional Notes, such Additional Notes may be offered, resold, pledged or otherwise transferred only (i) for so long as the Additional Notes are eligible for resale under Rule 144A, in the United States to a person whom you reasonably believe is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (ii) outside the United States in a transaction complying with the provisions of Regulation S under the U.S. Securities Act; (iii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (iv) to the Issuer; or (v) pursuant to another available exemption from the registration requirements of the U.S. Securities Act, subject to the Issuer's and the Trustee's right prior to any such offer, sale or transfer pursuant to this clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to them, in each case in accordance with any applicable securities laws; and (B) you will, and each subsequent holder is required to, notify any subsequent purchaser of the Additional Notes from you or it of the resale restrictions referred to the legend below.

(3) You acknowledge that none of us, the Initial Purchasers or any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offer or sale of any of the Additional Notes, other than by us with respect to the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Additional Notes. You acknowledge that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You acknowledge that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning us and the Additional Notes as you deemed necessary in connection with your decision to purchase any of the Additional Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(4) You also acknowledge that:

  (a) the Issuer and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Additional Notes under the paragraph two above the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Issuer and the Trustee; and

  (b) each Global Note will contain a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "U.S. SECURITIES ACT"), THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, PLEDGED, ENCUMBERED, DISPOSED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) EXCEPT TO (A) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A OR (B) PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTES, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS IN THE CASE OF RULE 144A NOTES: ONE YEAR AND IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATES OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

BY ACCEPTING THIS NOTE (OR AN INTEREST IN THE NOTES REPRESENTED HEREBY) EACH ACQUIRER AND EACH TRANSFEREE IS DEEMED TO REPRESENT, WARRANT AND AGREE THAT AT THE TIME OF ITS ACQUISITION AND THROUGHOUT THE PERIOD THAT IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH NOTES OR ANY INTEREST THEREIN IT WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF), AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) WHICH IS SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "BENEFIT PLAN INVESTOR"), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAWS"), AND NO PART OF THE ASSETS USED BY IT TO ACQUIRE OR HOLD THIS SENIOR

SECURED NOTE OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE OR AN INTEREST HEREIN DOES NOT AND WILL NOT CONSTITUTE OR OTHERWISE RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A NON-EXEMPT VIOLATION OF ANY SIMILAR LAWS); (2) NEITHER ISSUER NOR ANY OF ITS AFFILIATES IS A "FIDUCIARY" (WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR, WITH RESPECT TO A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, ANY DEFINITION OF "FIDUCIARY" UNDER SIMILAR LAWS) WITH RESPECT TO THE PURCHASER OR HOLDER IN CONNECTION WITH ANY PURCHASE OR HOLDING OF THE SENIOR SECURED NOTES, OR AS A RESULT OF ANY EXERCISE BY THE ISSUER OR ANY OF ITS AFFILIATES OF ANY RIGHTS IN CONNECTION WITH THE SENIOR SECURED NOTES, AND NO ADVICE PROVIDED BY THE ISSUER OR ANY OF ITS AFFILIATES HAS FORMED A PRIMARY BASIS FOR ANY INVESTMENT DECISION BY OR ON BEHALF OF THE PURCHASER AND HOLDER IN CONNECTION WITH THE NOTES AND THE TRANSACTIONS CONTEMPLATED WITH RESPECT TO THE NOTES; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHER THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE.

(c) The following legend shall also be included, if applicable:

THE FOLLOWING INFORMATION IS SUPPLIED SOLELY FOR U.S. FEDERAL INCOME TAX PURPOSES. THIS NOTE WAS ISSUED WITH "ORIGINAL ISSUE DISCOUNT" ("OID") WITHIN THE MEANING OF SECTION 1273 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), AND THIS LEGEND IS REQUIRED BY SECTION 1275(c) OF THE CODE: U.S. HOLDERS MAY OBTAIN INFORMATION REGARDING THE AMOUNT OF OID, IF ANY, THE ISSUE PRICE, THE ISSUE DATE AND YIELD TO MATURITY BY CONTACTING ALTICE FINANCING S.A., 37, RUE D'ANVERS, L-1130 LUXEMBOURG +352 283 71 079 ATTN: CHIEF FINANCIAL OFFICER.

If you purchase Additional Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Additional Notes as well as to holders of these Additional Notes.

(1) You acknowledge that the registrar will not be required to accept for registration of transfer any Additional Notes acquired by you, except upon presentation of evidence satisfactory to the Issuer and the registrar that the restrictions set forth herein have been complied with.

(2) You acknowledge that:

(a) The Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgments, representations and agreements set forth herein and you agree that, if any of your acknowledgments, representations or agreements herein cease to be accurate and complete, you will notify the Issuer and the Initial Purchasers promptly in writing; and

(b) if you are acquiring any Additional Notes as a fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:

(i) you have sole investment discretion; and

(ii) you have full power to make, and make, the foregoing acknowledgments, representations and agreements.

(3) You agree that you will give to each person to whom you transfer these Additional Notes notice of any restrictions on the transfer of the Additional Notes.

(4) You acknowledge that the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Additional Notes issued under Rule 144A under the U.S. Securities Act) or 40 days (in the case of Additional Notes issued under Regulation S under the U.S. Securities Act) after the later of the closing date and the last date that the Issuer or any of its affiliates was the owner of the Additional Notes or any

predecessor of the Additional Notes (the "*Resale Restriction Period*"), and will not apply after the applicable Resale Restriction Period ends.

(5) The purchaser understands that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would permit a public offering of the Additional Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Issuer or the Additional Notes in any jurisdiction where action for the purpose is required. Consequently, any transfer of the Additional Notes will be subject to the selling restrictions set forth hereunder and/or in this Offering Memorandum under "*Notice to European Economic Area Investors*", "*Notice to Certain European Investors*", "*Notice to Israeli Investors*" and/or under "*Plan of Distribution*" or "*Certain Employee Benefit Plan Considerations*".

TAX CONSIDERATIONS

Luxembourg Taxation

The following discussion summarizes certain important Luxembourg taxation principles that may be relevant to you if you invest in, own, hold or dispose of the Notes. Unless otherwise indicated, all information contained in this section is based on laws, regulations, practice and decision in effect in Luxembourg at the date of this Offering Memorandum (as referred to herein, collectively, "*Luxembourg Tax Laws*"), and as such, may be superseded after such date. Any subsequent changes to Luxembourg Tax Laws could apply retroactively and could affect the continued accuracy of this summary. This summary does not purport to be a comprehensive description of all Luxembourg Tax Laws and Luxembourg tax considerations that may be relevant to a decision to invest in, own, hold, or dispose of the Notes and is not intended as tax advice to any particular investor or potential investor in the Notes. You should consult your own tax advisors about the tax consequences of investing in, owning, holding or disposing of the Notes (including with respect to receiving interest on and redeeming the Notes). This summary does not describe any tax consequences arising under the laws of any state, locality or other taxing jurisdiction other than Luxembourg.

The residence concept used below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg Tax Laws and/or concepts only. Any reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate Noteholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Luxembourg tax residency of the Noteholders

A Luxembourg non-resident Noteholder will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of their entitlements thereunder.

Withholding Tax

Under Luxembourg income tax law currently applicable there is no withholding tax on the payment of interest, principal, premium or (to the extent the transaction is conducted on an arms-length basis) accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes.

a. the Luxembourg laws of June 21, 2005 implementing the Council directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (the "EU Savings Directive") and several agreements concluded with certain dependent or associated territories (the "Agreements") providing for the possible application of a withholding tax (35% from July 1, 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "Residual Entities" as construed by article 4.2 of the EU Savings Directive) where the Issuers appoint a paying agent established in Luxembourg within the meaning of the EU Savings Directive (see section "EU Savings Directive" below) or Agreements apply; and

b. the application of the Luxembourg law of December 23, 2005 regarding Luxembourg resident individuals (acting within the context of their private wealth) which introduced a 10% final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of June 21, 2005 implementing the EU Savings Directive).

In each case described here above, responsibility for the withholding tax will be assumed by the Luxembourg paying agent.

Other Withholding Taxes

If interest is paid by an entity that is not considered a Luxembourg entity, other withholding taxes could apply. A company that is considered an Israeli resident for tax purposes paying interest on a note denominated in a foreign currency to an individual who is a non-Israeli tax resident is required to withhold tax at a rate of 25%, except for interest paid to "material shareholders," who are subject to tax according to their marginal tax rate (currently 48%). "Material shareholders" for these purposes are shareholders who hold directly or indirectly, including with others, at least 10% of

any means of control in the company. Taxes to be withheld from interest paid to non-Israeli residents by an Israeli company may be reduced under an applicable tax treaty.

A company that is an Israeli resident for tax purpose paying interest on a similar note to a corporate entity will be subject to withholding tax in accordance with the applicable corporate tax rate for the year in which the interest is paid. The current corporate tax rate in Israel is 25%.

In this section, "Interest", "Residual Entities" and "Paying Agent" have the meaning given thereto in the laws of June 21, 2005 (or the relevant treaties). "Interest" will include accrued or capitalized interest at the sale, repayment or redemption of the Notes. "Residual Entities" include, in general, all entities established in the EU and certain Territories (as defined below) other than legal entities, UCITS, and entities taxed as enterprises. "Paying agent" is defined broadly for this purpose and, in the context of the Notes, means any economic entity established in Luxembourg which pays interest on the Notes to, or ascribes the payment of such interest to or for the immediate benefit of the beneficial owner or the Residual Entity whether the entity is, or acts on behalf of, the Issuers or is instructed by, the beneficial owner, or the Residual Entity, as the case may be, to collect such payment of interest.

EU Savings Directive

On June 3, 2003, the Council of the European Union adopted the EU Savings Directive. According to the EU Savings Directive, effective as from July 1, 2005, Member States are required to provide to the tax authorities of another Member State details of payment of interest or other similar income within the meaning of the EU Savings Directive made by a paying agent established within its jurisdiction to an individual resident or certain entities called "Residual Entities" (within the meaning of the EU Savings Directive) established in that other Member State or in a Territory (as defined below).

However, for a transitional period, Luxembourg is permitted to apply a withholding tax system whereby if a beneficial owner (within the meaning of the EU Savings Directive) does not opt for the exchange of information or does not provide specific tax certificate reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The rate of withholding is 35% since July 1, 2011. The transitional period is to terminate at the end of the first full fiscal year following the agreement by certain countries to the exchange of information in relation to such payments.

Also with effect from July 1, 2005, a number of non-E.U. countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino) and certain dependent or associated territories (including Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Curaçao, Saba, Sint Eustatius, Bonaire, St. Maarten, Aruba, Cayman Islands, Turks and Caicos Islands and Anguilla) (the "Territories") have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual resident or a Residual Entity established in a Member State. In addition, Luxembourg has entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) in Luxembourg to, or collected by such a paying agent for, an individual resident or a Residual Entity (within the meaning of the EU Savings Directive) established in one of those Territories.

Investors should note that the E.U. Commission has announced proposals to amend the EU Savings Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the EU Savings Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an E.U. resident individual, and (ii) a wider range of income similar to interest.

Taxation of the Noteholders

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg, or non-resident Noteholders that have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, must, for income tax purposes, include any interest paid or accrued in their taxable income. Specific exemptions may be available for certain tax payers benefiting from a particular status.

Luxembourg resident individuals

A Luxembourg resident individual Noteholder acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue

discounts under the Notes, except if a final withholding tax has been levied on such payments. See paragraph (ii) of "—*Withholding Tax*".

Luxembourg resident individual Noteholders acting in the course of the management of a professional or business undertaking to which the Notes are attributable, may have to include any interest received or accrued, as well as any gain realized on the sale or disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes (income tax levied at progressive rates and municipal business tax). For Luxembourg resident individuals receiving interest as income from assets used in their professional capacity, the 10% withholding tax levied is credited against their final tax liability. The same tax treatment applies to non-resident Noteholders who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable.

Luxembourg corporate residents

Luxembourg corporate Noteholders must include any interest received or accrued, as well as any gain realized on the sale or disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes (corporate income tax and municipal business tax).

Luxembourg corporate residents benefiting from a special tax regime

Luxembourg corporate resident Noteholders that benefit from a special tax regime, such as, for example, (i) undertakings for collective investment subject to the amended law December 17, 2010, (ii) specialized investment funds subject to the law dated February 13, 2007 or (iii) family wealth management companies subject to the law dated May 11, 2007, are exempt from income tax in Luxembourg except for an annual subscription tax (*tax d'abonnement*) and thus income derived from the Notes, as well as gains realized thereon, are not subject to Luxembourg income taxes.

Taxation of non-resident Noteholders

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg to which the Notes are attributable are not liable to any Luxembourg income tax, whether they receive payments of principal or interest (including accrued but unpaid interest) or realize capital gains upon redemption, repurchase, sale or exchange of any Notes. Noteholders who are non-residents of Luxembourg and who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable have to include any interest received or accrued, as well as any capital gain realized on the sale or disposal of the Notes in their taxable income for Luxembourg income tax assessment purposes.

Net Wealth Tax

Individuals

An individual Noteholder, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

Corporations

Corporate Luxembourg resident Noteholders or non-resident Noteholders which maintain a permanent establishment, fixed place of business or a permanent representative in Luxembourg to which the Notes or income thereon are attributable, are subject to an annual Luxembourg net wealth tax on such Notes levied at a rate of 0.5% of their value, except if the Noteholder is (i) a resident or non-resident individual taxpayer, (ii) an undertaking for collective investment subject to the amended law December 17, 2010, (iii) securitization vehicles governed by the law of March 22, 2004 on securitization (as amended), (iv) a company governed by the law of June 15, 2004 on venture capital vehicles (as amended), (v) a specialized investment fund subject to the law of February 13, 2007 (as amended) or (vi) a family wealth management company subject to the law of May 11, 2007.

Other Taxes

Registration taxes and stamp duties

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, redemption or repurchase of the Notes. There is no obligation to register the Notes in Luxembourg. However, a registration duty may apply (i) upon voluntary registration of the Notes in Luxembourg, (ii) in the case of legal proceedings before Luxembourg courts or (iii) in the case that the documents relating to the Notes issuance must be produced before an official Luxembourg authority ("*autorité constitutée*").

Value added tax

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuers, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services. Due to the activity of the Issuers, this value-added tax could be a final cost. Foreign value-added tax that might be payable in respect of fees charged for certain services rendered to the Issuers could also be a final cost.

Inheritance tax and gift tax

No estate or inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg at the time of his death for inheritance tax purposes.

Gift tax may be due on a gift or donation of Notes in instances where the gift is recorded in a deed passed in front of a Luxembourg notary or otherwise registered in Luxembourg.

Certain U.S. Federal Income Tax Considerations

The information set forth under the heading "*Tax Considerations – Certain U.S. Federal Income Tax Considerations*" in the Listing Particulars should be replaced with the following:

Pursuant to Internal Revenue Service ("IRS") Circular 230, you are hereby informed that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on any taxpayer under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Such description was written in connection with the marketing by the Issuers of the Additional Notes. Taxpayers should seek advice based on the taxpayers' particular circumstances from an independent tax advisor.

The following is a description of certain U.S. federal income tax considerations of the acquisition, ownership, and disposition of the Additional Notes by a U.S. Holder thereof as defined below. This description only applies to Additional Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- banks or other financial institutions;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- tax-exempt organizations;
- persons that will own the Additional Notes through partnerships or other pass-through entities;
- dealers or traders in securities or currencies;
- U.S. Holders that have a functional currency other than the U.S. dollar;
- certain former citizens and long-term residents of the United States;
- U.S. Holders that use a mark-to-market method of accounting; or
- U.S. Holders that will hold an Additional Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes.

Moreover, this description does not address the Medicare tax on net investment income, the U.S. federal estate and gift tax or the alternative minimum tax consequences of the acquisition, ownership, and disposition of the Additional Notes.

In addition, this discussion is limited to persons who purchase the Additional Notes for cash at original issue pursuant to this offering at the offer price indicated on the cover page of this Supplement. This description further assumes that the Additional Notes will be treated as debt for U.S. federal income tax purposes. If the Additional Notes are not treated as debt for U.S. federal income tax purposes, the tax consequences of acquiring, owning and disposing of the Additional Notes could be substantially different from those described herein. Each prospective purchaser should consult its own tax advisor with respect to the U.S. federal, state, local and non-U.S. tax consequences of acquiring, holding and disposing of the Additional Notes.

This description is based on the Code, U.S. Treasury Regulations promulgated thereunder, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change or differing interpretations, possibly with retroactive effect, which could affect the tax consequences described herein. No opinion of counsel to the Issuers or the holders or ruling from the Internal Revenue Service (the "IRS") has been or will be given with respect to any of the considerations discussed herein. No assurances can be given that the IRS would not assert, or that a court would not sustain, a position different from any of the tax considerations discussed below.

For purposes of this description, a U.S. Holder is a beneficial owner of the Additional Notes who for U.S. federal income tax purposes is:

- a citizen or individual resident of the United States;
- a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any State thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (1) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

If a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Additional Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

Redemptions and Additional Amounts

In certain circumstances (see, e.g. "*Description of Senior Secured Notes—Interest*, "*Description of Senior Secured Notes—Optional Redemption*", "*Description of Senior Secured Notes—Change of Control*", "*Description of Senior Secured Notes—Withholding Taxes*", "*Description of Senior Secured Notes—Redemption for Changes in Withholding Taxes*", "*Description of Senior Secured Notes—Escrow Proceeds; Special Mandatory Redemption*", "*Description of Senior Secured Notes—Minority Shareholder Option Exercises*", "*Description of Senior Notes—Interest*", "*Description of Senior Notes—Optional Redemption*", "*Description of Senior Notes—Change of Control*", "*Description of Senior Notes—Withholding Taxes*", "*Description of Senior Notes—Redemption for Changes in Withholding Taxes*", "*Description of Senior Notes—Escrow Proceeds; Special Mandatory Redemption*" and "*Description of Senior Notes—Minority Shareholder Option Exercises*" in the Listing Particulars), the Issuers may be obligated to make payments in excess of stated interest (i.e. in the case of the Additional Dollar Senior Secured Notes, 7.875%, in the case of the Additional Euro Senior Secured Notes, 8.000%, and in the case of the Additional Senior Notes, 9.875%) and the adjusted issue price of the Additional Notes and/or redeem the Additional Notes in advance of their stated maturity. The Issuers intend to take the position that the Additional Notes should not be treated as contingent payment debt instruments because of, among other things, the possibility of such payments. This position is based in part on assumptions, as of the date of issuance of the Additional Notes, regarding the likelihood that such payments will have to be paid and/or relating to the expected yield to maturity of the Additional Notes. Assuming such position is respected, any such amounts paid to a U.S. Holder pursuant to any repurchase or redemption would be taxable as described below in "*—Sale, Exchange or Disposition by a U.S. Holder*" and any payments of Additional Amounts in amount in excess of stated interest (as described above) and the adjusted price issue price would be taxable as additional ordinary income when received or accrued, in accordance with such holder's method of accounting for U.S. federal income tax purposes. An Issuer's position is binding on a U.S. Holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury Regulations. The IRS, however, may take a position contrary to the Issuer's position, which could affect the timing and character of a U.S. Holder's income with respect to the Additional Notes. U.S. Holders should consult their tax advisors regarding the potential application to the Additional Notes of the contingent payment debt instrument rules and the consequences thereof. This discussion assumes that the Additional Notes are not treated as contingent payment debt instruments.

Pre-Issuance Accrued Interest

A portion of the purchase price of the Additional Notes will be attributable to the amount of stated interest accrued prior to the date the Additional Notes are purchased ("pre-issuance accrued interest"). The portion of the first stated interest payment equal to the pre-issuance accrued interest should be treated as a non-taxable return of the pre-issuance accrued interest and should reduce a holder's initial tax basis in an Additional Note. A U.S. Holder may recognize exchange gain or loss equal to the difference, if any, between the U.S. dollar value of the pre-issuance accrued interest at the time of the purchase of the Additional Notes and at the time such interest is received, determined at the spot exchange rate in effect on each such date. Prospective purchasers of the Additional Notes are urged to consult their own tax advisors regarding pre-issuance accrued interest.

Payments of Stated Interest

Stated interest paid on the Additional Notes (i.e., in the case of the Additional Dollar Senior Secured Notes, 7.875%, in the case of the Additional Euro Senior Secured Notes, 8.000%, and in the case of the Additional Senior Notes, 9.875%) (including Additional Amounts and any non-U.S. taxes withheld on payments of such stated interest or Additional Amounts) will generally be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Interest (including original issue discount ("OID"), if any, as described below) included in a U.S. Holder's gross income with respect to the Additional Notes will be treated as foreign source income for U.S. federal income tax purposes. The limitation on non-U.S. taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, interest should generally constitute "passive category income", or in the case of certain U.S. Holders, "general category income". U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits.

With respect to the Additional Euro Senior Secured Notes, stated interest paid in euros will be included in a U.S. Holder's gross income in an amount equal to the U.S. dollar value of the euros, including the amount of any withholding tax thereon, regardless of whether the euros are converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the euros received. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the portion of the accrual period within each taxable year in the case of a partial accrual period) or the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date the payment is received differs from the rate used in translating the accrual of that interest. The amount of foreign currency gain or loss to be recognized by such U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the euro interest payment (determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above) regardless of whether the payment is converted to U.S. dollars. This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense. Foreign currency gain or loss generally will be U.S. source provided that the residence of a taxpayer is considered to be the United States for purposes of the rules regarding foreign currency gain or loss.

Bond Premium

If a U.S. Holder purchases Additional Notes for an amount greater than the sum of all amounts (other than qualified stated interest) payable with respect to the Additional Notes after the date of acquisition, the U.S. Holder is treated as having purchased the related Additional Notes with amortizable "bond premium." A U.S. Holder may elect to amortize the premium (or, if it results in a smaller premium, the amount computed based on the payment due on any redemption at the option of the Issuers) from the purchase date to the maturity date of the Additional Notes under a constant yield method.

Amortizable premium generally may be deducted against interest income on such Additional Notes and generally may not be deducted against other income. A U.S. Holder's basis in an Additional Note will be reduced by any premium amortization deductions. An election to amortize premium on a constant yield method, once made, generally applies to

all debt obligations held or subsequently acquired by such U.S. Holder during the taxable year of the election and thereafter, and may not be revoked without IRS consent. Amortizable bond premium in respect of an Additional Euro Senior Secured Note will be computed in euro and will reduce interest income in euro. At the time amortized bond premium offsets interest income, exchange gain or loss, which will be taxable as ordinary income or loss, will be realized on the amortized bond premium on such Additional Euro Senior Secured Note based on the difference between (1) the spot rate of exchange on the date or dates such premium is recovered through interest payments on the Additional Euro Senior Secured Note and (2) the spot rate of exchange on the date on which the U.S. Holder acquired the Additional Euro Senior Secured Note.

With respect to a U.S. Holder that does not elect to amortize bond premium, the amount of bond premium will reduce a gain or increase a loss upon sale, exchange or other disposition or result in a loss when the bond matures.

The bond premium rules are complicated, and U.S. Holders are urged to consult their own tax advisors regarding the tax consequences of owning and disposing of Additional Notes with bond premium, including the availability of certain elections.

Original Issue Discount

An Additional Note may be treated as issued with OID for U.S. federal income tax purposes. An Additional Note will be treated as having been issued with OID for U.S. federal income tax purposes if its stated principal amount exceeds its issue price by at least the "OID de minimis amount". The OID de minimis amount equals 1/4 of 1% of the stated principal amount of the Additional Note multiplied by the number of complete years from its issue date to maturity.

If you are a U.S. Holder and an Additional Note is issued with OID you will generally be required to include OID in income before you receive the associated cash payment, regardless of your accounting method for tax purposes. The amount of OID with respect to an Additional Note you must include in income is the sum of the "daily portions" of the OID for the Additional Note for each day during the taxable year (or portion of the taxable year) in which you held the Additional Note. The daily portion is determined by allocating a pro rata portion of the OID for each day of the accrual period. An accrual period may be of any length and the accrual periods may vary in length over the term of the Additional Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first day of an accrual period or on the final day of an accrual period. The amount of OID allocable to an accrual period is equal to the difference between (1) the product of the "adjusted issue price" of the Additional Note at the beginning of the accrual period and its yield to maturity (computed generally on a constant yield method and compounded at the end of each accrual period, taking into account the length of the particular accrual period) and (2) the amount of any stated interest (as described above under "—Payments of Stated Interest") allocable to the accrual period. The "adjusted issue price" of an Additional Note at the beginning of any accrual period is the sum of the issue price of the Additional Note plus the amount of OID allocable to all prior accrual periods reduced by any payments on the Additional Note that were not stated interest (as described above under "—Payments of Stated Interest").

Under these rules, you will generally have to include in income increasingly greater amounts of OID in successive accrual periods. Under applicable U.S. Treasury Regulations, a holder of an Additional Note with OID may elect to include in gross income all interest that accrues on the Additional Note using the constant yield method described above. Once made with respect to the Additional Note, the election cannot be revoked without the consent of the IRS. If you are a holder considering an election under these rules you should consult your tax advisor.

U.S. Holders may obtain information regarding the amount of OID, if any, the issue price, the issue date and yield to maturity by contacting Altice Financing S.A., 37, rue d'Anvers, L-1130 Luxembourg +352 283 71 079 attn: Chief Financial Officer.

The rules regarding OID are complex. U.S. Holders are urged to consult their own tax advisors regarding the application of these rules to their particular situations.

Any OID on an Additional Euro Senior Secured Note generally will be determined for any accrual period in euros and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or disposition of such an Additional Euro Senior Secured Note), a U.S. Holder generally will recognize foreign currency gain or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above. Holders are urged to consult their own tax advisors regarding the interplay between the application of the OID and foreign currency exchange gain or loss rules.

Sale, Exchange or Disposition by a U.S. Holder

A U.S. Holder's adjusted tax basis in an Additional Note generally will be its U.S. dollar cost (excluding the portion

attributable to pre-issuance accrued interest as described above under “Pre-Issuance Accrued Interest”) increased by the amount of any OID previously included in income and decreased by payments other than stated interest (as described above under “Payments of Stated Interest”) and any amortized bond premium made with respect to the Additional Note.

A U.S. Holder generally will recognize capital gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of an Additional Note equal to the difference, if any, between the amount realized on the sale, exchange, redemption, retirement or other disposition of the Additional Note (less any amounts attributable to accrued but unpaid interest, which will be subject to tax in the manner described above under “—Payments of Stated Interest” to the extent not previously so taxed), and the U.S. Holder’s adjusted tax basis in the Note. If a U.S. Holder purchases an Additional Euro Senior Secured Note with euros, the U.S. dollar cost of the Additional Euro Senior Secured Note will generally be the U.S. dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. The amount realized upon the disposition of an Additional Euro Senior Secured Note will generally be the U.S. dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date. However, if the Additional Euro Senior Secured Note is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) should determine the U.S. dollar value of the cost of or amount received on the Additional Euro Senior Secured Note, as applicable, by translating the amount paid or received at the spot rate of exchange on the settlement date of the purchase or disposition, as applicable. The election available to accrual basis U.S. Holders in respect of the purchase and disposition of Additional Euro Senior Secured Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Subject to the foreign currency rules discussed below, any gain or loss recognized on the sale, exchange, retirement, or other disposition of an Additional Note will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder has held the Additional Note for more than one year as of the date of disposition. Long-term capital gain of a non-corporate U.S. Holder is generally taxed at preferential rates. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any gain or loss recognized on the sale or other disposition of an Additional Note generally will be treated as income from sources within the United States or loss allocable to income from sources within the United States.

Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of an Additional Euro Senior Secured Note will generally be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in foreign currency exchange rates during the period in which the U.S. Holder held such Additional Euro Senior Secured Note. Such foreign currency gain or loss will equal the difference between (i) the U.S. dollar value of the U.S. Holder’s euro purchase price for the Additional Euro Senior Secured Note (minus any amortized bond premium previously amortized) calculated at the spot rate of exchange on the date of the sale, exchange, retirement or other disposition and (ii) the U.S. dollar value of the U.S. Holder’s euro purchase price for the Additional Euro Senior Secured Note (minus any amortized bond premium previously amortized) calculated at the spot rate of exchange on the date of purchase of the Additional Euro Senior Secured Note. If the Additional Euro Senior Secured Note is traded on an established securities market, with respect to a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder), such foreign currency gain or loss will equal the difference between (x) the U.S. dollar value of the U.S. Holder’s euro purchase price (minus any amortized bond premium previously amortized) for the Additional Euro Senior Secured Note calculated at the spot rate of exchange on the settlement date of the disposition and (y) the U.S. dollar value of the U.S. Holder’s euro purchase price (minus any amortized bond premium previously amortized) for the Additional Euro Senior Secured Note calculated at the spot rate of exchange on the settlement date of the purchase of the Additional Euro Senior Secured Note. The realization of any foreign currency gain or loss, including foreign currency gain or loss with respect to amounts attributable to accrued and unpaid stated interest, pre-issuance accrued interest and any OID, will be limited to the amount of overall gain or loss realized on the disposition of the Additional Euro Senior Secured Notes.

Exchange of Amounts in Other than U.S. Dollars

If a U.S. Holder receives euros as interest on an Additional Euro Senior Secured Note or on the sale, exchange, retirement or other disposition of an Additional Euro Senior Secured Note, such U.S. Holder’s tax basis in the euros will equal the U.S. dollar value when the interest is received or at the time of the sale, exchange, retirement or other disposition. If a U.S. Holder purchased an Additional Euro Senior Secured Note with previously owned non-U.S. currency, gain or loss will be recognized in an amount equal to the difference, if any, between the U.S. Holder’s tax basis in such currency and the spot rate on the date of purchase. Any such gain or loss generally will be treated as ordinary income or loss from sources within the United States provided that the residence of the U.S. Holder is considered to be the United States for purposes of the rule governing foreign currency transactions.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in “reportable transactions” (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on IRS Form 8886. Under the

relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Additional Euro Senior Secured Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Additional Euro Senior Secured Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale, exchange, retirement or other disposition of the Additional Euro Senior Secured Notes.

U.S. Backup Withholding Tax and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments of principal of, and interest (including accruals of OID, if any) on, and to proceeds from the sale or disposition of Additional Notes that are held by U.S. Holders. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman (and certain subsidiaries thereof), on an Additional Note to a U.S. Holder, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman (and certain subsidiaries thereof), of principal and interest (including OID, if any) and proceeds of a sale or disposition to a holder of an Additional Note that is not a U.S. person are generally subject to information reporting, but will not be subject to backup withholding tax if an appropriate certification is timely provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS and furnishing any required information in a timely manner.

Certain U.S. Holders are required to report information relating to an interest in the Additional Notes, subject to certain exceptions (including an exception for Additional Notes held in custodial accounts maintained by certain financial institutions). U.S. Holders are urged to consult their own tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the Additional Notes.

FATCA

Legislation referred to as the Foreign Account Tax Compliance Act ("FATCA") generally may impose withholding at a rate of 30% on payments made to any foreign entity on debt obligations generating U.S. source interest or certain other debt obligations generating non-U.S. source interest issued by a foreign financial institution entering into certain agreements with the IRS to the extent such payments are attributable to U.S. source income, unless the foreign entity receiving such payments complies with various U.S. information reporting and/or due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with such foreign entity). These rules will begin to phase in starting on January 1, 2014, but withholding on certain payments, including on debt obligations generating non-U.S. source interest, will not occur before 2017. Under the proposed regulations, however, the new withholding tax rules under FATCA will not apply to payments made on, or gross proceeds from sales or dispositions (including redemptions) of, debt instruments that are outstanding on January 1, 2013. Accordingly, even if the withholding under FATCA were otherwise potentially applicable to payments on or with respect to an Additional Note, such withholding will not apply to those payments if the grandfathering under the proposed regulations is adopted in the final regulations. Nevertheless, if an Issuer is treated as a foreign financial institution for purposes of FATCA, payments on an Additional Note, and gross proceeds from sales or dispositions (including redemptions) may become subject to the withholding tax rules under FATCA starting January 1, 2017 if the Additional Note is modified more than six months after the date final regulations define a "foreign passthru payment". If withholding is required with respect to payments on an Additional Note or interests therein in order for the relevant payor to comply with FATCA, holders and beneficial owners of the Additional Note will not be entitled to receive any additional amounts to compensate them for such withholding. The IRS's guidance with respect to these rules is only preliminary, and the scope of these rules remains unclear and potentially subject to material changes. Holders should consult their tax advisors regarding the possible implications of this legislation on their investment in an Additional Note.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Additional Notes. Prospective purchasers of the Additional Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

PLAN OF DISTRIBUTION

The Issuers have agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from the Issuer, the entire aggregate principal amount of the Additional Notes. The sale will be made pursuant to a purchase agreement dated the Issue Date.

The obligations of the Initial Purchasers under the purchase agreement, including their agreement to purchase Additional Notes from the Issuers, are several and not joint. Pursuant to the terms of the purchase agreement, the Senior Secured Notes Issuer has agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from the Senior Secured Notes Issuer, together with all other Initial Purchasers, Additional Dollar Senior Secured Notes in an aggregate principal amount of $10 million and Additional Euro Senior Secured Notes in an aggregate principal amount of €10 million, and the Senior Notes Issuer has agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from the Senior Notes Issuer, together with all other Initial Purchasers, Additional Senior Notes an aggregate principal amount of $25million.

The Initial Purchasers initially propose to offer the Additional Notes for resale at the issue price that appears on the cover of this Offering Memorandum. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell Additional Notes through certain of their affiliates. Sales in the United States will be made through affiliates of the Initial Purchasers which are registered with the SEC as U.S. registered broker dealers.

In the purchase agreement, the Issuers have agreed that:

- The Issuers will not offer or sell any of their debt securities (other than the Additional Notes and subject to certain other exceptions), without the prior consent of the Representatives (as defined therein), for a period of 45 days after the date of the final Offering Memorandum.

- The Issuers will indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

United States

Each purchaser of Additional Notes offered by this Offering Memorandum, in making its purchase, will be deemed to have made the acknowledgements, representations and agreements as described under "*Transfer Restrictions*".

The Additional Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Until 40 days after the later of (i) the commencement of this offering and (ii) the issue date of the Additional Notes, an offer or sale of Additional Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements for the U.S. Securities Act is such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act. For a description of certain further restrictions on resale or transfer of the Additional Notes, see "*Transfer Restrictions*".

The Additional Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Additional Note to the public.

United Kingdom

In the purchase agreement, each Initial Purchaser has also represented and agreed that:

(i) it has complied and will comply with all applicable provisions of the FSM Act with respect to anything done by it in relation to the Additional Notes in, from or otherwise involving the United Kingdom; and

(ii) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSM Act) received by it in connection with the issue or sale of any Additional Notes in circumstances in which section 21(1) of the FSM Act does not apply to such Initial Purchaser.

This Offering Memorandum is directed solely at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "relevant persons"). This Offering Memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of Additional Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Senior Secured Notes shall require the publication by the Issuers or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospective Directive other than in reliance of Article 3(2)(b).

For the purposes of this provision, the expression an "offer of Additional Notes to the public" in relation to any Additional Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Additional Notes to be offered so as to enable an investor to decide to purchase or subscribe the Additional Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State.

Grand Duchy of Luxembourg

In addition to the cases described in the section entitled Public Offer Selling Restriction under the Prospectus Directive in which the Initial Purchasers can make an offer of the Additional Notes to the public in an EEA Member State (including Luxembourg), the Initial Purchasers can also make an offer of the Additional Notes to the public in Luxembourg:

(a) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organizations;

(b) at any time, to legal entities which are authorized or regulated to operate in the financial markets (including credit institutions, investment firms, other authorized or regulated financial institutions, undertakings for collective investment and their management companies, pension and investment funds and their management companies, insurance undertakings and commodity dealers) as well as entities not so authorized or regulated whose corporate purpose is solely to invest in securities; and

(c) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act implementing the Prospectus Directive into Luxembourg law) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the Commission de surveillance du secteur financier as competent authority in Luxembourg in accordance with the Prospectus Directive.

Israel

Sales of the Notes in Israel will be made through the Initial Purchasers and/or through an Israeli broker(s) engaged by them. The Notes will not be offered to an Israeli person unless such offeree is a "qualified investor" (as defined in the First Appendix to the Israeli Securities Law) who is not an individual (a "Qualified Israeli Investor") and who has (x) completed and signed a questionnaire regarding qualification as a Qualified Israel Investor and (y) certified that it has an exemption from Israeli withholding taxes on interest.

General

The Additional Notes are subject to certain restrictions on resale and transfer as described under "*Transfer Restrictions*". The Issuers have applied for the Additional Notes to be admitted to listing and to trading on the Euro MTF Market of the Luxembourg Stock Exchange. The Initial Purchasers have advised us that they intend to make a market in the Additional Notes, but they are not obligated to do so. The Initial Purchasers may discontinue any market making in the Additional Notes at any time in their sole discretion. In addition, such market making activities will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act. Accordingly, we cannot assure you that a liquid trading market will develop for the Additional Notes, that you will be able to sell your Additional Notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

Each Initial Purchaser has also agreed in the purchase agreement that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Additional Notes or possesses or distributes this Offering Memorandum, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Additional Notes under the laws and regulations in force.

In connection with the offering of the Additional Notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Additional Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Additional Notes. Syndicate covering transactions involve purchases of the Additional Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Additional Notes to be higher than it would otherwise be in the absence of those transactions. If the Initial Purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

We expect that delivery of the Additional Notes will be made against payment on the Additional Notes on or about the date specified on the cover of this Offering Memorandum, which will be three business days following the date of pricing of the Additional Notes (this settlement cycle is referred to as "T+3").

The Initial Purchasers are expected to purchase a portion of the Additional Notes in the offering to cover existing short positions.

Other Relationships

The Initial Purchasers and their respective affiliates from time to time have provided in the past and may provide in the future investment banking, commercial lending, consulting and financial advisory services to members of our group, including the Issuers, and any of their respective affiliates in the ordinary course of business for which the Initial Purchasers may receive customary advisory and transaction fees and expense reimbursement. Each of the Initial Purchasers or their affiliates will be lenders under the Revolving Credit Facility Agreement. An affiliate of Goldman Sachs International is a lender on the Cool Loan which will be repaid with a portion of the proceeds of the offering of Original Notes. An affiliate of HSBC Securities (USA) Inc. is a lender on the Existing HOT Loans which will be repaid with a portion of the proceeds of the offering of Original Notes. In addition, certain of the Initial Purchasers or their affiliates are party to certain of our hedging arrangements.

Furthermore, on the Completion Date, Cool Holding will repay the Cool Interest Loan in an amount equal to NIS 37 million to Altice with a portion of the proceeds of the offering of the Original Notes. Altice is expected to use the proceeds of such repayment to repay a credit facility under which Goldman Sachs International and affiliates of HSBC Securities (USA) Inc. and Morgan Stanley & Co. International plc. are lenders.

In addition, affiliates of the Issuers may purchase Additional Notes in the offering.

LEGAL MATTERS

Certain legal matters in connection with this offering of Additional Notes will be passed upon for us by Ropes & Gray International LLP, London, England, as to matters of United States federal, New York and English law; by Meitar Liquornik Geva & Leshem Brandwein, as to matters of Israeli law; and by Luther, as to matters of Luxembourg law.

Certain legal matters in connection with this offering of Additional Notes will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP, as to matters of United States federal, New York; by Goldfarb Seligman & Co., Tel Aviv, Israel, as to matters of Israeli law; and by Elvinger, Hoss & Prussen, as to matters of Luxembourg law.

Certain legal matters in connection with this offering of Additional Notes will be passed upon for the Trustee by White & Case LLP, as to matters of New York law.

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AUDITORS

The consolidated financial statements of HOT and its subsidiaries as of and for the years ended December 31, 2011, 2010 and 2009 included in this Offering Memorandum, have been, with respect to the years ended December 31, 2011 and 2010, audited by Ernst & Young, Kost Forer Gabbay & Kasierer and, with respect to the year ended December 31, 2009, audited jointly by Ernst & Young, Kost Forer Gabbay & Kasierer and Somekh Chaikin (KPMG Israel).

The consolidated financial statements of Cool Holding as of and for the years ended December 31, 2011, 2010 and 2009 included in this Offering Memorandum have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer.

The consolidated financial statements of HOT Mobile and its subsidiaries as of and for the year ended December 31, 2010 included in this Offering Memorandum have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer.

The statutory auditor (*commissaire aux comptes*) of each Issuer is LG Management S.à r.l., a private limited liability company (*société à responsabilité limitée*), having its registered office at 7, rue Portland, L-4281 Esch-sur-Alzette, registered with the Luxembourg Trade and Companies Register under number B156639.

The independent auditor (*réviseur d'entreprises agréé*) of each Issuer is Deloitte Audit S.à R.L., a private limited liability company (*société à responsabilité limitée*), having its registered office at 560, rue de Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies Register under number B67895.

LISTING AND GENERAL INFORMATION

Listing

Application has been made to the Luxembourg Stock Exchange for the Additional Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF Market.

Clearing Information

The Additional Notes sold pursuant to Regulation S under the U.S. Securities Act have been accepted for clearance through the facilities of DTC (in the case of the Additional Dollar Senior Secured Notes and the Additional Senior Notes only) and Clearstream and Euroclear (in the case of the Additional Euro Senior Secured Notes). During the 40-day "distribution compliance period" (as defined in Regulations S under the U.S. Securities Act), (i) the Additional Euro Senior Secured Notes, (ii) the Additional Dollar Senior Secured Notes and (iii) the Additional Senior Notes sold pursuant to Regulations S will be represented, in each case, by Temporary Regulation S Global Notes. The Temporary Regulation S Euro Senior Secured Global Note will have temporary ISIN Number XS0868879163 and temporary common code 086887916. The Temporary Regulation S Dollar Senior Secured Global Note will have temporary CUSIP number L0178W AC6, temporary ISIN Number USL0178WAC66 and temporary common code 086925176. The Temporary Regulation S Senior Global Note will have temporary CUSIP number L0179R AB8, temporary ISIN Number USL0179RAB89 and temporary common code 086925753. Following the end of the distribution compliance period, each temporary global note will be cancelled and replaced with the corresponding permanent global note, having, (i) in the case of the Euro Senior Secured Notes, ISIN Number XS0864611610 and common code 086461161, (ii) in the case of the Dollar Senior Secured Notes, CUSIP number L0178W AA0, ISIN Number USL0178WAA01 and common code 086450054, and (iii) in the case of the Senior Notes, CUSIP number L0179R AA0, ISIN Number USL0179RAA07 and common code 086450852.

The Euro Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of Clearstream and Euroclear and have been assigned common code 086458136. The International Securities Identification Number (ISIN) for the Euro Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act is XS086451367.

The Dollar Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of DTC and have been assigned CUSIP number 02154C AA1. The ISIN for the Dollar Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act is US02154CAA18. The common code for the Dollar Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act is 086450020.

The Senior Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of DTC and have been assigned CUSIP number 02154E AA7. The ISIN for the Senior Notes sold pursuant to Rule 144A of the U.S. Securities Act is US02154EAA73. The common code for the Senior Notes sold pursuant to Rule 144A of the U.S. Securities Act is 086450909.

Legal Information

The creation and issuance of the Additional Notes has been authorized by resolutions of the Board of Directors of each Issuer dated December 17, 2012.

The creation and issuance of the Guarantees has been authorized by resolutions of the Board of Directors of CoolHolding and SPV1 dated on or about December 17, 2012.

At the Completion Date, the Guarantors will not have any indebtedness other than under the Notes, the Shareholder Loan and the Pledged Proceeds Loan. As of the date of this Offering Memorandum Supplement, the Senior Secured Note Issuer does not have indebtedness other than under the Original Senior Secured Notes and the Additional Senior Secured Notes. As of the date of this Offering Memorandum Supplement, the Senior Notes Issuer does not have indebtedness other than under the Original Senior Notes and Additional Senior Notes. The Issuers may issue, and the Guarantors may guarantee, Additional Notes permitted to be issued under the applicable Indentures governing the Notes. Such issuance of Additional Notes may occur from time to time whether prior to or after the Completion Date. In addition, the Senior Secured Notes Issuer will also have the ability to draw under its Revolving Credit Facility Agreement.

Offering Memorandum

Except as disclosed in this Offering Memorandum:

- there has been no material adverse change in the consolidated financial position of the Issuers since August 17, 2012 or the Guarantors since September 30, 2012; and

- neither Issuer nor any of the Guarantors is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer or any Guarantor is aware) since the dates of their incorporation, which may have, or have had in the recent past, significant effects on the Issuer's or the Guarantors' financial position or profitability.

The Issuers accept responsibility for the information contained in this Offering Memorandum. The information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect import of such information.

The language of this Offering Memorandum is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable laws.

OFFERING MEMORANDUM

NOT FOR GENERAL CIRCULATION IN THE UNITED STATES OR ISRAEL

$450,000,000 7⅞% Senior Secured Notes due 2019
€200,000,000 8% Senior Secured Notes due 2019

issued by

ALTICE FINANCING S.A.

$400,000,000 9⅞% Senior Notes due 2020

issued by

ALTICE FINCO S.A.

Altice Financing S.A. (the ''Senior Secured Notes Issuer'') is owned directly by Altice Finco S.A. (the ''Senior Notes Issuer'' and together with the Senior Secured Notes Issuer, the ''Issuers''), which is in turn owned directly by Altice VII S.à r.l. (''Altice''). Altice is the direct parent company of Cool Holding Ltd. (''Cool Holding''), which is the owner of approximately 69% of the outstanding share capital of HOT-Telecommunication Systems Ltd. (''HOT''). The Senior Secured Notes Issuer offered $450 million aggregate principal amount of its 7⅞% senior secured notes due 2019 (the ''Dollar Senior Secured Notes'') and €200 million aggregate principal amount of its 8% senior secured notes due 2019 (the ''Euro Senior Secured Notes'', and together with the Dollar Senior Secured Notes, the ''Senior Secured Notes'') and the Senior Notes Issuer offered $400 million aggregate principal amount of its 9⅞% senior notes due 2020 (the ''Senior Notes'' and together with the Senior Secured Notes, the ''Notes'') in connection with the financing of Cool Holding's proposed acquisition of all of the outstanding share capital of HOT not owned by Cool Holding or its subsidiaries (the ''Take-Private Transaction'') and the refinancing of all of the outstanding indebtedness of Cool Holding under the Cool Loan (as defined below) and the Cool Interest Loan (as defined below) (collectively, the ''Cool Refinancing'') and all of the outstanding indebtedness of HOT under the Existing HOT Loans (as defined below) (the ''HOT Refinancing'' and, together with the Cool Refinancing, the ''Refinancings''). The Senior Secured Notes will mature on December 15, 2019 and the Senior Notes will mature on December 15, 2020. The Issuers will pay interest on the Notes semi-annually in cash in arrears on each June 15 and December 15, commencing on June 15, 2013.

At any time prior to December 15, 2015, the Senior Secured Notes Issuer may redeem some or all of the Senior Secured Notes at a price equal to 100% of the principal amount plus a ''make whole'' premium. At any time on or after December 15, 2015, the Senior Secured Notes Issuer may redeem some or all of the Senior Secured Notes at the redemption prices set forth herein. In addition, at any time prior to December 15, 2015, the Senior Secured Notes Issuer may redeem up to 40% of each series of the Senior Secured Notes with the net proceeds from one or more specified equity offerings. Further, the Senior Secured Notes Issuer may redeem all of the Senior Secured Notes at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in tax law. If the Covenant Parties (as defined in ''Description of Senior Secured Notes'') and their respective subsidiaries sell certain of their assets, or if the Senior Secured Notes Issuer or the Covenant Parties experience specific kinds of changes in control the Senior Secured Notes Issuer may be required to make an offer to repurchase the Senior Secured Notes.

At any time prior to December 15, 2016, the Senior Notes Issuer may redeem some or all of the Senior Notes at a price equal to 100% of the principal amount plus a ''make whole'' premium. At any time on or after December 15, 2016, the Senior Notes Issuer may redeem some or all of the Senior Notes at the redemption prices set forth herein. In addition, at any time prior to December 15, 2015, the Senior Notes Issuer may redeem up to 40% of the Senior Notes with the net proceeds from one or more specified equity offerings. Further, the Senior Notes Issuer may redeem all of the Senior Notes at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in tax law. If the Covenant Parties (as defined in ''Description of Senior Notes'') and their respective subsidiaries sell certain of their assets, or if the Senior Notes Issuer or the Covenant Parties experience specific kinds of changes in control, the Senior Notes Issuer may be required to make an offer to repurchase the Senior Notes. In addition, upon certain Minority Shareholder Option Exercises (as defined in ''Description of Senior Secured Notes'' and the ''Description of Senior Notes''), the Senior Secured Notes Issuer must offer to repurchase the Senior Secured Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with the net cash proceeds of such Minority Shareholder Option Exercises. In the event there are any remaining net cash proceeds after the completion of such offer, the Senior Notes Issuer must offer to repurchase the Senior Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with such remaining net cash proceeds.

Pending the consummation of the Transaction (as defined below), the Initial Purchasers (as defined below) will deposit (i) the gross proceeds from the offering of the Senior Secured Notes into segregated escrow accounts for the benefit of the holders of the Senior Secured Notes and (ii) the gross proceeds from the offering of the Senior Notes into segregated escrow accounts for the benefit of the holders of the Senior Notes. The release of escrow proceeds will be subject to the delivery of an officer's certificate by each Issuer to the Escrow Agent certifying, among other things, that the Take-Private Transaction and Refinancings will be consummated, in each case, promptly upon the release of the escrow proceeds.

The Senior Secured Notes will be senior secured obligations of the Senior Secured Notes Issuer and, for so long as the net proceeds from the offering of the Senior Secured Notes are held in the escrow account described above, the Senior Secured Notes will be secured by a first-ranking pledge over the Senior Secured Notes Issuer's rights under the escrow agreement governing such escrow account and the assets in such escrow account. The Senior Notes will be senior obligations of the Senior Notes Issuer and, for so long as the net proceeds from the offering of the Senior Notes are held in the escrow account described above, the Senior Notes will be secured by a first-ranking pledge over the Senior Notes Issuer's rights under the escrow agreement governing such escrow account and the assets in such escrow account.

If the Take-Private Transaction and the Refinancings are not completed prior to March 31, 2013 or upon the occurrence of certain other events, the Notes will be subject to a special mandatory redemption. The special mandatory redemption price will be a price equal to 100% of the initial issue price of each Note plus accrued and unpaid interest and additional amounts, if any, from the Issue Date (as defined below). Upon release of the proceeds of the offering of the Notes from the escrow accounts and following consummation of the Take-Private Transaction and the Refinancings, (A) the Senior Secured Notes and the guarantees thereof will be secured on a first-ranking basis by (i) a pledge of all of the share capital of the Senior Secured Notes Issuer and each of the Senior Secured Notes Guarantors (as defined below), (ii) a pledge of the Shareholder Loan (as defined below), (iii) a pledge of the bank accounts and all receivables of the Senior Secured Notes Issuer, including the Pledged Proceeds Notes (as defined below) (iv) a pledge of all of the assets of the Senior Secured Notes Guarantors, including all of the share capital of HOT (other than certain share options), and (v) a pledge of the Senior Notes Proceeds Loan (as defined below) and (B) the Senior Notes and the guarantees thereof will be secured by (i) a first-ranking pledge of all of the share capital of the Senior Notes Issuer, (ii) second-ranking pledges of all of the share capital of the Senior Secured Notes Issuer and Cool Holding, (iii) a second-ranking pledge of the Shareholder Loan and (iv) a second-ranking pledge of the Senior Notes Proceeds Loan.

Upon release of the proceeds of the offering of the Notes from the escrow accounts following consummation of the Take-Private Transaction and the Refinancings, the Senior Secured Notes will be guaranteed (the ''Senior Secured Notes Guarantees'') by Cool Holding and H. Hadaros 2012 Ltd. (''SPV1'') (the ''Senior Secured Notes Guarantors'') and the Senior Notes will be guaranteed on a senior subordinated basis (the ''Senior Notes Guarantees'' and together with the Senior Secured Notes Guarantees, the ''Guarantees'') by Cool Holding, the Senior Secured Notes Issuer and SPV1 (the ''Senior Notes Guarantors'', and together with the Senior Secured Notes Guarantors, the ''Guarantors''). See ''*General Description of our Business and the Offering—The Offering*'' and ''*Risk Factors—Risks Relating to the Notes and the Structure*''.

See ''Risk Factors'' beginning on page 34 for a discussion of certain risks that you should consider in connection with an investment in any of the Notes.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the ''U.S. Securities Act''), or the securities laws of any other jurisdiction. The Issuers are offering the Notes only to qualified institutional buyers in accordance with Rule 144A under the U.S. Securities Act and to non-U.S. persons outside the United States in accordance with Regulation S under the U.S. Securities Act. For a description of certain restrictions on the transfer of the Notes see ''Plan of Distribution'' and ''Transfer Restrictions''.

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF Market, which is not a regulated market (pursuant to the provisions of Directive 2004/39/EC).

The Dollar Senior Secured Notes and the Senior Notes will be in registered form in denominations of $200,000 and integral multiples of $1,000 above $200,000. The Euro Senior Secured Notes will be in registered form in denominations of €100,000 and integral multiples of €1,000 above €100,000. Dollar Senior Secured Notes and the Senior Notes will only be issued in minimum denominations of $200,000. The Euro Senior Secured Notes will only be issued in minimum denominations of €100,000. Each series of Notes will be represented on issue by one or more global notes that will be delivered through The Depository Trust Company (''DTC''), Euroclear SA/NV (''Euroclear'') and Clearstream Banking, *société anonyme*, as applicable, on December 12, 2012 (the ''Issue Date''). Interests in each global note will be exchangeable for definitive notes only in certain limited circumstances. See ''*Book-Entry, Delivery and Form*''.

Dollar Senior Secured Notes price: 100.000% plus accrued and unpaid interest from the Issue Date
Euro Senior Secured Notes price: 100.000% plus accrued interest from the Issue Date.
Senior Notes price: 100.000% plus accrued interest from the Issue Date.

Joint lead and book-running managers

Goldman Sachs International **HSBC** **Morgan Stanley**

Co-managers

BNP Paribas **Crédit Agricole CIB** **Credit Suisse** **ING** **J.P. Morgan**

The date of this Offering Memorandum is December 17, 2012

Neither the Issuers, Cool Holding, nor any of their subsidiaries has authorized any dealer, salesperson or other person to give any information or represent anything to you other than the information contained in this Offering Memorandum. You must not rely on unauthorized information or representations.

This Offering Memorandum does not offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities.

The information in this Offering Memorandum is current only as of the date on the cover page, and may change after that date. For any time after the cover date of this Offering Memorandum, the Issuers and Cool Holding do not represent that their or HOT's affairs are the same as described or that the information in this Offering Memorandum is correct, nor do they imply those things by delivering this Offering Memorandum or selling securities to you.

The Issuers and the Initial Purchasers are offering to sell the Notes only in places where offers and sales are permitted.

IN CONNECTION WITH THIS OFFERING OF NOTES, GOLDMAN SACHS INTERNATIONAL (THE ''STABILIZING MANAGER'') (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILIZING MANAGER) WILL UNDERTAKE ANY SUCH STABILIZATION ACTION. SUCH STABILIZATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUERS RECEIVED THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

The Issuers are offering the Notes in reliance on exemptions from the registration requirements of the U.S. Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering. The Notes have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the ''SEC'') or any other securities commission or regulatory authority, nor has the SEC or any such securities commission or authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.

This Offering Memorandum is being provided for informational use solely in connection with consideration of a purchase of the Notes (i) to U.S. investors that the Issuers reasonably believe to be qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act, and (ii) to certain persons in offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. Its use for any other purpose is not authorized.

This Offering Memorandum is for distribution only to persons who (i) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the ''Financial Promotion Order''), (ii) are persons falling within Article 49(2)(a) to (d) (''high net worth companies, unincorporated associations, etc.'') of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (''FSM Act'')) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as ''relevant persons''). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

This Offering Memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (the ''Prospective Directive''), as implemented in member states of the European Economic Area (the ''EEA''), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any

offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for the Issuers or any of the Initial Purchasers to produce a prospectus for such offer. Neither the Issuers nor the Initial Purchasers has authorized, nor do any of them authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final placement of the Notes contemplated in this Offering Memorandum.

This Offering Memorandum constitutes a prospectus for the purpose of part IV of the Luxembourg act dated 10 July 2005 on prospectuses for securities, as amended (the ''Prospectus Act'') and for the purpose of the rules and regulations of the Luxembourg Stock Exchange.

The Issuers and Cool Holding have prepared this Offering Memorandum solely for use in connection with this offering and for applying to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

You are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own counsel, accountant and other advisers as to legal, tax, business, financial and related aspects of a purchase of the Notes. You are responsible for making your own examination of the Issuers, Cool Holding and HOT and your own assessment of the merits and risks of investing in the Notes. The Issuers are not and the Initial Purchasers are not making any representation to you regarding the legality of an investment in the Notes by you.

The information contained in this Offering Memorandum has been furnished by the Issuers, Cool Holding and other sources they believe to be reliable. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of any of the information set out in this Offering Memorandum, and nothing contained in this Offering Memorandum is or shall be relied upon as a promise or representation by the Initial Purchasers, whether as to the past or the future. This Offering Memorandum contains summaries, believed by the Issuers and Cool Holding to be accurate, of some of the terms of specified documents, but reference is made to the actual documents, copies of which will be made available by the Issuers upon request, for the complete information contained in those documents. Copies of such documents and other information relating to the issuance of the Notes will also be available for inspection upon request at the specified offices of the Principal Paying Agent (as defined in this Offering Memorandum) in Luxembourg. All summaries of the documents contained herein are qualified in their entirety by this reference.

The Issuers and Cool Holding accept responsibility for the information contained in this Offering Memorandum. They have made all reasonable inquiries and confirmed to the best of each of their knowledge, information and belief that the information contained in this Offering Memorandum with regard to them, each of their subsidiaries and affiliates, and the Notes is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held, and that they are not aware of any other facts the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

The information contained herein regarding HOT and its subsidiaries is primarily based on HOT's public filings with the Israel Securities Authority. Neither HOT nor any of its subsidiaries, nor any of their representatives, officers, employees or advisers, assumes any responsibility for the accuracy or completeness of the information contained herein, and such parties do not have any liability with respect to the Notes.

No person is authorized in connection with any offering made pursuant to this Offering Memorandum to give any information or to make any representation not contained in this Offering Memorandum, and, if given or made, any other information or representation must not be relied upon as having been authorized by the Issuers or the Initial Purchasers. The information contained in this Offering Memorandum is current at the date hereof. Neither the delivery of this Offering Memorandum at any time nor any subsequent commitment to enter into any financing shall, under any circumstances, create any implication that there has been no change in the information set out in this Offering Memorandum or in the Issuers' or Cool Holding's affairs since the date of this Offering Memorandum.

The Issuers reserve the right to withdraw this offering of the Notes at any time, and the Issuers and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to you less than the full amount of Notes subscribed for by you.

The distribution of this Offering Memorandum and the offer and sale of the Notes may be restricted by law in some jurisdictions. Persons into whose possession this Offering Memorandum or any of the Notes come must inform themselves about, and observe, any restrictions on the transfer and exchange of the Notes. See ''*Plan of Distribution*'' and ''*Transfer Restrictions*''.

This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. You must comply with all laws that apply to you in any place in which you buy, offer or sell any Notes or possess this Offering Memorandum. You must also obtain any consents or approvals that you need in order to purchase any Notes. The Issuers and the Initial Purchasers are not responsible for your compliance with these legal requirements.

The Notes are subject to restrictions on resale and transfer except as permitted under the U.S. Securities Act and all other applicable securities laws as described under ''Plan of Distribution'' and ''Transfer Restrictions''. By purchasing any Notes, you will be deemed to have made certain acknowledgments, representations and agreements as described in those sections of this Offering Memorandum. You may be required to bear the financial risks of investing in the Notes for an indefinite period of time.

Internal Revenue Service Circular 230 Disclosure

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, YOU ARE HEREBY INFORMED THAT ANY DISCUSSION HEREIN OF U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DISCUSSION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED. SUCH DESCRIPTION WAS WRITTEN IN CONNECTION WITH THE MARKETING BY THE ISSUERS OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYERS' PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO U.S. INVESTORS

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Memorandum under ''Transfer Restrictions''. The Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act or any other applicable securities laws, pursuant to registration or an exemption therefrom. Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Notes, see ''*Transfer Restrictions*''. The Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a ''Relevant Member State''), each Initial Purchaser has represented and agreed that with effect from and

including the date on which the Prospectus Directive is implemented in that Relevant Member State (the ''Relevant Implementation Date''), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Notes shall require the publication by the Issuers or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospective Directive other than in reliance of Article 3(2)(b).

For the purposes of this provision, the expression an ''offer of Notes to the public'' in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression ''Prospectus Directive'' means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression ''2010 PD Amending Directive'' means Directive 2010/73/EU.

Each subscriber for or purchaser of the Notes in the offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a ''qualified investor'' within the meaning of Article 2(1)(e) of the Prospectus Directive. The Issuers, the Initial Purchasers and their affiliates, and others will rely upon the trust and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Initial Purchasers of such fact in writing may, with the consent of the Initial Purchasers, be permitted to subscribe for or purchase the Notes in the offering.

NOTICE TO CERTAIN EUROPEAN INVESTORS

Austria This Offering Memorandum has not been or will not be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*) as amended. Neither this Offering Memorandum nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Offering Memorandum nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria. Any offer of the Notes in Austria will only be made in compliance with the provisions of the Austrian Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

Luxembourg This Offering Memorandum has not been approved by and will not be submitted for approval to the Luxembourg Supervision Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*) for purposes of a public offering or sale in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Prospectus Act and implementing the Prospectus Directive.

Germany The Notes may be offered and sold in Germany only in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as amended, the Commission Regulation (EC) No 809/2004 of April 29, 2004 as amended, or any other laws applicable in Germany governing the issue, offering and sale of securities. The Offering Memorandum has not been approved under the

German Securities Prospectus Act (*Wertpapierprospektgesetz*) or the Directive 2003/71/EC and accordingly the Notes may not be offered publicly in Germany.

France This Offering Memorandum has not been prepared in the context of a public offering in France within the meaning of Article L. 411-1 of the *Code Monétaire et Financier and Title I of Book II of the Règlement Général of the Autorité des marchés financiers* (the ''AMF'') and therefore has not been submitted for clearance to the AMF. Consequently, the Notes may not be, directly or indirectly, offered or sold to the public in France, and offers and sales of the Notes will only be made in France to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour le compte de tiers*) and/or to qualified investors (*investisseurs qualifiés*) and/or to a closed circle of investors (*cercle restreint d'investisseurs*) acting for their own accounts, as defined in and in accordance with Articles L. 411-2 and D. 411-1 of the *Code of Monétaire et Financier*. Neither this Offering Memorandum nor any other offering material may be distributed to the public in France.

Italy None of this Offering Memorandum or any other documents or materials relating to the Notes have been or will be submitted to the clearance procedure of the Commissione Nazionale per le Società e la Borsa (''CONSOB''). Therefore, the Notes may only be offered or sold in the Republic of Italy (''Italy'') pursuant to an exemption under article 101-bis, paragraph 3-bis of the Legislative Decree No. 58 of 24 February 1998, as amended (the ''Financial Services Act'') and article 35-bis, paragraph 3, of CONSOB Regulation No. 11971 of 14 May 1999, as amended. Accordingly, the Notes are not addressed to, and neither the Offering Memorandum nor any other documents, materials or information relating, directly or indirectly, to the Notes can be distributed or otherwise made available (either directly or indirectly) to any person in Italy other than to qualified investors (investitori qualificati) pursuant to article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, acting on their own account.

The Netherlands The Notes (including rights representing an interest in each global note that represents the Notes) may only be offered or sold in The Netherlands to qualified investors (as defined in the Prospectus Directive), unless a prospectus relating to the offer is available to the public which is approved by the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) or by a supervisory authority of another member state of the European Union (the ''EU''). Article 5:3 Financial Supervision Act (the ''FSA'') and article 53 paragraph 2 and 3 Exemption Regulation FSA provide for several exceptions to the obligation to make a prospectus available such as an offer to qualified investors within the meaning of article 5:3 FSA

Spain This offering has not been registered with the Comisión Nacional del Mercado de Valores and therefore the Notes may not be offered in Spain by any means, except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 30 bis of the Securities Market Act (''*Ley 24/1988, de 28 de julio del Mercado de Valores*'') as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005 (''*Real Decreto 1310/2005, de 4 de noviembre por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*'').

Switzerland The Notes offered hereby are being offered in Switzerland on the basis of a private placement only. This Offering Memorandum does not constitute a prospectus within the meaning of Art. 652A of the Swiss Federal Code of Obligations.

United Kingdom This Offering Memorandum is directed solely at persons who (i) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the ''Financial Promotion Order'') (ii) are persons falling within Article 49(2)(a) to (d) (''high net worth companies, unincorporated associations, etc.'') of the Financial Promotion Order (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FMSA) in connection with the issue or sale of any Notes may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as ''relevant persons''). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any

person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

NOTICE TO ISRAELI INVESTORS

The Notes may not be offered or sold to any Israeli investor, unless (i) it is a ''Qualified Investor'' within the meaning of the first Appendix to the Israeli Securities Law, who is not an individual (a ''Qualified Israeli Investor''), (ii) such investor has completed and signed a questionnaire regarding qualification as a Qualified Israeli Investor and delivered it to Goldman Sachs International and (iii) such investor has certified that it has an exemption from Israeli withholding taxes on interest and has delivered a copy of such certification to Goldman Sachs International.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Data

Unless otherwise indicated, (i) the historical consolidated financial information of HOT presented herein has been prepared in accordance with International Financial Reporting Standards as adopted by Israel (''Israeli IFRS'') and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010; (ii) the historical consolidated financial information of Cool Holding presented herein has been prepared in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board (''IASB IFRS'') and (iii) the financial information of the Issuers presented herein has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (''EU IFRS''). In this Offering Memorandum, we use the term ''IFRS'' to refer to Israeli IFRS, IASB IFRS, EU IFRS or all three as the context requires.

This Offering Memorandum includes:

- the unaudited consolidated interim financial statements of HOT and its subsidiaries, as of and for the nine and three months ended September 30, 2012;
- the audited consolidated financial statements of HOT and its subsidiaries, as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, which, with respect to the years ended December 31, 2010 and 2011 have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer and with respect to the year ended December 31, 2009 have been audited jointly by Ernst & Young, Kost Forer Gabbay & Kasierer and Somekh Chaikin (KPMG Israel);
- the unaudited consolidated interim financial statements of Cool Holding, as of and for the nine and three months ended September 30, 2012;
- the audited consolidated financial statements of Cool Holding as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 which have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer; and
- the audited financial statements of HOT Mobile and its subsidiaries as of and for the year ended December 31, 2010 which have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer.

This Offering Memorandum also includes each Issuer's opening balance sheet as of its date of incorporation. Each Issuer intends to publish its first annual financial statements in respect of the year ended December 31, 2012. Financial statements will be published by each Issuer on an annual basis and neither Issuer will prepare interim financial statements.

Annex A of this Offering Memorandum also includes certain information derived from the unaudited consolidated interim financial statements of HOT and its subsidiaries as of and for the six months ended June 30, 2012 as well as management's discussion and analysis thereof.

The historical results of the companies mentioned above do not necessarily indicate results that may be expected for any future period. Cool Holding's, HOT Mobile's and HOT's financial results are reported in New Israeli Shekels denominations.

HOT completed the acquisition of HOT Mobile on November 28, 2011 after which date the results of operations of HOT Mobile are consolidated in the financial statements of HOT and Cool Holding. Accordingly, the financial statements of HOT for the year ended December 31, 2011 included in this Offering Memorandum include the results of operations of HOT Mobile for the period from November 28, 2011 to December 31, 2011 and the financial statements of HOT for the nine and three months ended September 30, 2012 included in this Offering Memorandum include the results of operations of HOT Mobile for the nine and three months ended September 30, 2012. In order to provide a meaningful comparison of our results of operations and financial condition, we have included (A) the unaudited pro forma condensed consolidated financial statements of HOT and its subsidiaries for the year ended December 31, 2011 (the ''2011 Pro Forma Financial Statements'') and (B) the unaudited pro forma condensed consolidated interim financial statements of HOT and its subsidiaries for the nine and three months ended September 30, 2011 (the ''September 2011 Pro Forma Financial Statements''), each giving effect to the acquisition of HOT Mobile as if it had occurred on January 1, 2011 and which have been prepared by applying certain pro forma adjustments to the financial statements of HOT for the year ended December 31, 2011 and the financial statements of HOT for the nine and three months ended September 30, 2011, respectively. The 2011 Pro Forma Financial Statements and September 2011 Pro Forma Financial Statements should be read in conjunction with the assumptions underlying

the pro forma adjustments which are described in the notes accompanying them. The 2011 Pro Forma Financial Statements and September 2011 Pro Forma Financial Statements and the pro forma adjustments, among other things:

- are based on upon available information and assumptions that we believe are reasonable under the circumstances;
- are presented for informational purposes only;
- have not been audited in accordance with any generally accepted auditing standards;
- do not purport to represent what our results of operations or financial condition would have been had the acquisition of HOT Mobile actually occurred on the dates indicated; and
- do not purport to project our results of operations or financial condition for any future period or as of any future date.

Except as stated above, we have not included in this Offering Memorandum any pro forma financial statements or information giving effect to the acquisition of HOT Mobile for any other period. The unaudited pro forma financial data included in this Offering Memorandum has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive, the Israeli Securities Regulation (Annual Financial Statements) 2010, or any generally accepted accounting standards. Neither the assumptions underlying the pro forma adjustments nor the resulting pro forma financial information have been audited in accordance with any generally accepted auditing standards.

This Offering Memorandum includes certain segment information relating to HOT's cable television business unit, telecom business unit and cellular business unit which are derived from HOT's audited consolidated financial statements and the notes thereto as of and for the fiscal years ended December 31, 2009, 2010 and 2011 and HOT's unaudited financial statements as of and for the nine and three months ended September 30, 2012. The segment information eliminates effects of certain inter-segment sales, primarily in connection with services provided by the telecom business unit to the cable television business unit and the cable television unit to the cellular business unit.

This Offering Memorandum includes certain financial information on an as adjusted basis to give effect to the Transaction, including this offering and the application of the proceeds therefrom, including combined financial data as adjusted to reflect the effect of the Transaction on our indebtedness as if the Transaction had occurred on September 30, 2012 and our interest expense as if the Transaction occurred on October 1, 2011. The as adjusted financial information has been prepared for illustrative purposes only and does not represent what our indebtedness would have been had the Transaction occurred on September 30, 2012 or October 1, 2011, respectively; nor does it purport to project our indebtedness or interest expense at any future date. The as adjusted financial information has not been prepared in accordance with IFRS. Neither the assumptions underlying the adjustments nor the resulting as adjusted financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

This Offering Memorandum contains non-IFRS measures and ratios, including EBITDA and cash flow conversion, that are not required by, or presented in accordance with, IFRS. We define EBITDA as profit before net financing income, taxes on income, depreciation and amortization, expenses in respect of options, expenses (income) derived from updates in actuary assumptions and other expenses (income), net and network set up expenses. We define cash flow conversion as (x) EBITDA minus capital expenditure divided by (y) EBITDA.

We present non-IFRS measures for HOT and Cool Holding because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures may not be comparable to similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of HOT's and Cool Holding's operating results as reported under IFRS. The non-IFRS measures may also be defined differently than the corresponding terms under the Indenture (as defined below). Non-IFRS measures and ratios such as EBITDA are not measurements of HOT's or Cool Holding's performance or liquidity under IFRS or any other generally accepted accounting principles. In particular, you should not consider EBITDA as an alternative to (a) operating profit or profit for the period (as determined in accordance with IFRS) as a measure of HOT's or Cool Holding's operating performance, (b) cash flows from operating, investing and financing

activities as a measure of HOT's ability to meet its cash needs or (c) any other measures of performance under generally accepted accounting principles. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for, an analysis of HOT's or Cool Holding's results as reported under IFRS. Some of these limitations are:

- it does not reflect HOT's or Cool Holding's cash expenditures or future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, HOT's working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on HOT's or Cool Holding's debts;
- although depreciation, amortization and impairment are non-cash charges, the assets being depreciated and amortized will generally need to be replaced in the future and EBITDA does not reflect any cash requirements that would be required for such replacements; and
- some of the exceptional items that HOT eliminates in calculating EBITDA reflect cash payments that were made, or will in the future be made.

Unless otherwise indicated, convenience translations into dollars have been calculated as of September 30, 2012. Certain amounts and percentages presented herein have been rounded and, accordingly, the sum of amounts presented may not equal the total.

All references in this document to NIS and ILS refer to New Israeli Shekels and all references to ''U.S.$'' or ''$'' are to U.S. dollars. All references to ''€'' are to euro.

Definitions

Unless otherwise stated or the context otherwise requires, the terms ''we'', ''us'' and ''our'' as used in this Offering Memorandum refer to Cool Holding and its subsidiaries.

Definitions of certain term and certain financial and operating data can be found below. For explanations or definitions of certain technical terms relating to HOT's business as used herein, see ''*Glossary*'' on page G-1 of this Offering Memorandum.

''Altice'' refers to Altice VII S.à r.l., its affiliates, or, any trust, fund, company or partnership owned, managed or advised by Altice.

''Clearstream'' refers to Clearstream Banking, *société anonyme*.

''Collateral'' refers to the Senior Secured Notes Collateral, the HOT Refinancing Note Collateral and the Senior Notes Collateral collectively or separately as the context requires.

''Cool Holding'' refers to Cool Holding Ltd., (a) a public limited liability company (société anonyme) organized and existing under the laws of Luxembourg and registered with the Luxembourg Trade and Companies' Register under number B152495 and having its registered office at 37, rue d'Anvers, L-1130 Luxembourg and (b) a private limited liability company incorporated in Israel with Israeli registration number 51-426602-2 and having its registered office at 16 Abba Hillel Rd., Ramat-Gan 52506, Israel.

''Cool Interest Loan'' refers to the NIS 37 million interest free loan agreement dated November 26, 2012 between Altice, as lender, and Cool Holding, as borrower.

''Cool Loan'' refers to the finance agreement dated November 27, 2011 between, among others, Cool Holding, Mizrahi Tefahot Bank Ltd. as agent, Mizrahi Tefahot Trust Company Ltd as security trustee and the financial institutions party thereof (as amended).

''Covenant Party'' has the meaning given to such term in ''Description of Senior Secured Notes'' and ''Description of Senior Notes''.

''Dollar Senior Secured Notes'' refers to the $450 million aggregate principal amount of 7⅞% senior secured notes due 2019 offered hereby.

''DTC'' refers to The Depository Trust Company.

''Euro Senior Secured Notes'' refers to the €200 million aggregate principal amount of 8% senior secured notes due 2019 offered hereby.

''Euroclear'' refers to Euroclear Bank SA/NV.

‘‘Existing HOT Loans’’ refers to the credit agreement dated March 17, 2011 between, amongst others, HOT, HOT Telecom and HOT Net, as the borrowers, Bank Hapoalim Ltd. and Bank Leumi of Israel, as the coordinators, Bank Hapoalim Ltd., as credit agent, Bank Leumi of Israel, as securities trustee, and the financial institutions party thereto, as lenders (as amended).

‘‘Existing HOT Unsecured Notes’’ refers to the NIS 825 million notes (Series A) and the NIS 675 million notes (Series B) of HOT, offered to the Israeli investors pursuant to an Israeli shelf offering report dated March 29, 2011 under an Israeli shelf prospectus dated February 28, 2011, as amended on March 29, 2011, and as amended from time to time.

‘‘Group’’ refers to the Senior Notes Issuer, Cool Holding and any Covenant Party (as defined in ‘‘Description of Senior Secured Notes’’) and their respective subsidiaries.

‘‘Guarantors’’ refers to the Senior Secured Notes Guarantors and the Senior Notes Guarantors.

‘‘HOT’’ refers to HOT-Telecommunication Systems Ltd.

‘‘HOT Mobile’’ refers to HOT Mobile Ltd., formerly known as MIRS Communications Ltd. HOT Mobile and its subsidiary will not guarantee the Notes, the HOT Refinancing Note or any loan made under the Revolving Credit Facility Agreement.

‘‘HOT Net’’ refers to HOT Net Internet Services Ltd.

‘‘HOT Refinancing Note Collateral’’ refers to the ‘‘HOT Proceeds Note Collateral’’ as described in ‘‘Description of Senior Secured Notes’’.

‘‘HOT Refinancing Note Guarantors’’ refers to HOT Net, HOT Telecom, Hot Vision Ltd., Hot-Idan Cable Systems Israel Ltd., Hot-Idan Cable Systems (Holdings) 1987 Ltd., Hot-Edom Ltd., Hot T.L.M Subscribers Television Ltd. and Hot-Cable System Media Haifa- Hadera Ltd. HOT Mobile will not guarantee the Notes, the HOT Refinancing Note or any loan made under the Revolving Credit Facility Agreement.

‘‘HOT Telecom’’ refers to HOT Telecom Limited Partnership.

‘‘Indentures’’ collectively refers to the Senior Notes Indenture and the Senior Secured Notes Indenture and ‘‘Indenture’’ refers to the Senior Notes Indenture or the Senior Secured Notes Indenture, as the context requires.

‘‘Initial Purchasers’’ refers to Goldman Sachs International, HSBC Securities (USA) Inc., Morgan Stanley & Co. International plc, BNP Paribas Securities Corp., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, ING Bank N.V., London Branch, J.P. Morgan Securities LLC and J.P. Morgan Securities plc.

‘‘Intercreditor Agreement’’ refers to the intercreditor agreement among, *inter alios*, the Issuers, Cool Holding, the Trustees and Citibank, N.A., London Branch, as the Security Agent.

‘‘Issue Date’’ refers to the date of first issuance of the Notes.

‘‘Issuers’’ refers to the Senior Notes Issuer and the Senior Secured Notes Issuer.

‘‘License Assets’’ refers to ‘‘License Assets’’ as defined in ‘‘Description of Senior Secured Notes— Certain Definitions’’.

‘‘Luxembourg’’ refers to the Grand Duchy of Luxembourg.

‘‘Noteholder’’ refers to a holder of the Notes.

‘‘Pledged Proceeds Notes’’ refers to, collectively, to the Cool Proceeds Note, the HOT Refinancing Note and the Acquisition Note, each as defined herein.

‘‘Principal Paying Agent’’ refers to Citibank, N.A., London Branch, acting in its capacity as principal paying agent under the Indentures.

‘‘Refinancings’’ refers to the repayment of all amounts outstanding, and any accrued and unpaid interest thereon and any prepayment premiums, under the Cool Loan, the Cool Interest Loan, and the Existing HOT Loans and includes repayment of fees and expenses related to the entry into the Cool Interest Loan.

''Registrar'' refers to Citigroup Global Markets Deutschland AG, acting in its capacity as registrar under the Indentures.

''Revolving Credit Facility'' refers to the facility made available under the Revolving Credit Facility Agreement.

''Revolving Credit Facility Agreement'' refers to the revolving credit facility agreement entered into on November 27, 2012 between, among others, the Senior Secured Notes Issuer as borrower and certain other members of the Group as Guarantors, certain lenders party thereto, BNP Paribas, Crédit Agricole Corporate and Investment Bank, Credit Suisse AG, London Branch, Goldman Sachs Bank USA, HSBC Bank plc, ING Bank N.V., J.P. Morgan Limited and Morgan Stanley Bank International Limited as Mandated Lead Arrangers, Citibank International plc as Facility Agent and Citibank, N.A., London Branch as Security Agent.

''Security Agent'' refers to Citibank, N.A., London Branch.

''Senior Notes'' refers to the $400 million aggregate principal amount of 9⅞% senior notes due 2020 offered hereby.

''Senior Notes Collateral'' refers to ''Notes Collateral'' as defined in ''Description of Senior Notes''.

''Senior Notes Guarantors'' refers to Cool Holding, SPV1 and the Senior Secured Notes Issuer as guarantors of the Senior Notes.

''Senior Notes Indenture'' refers to the indenture governing the Senior Notes.

''Senior Notes Issuer'' refers to Altice Finco S.A. (*société anonyme*), incorporated under the laws of Luxembourg, with registered address 37, rue d'Anvers, L-1130 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B171151.

''Senior Secured Notes'' refers to, collectively, the Euro Senior Secured Notes and the Dollar Senior Secured Notes.

''Senior Secured Notes Collateral'' refers to ''Notes Collateral'' as defined in ''Description of Senior Senior Notes.''

''Senior Secured Notes Guarantors'' refers to Cool Holding and SPV1, as guarantors of the Senior Secured Notes.

''Senior Secured Notes Indenture'' refers to the indenture governing the Senior Secured Notes.

''Senior Secured Notes Issuer'' refers to Altice Financing S.A. (*société anonyme*), incorporated under the laws of Luxembourg, with registered address 37, rue d'Anvers, L-1130 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B171162.

''SPV1'' refers to H. Hadaros 2012 Ltd., a subsidiary of Cool Holding.

''Take-Private Transaction'' refers to the acquisition by Cool Holding and SPV1 of the shares of HOT not currently owned by Cool Holding and the subsequent delisting from the Tel Aviv Stock Exchange of the shares of HOT.

''Transaction'' refers to the Take-Private Transaction, the Refinancings, the entering into the Revolving Credit Facility Agreement, the issuing of the Pledged Proceeds Notes, the making of the Senior Notes Proceeds Loan (as defined herein) and the offering and sale of the Notes.

''Transfer Agent'' refers to Citibank, N.A., London Branch, acting in its capacity as transfer agent under the Indentures.

''Trustee'' refers to Citibank, N.A., London Branch, acting in its capacity as trustee under the Indentures.

''U.S. Exchange Act'' refers to the U.S. Securities Exchange Act of 1934, as amended.

''U.S. Securities Act'' refers to the U.S. Securities Act of 1933, as amended.

SUBSCRIBER, MARKET AND INDUSTRY DATA

Subscriber Data

Cable Customer Relationships represents the number of individual end users who have subscribed for one or more of our cable-based services (including pay television, broadband Internet infrastructure access or fixed-line telephony), without regard to how many services to which the end user subscribed. It is calculated on a unique premises basis. Cable Customer Relationships does not include subscribers to either our cellular or ISP services.

RGUs (revenue generating units) relate to sources of revenue, which may not always be the same as customer relationships. For example, one person may subscribe for two different services, thereby accounting for only one subscriber, but two RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per service basis and RGUs for fixed-line telephony are counted on a per line basis. Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network.

ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the service provided, in each case including the proportional allocation of the bundling discount, and after making certain deductions) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.

Churn is calculated by dividing the number of RGUs for a given service that have been disconnected during a particular period (either at the customer's request or due to a termination of the subscription by us) by the average number of RGUs for such service, excluding transfers between our services (other than a transfer between our cable services and cellular services), during such period. For more information see ''*General Description of Our Business and the Offering—Summary Consolidated Historical Financial and Other Data*''.

Market and Industry Data

We operate in an industry in which it is difficult to obtain precise market and industry information. We have generally obtained the market and competitive position data in this Offering Memorandum from our competitors' public filings, from industry publications and from surveys or studies conducted by third party sources that we believe to be reliable. Certain information in this Offering Memorandum contains independent market research carried out by Euromonitor International Limited and should not be relied upon in making, or refraining from making, any investment decision.

We calculate market share for each of our services by dividing the number of RGUs for such service by the total number of subscribers in Israel to such service, which is calculated based on our competitors' public filings and reported subscriber base, other public information and our internal estimates. Under our cellular license we are required to calculate market share of our cellular operations, which is calculated using different parameters than as described above. For more information see ''*Description of Our Business—Material Contracts—Provision of certain bank guarantees to the State of Israel relating to performance of certain license terms*''.

However, none of us, the Initial Purchasers or any of our or their respective advisors can verify the accuracy and completeness of such information and none of us, the Initial Purchasers or any of our or their respective advisors has independently verified such market and position data. We do, however, accept responsibility for the correct reproduction of this information and, as far as we are aware and are able to ascertain from information published, no facts have been omitted that would render the reproduced information inaccurate or misleading.

In addition, in many cases we have made statements in this Offering Memorandum regarding our industry and our position in the industry based on our experience and our own investigation of market conditions. None of us, the Initial Purchasers or any of our or their respective advisors can assure you that any of these assumptions are accurate or correctly reflect our position in the industry, and none of our or their internal surveys or information has been verified by independent sources.

EXCHANGE RATE INFORMATION

Cool Holding, HOT and HOT Mobile present their consolidated financial statements in NIS. We have set forth in the table below, for the periods and dates indicated, certain information regarding the exchange rates between U.S. dollars and NIS based on the market rates at 6:00 p.m. London time. We have provided this exchange rate information solely for your convenience. We do not make any representation that any amount of currencies specified in the table below has been, or could be, converted into the applicable currency at the rates indicated or any other rate. The market rate at 6:00 p.m. London time of the NIS on December 31, 2011 was $0.262 = NIS1.00 and the market rate at 6:00 p.m. London time of the NIS on September 30, 2012 was $0.255 = NIS1.00. The market rate at 6:00 p.m. London time of the euro on September 30, 2012 was $1.286 = €1.00.

	U.S.$ per NIS1.00			
	Period Average[(1)]	High	Low	Period End
Year				
2007	0.244	0.261	0.231	0.258
2008	0.280	0.311	0.248	0.260
2009	0.255	0.271	0.235	0.263
2010	0.268	0.280	0.257	0.279
2011	0.280	0.298	0.263	0.263
Month				
January 2012	0.263	0.267	0.259	0.267
February 2012	0.267	0.270	0.264	0.264
March 2012	0.266	0.270	0.262	0.269
April 2012	0.267	0.267	0.265	0.265
May 2012	0.261	0.265	0.256	0.256
June 2012	0.257	0.260	0.253	0.256
July 2012	0.251	0.256	0.245	0.251
August 2012	0.249	0.254	0.247	0.249
September 2012	0.254	0.257	0.248	0.255
October 2012	0.259	0.263	0.256	0.257
November 2012	0.257	0.262	0.252	0.261
December 2012 (through December 6, 2012)	0.262	0.263	0.261	0.261

(1) Period Average means the average of the market rates at 6:00 pm London time during the relevant period.

(2) Represents the exchange rate on the last business day of the applicable period.

FORWARD LOOKING STATEMENTS

This Offering Memorandum contains ''forward-looking statements'' as that term is defined by the U.S. federal securities laws. These forward-looking statements include, but are not limited to, statements other than statements of historical facts contained in this Offering Memorandum, including, but without limitation, those regarding our future financial condition, results of operations and business, our product, acquisition, disposition and finance strategies, our capital expenditure priorities, regulatory or technological developments in the market, subscriber growth and retention rates, competitive and economic factors, the maturity of our markets, anticipated cost increases, liquidity, credit risk and target leverage levels. In some cases, you can identify these statements by terminology such as ''aim'', ''anticipate'', ''believe'', ''continue'', ''could'', ''estimate'', ''expect'', ''forecast'', ''guidance'', ''intend'', ''may'', ''plan'', ''potential'', ''predict'', ''project'', ''should'', and ''will'' and similar words used in this Offering Memorandum.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of these assumptions, risks and uncertainties are beyond our control. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we operate. We caution readers not to place undue reliance on the statements, which speak only as of the date of this Offering Memorandum, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this Offering Memorandum include those described under ''Risk Factors''.

The following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- our substantial leverage and debt service obligations;
- our ability to generate sufficient cash flow to service our debt and to control and finance our capital expenditures and operations;
- restrictions and limitations contained in the agreements governing our debt;
- our ability to raise additional financing or refinance or existing indebtedness;
- fluctuations in currency exchange rates, inflation and interest rates;
- risks associated with our structure, this offering, and our other indebtedness;
- risks related to the Transaction;
- the competitive environment and downward price pressure in the broadband communications, television sector and cellular telephony in Israel in which we and the entities in which we have interests operate;
- risks related to royalties payments and our licenses;
- economic and business conditions and trends in the industries in which we and the entities in which we have interests operate;
- changes in consumer television viewing preferences and habits and our ability to maintain and increase the number of subscriptions to our digital television, telephony and broadband Internet services and the average revenue per household;
- capital spending for the acquisition and/or development of telecommunications networks and services and equipment and competitor responses to our products and services, and the products and services of the entities in which we have interests;

- consumer acceptance of existing service offerings, including our analog and digital video, fixed-line and cellular telephony and broadband Internet services and or multiple-play packages and consumer acceptance of new technology, programming alternatives and broadband services that we may offer;
- perceived or actual health risks and other environmental requirements relating to our mobile operations;
- our ability to maintain favorable roaming arrangements for our cellular services;
- the availability of attractive programming for our analog and digital video services or necessary equipment at reasonable costs;
- technical failures, equipment defects, physical or electronic break-ins to the services, computer viruses and similar description problems;
- the ability of third party suppliers and vendors to timely deliver qualitative products, network infrastructure, equipment, software and services;
- our ability to protect our intellectual property rights and avoid any infringement of any third party's intellectual property rights;
- our ability to successfully integrate and recognize anticipated efficiencies from the businesses we may acquire;
- any disruptions in the credit and equity markets which could affect our credit instruments and cash investments;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in laws or treaties relating to taxation in Israel and/or Luxembourg, or the interpretation thereof;
- our ability to maintain subscriber data and comply with data privacy laws;
- our ability to manage our brand;
- changes in, or failure or inability to comply with, government regulations in Israel and adverse outcomes from regulatory proceedings;
- the application of law generally and government intervention that opens our fixed-line and cellular networks to competitors, which may have the effect of increasing competition and reducing our ability to reach the expected returns on investment;
- our ability to obtain building and environmental permits for the building and upgrading of our cellular network, and to comply generally with city planning laws;
- our inability to completely control the prices we charge to customers or the programming we provide;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel and a deterioration of the relationship with employee representatives;
- our ultimate parent's interest may conflict with our interests;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, natural disasters, pandemics and other similar events; and
- other factors discussed in this Offering Memorandum.

The cable television, broadband Internet infrastructure access, fixed-line telephony, ISP services and cellular services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this Offering Memorandum are subject to a significant degree of risk. These forward-looking statements and such risks, uncertainties and other factors speak only as of the

date of this Offering Memorandum, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Offering Memorandum.

We disclose important factors that could cause our actual results to differ materially from our expectations in this Offering Memorandum. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial and other conditions, results of operations and ability to make payments under the Notes.

AVAILABLE INFORMATION

For so long as any of the Notes are "restricted securities" within the meaning of Rule 144A(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13 or 15(d) of the U.S. Exchange Act, nor exempt from the reporting requirements of the U.S. Exchange Act under Rule 12g3-2(b) thereunder, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act.

We are not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act. However, pursuant to the Indenture and so long as the Notes are outstanding, we will furnish periodic information to holders of the Notes. See "*Description of Senior Notes—Certain Covenants—Reports*" and "*Description of Senior Secured Notes—Certain Covenants—Reports*".

TAX CONSIDERATIONS

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of purchasing, holding and disposing of the Notes, including, without limitation, the application of U.S. federal tax laws to their particular situations, as well as any consequences to them under the laws of any other taxing jurisdiction, and the consequences of purchasing the Notes at a price other than the initial issue price in the offering. See "*Tax Considerations*".

TRADEMARKS AND TRADE NAMES

We own or have rights to certain trademarks or trade names that we use in conjunction with the operation of our businesses. Each trademark, trade name or service mark of any other company appearing in this Offering Memorandum is the property of its respective holder.

GENERAL DESCRIPTION OF OUR BUSINESS AND THE OFFERING

This general description of our business and the offering highlights selected information contained in this Offering Memorandum regarding the Group and the Notes. It does not contain all the information you should consider prior to investing in the Notes. You should read the entire Offering Memorandum carefully including the ''Risk Factors'', the financial statements and notes thereto, and the ''Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT'' included in this Offering Memorandum. Please see page G-1 of this Offering Memorandum for a glossary of technical terms used in this Offering Memorandum.

Our Business

Overview

We are the sole cable operator in Israel and one of two operators that own a national fixed-line network infrastructure, with our cable network passing most homes in Israel. We are the leading provider of pay television services and the second leading provider of broadband Internet infrastructure access and fixed-line telephony services in terms of number of subscribers in Israel. We are currently the only provider of bundled triple-play services in Israel, which include pay television, broadband Internet infrastructure access and fixed-line telephony services. We are also a growing provider of cellular services in Israel, having launched in May 2012 our Universal Mobile Telecommunication System (''UMTS'')-based third generation (''3G'') cellular services in addition to our existing Integrated Digital Enhanced (''iDEN'') cellular services. As of September 30, 2012, we had approximately 1.2 million Cable Customer Relationships, which accounted for 2.3 million revenue generating units (''RGUs''), and 687,000 cellular RGUs.

We believe that our cable network is among the most technologically advanced in the Middle East region. Our fully-owned cable network includes extensive fiber and is therefore generally accepted as faster, with greater data capacity and able to offer better quality than copper-based digital subscriber line (''DSL'') networks. Our entire cable network is U.S. Docsis 3.0-enabled allowing us to offer subscribers maximum download speeds of up to 100 Mbps, which we believe is higher than those achieved at similar pricing by our largest DSL competitor on a large scale. This enables our customers to connect several devices (such as computers, tablets and smartphones (via Wi-Fi connection)) to the Internet at the same time and receive interactive services like video-on-demand (''VOD'') and personal video recording (''PVR''), as well as high-definition television (''HDTV''). We own an extensive iDEN cellular network with nationwide coverage and we are building an expanding UMTS network, offering the most advanced 3G services available in Israel, covering approximately 30% of the inhabited territory of Israel and approximately 40% of the Israeli population, both as of September 30, 2012. We have entered into a national roaming agreement with a cellular provider with UMTS coverage in the areas of Israel that are currently outside of our UMTS network coverage area.

The convenience translations of the figures provided below are based on an average exchange rate for the nine months ended September 30, 2012 of $0.259 = NIS1.00. For the twelve months ended September 30, 2012 (after giving *pro forma* effect to the acquisition of HOT Mobile), HOT's revenue was NIS 4.2 billion ($1.1 billion equivalent), its EBITDA was NIS 1,476 million ($382.3 million equivalent), and its ARPU generated from cable-based services customers only was NIS 219 per month ($57 per month equivalent).

Our Services

Cable-Based Services

Multiple-Play. We provide pay television, broadband Internet infrastructure access and fixed-line telephony services, which we refer to as our ''cable-based services'', under the ''HOT'' brand to residential and business subscribers in Israel via our cable network. We believe we provide value to our customers by offering bundled triple-play services comprising pay television, broadband Internet infrastructure access and fixed-line telephony services at attractive prices. We also offer various double-play packages comprising a combination of two of these services. As of December 31, 2011, 28% and 20% of our Cable Customer Relationships subscribed to our triple-play and double-play packages, respectively. As of September 30, 2012, 33% of our Cable Customer Relationships subscribed to our triple-play services. By focusing our marketing efforts on our multiple-play offerings, we have increased cable-based RGUs from 2.2 million RGUs as of December 31, 2009 to 2.3 million

RGUs as of September 30, 2012 and increased our average services per Cable Customer Relationship from 1.66 services on December 31, 2009 to 1.93 services on September 30, 2012. While we focus our marketing activity on our multiple-play packages, we continue to offer stand-alone pay television, broadband Internet infrastructure access and fixed-line telephony services to our customers.

Pay Television. We are the largest provider of pay television services in Israel based on number of subscribers. Our digital television offering includes over 150 digital television channels, including up to 21 HDTV channels and over 20 channels with start-over functionality, 32 radio channels, VOD services and premium digital services such as PVR. We have upgraded our systems to offer interactive digital services throughout our cable network and are in the process of phasing out our analog television services by 2013. We have a proven history of procuring and co-developing high-quality local content, including for our popular channel, ''HOT 3'', with collectively over NIS 150 million spent in 2011 on local content which was broadcast on our platform. We believe that our digital television services, which are available at competitive prices, are among the most attractive in the Israeli market, with (i) more HDTV channels than our competitors, (ii) interactive functionalities such as VOD and start-over television that are not available to subscribers to satellite television without a broadband connection and (iii) rights to popular content, including local content co-developed and broadcast by us. Due to the high-quality of our cable network and our extensive VOD library containing on average over 18,000 hours of content, 56% of our total pay television RGUs have subscribed to the right to access our VOD library as of September 30, 2012. As of September 30, 2012, we had 893,000 pay television RGUs, representing approximately a 61% market share of the pay television market in Israel based on number of subscribers.

Broadband Internet. Our broadband Internet infrastructure access offering provides download speeds of up to 100 Mbps over our U.S. Docsis 3.0-enabled cable network, which we believe is higher than those achieved at similar pricing on a large scale by our largest DSL competitor. As of September 30, 2012, we had 768,000 broadband Internet infrastructure access service RGUs representing approximately a 40% market share of the broadband Internet infrastructure access market. In addition, we provide a range of advanced telecommunications solutions to our business customers and other telecommunication service providers, including data and video relay and virtual private network (''VPN'') services using synchronous digital hierarchy (''SDH'') technology or Internet protocol (''IP'') technology. The addition of ISP services, which were launched in February 2012 through our wholly-owned subsidiary, has enabled us to expand the telecommunications services offered under the ''HOT'' brand.

Fixed-Line Telephony. Our fixed-line telephony services, which we provide using PacketCable™ technology, offer our subscribers packages including unlimited calls to local and national fixed-line and cellular numbers, and a variety of value-added telephony features. We also provide primary rate interface (''PRI'') trunks (consisting of up to 30 voice lines per trunk) to our business customers. As of September 30, 2012, we had 672,000 fixed-line telephony RGUs representing approximately a 20% market share of fixed-line telephony market in Israel based on number of subscribers.

Cellular Services

We provide cellular services targeted at residential subscribers under the ''HOT Mobile'' brand on our recently launched UMTS-based 3G network and cellular services targeted at business subscribers under the ''MIRS'' brand on our existing iDEN network. We believe our 3G service offerings provide our customers with attractive value-for-money service including an offer providing the ability to receive unlimited national calls to fixed-line telephony and cellular numbers, text messaging and data access for a fixed monthly rate. Our UMTS network allows us to sell the latest mobile phone and smartphone models, including Android-based and Apple branded handsets. As of September 30, 2012, we had a total of 687,000 cellular RGUs, including 371,000 iDEN customers and 316,000 3G customers, representing approximately a 7% market share of the cellular services market in Israel based on number of subscribers. Due to current regulations, we currently offer our cellular services only on a stand-alone basis.

Our Competitive Strengths

We believe that we benefit from the following key strengths:

Israel has a highly attractive macroeconomic environment. We operate in a highly-attractive market for cable operators due to strong macroeconomic fundamentals. Israel has a developed market economy, joined the Organization for Economic Co-operation and Development (''OECD'') in 2010 and, according to independent third-party sources, has a GDP per capita (based on purchase price parity) of $30,330, which is comparable to Western Europe ($32,109), as defined by Euromonitor. According to independent third-party sources, Israeli GDP grew at a rate of 4.5% since 1991, compared to the average GDP growth rate of 1.9% in Western Europe and 2.6% in the United States. Despite the global economic slowdown, since 2007 the Israeli real GDP has grown at an average rate of 3.6% compared to 0.1% for Western Europe and 0.2% for the United States and Israel maintains a sovereign credit rating of A+ and A1 from S&P and Moody's, respectively.

The Israeli telecommunications market benefits from favorable dynamics. The Israeli market presents a number of favorable characteristics and trends for cable and cellular operators such as the high concentration of its population in metropolitan areas, high levels of broadband Internet penetration and a long history of digital television use. As we operate primarily in metropolitan areas, our footprint is characterized by high population density, which facilitates highly efficient cable operations and yields comparatively higher profitability and cash flow margins than cable operations serving lower population density markets. According to independent third-party sources, the Israeli market has high levels of pay television, broadband Internet infrastructure access and cellular telephony penetration, with penetration rates of 68%, 68% and 128%, respectively as of December 31, 2011. We believe that the Israeli pay television, broadband Internet infrastructure access and fixed-line telephony markets are characterized further by their high degree of concentration among providers, with only two operators (one of them being HOT), having significant market share in these markets stemming from the fact that only two operators have extensive nationwide infrastructure allowing the provision of these services. We believe that Israeli market is particularly suited for the continued rollout of innovative services like VOD, PVR and HDTV and, in the longer term, the potential rollout of 4G cellular services, which provide potential for future growth. In cellular telephony, we believe the recent legislation preventing early termination fees except in limited circumstances, and, as of January 2013, the linkage of the price and terms of a handset to the cellular service prices and benefits, in addition to established regulations allowing number portability have made the cellular market more attractive to new entrants, such as HOT Mobile, as it has contributed to facilitating our ability to gain market share and has reduced subscriber acquisition costs.

We have strong market positions with a history of relatively stable or growing market shares in our markets. We were the leading provider of pay television, the second leading provider of broadband Internet infrastructure access, the second leading operator in fixed-line telephony and the fourth leading operator of cellular services by number of subscribers as of September 30, 2012. As of September 30, 2012, we had approximately a 61% market share by number of subscribers in the pay television market, approximately a 40% market share by number of subscribers in the broadband Internet infrastructure access market, approximately a 20% market share by number of subscribers in the fixed-line telephony market and approximately a 7% market share (including both our iDEN-based and UMTS-based subscribers) by number of subscribers in the cellular services market (based on 687,000 cellular RGUs for HOT Mobile (including iDEN and UMTS) and our internal estimates of the total number of cellular services subscribers as of September 30, 2012). Since 2009, we have largely maintained or grown our market shares across all our markets, while significantly increasing ARPUs in our pay television and broadband Internet infrastructure access segments.

We have an attractive product offering and the ability to offer multiple-play bundles for our cable-based services. We believe we offer the best services at the most attractive prices across our business segments. In pay television, we provide over 150 digital channels, including up to 21 HDTV channels and a wide range of on demand programs through the largest VOD library available in Israel, while offering our customers interactive television capabilities which are not offered by our DTH competitor independently from a broadband Internet subscription. In our broadband Internet infrastructure access service, our U.S. Docsis 3.0-enabled cable network makes it possible for all our customers to achieve download speeds of up to 100 Mbps, with a high level of service and reliability of effective speed delivered, which is widely recognized as being superior to DSL-based infrastructure. In fixed-line telephony, we provide a wide range of post-paid packages and offer the ability to take the service as part of several multi-play bundles, which we believe makes our product more attractive than what is currently

offered by our competitors. In cellular services, our offer is focused on unlimited national voice, SMS and data package, with an option to include unlimited international voice calls to a variety of destinations through a third-party provider which we believe is a competitively-priced offering with a high quality of service.

Consistent with the developed markets of Western Europe, offering bundled services has become increasingly important for Israeli media and telecommunications service providers to meet customers' telecommunication and entertainment requirements. We expect that customers will increasingly adopt multiple-play packages and that, over the coming years, these will become the most common products on the market, notably in light of the convenience and cost savings that result from acquiring television, broadband Internet infrastructure access and fixed-line telephony services from a single provider for an all-in price which is lower than the cost of each product purchased separately. We believe we are uniquely positioned to benefit from our customers adopting multiple-play packages given the intrinsic quality of our various products and the possibilities offered by our unified fixed-line infrastructure. As of September 30, 2012, 33% of our Cable Customer Relationships subscribed to triple-play services. As a result of our ability to offer multiple-play packages, among other things, we have been able to provide customers with high quality services and have seen steady growth in ARPU of customers subscribing to our cable-based services, which has grown from NIS 191 for the year ended December 31, 2009 to NIS 211 for the year ended December 31, 2011 and to NIS 219 for the nine months ended September 30, 2012.

Our state-of-the-art and highly invested cable network infrastructure and advanced 3G cellular network provide us a competitive edge over our competitors by enabling us to offer what we believe are more attractive triple-play cable services and cellular services. We are the sole cable operator in Israel and one of the two operators that own a national fixed-line network infrastructure. We believe that our fully-owned state-of-the-art, highly invested fiber and coaxial cable network allows us to offer highly attractive and competitive services in terms of picture quality, speed and connection reliability. As of September 30, 2012, our cable network was fully upgraded to bi-directional capability and U.S. Docsis 3.0, thus enabling us to offer most Israeli households our triple-play services, including up to 100 Mbps broadband Internet infrastructure access and advanced pay television services such as HDTV, VOD and PVR. We believe our advanced technology has allowed us to successfully up-sell broadband Internet infrastructure access, fixed-line telephony and premium digital television services to our existing customer base, increasing our average RGUs per Cable Customer Relationship from 1.66 services on December 31, 2009 to 1.93 services on September 30, 2012.

While we continue to operate a nationwide iDEN mobile network, on May 15, 2012 we began rolling out UMTS-based cellular services to expand our cellular customer base and, as of September 30, 2012, our UMTS network covered approximately 30% of the inhabited territory of Israel and 40% of the Israeli population and through our national roaming partner we offer nationwide coverage. The stable cash flows and market knowledge provided by our mature iDEN business has supported the roll out of our UMTS-based 3G cellular services. We have further optimized the amount of additional cash necessary to support this roll out by not subsidizing handsets and by requiring subscribers to purchase our UMTS-based 3G cellular services on a post-paid basis. Our UMTS network is based on HSPA+ technology and we believe that, when completed, it will be one of the most advanced nationwide networks in Israel, providing voice as well as advanced data services with download speeds of up to 42 Mbps, which we are seeking to increase to 84 Mbps in the future. Based on our current deployment plans, we expect our UMTS network to cover over 50% of the Israeli population by 2014 and 90% of the Israeli population by 2018. In addition, if the Israeli Ministry of Communications tenders frequencies for LTE and if we acquire such frequencies, we believe that, because of our extensive fixed-line network and our 3.9 Ghz UMTS network, upgrading our cellular network to the 4G standard will involve significantly less capital expenditure than we incurred to roll out our 3G network because our cellular network infrastructure will require minimal upgrading as compared to some of our competitors and will allow us to more quickly market the newest LTE-based packages to our customers.

Moreover, the combination of the nationwide reach of our fiber and coaxial cable network's backbone and last mile infrastructures and our existing iDEN network (comprising 640 cellular sites across Israel as of December 31, 2011) allows us to benefit from significant efficiencies in the roll out and operations of our UMTS cellular network such as, among others, reduced cost and increased speed of tower sites connectivity and data offload from our cellular to our fixed-line network in peak times. We believe this will enable us to achieve better quality of service, higher profitability and lower capital expenditures than

some of our competitors who do not own an extensive fixed-line network or competitors who do not operate a large existing cellular services operation.

Our content department has over 15 years of experience purchasing and developing award-winning local content broadcast on our cable network. Shows co-developed by our content department have been nominated for more awards by the Israeli Academy than any one else in the last three years, with 50 nominations in 2011, 28 nominations in 2010 and 38 nominations in 2009. We have also developed several show platforms, including ''In treatment'' and ''Homeland'', to which we have sold the rights to parties outside of Israel. We have longstanding partnerships with script writers and local production studios whereby we are involved in developing locally-produced pay television content which are broadcast on our popular channel, ''HOT 3''. We also have a proven history of purchasing high-quality local content, in addition to the content that we co-develop, with a combined total investment of over NIS 150 million in 2011. We believe the high quality and popularity of the local content developed and/or purchased by us and only available on our cable network is a significant factor in our customers' decision to continue to subscribe to our pay television offerings and minimizes churn. Further, over the years, we believe that our involvement with local content production companies has allowed the HOT brand to benefit from the significant popularity of our television series, movies or shows among the Israeli population by leveraging the fame of the local actors and actresses in our marketing campaigns to promote our offerings. We believe our significant experience in purchasing a wide range of channels, co-developing and purchasing local content and our sustained spend over the years is a barrier to entry for other players and contributes to the stability of our customer base in pay television.

Our ability to effectively advertise and sell our products benefits from the strength of the HOT brand and our distribution capabilities across Israel. We believe HOT's brand is among the best known telecommunications names in Israel as result of an average of approximately NIS 85 million spent on marketing per year from 2009 to 2011 and the ''HOT'' name and logo being used for all our products across business segments, other than our existing iDEN-based cellular services. We believe that our nationwide mass media marketing campaigns are highly effective as they benefit all our products either directly or indirectly through the ''HOT'' brand, thus allowing us to enjoy economies of scale in our marketing spending while maximizing reach. Our ability to sell our products is supported by our distribution network of door-to-door and telemarketing representatives, numerous booths and shops and an interactive website. As a result, we believe customers increasingly perceive us as a leader in product innovation and a one-stop shop for media and telecommunication services.

Our cable-based business enjoys strong and recurring cash flows, which allow us to finance investments in growth. Our cable-based services revenue is recurring in nature as it stems for the most part from monthly subscriptions paid by a large and stable customer base of approximately 1.2 million Cable Customer Relationships with historically stable churn rates for Cable Customer Relationships. Similar to cable businesses across Western Europe, we have a relatively fixed cost base and have a track record of successful management of operating expenses as demonstrated by the steady increase of our cable-based services EBITDA margin over the last three years. Our cable-based business's capital expenditures are largely driven by network upgrades and customer acquisition-related items such as customer premises equipment (CPE) and installations. We have a relatively high degree of control over the renewal cycle of CPEs and network upgrades, most of which are not essential given the significant level of investment in our cable network over the past several years. As a result, we have experienced cable-based services revenue growth, with an average growth rate of 2.8% per annum between the year ended December 31, 2009 and the year ended December 31, 2011, cable-based EBITDA growth of approximately 12.0% per annum between the year ended December 31, 2009 and the year ended December 31, 2011 and cash flow generation in our cable-based businesses over the past three years. In the three years ended December 31, 2011, our accrued capital expenditures for cable-based services totaled NIS 658 million per annum on average and accounted for approximately 53% of our cable-based services EBITDA over the period, resulting in a cash flow conversion of 47%.

Our growing cellular services business benefits from (i) an existing iDEN network, (ii) efficiencies from the connectivity with our fixed-line cable network, (iii) limited subscriber acquisition costs stemming from HOT Mobile not subsidizing handsets, (iv) predictable cellular services capital expenditures to the extent the majority relates to cellular network deployment and (v) a positive trend for cable-based EBITDA margin which has and will continue to support our cellular network roll-out. In the nine months ended September 30, 2012, our HOT Mobile related capital expenditures (i.e. paid by HOT Mobile) totaled approximately NIS 328 million, the majority of which related to UMTS network coverage expansion.

Based on our current network deployment plans, we expect to spend approximately between NIS 1.1 billion and NIS 1.6 billion in total capital expenditures related to our UMTS network to complete the full roll out of our UMTS network to achieve the network coverage requirements under our cellular license by the end of 2018. As a result, we believe that, in the near future, the capital expenditures related to our cellular services operation should decrease from levels seen in the nine months ended September 30, 2012 due to high capital expenditures during such period as a result of the launching of our UMTS network. As we roll out our UMTS network, we also expect our customers to be using our cellular network more than our roaming partner's and therefore we expect our margin to benefit from lower roaming costs per customer per unit of traffic.

We have a highly experienced management team with a successful track record. Our management team has a proven track record of managing telecommunication businesses in Israel while delivering growth, managing cost efficient businesses and increasing return on capital expenditures. Stella Handler, HOT's chairwoman since 2011, was previously the chief executive officer of 012 Smile and has 24 years of experience in the telecommunications sector. HOT's chief executive officer, Hertzel Ozer, joined in 2008 and has 27 years of business experience, including as chief executive officer of Go Next, the mobile internet service provider owned by Pelephone. HOT's chief financial officer, Jean-Luc Berrebi, joined in 2010 and has over 17 years of financial and accounting experience, including as a partner at a major accounting firm where he headed its European telecom and technology practice.

Our Strategy

We intend to increase our revenues, profit margins and cashflow by striving to be the leading telecommunications company in Israel and the preferred provider of pay television, broadband Internet infrastructure access, fixed-line telephony services and cellular services. The key components of our strategy are to:

Continue to drive revenue growth and cash flow generation by increasing triple-play penetration and average RGU per Cable Customer Relationship. By increasing the number of our customers receiving multiple-play packages and by offering additional premium services and products under the ''HOT'' brand name, we believe that we will be able to grow our cable-based ARPU by increasing the number of services a customer purchases from us and provide our customers with a better overall cable service. We have increased our average RGU per Cable Customer Relationship from 1.66 services on December 31, 2009 to 1.93 services on September 30, 2012. We expect to benefit from our premium television offerings to attract additional customers to our higher bandwidth broadband Internet infrastructure access offering and fixed-line telephony and to market our premium television and fixed-line telephony products to customers who only subscribe to our broadband Internet infrastructure access service. We expect to grow the revenues from our television offering by continuing to expand the penetration of our value-added and interactive services, such as VOD and PVR. We believe the large scale of our existing footprint and upgraded cable network provides us with the platform to roll out new products and services to a large existing customer base and translate revenue growth into profitability and cash flow generation.

Derive revenue growth from increasing our market share in the cellular services sector and expanding our presence in the business customer channel. We expect to increase revenue and market share in the cellular services sector by offering competitively priced 3G services with fixed-price plans with desirable features such as unlimited national calls to fixed-line and mobile telephone numbers, text messaging and national data access as well as pay-as-you-use plans. The roll out of our 3G cellular network has enabled us to provide faster data transmission services, created higher traffic capacity and allowed us to offer a wider range of handsets. We plan to further accelerate our growth in the cellular services sector by continuing to make disciplined investments that enable us to take advantage of developments in technology. We believe that our historic and planned investment in a 3.9 Ghz UMTS network will significantly lower the capital expenditure required to transition to 4G technology. If the Israeli Ministry of Communications tenders frequencies for LTE and if we acquire such frequencies, we believe our speed to market with an offering of LTE mobile phones will enable us to increase revenue and market share while prudently managing working capital. In addition, we believe our broadband and cellular services offerings are well positioned to provide national and international data services to business enterprises, as well as home offices, and we expect to increase revenues by expanding our presence in the market for business customer telecommunication services.

Increase broadband Internet infrastructure access market share by leveraging speed capacities. We expect to increase broadband Internet infrastructure access market share as our high-speed broadband Internet infrastructure access offering provides a compelling solution to the increasing demand by customers for high-bandwidth products. Our technologically advanced cable network allows us to offer, at similar prices, faster broadband speeds than our competitors who employ technologies such as DSL or VDSL. As of September 30, 2012, approximately 40% of broadband Internet infrastructure access subscribers in Israel were served by our high-speed broadband Internet infrastructure access service at various download speeds, including 100 Mbps, and with an average speed subscribed to of approximately 13 Mbps as compared to DSL subscribers' average speed subscribed to of approximately 8 Mbps. We believe the speed advantage of our broadband Internet infrastructure access product and high-quality service will enable us to grow our broadband Internet infrastructure access business by targeting customers who do not have broadband Internet infrastructure access and DSL subscribers who are looking for higher download speeds and by incentivizing our existing television and fixed-line telephony customers to add our broadband Internet infrastructure access service to the bundle of products they purchase from us.

Grow operating margins and increase cash flow by leveraging the expertise of Altice and our senior management team to achieve economies of scale and identify operational synergies. Altice has successfully improved the performance of cable operators in France, Portugal, Belgium, French Antilles and Luxembourg and HOT's senior management team has a proven track record of running cost efficient operations and maximizing return on capital expenditures. We expect to benefit from Altice's operational and financial expertise, including expertise with product bundling and convergence, cost structure, operational performance and supplier relationship benchmarks and deep knowledge of the capital markets. We expect to grow our operating margins by focusing on internal process efficiency and continued optimization of our operations and by reducing service costs through streamlining of our interface with our subscribers. In addition, we expect to grow our operating margins as a result of cost savings from reduced churn due to improvements in our service quality and subscriber satisfaction. Furthermore, we expect to realize economies of scale in operating and capital expenditures from the growth of our business which we believe will result in additional operating margin improvements.

Increase subscriber loyalty and reduce churn by creating a superior television product offering. We aim to attract cable-based subscribers and reduce churn by differentiating the HOT service with an offering of superior television programming and premium services. The HOT pay television offering includes content and channels purchased from a variety of third-party local and foreign producers, leading original local productions co-developed by us with local producers and broadcast on our HOT 3 channel, and a VOD library containing on average 18,000 hours of content, the largest in Israel. We broadcast original local television programming including popular shows such as Haborer, Asfur 2, Split 2, Wedding Season and TLV. We continue to focus on broadcasting high quality content over our cable network, and in particular on the HOT suite of channels, including HOT 3, HOT Family, seven movie channels, the Israeli Entertainment Channel, sports channels and more than 10 children's channels. We believe that by differentiating HOT through the most attractive content broadcast on our cable network, including by maintaining our investment in popular locally-produced content, we will be able to attract new subscribers to our cable-based services and will reduce churn by increasing HOT brand loyalty among our existing subscribers.

Our Controlling Shareholder

Altice

Altice is a cable and telecommunications investment company, founded by Patrick Drahi. It is the parent company of Cool Holding and the indirect parent of the Issuers, and has been an investor in HOT since 2009. Its purpose is to identify opportunities and make acquisitions in the telecommunications industry, and to create value through operational excellence. The company has developed unique expertise in this field since 1994. It consolidated the cable sector in France, and also developed a strong presence in Portugal, Belgium, Luxembourg, Switzerland, the Caribbean and Israel. Members of the management team of Altice, including Dennis Okhuijsen, Dexter Goei and Jérémie Bonnin, have significant experience in investing capital in, structuring, financing and managing investments in and advising cable operators worldwide.

Group Structure

A significant part of the Altice value optimization strategy is establishing a Group corporate structure that minimizes financing costs and maximizes cost savings and operational synergies. Subject to the covenants of the Indentures that will govern the Notes (including compliance with certain leverage covenants), Altice expects to make targeted, value-enhancing additions of existing Altice portfolio companies, as well as any portfolio companies Altice may acquire in the future, to the Group. Altice expects this corporate structure to create significant opportunities to reduce operating costs by eliminating duplicative overhead and leveraging supplier relationships and combined purchasing power of the Group to reduce capital and operating expenses. In addition, Altice expects to reduce Group financing costs by meeting Group debt financing needs through capital markets and other financing transactions entered into by the Issuers. To the extent the Indentures permit, the portfolio companies added to the Group will become parties to the Indentures and will be subject to the restrictive covenants contained therein. See ''*Description of Senior Secured Notes—Certain Covenants*'', ''*Description of Senior Secured Notes—Certain Definitions—Covenant Parties*'', ''*Description of Senior Notes—Certain Covenants*'' and ''*Description of Senior Notes—Certain Definitions—Covenant Parties*''.

The Issuers

The Senior Secured Notes Issuer is a public limited liability company (*société anonyme*) incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 37, rue d'Anvers, L-1130 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B171162. The Senior Notes Issuer is a public limited liability company (*société anonyme*) incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 37, rue d'Anvers, L-1130 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B171151. The Issuers' business operations include only managing the financing activities of the Group. The Issuers' abilities to pay principal, interest and premium, if any, on the Notes is dependent, in large part, upon payments received from the Group pursuant to the Pledged Proceeds Notes and the Senior Notes Proceeds Loan, as applicable. See ''*Risk Factors—Risk Relating to the Notes and the Structure—Each Issuer is a holding company and conducts no business of its own. The Senior Secured Notes Issuer will depend on payments under the Pledged Proceeds Notes to provide it with funds to meet its obligations under the Senior Secured Notes and the Senior Notes Proceeds Loan and the Senior Notes Issuer will depend on payments under the Senior Notes Proceeds Loan to provide it with funds to meet its obligations under the Senior Notes*'' and ''*Summary Corporate and Financing Structure''* for more information.

The Transaction

As of the date of this Offering Memorandum, Cool Holding owns approximately 69% of the outstanding shares of HOT. On November 5, 2012, Cool Holding entered into agreements with certain minority shareholders of HOT (the ''Minority Shareholders'') pursuant to which, among other things, SPV1 will purchase shares representing approximately 11% of the outstanding shares of HOT from the Minority Shareholders at a purchase price of NIS 41 per share (the ''Selling Shareholders Transaction'') on the Completion Date (as defined below). See ''*The Transaction—Minority Shareholder Agreements*''. On September 28, 2012, SPV1 and A.G.B. Cheborshka Ltd. (''SPV2''), wholly-owned subsidiaries of Cool Holding, entered into a merger agreement with HOT, which has been approved by HOT's board of directors, audit committee, a committee of independent directors and HOT's disinterested shareholders, pursuant to which SPV2 will merge with and into HOT, such that following the merger, SPV1 will acquire all of the remaining outstanding shares of HOT not owned by Cool Holding or the Minority Shareholders at a purchase price of NIS 42 per share. As a result of these transactions, Cool Holding will own directly or indirectly all of the outstanding shares of HOT (collectively, the ''Take-Private Transaction''). The consummation of the Take-Private Transaction is subject to approval by the Israeli Ministry of Communications, the Israeli Cable & Satellite Council and certain lenders to HOT, all of which have been received, and certain other conditions precedent and must be completed by March 31, 2013 (the ''Long-Stop Date''). Following the consummation of the Take-Private Transaction, HOT's shares will be delisted from trading but the Existing HOT Unsecured Notes will continue to trade on the Tel-Aviv Stock Exchange and HOT will continue to comply with the reporting and certain corporate governance requirements applicable to private companies with notes listed on the Tel Aviv Stock Exchange.

Pending the consummation of the Take-Private Transaction and the Refinancings, the Initial Purchasers will deposit the gross proceeds from the offering of the Senior Secured Notes hereby into segregated

escrow accounts for the benefit of the holders of the Senior Secured Notes and will deposit the gross proceeds from the offering of the Senior Notes hereby into an escrow account for the benefit of the holders of the Senior Notes. The escrow accounts for the Senior Secured Notes will be controlled by and subject to security on a first-ranking basis in favor of the Trustee on behalf of the holders of the relevant Senior Secured Notes and the escrow account for the Senior Notes will be controlled by and subject to security on a first-ranking basis in favor of the Trustee on behalf of the holders of the Senior Notes. The release of the escrow proceeds is subject to delivery by the Issuers of officer's certificates to Citibank, N.A., London Branch, or another similarly reputable escrow agent, as escrow agent (the "Escrow Agent"), certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon the release of the escrow proceeds (the "Completion Date"). If the Take-Private Transaction and the Refinancings are not completed by the Long-Stop Date or upon the occurrence of certain other events, the Notes will be subject to a special mandatory redemption. The special mandatory redemption price will be a price equal to 100% of the initial issue price of each Note plus accrued and unpaid interest and additional amounts, if any, from the Issue Date to the date of the special mandatory redemption. On the Issue Date, Altice will enter into a guarantee agreement pursuant to which it will guarantee the Issuers' obligations under the Senior Secured Notes and the Senior Notes in the event the purchase price payable on a special mandatory redemption of the Senior Secured Notes or the Senior Notes, as applicable, exceeds the proceeds in the relevant escrow account. Altice has arranged committed financing in respect of the interest that will accrue on the Notes to the date of the special mandatory redemption and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it. See "*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*", "*Description of Senior Notes—Escrow of Proceeds; Special Mandatory Redemption*" and "*Plan of Distribution—Other Relationships*".

Upon release of the proceeds from escrow, the Senior Notes Issuer will make an intercompany loan of the proceeds of the offering of the Senior Notes (the "Senior Notes Proceeds Loan") to the Senior Secured Notes Issuer, which will in turn use amounts borrowed under the Senior Notes Proceeds Loan and the proceeds of the offering of the Senior Secured Notes (i) to purchase an intercompany note (the "Cool Proceeds Note") issued by Cool Holding, the proceeds of which will be used by Cool Holding to repay all amounts outstanding under the Cool Loan plus any repayment premiums and accrued and unpaid interest and fees thereon and to repay all amounts outstanding under the Cool Interest Loan plus any fees and expenses thereon (the "Cool Refinancing"), (ii) to purchase an intercompany note (the "HOT Refinancing Term Note") issued by HOT, the proceeds of which will be used by HOT to repay all amounts outstanding under the Existing HOT Loans plus any repayment premiums and accrued and unpaid interest and fees thereon, (the "HOT Refinancing" and, together with the Cool Refinancing, the "Refinancings"), (iii) to purchase an intercompany note (the "Acquisition Note", and together with the Cool Proceeds Note and the HOT Refinancing Note (as defined below), the "Pledged Proceeds Notes") issued by SPV1, the proceeds of which will be used by SPV1 to purchase the remaining outstanding shares of HOT not owned by Cool Holding in order to consummate the Take-Private Transaction, (iv) to pay certain fees and expenses incurred in connection with the Transaction and (v) for general corporate purposes, including payment of interest under the Notes (if required). For a description of the Pledged Proceeds Notes, see "*Description of Other Indebtedness—Pledged Proceeds Notes*".

In connection with the Take-Private Transaction, the Senior Secured Notes Issuer entered into the Revolving Credit Facility Agreement in the amount of $80 million and will enter into an intercompany revolving credit facility note (the "HOT Refinancing RCF Note" and, together with the HOT Refinancing Term Note, the "HOT Refinancing Note") pursuant to which the Senior Secured Notes Issuer will make available to HOT amounts borrowed under the Revolving Credit Facility Agreement. For a description of the Revolving Credit Facility Agreement and the HOT Refinancing RCF Note see "*Description of Other Indebtedness—Revolving Credit Facility Agreement*" and "*Description of Other Indebtedness—HOT Refinancing Note—HOT Refinancing RCF Note*".

The offering of the Notes hereby, the entry into the Revolving Credit Facility Agreement, the Refinancings, the issuance of the Pledged Proceeds Notes and the Cool Interest Loan, the making of the Senior Notes Proceeds Loan and the Take-Private Transaction are collectively referred to herein as the "Transaction". See "*The Transaction*". For a description of certain risks related to the Transaction, see "*Risk Factors—Risks Related to the Transaction*".

Sources and Uses for the Transaction

The expected estimated sources and uses of the funds necessary to consummate the Transaction are shown in the table below. Actual amounts will vary from the estimated amounts depending on several factors, including differences between our estimates of the total amounts of debt outstanding and of fees and expenses from the actual amounts of debt outstanding and fees and expenses as of the Completion Date.

Sources of Funds	$ in millions	NIS in millions	Uses of Funds	$ in millions	NIS in millions
Senior Secured Notes offered hereby[1]	709.3	2,781.7	Purchase Price[2]	241.5	947.2
Senior Notes offered hereby	400.0	1,568.6	Repayment of Existing HOT Loans[3]	484.6	1,900.2
			Repayment of Cool Debt[3][4]	224.2	879.2
			Total Transaction Costs[5]	54.3	213.0
			Cash[5]	104.7	410.7
Total Sources	**1,109.3**	**4,350.4**	**Total Uses**	**1,109.3**	**4,350.4**

(1) Represents (i) the issuance of $450 million aggregate principal amount of Dollar Senior Secured Notes offered hereby and (ii) €200 million aggregate principal amount of Euro Senior Secured Notes offered hereby based on the exchange rate as of December 7, 2012 of €0.771 = $1.00.

(2) The purchase price represents the total aggregate consideration paid to the shareholders of HOT (other than Cool Holding) pursuant to the Take-Private Transaction.

(3) Assumes the Transaction closes on December 27, 2012.

(4) Cool Debt represents the amounts outstanding under the Cool Loan, net of cash at Cool Holding of NIS 65 million, plus repayment premiums and accrued and unpaid interest and fees thereon and the amount outstanding under the Cool Interest Loan, plus fees and expenses thereon. Cool Holding was required to make a scheduled amortization and interest payment under the Cool Loan on November 28, 2012. Cool Holding funded that payment with the proceeds of the issuance of the Cool Interest Loan to Altice. The Cool Interest Loan will be repaid on the Completion Date with a portion of the proceeds of the offering of the Notes.

(5) This amount reflects our estimate of the fees and expenses we will pay in connection with the Transaction, including commitment, placement, financial advisory and other transaction costs and professional fees, including an advisory fee to be paid to Altice in connection with the Transaction. This amount may differ from the estimated amount depending on several factors, including changes in exchange rates from September 30, 2012 to the Completion Date.

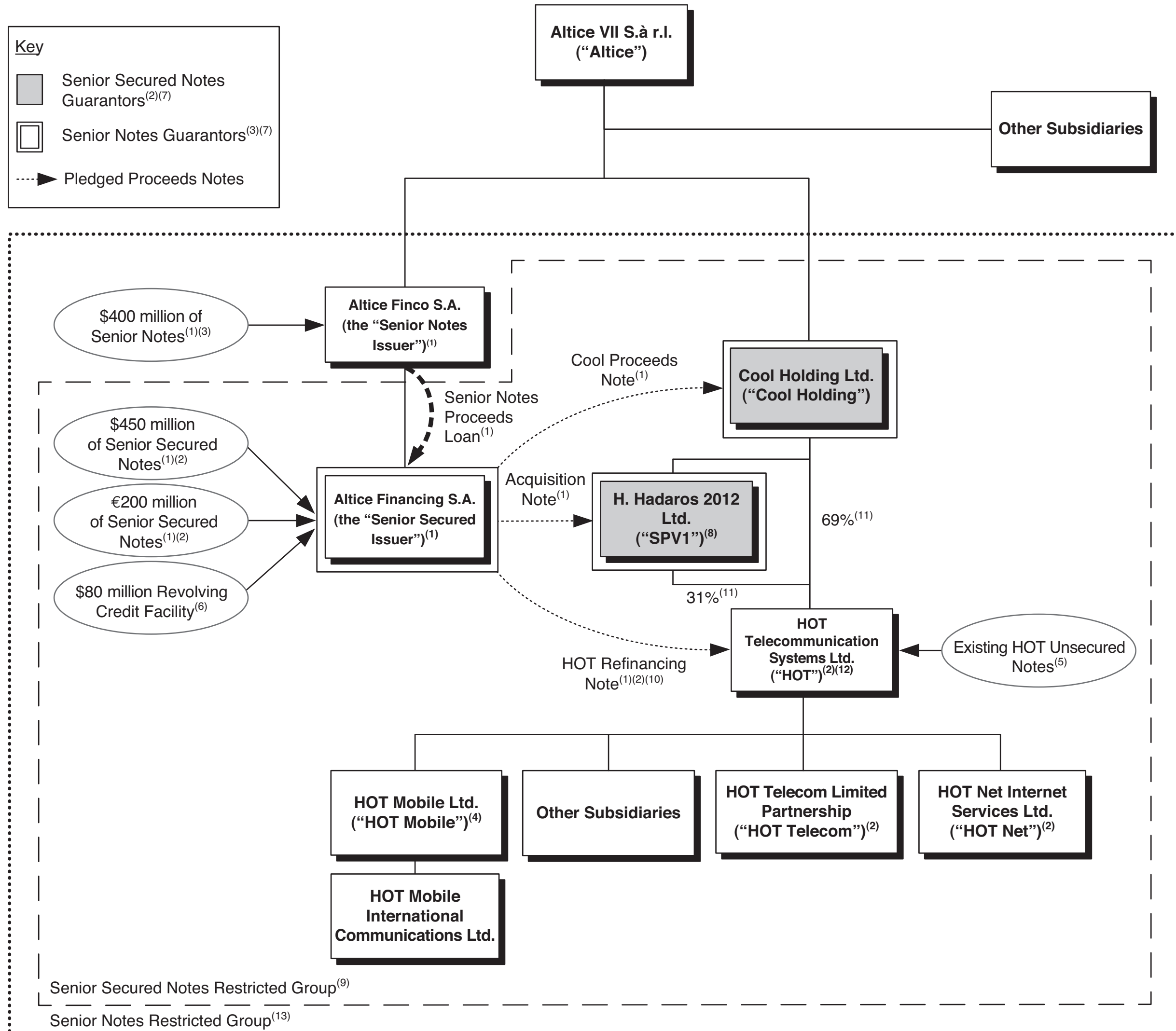
(6) The remaining proceeds will be used by the Senior Secured Notes Issuer to pay interest due under the Senior Secured Notes (if required) and the Senior Notes Proceeds Loan (if required) and, in turn, the Senior Notes Issuer to pay interest due under the Senior Notes (if required); and for general corporate purposes. Any differences in the estimates set forth above and the actual payments made will be reflected in an increase or decrease in cash.

Recent Developments

On November 20, 2012, a purported shareholder of HOT filed a suit seeking certification as a class action against Cool Holding, the Minority Shareholders, HOT and members of the board of directors of HOT in the Economic Division of the Tel Aviv District Court. The suit claims, among other things, that the consideration for the Take-Private Transaction has been allocated in a manner that prejudices the public shareholders of HOT, by providing the Minority Shareholders with consideration in excess of the consideration received by the other public shareholders and that certain conflicts of interest existed. The suit calls for the parties other than HOT to reallocate the consideration, in a manner that would result in the public shareholders (other than the Minority Shareholders) whose shares of HOT will be acquired in the Take-Private Transaction receiving an additional aggregate amount in excess of NIS 54 million. A similar claim, also seeking certification as a class action, was filed on behalf of another purported shareholder on November 26, 2012, challenging the allocation of consideration in the Take-Private Transaction, alleging that the share price in the Take-Private Transaction is unfair and asking the court to appoint an expert to determine a fair price; this claim seeks total damages of up to NIS 195 million.

SUMMARY CORPORATE AND FINANCING STRUCTURE

The following diagram summarizes our corporate and financing structure after giving effect to the Transaction, including the offering of the Notes and the application of the proceeds therefrom as described in ''The Transaction'' and ''Use of Proceeds''. The following is provided for indicative and illustration purposes only and should be read in conjunction with the information contained elsewhere in this Offering Memorandum. For a summary of the debt obligations referred to in the following diagram, see ''*Description of Senior Secured Notes*'', ''*Description of Senior Notes*'' and ''*Description of Other Indebtedness*''.



(1) The Senior Secured Notes Issuer, which is a public limited liability company (*société anonyme*) incorporated under the laws of the Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B171162, will issue $450 million aggregate principal amount of Dollar Senior Secured Notes and €200 million aggregate principal amount of Euro Senior Secured Notes, which will be its senior secured obligations. The Senior Notes Issuer, which is a public limited liability company (*société anonyme*) incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 37, rue d'Anvers, L-1130 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B171151, will issue the Senior Notes, which will be its senior obligations. Pending the consummation of the Take-Private Transaction and the Refinancings, the Initial Purchasers will deposit the gross proceeds from the offering of the Senior Secured Notes into segregated escrow accounts for the benefit of the holders of the relevant Senior Secured Notes and the gross proceeds from the offering of the Senior Notes into segregated escrow accounts for the benefit of the holders of the Senior Notes. Upon release of the proceeds from escrow, the Senior Notes Issuer will make an intercompany loan of the proceeds of the offering of the Senior Notes (the ''Senior Notes Proceeds Loan'') to the Senior Secured Issuer, which will in turn use amounts borrowed under the Senior Notes Proceeds Loan and the proceeds of the offering of the Senior Secured Notes:

a. to purchase a NIS 879.2 million ($224.2 million equivalent) intercompany note (the ''Cool Proceeds Note'') issued by Cool Holding, the proceeds of which will be used by Cool Holding to repay all amounts outstanding, plus any

repayment premiums and accrued and unpaid interest thereon, under the Cool Loan, to repay all amounts outstanding, plus any expenses and fees incurred thereon under the Cool Interest Loan (the ''Cool Refinancing'');

b. to purchase a NIS 1,900.2 million ($484.6 million equivalent) intercompany term note (the ''HOT Refinancing Term Note'') issued by HOT, the proceeds of which will be used by HOT to repay all amounts outstanding, plus any repayment premiums and accrued and unpaid interest thereon, under the Existing HOT Loans (the ''HOT Refinancing'' and, together with the Cool Refinancing, the ''Refinancings'');

c. to purchase a NIS 947.2 million ($241.5 million equivalent) intercompany note (the ''Acquisition Note'', and together with the Cool Refinancing Note and the HOT Refinancing Term Note and the HOT Refinancing RCF Note (defined below), the ''Pledged Proceeds Notes'') issued by SPV1, the proceeds of which will be used by SPV1 to purchase the remaining outstanding shares of HOT not owned by Cool Holding in order to consummate the Take-Private Transaction; and

d. to pay certain fees and expenses incurred in connection with the Transaction and for general corporate purposes, including payments of interest under the Notes.

The actual amounts of the Cool Proceeds Note and the HOT Refinancing Term Note may differ from the amounts above as the amount outstanding under the Cool Loan, the Cool Interest Loan and the Existing HOT Loans on the Completion Date may differ from the amounts we have estimated above, which assume the Transaction closes on December 27, 2012 and assumes an exchange rate as of September 30, 2012. See ''*Use of Proceeds*''.

(2) Prior to the Completion Date, the Senior Secured Notes will not be guaranteed. On the Completion Date, the Senior Secured Notes will be guaranteed by Cool Holding and SPV1 (the ''Senior Secured Notes Guarantors''). See ''*Risk Factors—Risk Relating to the Notes and the Structure*''. Following the Completion Date, the Senior Secured Notes will be secured on a first-ranking basis by:

a. pledges over all of the share capital of the Senior Secured Notes Issuer and each Senior Secured Notes Guarantor;

b. a pledge over the bank accounts and all receivables of the Senior Secured Notes Issuer, including the Pledged Proceeds Notes;

c. a pledge over all of the assets of each of the Senior Secured Notes Guarantors, including the capital stock of HOT (other than the Minority Shareholder Call Options and the Management Options (as defined in ''Management and Governance''));

d. a pledge over the Senior Notes Proceeds Loan; and

e. a pledge over the Shareholder Loan.

Pursuant to the Merger Agreement, the Management Options representing approximately 3.2% of HOT's outstanding share capital will expire if not exercised within 90 days of the delisting of HOT's shares from the Tel Aviv Stock Exchange and, if exercised prior to cancellation thereof, the HOT shares issued upon such exercise will be purchased by SPV1 at NIS 42 per share. See ''*Management and Governance*''.

On the Completion Date, the HOT Refinancing Note (defined below) (including principal and interest payments) will be guaranteed by the HOT Refinancing Note Guarantors and, (i) prior to the receipt of regulatory approvals from the Israeli Ministry of Communications with respect to granting of security over License Assets (as defined in ''*Description of Senior Secured Notes*''), will be secured by a pledge over the non-License Assets of HOT (including all of the share capital of HOT Mobile) and of the HOT Refinancing Note Guarantors and (ii) following receipt of such regulatory approvals, will be secured by a pledge over substantially all of the assets of HOT (including all of the share capital of HOT Mobile) and the HOT Refinancing Note Guarantors but, in each case, excluding licenses granted by the Israeli Ministry of Communications and certain end-user equipment, with respect to which we are not permitted to grant a security interest (the ''HOT Refinancing Note Collateral''). The granting of pledges over License Assets and the appointment of the security agent on behalf of the Senior Secured Notes Issuer in respect of such License Assets is subject to the receipt of regulatory approval from the Israeli Ministry of Communications which may not be received as of the Completion Date. License Assets constitute a substantial portion of the assets of HOT and the HOT Refinancing Note Guarantors. We have submitted an application to the Israeli Ministry of Communications for such approvals and have agreed to use commercially reasonable efforts to obtain such approvals within 180 days of the Issue Date. If we fail to obtain the approvals of the Israeli Ministry of Communications within 180 days of the Issue Date, (x) the HOT Refinancing Note and the HOT Refinancing Note Guarantees will not benefit, and as a result the Senior Secured Notes will not indirectly benefit, from pledges over a substantial portion of HOT's and the HOT Refinancing Note Guarantors' assets and (y) on the date that is 180 days from the Issue Date, the interest rate on the Senior Secured Notes will increase by 100 basis points and the interest rate on the Senior Notes will increase by 100 basis points. See ''*Risk Factors—Risks Relating to the Notes and the Structure—Certain HOT Refinancing Note Collateral may not be taken as of the Completion Date''; ''Description of Senior Secured Notes—HOT Proceeds Note Security*''; ''*Description of Senior Secured Notes—General—Interest*'' and ''*Description of Senior Notes—General—Interest*''.

(3) Prior to the Completion Date, the Senior Notes will not be guaranteed. On the Completion Date the Senior Notes will be guaranteed on a senior subordinated basis by Cool Holding, SPV1 and the Senior Secured Notes Issuer (the ''Senior Notes Guarantors'', and together with the Senior Secured Notes Guarantors, the ''Guarantors''). See ''*Risk Factors—Risks Relating to the Notes and Structure*''. Following the Completion Date, the Senior Notes will be secured by:

a. a first-ranking pledge over all of the share capital of the Senior Notes Issuer;

b. second-ranking pledges over all of the share capital of the Senior Secured Notes Issuer and Cool Holding;

c. a second-ranking pledge over the Senior Notes Proceeds Loan; and

d. a second-ranking pledge over the Shareholder Loan.

(4) In connection with its cellular license for 3G services, HOT Mobile provided a bank guarantee in the amount of NIS 695 million to the State of Israel. See note 26 to our financial statements for the year ended December 31, 2011, included elsewhere in this Offering Memorandum. HOT Mobile's obligation to the bank that issued such guarantee is secured by a pledge of all of its assets. For more information, see ''*Description of Other Indebtedness—License Guarantees*''. HOT Mobile is not a guarantor under the Existing HOT Loans. HOT Mobile will not be a Guarantor or provide any security with respect to the Notes, the Revolving Credit Facility Agreement or the HOT Refinancing Note.

(5) The Existing HOT Unsecured Notes are senior unsecured obligations of HOT which mature on September 30, 2018. As of September 30, 2012, the total principal amount of the Existing HOT Unsecured Notes outstanding was NIS 1,468 million. The Existing HOT Unsecured Notes will be:

a. effectively subordinated to the HOT Refinancing Note and the guarantees thereof granted by the HOT Refinancing Note Guarantors to the extent of the lesser of (x) the value of the assets of HOT and the HOT Refinancing Note Guarantors securing the HOT Refinancing Note and the guarantees thereof and (y) the amount owing under the HOT Refinancing Note;

b. *pari passu* with the HOT Refinancing Note to the extent the amount of the HOT Refinancing Note exceeds the value of the assets of HOT and the HOT Refinancing Note Guarantors securing the HOT Refinancing Note and the guarantee thereof; and

c. structurally senior to the Notes and the guarantees of the Notes granted by the Guarantors.

The Existing HOT Unsecured Notes will not be subject to the Intercreditor Agreement and, as a result, in the event of an enforcement sale of the shares of Cool Holding or HOT pursuant to the Intercreditor Agreement, the debt claims of the holders of the Existing HOT Unsecured Notes are not required to be released or otherwise transferred.

(6) On the Completion Date, the Guarantors will guarantee the Senior Secured Notes Issuer's obligations under the Revolving Credit Facility Agreement. The Revolving Credit Facility Agreement will be secured by the same assets that secure the Senior Secured Notes. Pursuant to the terms of the Intercreditor Agreement, the lenders under the Revolving Credit Facility Agreement and certain hedge counterparties will be entitled to receive payments from the proceeds of any enforcement of such security and from certain distressed disposals of the property and assets subject to such security prior to the holders of the Senior Secured Notes and the Senior Notes. See ''*Description of Other Indebtedness—Revolving Credit Facility Agreement*''.

(7) On an as-adjusted consolidated combined basis after giving effect to the Transaction, the Guarantors and HOT and its subsidiaries (other than HOT Mobile and its subsidiary) represent more than (i) 80% of the consolidated total assets of the Group as of September 30, 2012, (ii) 90% of the consolidated EBITDA of the Group for the nine months ended September 30, 2012 and (iii) 80% of the revenue of the Group for the nine months ended September 30, 2012. Each Guarantor is a holding company and does not conduct any operations and is wholly dependent on payments from its respective subsidiaries to meet its obligations, including its obligations under its Guarantee of the Notes and respective Pledged Proceeds Note.

(8) SPV1 is a wholly-owned subsidiary of Cool Holding.

(9) Entities in the Senior Secured Notes Restricted Group will be subject to the covenants in the Senior Secured Notes Indenture and the Revolving Credit Facility Agreement.

(10) The HOT Refinancing Note will be comprised of (in separate note agreements) (i) the HOT Refinancing Term Note and (ii) a revolving note facility pursuant to which HOT may issue notes to the Senior Secured Notes Issuer that will be purchased with proceeds of certain borrowings by the Senior Secured Notes Issuer under the Revolving Credit Facility (the ''HOT Refinancing RCF Note'', and together with the HOT Refinancing Term Note, collectively, the ''HOT Refinancing Note''). Upon an event of default under the Notes, HOT and its subsidiaries shall not be liable in any way, including by way of cross default, and shall not be required to repay any amounts outstanding, including any repayment premiums and accrued and unpaid interest thereon, under the Notes. Further, the HOT Refinancing Note Guarantors will only guarantee HOT's obligations under the HOT Refinancing Note (the ''HOT Refinancing Note Guarantees''). The HOT Refinancing Note Guarantees will be limited to an aggregate amount equal to the amount outstanding under the HOT Refinancing Note, which may vary from time to time in accordance with the terms of the HOT Refinancing Note. HOT and the HOT Refinancing Note Guarantors will only have liability to the holders of the Senior Secured Notes in the event of an event of default under the HOT Refinancing Note, in each case, indirectly as a result of an assignment of the HOT Refinancing Note and/or the ability of the holders of the Senior Secured Notes to direct the actions of the Senior Secured Notes Issuer in connection with the HOT Refinancing Note in accordance with the terms of the Intercreditor Agreement, to the extent permitted thereby. The Senior Notes will not benefit from any assignment of the HOT Refinancing Note.

(11) Upon the consummation of the Take-Private Transaction, Cool Holding and SPV1 collectively will own 100% of the outstanding shares of HOT. Pursuant to the Minority Shareholder Agreements, during the 24-month period commencing on the first anniversary of the Take-Private Transaction, the Minority Shareholders will have the right to purchase shares of HOT sold pursuant to the Take-Private Transaction (representing approximately 11% of the outstanding shares of HOT) at a price of NIS 48 per share from Cool Holding. See ''*The Transaction—Minority Shareholder Agreements*''. In the event that the Minority Shareholders exercise their rights to acquire shares of HOT, such shares will be released from the pledges that secure the Senior Secured Notes, and the Revolving Credit Facility Agreement. If the Minority Shareholders exercise such rights, the Minority Shareholders will own approximately 11% of the share capital of HOT. In addition, the Minority Shareholder Agreements grant certain rights to the Minority Shareholders, including, after the exercise of any such rights to acquire shares of HOT, the right to approve certain asset dispositions and the incurrence of material indebtedness. The Minority Shareholder Agreements and the rights granted thereunder to the Minority Shareholders will continue to apply following any enforcement of the pledges over the capital stock of HOT or Cool Holding.

Upon certain Minority Shareholder Option Exercises (as defined in ''Description of Senior Secured Notes'' and the ''Description of Senior Notes''), the Senior Secured Notes Issuer must offer to repurchase the Senior Secured Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with the net cash proceeds of such Minority Shareholder Option Exercises. In the event there are any remaining net cash proceeds after the completion of such offer, the Senior Notes Issuer must offer to repurchase the Senior Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with such remaining net cash proceeds. See ''*Description of Senior Secured Notes—Redemption with Minority Shareholder Option Proceeds*'' and ''*Description of Senior Notes—Redemption with Minority Shareholder Option Proceeds*''.

(12) All of the assets of HOT are currently pledged on a second priority basis to the State of Israel to secure certain payment obligations related to our ownership of the cable network. The final installment of such payment obligations will be due on January 1, 2015. As of September 30, 2012, the total amount of such payment obligations was approximately NIS 98 million. On or prior to the date hereof, we will apply to the State of Israel to subordinate these payment obligations to the HOT Refinancing Note on substantially the same terms as such obligations are subordinated to the Existing HOT Loans. See ''*Description of Our Business—Material Contracts—Agreement with State of Israel relating to ownership of our cable network*''.

(13) Entities in the Senior Notes Restricted Group and the Senior Notes Issuer will be subject to the covenants in the Senior Notes Indenture.

THE OFFERING

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The ''Description of Senior Secured Notes'' and ''Description of Senior Notes'' sections of this Offering Memorandum contain a more detailed description of the terms and conditions of the Notes, including the definitions of certain terms used in this summary.

Issuers

Senior Secured Notes	Altice Financing S.A. (the ''Senior Secured Notes Issuer'').
Senior Notes	Altice Finco S.A. (the ''Senior Notes Issuer'' and together with the Senior Secured Notes Issuer, the ''Issuers'').

Notes Offered

Senior Secured Notes	\$450 million aggregate principal amount of 7⅞% senior secured notes due 2019 (the ''Dollar Senior Secured Notes'').
	€200 million aggregate principal amount of 8% senior secured notes due 2019 (the ''Euro Senior Secured Notes'') and together with the Dollar Senior Secured Notes, the ''Senior Secured Notes'').
Senior Notes	\$400 million aggregate principal amount of 9⅞% senior notes due 2020 (the ''Senior Notes'' and together with the Senior Secured Notes, the ''Notes'').

Maturity

Senior Secured Notes	December 15, 2019
Senior Notes	December 15, 2020

Interest

Dollar Senior Secured Notes	7.875%
Euro Senior Secured Notes	8.000%
Senior Notes	9.875%
	In the event we are unable to obtain regulatory approvals with respect to pledges over HOT's and the HOT Refinancing Note Guarantors' License Assets to secure HOT's and the HOT Refinancing Note Guarantors' obligations under the HOT Refinancing Note within 180 days of the Issue Date, the interest rates on each series of Senior Secured Notes will increase by 100 basis points and the interest rate on the Senior Notes will increase by 100 basis points, see ''—*Security*''.
Interest Payment Dates	Semi-annually in cash in arrears on each June 15 and December 15, commencing June 15, 2013. Interest will accrue from the Issue Date of the Notes.
Denomination	The Dollar Senior Secured Notes and the Senior Notes will be in denominations of \$200,000 and any integral multiples of \$1,000 in excess of \$200,000. Dollar Senior Secured Notes and Senior Notes in denominations of less than \$200,000 will not be available. Euro Senior Secured Notes will be in denominations of €100,000 and any integral multiples of €1,000 in excess of €100,000, Euro Senior Secured Notes in denominations of less than €100,000 will not be available.

Issue Price

Dollar Senior Secured Notes	100.000% plus accrued interest, if any, from the Issue Date.
Euro Senior Secured Notes	100.000% plus accrued interest, if any, from the Issue Date.
Senior Notes	100.000% plus accrued interest, if any, from the Issue Date.

Ranking

Senior Secured Notes . . . . The Senior Secured Notes will:

- be general obligations of the Senior Secured Notes Issuer;
- be secured as set forth under ''—*Security*'';
- rank *pari passu* in right of payment with any future Indebtedness of the Senior Secured Notes Issuer that is not subordinated in right of payment to the Senior Secured Notes;
- rank senior in right of payment to any future Indebtedness of the Senior Secured Notes Issuer that is expressly subordinated in right of payment to the Senior Secured Notes;
- be effectively subordinated to any future Indebtedness of the Senior Secured Notes Issuer that is secured by property or assets that do not secure the Senior Secured Notes, to the extent of the value of the property and assets securing such Indebtedness; and
- be the only Indebtedness, other than the subordinated obligations of the Senior Secured Notes Issuer under the Senior Notes Proceeds Loan, of the Senior Secured Notes Issuer outstanding on the Completion Date.

Senior Notes . . . . The Senior Notes will:

- be general obligations of the Senior Notes Issuer;
- be secured as set forth under ''—Security'';
- rank *pari passu* in right of payment with any future Indebtedness of the Senior Notes Issuer that is not subordinated in right of payment to the Senior Notes;
- rank senior in right of payment to any future Indebtedness of the Senior Notes Issuer that is expressly subordinated in right of payment to the Senior Notes;
- be effectively subordinated to any future Indebtedness of the Senior Notes Issuer that is secured by property or assets that do not secure the Senior Notes, to the extent of the value of the property and assets securing such Indebtedness; and
- be the only Indebtedness of the Senior Notes Issuer outstanding on the Completion Date.

Guarantees

Senior Secured Notes . . . . The Senior Secured Notes will not be guaranteed on the Issue Date. On the Completion Date, the Senior Secured Notes will be guaranteed on a senior basis (the ''Senior Secured Notes Guarantees'') by Cool Holding and SPV1 (the ''Senior Secured Notes Guarantors'').

On the Completion Date, the HOT Refinancing Note will be guaranteed by the HOT Refinancing Note Guarantors.

Senior Notes . . . . The Senior Notes will not be guaranteed on the Issue Date. On the Completion Date, the Senior Notes will be guaranteed on a senior subordinated basis (the ''Senior Notes Guarantees'' and together with the Senior Secured Notes Guarantees, the ''Guarantees'') by Cool Holding, SPV1 and the Senior Secured Notes Issuer (the ''Senior Notes Guarantors'' and together with the Senior Secured Notes Guarantors, the ''Guarantors'').

Ranking of the Guarantees

Senior Secured Notes . . . . Each Senior Secured Notes Guarantee will, on the Completion Date,

- be a general obligation of the relevant Senior Secured Notes Guarantor;
- rank *pari passu* in right of payment with any existing and future Indebtedness of the relevant Senior Secured Notes Guarantor that is not subordinated in right of payment to such Senior Secured Notes Guarantor's Senior Secured Notes Guarantee;
- rank senior in right of payment to all existing and future Indebtedness of the relevant Senior Secured Notes Guarantor that is expressly subordinated in right of payment to such Senior Secured Notes Guarantor's Senior Secured Notes Guarantee;
- be effectively subordinated to any existing and future Indebtedness of the relevant Senior Secured Notes Guarantor that is secured by property or assets that do not secure such Senior Secured Notes Guarantor's Senior Secured Notes Guarantee, to the extent of the value of the property and assets securing such Indebtedness; and
- be effectively subordinated to the Indebtedness and other obligations of any member of the Group that does not guarantee the Senior Secured Notes.

The Senior Secured Notes Guarantees will be subject to the terms of the Intercreditor Agreement. See ''*Description of Other Indebtedness—The Intercreditor Agreement*''.

The Senior Secured Notes Guarantees will be subject to release under certain circumstances. See ''*Description of Senior Secured Notes—The Note Guarantees*''

Senior Notes . . . . Each Senior Notes Guarantee will, on the Completion Date,

- be a general senior subordinated obligation of the relevant Senior Notes Guarantor;
- be subordinated in right of payment with any existing and future Indebtedness of the relevant Senior Notes Guarantor that is not subordinated in right of payment to such Senior Notes Guarantor's Senior Notes Guarantee;
- rank *pari passu* in right of payment to all existing and future senior subordinated Indebtedness of the relevant Senior Notes Guarantor;

- rank senior in right of payment to all existing and future Indebtedness of the relevant Senior Notes Guarantor that is expressly subordinated in right of payment to such Senior Notes Guarantor's Senior Notes Guarantee;
- be effectively subordinated to any existing and future Indebtedness of the relevant Senior Notes Guarantor that is secured by property or assets that do not secure such Senior Notes Guarantor's Senior Notes Guarantee, to the extent of the value of the property and assets securing such Indebtedness; and
- be effectively subordinated to the Indebtedness and other obligations of any member of the Group that does not guarantee the Senior Notes.

The Senior Notes Guarantees will be subject to the terms of the Intercreditor Agreement, including payment blockage upon a senior default and standstills on enforcement. See ''*Description of Other Indebtedness—The Intercreditor Agreement*''.

The Senior Notes Guarantees will be subject to release under certain circumstances. See ''*Description of Senior Notes—The Note Guarantees*''

Security

Senior Secured Notes . . . . On the Issue Date, the Senior Secured Notes will be secured by a security interest over the rights of the Senior Secured Notes Issuer under the Senior Secured Notes Escrow Agreement (as defined below) and the assets in the Senior Secured Notes Escrow Accounts (as defined below).

On the Completion Date, the Senior Secured Notes will be secured on a first-ranking basis by:

- share pledges over all of the share capital of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors;
- a pledge over the bank accounts and all receivables of the Senior Secured Notes Issuer, including the Pledged Proceeds Notes;
- a pledge over all of the assets of each of the Senior Secured Notes Guarantors, including all of the share capital of HOT (other than the Minority Shareholder Call Options and the Management Options);
- a pledge over the Senior Notes Proceeds Loan; and
- a pledge over the Shareholder Loan.

Prior to the receipt of regulatory approvals with respect to the granting of security over License Assets (as defined in ''Description of Senior Secured Notes''), the HOT Refinancing Note will be secured by a pledge over the non-License Assets of HOT (including all of the share capital of HOT Mobile) and of the HOT Refinancing Guarantors and, following receipt of such regulatory approvals, will be secured by a pledge over substantially all of the assets of HOT (including the share capital of HOT Mobile) and the HOT Refinancing Guarantors but, in each case, excluding licenses issued by the Israeli Ministry of Communications and certain end-user equipment with respect to which we are not permitted to grant a security

interest (the ''HOT Refinancing Note Collateral''). The granting of pledges over License Assets and the appointment of the security agent in respect of such License Assets is subject to the prior receipt of regulatory approvals from the Israeli Ministry of Communications which may not be received as of the Completion Date. License Assets constitute a substantial portion of the assets of HOT and the HOT Refinancing Note Guarantees. We have submitted an application to the Israeli Ministry of Communications for such approvals and have agreed to use commercially reasonable efforts to obtain such approvals within 180 days of the Issue Date. If we fail to obtain the approvals of the Israeli Ministry of Communications within 180 days of the Issue Date, (x) the HOT Refinancing Note and the HOT Refinancing Note Guarantees will not benefit, and as a result the Senior Secured Notes will not indirectly benefit, from pledges over a substantial portion of HOT's and the HOT Refinancing Guarantors' assets and, (y) on the date which is 180 days from the Issue Date, the interest rate on each series of the Senior Secured Notes will increase by 100 basis points and the interest rate on the Senior Notes will increase by 100 basis points. See ''*Description of Senior Secured Notes—HOT Proceeds Note Security*'', ''*Description of Senior Secured Notes—General—Interest*'' and ''*Description of Senior Notes—General—Interest*''.

Senior Notes . . . . On the Issue Date, the Senior Notes will be secured by a security interest over the rights of the Senior Notes Issuer under the Senior Notes Escrow Agreement (as defined below) and the assets in the Senior Notes Escrow Account (as defined below).

On the Completion Date, the Senior Notes will be secured by:

- a first-ranking share pledge over all of the share capital of the Senior Notes Issuer;
- second-ranking share pledges over all of the share capital of the Senior Secured Notes Issuer and Cool Holding;
- a second-ranking pledge over the Shareholder Loan; and
- a second-ranking pledge over the Senior Notes Proceeds Loan.

Escrow of Proceeds; Special Mandatory Redemption . . . . Pending consummation of the Take-Private Transaction and the Refinancings and the satisfaction of certain other conditions as described below, the Initial Purchasers will, concurrently with the closing of the offering of the Notes on the Issue Date, (i) deposit the gross proceeds of this offering of Senior Secured Notes into segregated escrow accounts (the ''Senior Secured Notes Escrow Accounts'') pursuant to the terms of an escrow deed (the ''Senior Secured Notes Escrow Agreement'') dated as of the Issue Date among, *inter alios*, the Senior Secured Notes Issuer, the Trustee and Citibank, N.A., London Branch, or another similarly reputable escrow agent, as escrow agent (the ''Escrow Agent'') and (ii) deposit the gross proceeds of this offering of Senior Notes into an escrow account (the ''Senior Notes Escrow Account'') pursuant to the terms of an escrow deed (the ''Senior Notes Escrow Agreement'') dated as of the Issue Date among, *inter alios*, the Senior Notes Issuer, the Trustee and the Escrow Agent. The

Senior Secured Notes Escrow Accounts will be controlled by, and pledged on a first-ranking basis in favor of, the Trustee on behalf of the holders of the relevant Senior Secured Notes. The Senior Notes Escrow Account will be controlled by, and pledged on a first-ranking basis in favor of, the Senior Notes Trustee on behalf of the holders of the Senior Notes. Upon delivery to the Escrow Agent of officer's certificates certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon the release of the escrow proceeds, the escrowed funds will be released to the Issuers and utilized as described in ''*Use of Proceeds*'', ''*The Transaction*'', ''*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*'' and ''*Description of Senior Notes—Escrow of Proceeds Special Mandatory Redemption*''.

The consummation of the Take-Private Transaction is subject to approval by certain lenders to HOT and regulatory approval by the Israeli Ministry of Communications and the Israeli Cable & Satellite Council, all of which have been received, and certain other conditions precedent and must be completed on or prior to March 31, 2013 (the ''Long Stop Date''). If the Take-Private Transaction and the Refinancings are not consummated on or prior to the Long-Stop Date or upon the occurrence of certain other events the Notes will be redeemed at a price equal to 100% of the initial issue price of each Note plus accrued and unpaid interest and additional amounts, if any, from the Issue Date to the special mandatory redemption date. On the Issue Date, Altice will enter into a guarantee agreement pursuant to which it will guarantee the Issuers' obligations under the Senior Secured Notes and the Senior Notes in the event the purchase price payable on a special mandatory redemption of the Senior Secured Notes or the Senior Notes, as applicable, exceeds the proceeds in the relevant escrow account. Altice has arranged committed financing in respect of the interest that will accrue on the Notes to the date of the special mandatory redemption and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it. See ''*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*'' and ''*Description of Senior Notes—Escrow of Proceeds; Special Mandatory Redemption*''.

Change of Control . . . . Following a change of control as defined in the Senior Secured Notes Indenture at any time, the Senior Secured Notes Issuer will be required to offer to repurchase the Senior Secured Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. See ''*Description of Senior Secured Notes—Certain Covenants—Change of Control*''.

Following a change of control as defined in the Senior Notes Indenture at any time, the Senior Notes Issuer will be required to offer to repurchase the Senior Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. See ''*Description of Senior Notes—Certain Covenants—Change of Control*''.

Redemption with Minority Shareholder Option Proceeds . . Upon certain Minority Shareholder Option Exercises (as defined in "Description of Senior Secured Notes" and "Description of Senior Notes"), the Senior Secured Notes Issuer must offer to repurchase the Senior Secured Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with the net cash proceeds of such Minority Shareholder Option Exercises. In the event there are any remaining net cash proceeds after the completion of such offer, the Senior Notes Issuer must offer to repurchase the Senior Notes at a price equal to 103% of the principal amount plus accrued and unpaid interest and additional amounts, if any, with such remaining net cash proceeds. See "*Description of Senior Secured Notes—Redemption with Minority Shareholder Option Proceeds*". See "*Description of Senior Notes—Redemption with Minority Shareholder Option Proceeds*".

Optional Redemption

Senior Secured Notes . . . . Prior to December 15, 2015, the Senior Secured Notes Issuer may redeem all or a portion of the Senior Secured Notes at a price equal to 100% of the principal amount plus a 'make-whole' premium. The Senior Secured Notes Issuer may redeem some or all of the Senior Secured Notes at any time on or after December 15, 2015, at a redemption price equal to their principal amount plus a premium, accrued and unpaid interest and additional amounts, if any. See "*Description of Senior Secured Notes—Optional Redemption*".

In addition, prior to December 15, 2015, the Senior Secured Notes Issuer may redeem up to 40% of the aggregate principal amount of each series of the Senior Secured Notes with the proceeds of certain public equity offerings at a redemption price equal to 107.875% of the principal amount of the Dollar Senior Secured Notes and 108.000% of the principal amount of the Euro Senior Secured Notes, plus, in each case, accrued and unpaid interest and additional amounts, if any, to the redemption date, provided that at least 60% of the original aggregate principal amount of each series of the Senior Secured Notes remains outstanding after the redemption and the redemption occurs within 180 days after the closing of such equity offering. See "*Description of Senior Secured Notes—Optional Redemption*".

Senior Notes . . . . Prior to December 15, 2016, the Senior Notes Issuer may redeem all or a portion of the Senior Notes at a price equal to 100% of the principal amount plus a make-whole premium. The Senior Notes Issuer may redeem some or all of the Senior Notes at any time on or after December 15, 2016, at a redemption price equal to their principal amount plus a premium, accrued and unpaid interest and additional amounts, if any. See "*Description of Senior Notes—Optional Redemption*".

In addition, prior to December 15, 2015, the Senior Notes Issuer may redeem up to 40% of the aggregate principal amount of the Senior Notes with the proceeds of certain public equity offerings at a redemption price equal to 109.875% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, provided

that at least 60% of the original aggregate principal amount of the Senior Notes remains outstanding after the redemption and the redemption occurs within 180 days after the closing of such equity offering. See ''*Description of Senior Notes—Optional Redemption*''.

Additional amounts; tax redemption . . . . All payments made under or in respect of the Notes or the Guarantees will be made without withholding or deduction for any taxes, except to the extent required by law. If such withholding or deduction is required by law in any relevant tax jurisdiction, the relevant Issuer or the relevant Guarantor, as applicable, will pay additional amounts so that the net amount received by each holder is no less than that which it would have received in the absence of such withholding or deduction. See ''*Description of Senior Secured Notes—Withholding Taxes*'' and ''*Description of Senior Notes—Withholding Taxes*''.

In the event of certain developments affecting taxation or certain other circumstances, the Senior Secured Notes Issuer or Senior Notes Issuer, as applicable may redeem the relevant Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See ''*Description of Senior Secured Notes—Redemption for Changes in Withholding Taxes*'' and ''*Description of Senior Notes—Redemption for Changes in Withholding Taxes*''.

Certain covenants . . . . The Issuers will issue the Notes under the Indentures. The Indentures will, among other things, limit our ability, the ability of certain other Covenant Parties and the ability of the restricted subsidiaries to:

- incur or guarantee additional Indebtedness;
- make investments or other restricted payments;
- create liens;
- sell assets and subsidiary stock;
- pay dividends or make other distributions or repurchase or redeem our capital stock or subordinated debt;
- engage in certain transactions with affiliates;
- enter into agreements that restrict the payment of dividends by subsidiaries or the repayment of intercompany loans and advances; and
- engage in mergers or consolidations.

These covenants will be subject to a number of important exceptions and qualifications. For more details, see ''*Description of Senior Secured Notes*'' and ''*Description of Senior Notes*''.

Transfer restrictions . . . . The Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transfer and may only be offered or sold in transactions that are exempt from or not subject to the registration requirements of the U.S. Securities Act. See ''*Transfer Restrictions'' and ''Plan of Distribution*''.

Absence of a public market for the Notes	The Notes will be new securities for which there is currently no market. Although the Initial Purchasers have informed the Issuers that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, the Issuers cannot assure you that a liquid market for the Notes will develop or be maintained.
Use of proceeds	The gross proceeds from the sale of the Senior Secured Notes will be deposited into segregated escrow accounts for the benefit of the holders of the relevant Senior Secured Notes and the gross proceeds from the sale of the Senior Notes will be deposited into segregated escrow accounts for the benefit of the holders of the Senior Notes, in each case, pending satisfaction of the conditions to release such proceeds. Upon release from escrow, the Senior Notes Issuer will use the proceeds of the offering of the Senior Notes to make the Senior Notes Proceeds Loan to the Senior Secured Notes Issuer which will in turn use amounts borrowed under the Senior Notes Proceeds Loan and the proceeds of the offering of Senior Secured Notes, (A) to purchase (i) the Acquisition Note, (ii) the Cool Proceeds Note and (iii) the HOT Refinancing Note and (B) to pay certain fees and expenses incurred in connection with the Transaction and for general corporate purposes. See ''*The Transaction*'' and ''*Use of Proceeds*''.
Listing	Application has been made for the Notes to be admitted to listing on the Official List and to trading on the Euro MTF Market of the Luxembourg Stock Exchange. See ''*Description of Senior Secured Notes—Maintenance of Listing*'' and ''*Description of Senior Notes—Maintenance of Listing*''.
Trustee	Citibank, N.A., London Branch.
Principal Paying Agent and Transfer Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Deutschland AG.
Governing law	The Indentures and the Notes will be governed by the laws of the State of New York. The security documents governing the Collateral and the HOT Refinancing Note Collateral will be governed by and construed in accordance with the laws of Luxembourg, Israel and England, as applicable. See ''*Description of Senior Secured Notes—Security*'' and ''*Description of Senior Notes—Security*''. The application of the provisions set out in Articles 86 to 94-8 of the Luxembourg law dated August 10, 1915 on commercial companies, as amended, is excluded.
Risk factors	Please see ''Risk Factors'' for a description of certain of the risks you should carefully consider before investing in the Notes.
Certain U.S. federal income tax considerations	The Dollar Senior Secured Notes, Euro Senior Secured Notes or the Senior Notes may be treated as having been issued with original issue discount for U.S. federal income tax purposes. An obligation generally is treated as having been issued with original issue discount if its stated principal amount exceeds its issue price by at least a defined de minimis amount. If a Note is treated as issued with original issue discount, investors subject

	to U.S. federal income tax will be subject to tax on that original issue discount as ordinary income as it accrues, in advance of the receipt of cash payments attributable to that income (and in addition to qualified stated interest). See ''*Tax Considerations—Certain U.S. Federal Income Tax Considerations*''.
Certain ERISA considerations	The Notes and any interest therein may, subject to certain restrictions described herein under ''Certain Employee Benefit Plan Considerations'', be sold and transferred to ERISA Plans (as defined in this Offering Memorandum). See ''*Certain Employee Benefit Plan Considerations*''.

SUMMARY UNAUDITED PRO FORMA FINANCIAL AND OTHER DATA

The following table presents certain summary unaudited pro forma financial information as of and for the periods ended on the dates indicated below. The following summary unaudited pro forma financial information of HOT gives effect to the acquisition of HOT Mobile as if such transaction had occurred on January 1, 2011, but does not give any effect to the Transaction. The following table should be read in conjunction with, and is qualified in its entirety by reference to HOT's financial statements included elsewhere in this Offering Memorandum. The table has been derived from and should be read in conjunction with the interim pro forma consolidated financial statements of HOT as of September 30, 2011, the audited financial statements of HOT Mobile as of and for year ended December 31, 2010, the audited consolidated financial statements of HOT as of and for the years ended December 31, 2009, 2010 and 2011 and the unaudited interim consolidated financial statements of HOT as of and for the three and nine months ended September 30, 2012, included elsewhere herein. HOT's historical results do not necessarily indicate results that may be expected in the future.

HOT's summary pro forma financial information for the twelve months ended September 30, 2012 has been derived by adding HOT's summary pro forma financial information for the year ended December 31, 2011 to its summary financial information for the nine months ended September 30, 2012 and subtracting its summary pro forma financial information for the nine months ended September 30, 2011. HOT's summary pro forma financial information for the twelve months ended September 30, 2012 has been prepared for illustrative purposes only and is not necessarily representative of its results for any future period or its financial condition at any such date. It has not been audited. The convenience translations provided below are based on an average exchange rate for the nine months ended September 30, 2012 of $0.259 = NIS1.00.

HOT Unaudited Pro Forma Statement of Operations Data[(4)]	For the nine months ended September 30, 2011	For the year ended December 31, 2011	For the twelve months ended September 30, 2012	For the twelve months ended September 30, 2012
		NIS in millions		$ in millions
Revenue[(4)]				
Telecom[(1)]	1,510	2,004	1,996	517
Cable television	1,724	2,299	2,289	593
Cellular	693	899	825	214
Other[(2)]	—	—	7	2
Adjustments[(3)]	(755)	(999)	(960)	(249)
Total revenue	**3,172**	**4,203**	**4,157**	**1,077**
Expenses				
Depreciation and amortization	770	1,050	1,072	278
Operating expenses	1,550	2,077	2,178	564
Sales and marketing expenses	236	326	328	85
Administrative and general expenses	141	204	186	48
Other (income) expenses, net and network set up expenses	27	(87)	(114)	(30)
Operating income	448	633	507	132
Financing income	27	43	37	10
Financing expenses for acquisition of HOT Mobile	(20)	(26)	(21)	(6)
Financing expenses	(200)	(261)	(279)	(72)
Income before taxes on income	**255**	**389**	**244**	**64**
Taxes on income	54	104	95	25
Net income (loss)	**201**	**285**	**149**	**39**
Other comprehensive loss (after tax effect)				
Loss on available for sale financial asset	(33)	(36)	(15)	(4)
Total comprehensive income (loss)	**168**	**249**	**134**	**35**
EBITDA	**1,257**	**1,608**	**1,476**	**382**

(1) Telecom includes revenue from our fixed-line telephony and broadband Internet infrastructure access services.

(2) Other revenue represents revenue from our ISP services that launched in the first half of 2012.

(3) Adjustments reflect mainly revenues that were received by HOT Telecom from HOT in respect of rental of a cable network owned by HOT Telecom, which is reported in the revenue line item for Telecom and is required to be eliminated in consolidation. It also includes adjustments resulting from inter-company payments by HOT Mobile to HOT for subscriber acquisition costs and transmission services.

(4) In 2012, HOT reclassified certain line items of its financial statements to, it believes, present a fairer more reliable presentation of its financial results. The above also was reflected in the pro forma financial statements of operations. The reclassification did not have any impact on its reported results or its financial position.

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL AND OTHER DATA

The following tables present HOT's summary financial information and other data as of and for the periods ended on the dates indicated below and certain financial data of Cool Holding as of and for the periods ended on the dates indicated below.

HOT's summary financial information as of and for the years ended December 31, 2009, 2010 and 2011 has been derived from its audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 included elsewhere in this Offering Memorandum. Such financial information was prepared in accordance with Israeli IFRS and with the provisions of the Israeli Securities Regulation (Annual Financial Statements), 2010 and, with respect to the years ended December 31, 2011 and 2010 have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer and with respect to the year ended December 31, 2009 have been audited jointly by Ernst & Young, Kost Forer Gabbay & Kasierer and Somekh Chaikin (KPMG Israel).

HOT's summary financial information as of and for the nine months ended September 30, 2012 and 2011 has been derived from its unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2012 and 2011 prepared in accordance with IAS 34 ''Interim Financial Information'', the Israeli IFRS standard applicable to interim reporting and included elsewhere in this Offering Memorandum. It has not been audited.

The statement of operations for the nine months ended, and balance sheet as of, September 30, 2012 includes the results of operations and the balance sheet of HOT Mobile, accordingly. The statement of operations for the year ended December 31, 2011 includes the results of operations for HOT Mobile for the period from November 28, 2011 to December 31, 2011. The balance sheet as of December 31, 2011 includes the balance sheet for HOT Mobile. The balance sheets as of December 31, 2010 and December 31, 2009 do not include the balance sheets of HOT Mobile.

The following table should be read in conjunction with, and is qualified in its entirety by reference to HOT's financial statements included elsewhere in this Offering Memorandum. The table should also be read together with ''Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT''. HOT's historical results do not necessarily indicate results that may be expected in the future.

	For the year ended December 31,			For the nine months ended September 30,	
	2009	2010	2011	2011	2012
	NIS in millions			(unaudited)	
HOT Consolidated Statement of Operations Data[1]					
Revenue					
Telecom[2]	1,889	2,010	2,004	1,510	1,502
Cable television	2,198	2,226	2,299	1,724	1,714
Cellular	—	—	66	—	619
Other[3]	—	—	—	—	7
Adjustments[4]	(958)	(982)	(995)	(752)	(716)
Total revenue	**3,129**	**3,254**	**3,374**	**2,482**	**3,126**
Expenses					
Depreciation and amortization[1]	747	665	708	609	792
Operating expenses	1,728	1,699	1,621	1,184	1,651
Sales and marketing expenses				165	238
Amortization of intangible assets[1]	110	112	130	n.a.	n.a.
Other sales and marketing expenses	183	204	244	n.a.	n.a.
Administrative and general expenses[1]	125	129	134	89	123
Other expenses (income), net and network set up expenses	(38)	154	(103)	16	—
Operating income	**274**	**291**	**640**	**419**	**322**
Financing income	7	10	31	19	21
Financing expenses	(202)	(201)	(230)	(178)	(233)
Income before taxes on income	**79**	**100**	**441**	**260**	**110**
Taxes on income (benefit)	(6)	(6)	100	44	45
Net income	**85**	**106**	**341**	**216**	**65**
Other comprehensive loss (after tax effect)					
Loss on available for sale financial asset	14	(4)	(36)	(33)	(12)
Total comprehensive income	**99**	**102**	**305**	**183**	**53**

(1) In 2012, HOT reclassified certain line items of its financial statements to, it believes, present a fairer and more reliable presentation of its financial results. The reclassification did not have any impact on its reported results or its financial position. For more information see note 2 to HOT's financial statements for the three and nine months ended September 30, 2012 included elsewhere in this Offering Memorandum.

(2) Telecom includes revenue from our fixed-line telephony and broadband Internet infrastructure access services.

(3) Other revenue represents revenue from our ISP services that launched in the first half of 2012.

(4) Adjustments reflect mainly revenues that were received by HOT Telecom from HOT in respect of rental of a cable network owned by HOT Telecom, which is reported in the revenue line item for Telecom and is required to be eliminated in consolidation. It also includes adjustments resulting from inter-company payments by HOT Mobile to HOT for subscriber acquisition costs and transmission services.

	As of December 31,		As of September 30,
	2010	2011	2012
	NIS in millions		(unaudited)
HOT Consolidated Balance Sheet Data[1]			
Current Assets			
Cash and cash equivalents	1	16	7
Designated cash	121	—	—
Trade receivables[1]	185	379	487
Other receivables	24	79	66
Inventory	—	24	30
Total Current Assets	331	498	590
Non-Current Assets			
Long-term trade receivables	—	85	90
Film and program broadcast rights[1]	67	69	n.a.
Investment in financial asset available for sale	90	42	27
Long-term receivables	8	34	117
Fixed assets	3,263	3,763	4,108
Intangible assets	534	837	786
Goodwill	1,057	1,264	1,264
Deferred taxes	39	71	46
Total Non-Current Assets	5,058	6,165	6,438
Total Assets	**5,389**	**6,663**	**7,028**
Current Liabilities			
Credit from banking entities and others and current maturities of bonds[1]	n.a.	n.a.	406
Credit from banking corporations[1]	249	375	n.a.
Current debenture maturities[1]	—	61	n.a.
Trade payables[1]	554	801	1,136
Other payables[1]	241	341	429
Provision for legal claims	273	168	111
Total Current Liabilities	1,317	1,746	2,082
Non-Current Liabilities			
Loans from banking entities and bonds[1]	n.a.	n.a.	2,706
Loans from banking institutions[1]	2,262	625	n.a.
Debentures[1]	—	1,439	n.a.
Other long-term liabilities	176	555	382
Prepaid income for terminal equipment installation	37	42	55
Employee benefit liabilities	18	23	28
Deferred taxes	58	302	324
Total Non-Current Liabilities	2,551	2,986	3,495
Equity			
Share capital	95	96	96
Treasury shares	—	—	(184)
Share premium	1,572	1,654	1,655
Capital reserve for share-based payments	9	31	46
Capital reserve on available for sale financial asset	57	21	9
Retained earnings (losses)	(212)	129	(171)
Total equity	1,521	1,931	1,451
Total Equity and Liabilities	**5,389**	**6,663**	**7,028**

(1) In 2012, HOT reclassified certain line items of its financial statements to, it believes, present a fairer and more reliable presentation of its financial results. The reclassification did not have any impact on its reported results or its financial position. For more information see note 2 to HOT's financial statements for the three and nine months ended September 30, 2012 included elsewhere in this Offering Memorandum.

	For the year ended December 31,			For the nine months ended September 30,	
	2009	2010	2011	2011	2012
	NIS in millions				
				(unaudited)	
HOT Cash Flow Data[1]					
Net cash generated by operating activities	911	1,103	1,240	942	748
Net cash absorbed by investment activities[1]	(735)	(592)	(898)	(223)	(750)
Net cash generated (absorbed) by financing activities[1]	(177)	(512)	(327)	(600)	(7)
Increase (decrease) in cash and cash equivalents	(1)	(1)	15	119	(9)

(1) In 2012, HOT reclassified certain line items in its cash flow financial statements comparable figures in order to adjust the current period presentation. For more information see note 2 to HOT's financial statements for the three and nine months ended September 30, 2012 included elsewhere in this Offering Memorandum.

	As of and for the year ended December 31,			As of and for the nine months ended September 30,
	2009	2010	2011	2012
	in thousands except percentages and as otherwise indicated			
HOT Summary Statistical and Operating Data				
Total Israeli Homes	2,139	2,166	2,204	2,245*
Customer Relationships				
Cable Customer Relationships[1]	1,316	1,282	1,245	1,207
Cable Revenue Generating Units (RGUs)[2]				
Digital Television RGUs	769	783	840	870
Analog Television RGUs	139	108	51	23
Total Television RGUs	908	891	891	893
Broadband Internet Infrastructure Access RGUs	719	752	768	768
Fixed-Line Telephony RGUs	562	610	635	672
Total Cable RGUs	2,189	2,253	2,294	2,333
RGUs per Cable Customer Relationship (in units)	1.66x	1.76x	1.84x	1.93x
Cellular Revenue Generating Units (RGUs)[3]				
UMTS RGUs	—	—	—	316
iDEN RGUs	476	490	444	371
Total Cellular RGUs[3]	476	490	444	687
Cable Services Penetration				
Television RGUs as % of Total Israeli Homes	42%	41%	40%	40%
Broadband Internet Infrastructure Access RGUs as % of Total Israeli Homes	34%	35%	35%	34%
Fixed-Line Telephony RGUs as % of Total Israeli Homes	26%	28%	29%	30%
Cable Customer Bundling[4]				
Single-Play Customer Relationships as % of Cable Customer Relationships	59%	56%	52%	**
Double-Play Customer Relationships as % of Cable Customer Relationships	22%	20%	20%	**
Triple-Play Customer Relationships as % of Cable Customer Relationships	19%	24%	28%	33%
Churn[5]				
Churn in Pay Television RGUs[6]	15.1%	15.4%	13.2%	15.6%
ARPU[7]				
Cable-based services ARPU (in NIS)	191	202	211	219
Pay television ARPU (in NIS)	201	208	215	213
Broadband Internet infrastructure access ARPU (in NIS)	49	53	57	61
Fixed-line telephony ARPU (in NIS)	75	71	56	52
Market Share				
Cellular Market Share[8]	—	—	—	7%

* Projected figure for year end 2012.

** Not reported

(1) Cable Customer Relationships represents the number of individual end users who have subscribed for one or more of our cable-based services (including pay television, broadband Internet infrastructure access or fixed-line telephony), without regard to how many services to which the end user subscribed. It is calculated on a unique premises basis. Cable Customer Relationships does not include subscribers to either our cellular or ISP services.

(2) RGUs relate to sources of revenue, which may not always be the same as customer relationships. For example, one person may subscribe for two different services, thereby accounting for only one subscriber, but two RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per service basis and RGUs for fixed-line telephony are counted on a per line basis.

(3) Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network.

(4) Cable customer bundling for our stand-alone, double-play and triple-play services is presented as a percentage of Cable Customer Relationships. Our double play package customers include customers who have purchased a combination of two services out of our pay television, broadband Internet infrastructure access and fixed-line telephony services. Our triple-play package comprises pay television, broadband Internet infrastructure access and fixed-line telephony services.

(5) Churn is calculated by dividing the number of RGUs for a given service that have been disconnected during a particular period (either at the customer's request or due to a termination of the subscription by us) by the average number of RGUs for such service, excluding transfers between our services (other than a transfer between our cable services and cellular services), during such period. For example, an analog television customer who migrates to our digital television services or a customer who migrates from our double-play to triple-play services or vice-versa will not increase churn.

(6) For the nine months ended September 30, 2012, the churn shown is the annualized churn, calculated by dividing the churn for the nine months ended September 30, 2012 by three and multiplying by four.

(7) ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the service provided, in each case including the proportional allocation of the bundling discount, and after certain deductions) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.

(8) Our cellular market share is based on our estimate of the total cellular lines in Israel, which is based on the number of lines reported by other cellular operators in Israel. This market share calculation is not indicative of nor does it correlate to the market share calculation required under our cellular license. In relation to the addition of frequencies to our cellular license enabling us to provide UMTS based 3G services, we were required to pay a total license fee of NIS 705 million, out of which we paid NIS 10 million at the time of receiving the license. The remaining amount equal to NIS 695 million is payable in 2016 subject to certain deductions based on market share gained by HOT Mobile (based on the higher of the market share as measured in September 2013 and September 2016). See ''*Description of our Business—Material Contracts—Provision of certain bank guarantees to the State of Israel relating to performance of certain license terms*''.

	For the year ended December 31,			For the nine months ended September 30,
	2009	2010	2011	2012
	NIS in millions except percentages			(unaudited)
Other Financial Data				
Revenue	3,129	3,254	3,374	3,126
EBITDA[1][4]	1,106	1,240	1,401	1,125
Taxes on income (benefit)	(6)	(6)	100	45
Cable-based services EBITDA	1,106	1,240	1,388	1,095
Capital expenditures (accrued)				
Modems and converters related	301	346	178	**
Cable network related (including centers)	273	274	289	**
Other	106	93	114	**
Total HOT cable-based expenditures	**680**	**713**	**581**	**758**
HOT Mobile related expenditures	—	—	38	328
Total capital expenditures (accrued)[2]	**680**	**713**	**619**	**1,086**
Capital expenditures as % of revenue	22%	22%	18%	35%
Net working capital[3]	**	(586)	(660)	(982)

** Not reported

(1) EBITDA represents profit before net financing income, taxes on income, depreciation and amortization, and before expenses in respect of options and before expenses (income) derived from updates in actuary assumptions and other expenses

(income), net and network set up expenses. EBITDA is an additional measure used by management to demonstrate our underlying performance and should not replace the measures in accordance with IFRS as an indicator of our performance, but rather should be used in conjunction with the most directly comparable IFRS measure.

(2) Total capital expenditure (accrued) is a measure of the amount capital expenditure accrued during the period and is not a measure of the cash used for capital expenditures during the period. The difference between accrued capital expenditure in the period and cash used for capital expenditure during the period is a result of delayed payment obligations in relation to our capital expenditures. For the years ended December 31, 2009, 2010 and 2011 we had cash used for capital expenditures of NIS 683 million, NIS 613 million and NIS 511 million, respectively, and for the nine months ended September 30, 2011 and 2012 we had cash used for capital expenditures of NIS 345 million and NIS 752 million, respectively. We also had cash used to capitalize commissions which were reflected in our operating cash flow of NIS 38 million, NIS 38 million and NIS 26 million for the years ended December 31, 2009, 2010 and 2011, respectively, and NIS 29 million and NIS 76 million for the nine months ended September 30, 2011 and 2012, respectively. We had total cash used for capital expenditures for the years ended December 31, 2009, 2010 and 2011 of NIS 721 million, NIS 651 million and NIS 537 million, respectively, and for the nine months ended September 30, 2011 and 2012, NIS 374 million and NIS 828 million, respectively.

(3) Net working capital is defined as the sum of trade receivables, other receivables and inventory minus trade payables and other payables. The decrease in net working capital during the nine months ended September 30, 2012 was mainly driven by an increase in trade payables and offset by an increase in trade receivables as a result of migrating to invoicing on a post-services basis as opposed to pre-services, which we are required by the Council for Cable and Satellite Broadcasting to complete by the end of 2012.

(4) The following table presents a reconciliation of EBITDA to total comprehensive income (loss) for the period, attributable to equity owners for the indicated periods.

	For the year ended December 31,			For the nine months ended September 30,	
	2009	2010	2011	2011	2012
	NIS in millions				
EBITDA	1,106	1,240	1,401	1,056	1,125
(Taxes on income) benefit	6	6	(100)	(44)	(45)
Financing expenses, net	(195)	(191)	(199)	(159)	(212)
Options	(6)	(12)	(18)	(12)	(11)
Changes in actuary assumptions	—	—	(2)	—	—
Other (expenses) income, net and network set up expenses	38	(154)	103	(16)	—
Depreciation and amortization	(864)	(783)	(844)	(609)	(792)
Total comprehensive income (loss)	**85**	**106**	**341**	**216**	**65**

Certain Cable-Based Services Information[1]

	Fiscal Year 2010				FY 2010	Fiscal Year 2011				FY 2011	Fiscal Year 2012			YTD 2012
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Total
Total cable RGUs ('000s)	2,193	2,210	2,224	2,253	2,253	2,263	2,274	2,283	2,294	2,294	2,320	2,340	2,333	2,333
Cable-based services ARPU (NIS)	197	200	204	207	202	207	210	215	212	211	217	219	220	219
Cable revenue (NIS in millions)	801	809	816	828	3,254	822	824	836	826	3,308	839	841	840	2,520
Year on year growth[2]						2.6%	1.9%	2.5%	(0.2%)		2.1%	2.1%	0.5%	
Cable-based services EBITDA (NIS in millions)[3]	291	316	322	311	1,240	354	359	343	332	1,388	363	363	369	1,095
Cable-based services EBITDA margin	36.3%	39.1%	39.5%	37.6%	38.1%	43.1%	43.6%	41.0%	40.2%	42.0%	43.3%	43.2%	43.9%	43.4%

(1) The cable-based information contained in this table includes only the results of operations for our cable-based business and does not include any results of operations from our cellular business.

(2) Year on year growth shows the percentage growth comparing each quarter to the quarter from the previous year (i.e. Q1 2011 against Q1 2010). It does not compare one quarter to the previous quarter in the same fiscal year.

Certain As Adjusted Information

	As of and for the nine months ended September 30, 2012
	NIS in millions
As adjusted total net debt[1]	5,527
As adjusted senior net debt[6]	3,958
Pro forma LTM EBITDA[2][4]	1,476
Last two quarters annualized EBITDA[3][4]	1,446
As adjusted interest expense[5]	479
Ratio of as adjusted total net debt to pro forma LTM EBITDA	3.7x
Ratio of as adjusted senior net debt to pro forma LTM EBITDA	2.7x
Ratio of pro forma LTM EBITDA to as adjusted interest expense	3.1x

(1) As adjusted total net debt reflects the aggregate principal amount of our debt minus cash and cash equivalents, in each case on an as adjusted basis after giving effect to the Transaction. See ''*Capitalization*''.

(2) Pro forma LTM EBITDA gives effect to the acquisition of HOT Mobile as if such transaction had occurred on January 1, 2011, but does not give any effect to the Transaction. Pro Forma LTM EBITDA has been derived by adding HOT's pro forma EBITDA for the year ended December 31, 2011 to its pro forma EBITDA for the nine months ended September 30, 2012 and subtracting its pro forma EBITDA for the nine months ended September 30, 2011.

(3) Annualized EBITDA is calculated by multiplying EBITDA for the two most recent reported quarters by two.

(4) Please note that the definition of EBITDA as presented here differs from the definition of Consolidated EBITDA in the Indentures. See ''*Description of Senior Secured Notes*'' and ''*Description of Senior Notes*''.

(5) As adjusted interest expense represents the gross interest expense, which is calculated using the cash interest expense in connection with the debt incurred in connection with the Transaction (excluding any hedging expenses) and the Existing HOT Unsecured Notes, using an assumed blended average cash interest rate for the Notes and the Existing HOT Unsecured HOT Notes and assuming the Transaction occurred on October 1, 2011 and the regulatory approvals for securing the HOT Refinancing Note with all of the HOT Refinancing Note Collateral were obtained within 180 days of the Issue Date of the Notes. As adjusted interest expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would actually have been had the Transaction occurred on October 1, 2011 nor does it purport to project our interest rate for any future period or financial condition at any future. Interest expense excludes (a) other financing costs relating to (i) foreign exchange transactions, collection costs and embedded derivatives, (ii) bank charges and credit card commissions, and (iii) refinancing and reorganization costs and (b) interest income.

(6) As adjusted senior net debt reflects the aggregate principal amount of our debt that is outstanding under the Senior Secured Notes, the Existing HOT Unsecured Notes and finance leases minus cash and cash equivalents, in each case, as adjusted after giving effect to the Transaction.

RISK FACTORS

An investment in the Notes involves risks. Before purchasing the Notes, you should consider carefully the specific risk factors set forth below, as well as the other information contained in this Offering Memorandum. If any of the events described below, individually or in combination, were to occur, this could have a material adverse impact on our business, prospects, results of operations and financial condition and our ability to make payments on the Notes and could therefore have a negative effect on the trading price of the Notes. Described below and elsewhere in this document are the risks considered to be the most material, although there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our results of operations, financial condition, business or operations in the future. In addition, our past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

This Offering Memorandum also contains forward looking statements that involve risks and uncertainties. Actual results may differ materially from those anticipated in these forward looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum. See ''Forward Looking Statements''.

Risks Relating to Our Financial Profile

Our substantial leverage could adversely affect our business, financial condition and results of operations and prevent us from fulfilling our obligations under the Notes.

We have significant debt and debt service requirements and may incur additional debt in the future. As of September 30, 2012, as adjusted to give effect to the Transaction, including the issuance of the Notes and application of the proceeds thereof, we had total long-term debt (including short-term maturities) of NIS 5.9 billion ($1.5 billion equivalent) on a consolidated basis. Of this as adjusted indebtedness, NIS 1.6 billion ($406 million equivalent) represents outstanding indebtedness (other than the Pledged Proceeds Notes) of HOT and its subsidiaries, including the Existing HOT Unsecured Notes. In addition, the Senior Secured Notes Issuer will also have the ability to borrow up to $80 million under the Revolving Credit Facility Agreement, which as of the Completion Date will be undrawn and which the Senior Secured Notes Issuer may on-lend to HOT pursuant to the HOT Refinancing RCF Note. See ''*Description of Other Indebtedness—Revolving Credit Facility Agreement*''.

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 under the Pledged Proceeds Notes and, in turn, the Senior Secured Notes Issuer's obligations under the Senior Notes Proceeds Loan and the Issuers' obligations under the Notes;
- 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 borrowing, particularly due to the financial and other restrictive covenants contained in the agreements governing our debt;
- impeding our ability to compete with other providers of pay television, broadband Internet infrastructure services, fixed-line telephony services and cellular services in Israel;
- 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 brand.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations under the Pledged Proceeds Notes and, in turn, the Senior Secured Notes Issuer's obligations under the Senior Notes Proceeds Loan and the Issuers' obligations under the Notes.

The terms of the Indentures and the Revolving Credit Facility Agreement 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, to finance acquisitions or in

connection with the accession of new Covenant Parties to the Indentures, or to fund the prepayment premiums, if any, on debt we refinance, to fund distributions to our shareholders or for 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 tax 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 businesses 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 is 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 network and in the subscriber equipment and other relevant equipment connected to our network;
- 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 factors 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. 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.

We expect that a significant amount of our cash flow will consist of payments of dividends or interest by Israeli companies. 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 Notes.

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 Indentures, the Revolving Credit Facility Agreement and the trust deeds governing the Existing HOT Unsecured Notes 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 significant exceptions and qualifications, including the ability to pay dividends, make investments or to make significant prepayments of shareholder debt. However, these covenants could limit our ability to 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 Revolving Credit Facility Agreement. The Revolving Credit Facility Agreement and the Existing HOT Unsecured Notes 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 other debt could materially adversely affect our growth, financial condition and results of operations.

Moreover, until such time when all of the Existing HOT Unsecured Notes shall be delisted from trading or be repaid in full, HOT will remain a ''reporting company'' under Israeli law. Reporting companies under Israeli law are subject to extensive disclosure requirements and burdensome corporate governance rules under the Israeli Companies Law, 1999, the Israeli Securities Law, 1968 and the regulations promulgated thereunder, including the provision which requires a reporting company to maintain an independent audit committee, and the approval of the audit committee as a prior condition to any transaction of the reporting company in which the controlling shareholder has a personal interest.

A substantial amount of our indebtedness will mature before the Notes, and we may not be able to repay this indebtedness or refinance this indebtedness at maturity on favorable terms, or at all.

The Existing HOT Unsecured Notes will mature in 2018. See ''*Description of Other Indebtedness—The Existing HOT Unsecured Notes*''. Of the NIS 5.9 billion ($1.5 billion based on the exchange rate as of September 30, 2012) of total borrowings we would have had outstanding as of September 30, 2012, as adjusted to give effect to the Transaction, including the offering of the Notes and the application of the proceeds thereof, NIS 1.6 billion ($406 million based on the exchange rate as of September 30, 2012) of our borrowings, including the Existing HOT Unsecured Notes, will mature prior to the maturity dates of the Notes.

Our ability to refinance our indebtedness, on favorable 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 and the value of the Notes. 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, or seek to raise additional capital.

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

A portion of our debt, including the Existing Series A HOT Unsecured Notes, bears interest at variable rates. 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. In addition, under the terms of our existing interest rate hedging arrangements, our effective interest rates may be higher than actual interest rates, resulting in increased costs. See ''*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk*''. Although we enter into various derivative transactions to manage exposure to movements in interest rates, there can be no assurance that we will be able to continue to do so at a reasonable cost.

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. Our functional currency is the New Israel Shekel. However, we conduct, and will continue to conduct, transactions in currencies other than the New Israeli Shekel, particularly the U.S. dollar. We have U.S. dollar obligations with respect to certain contracts we are party to for the supply of content and equipment. While less than 13% of our costs of operations in the year ended December 31, 2011 were denominated in U.S. dollars, the percentage of our operational costs that are denominated in U.S. dollars may increase in the future. The exchange rate between the U.S. dollar and the New Israeli Shekel has fluctuated significantly in recent years and may continue to fluctuate significantly in the future. See ''*Exchange Rate Information*''. We have historically covered a portion of our U.S. dollar cash outflows arising on anticipated and committed purchases through the use of foreign exchange derivative instruments. Further, while the Issuers expect to manage the risk of certain currency fluctuations in respect of the Notes and we expect to hedge our exposure to interest rate changes in respect of our indebtedness, these arrangements may be costly and may not insulate us completely from such exposure. There can be no guarantee that our or the Issuers' 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 favorable movements in exchange rates or interest rates.

Risks Relating to Our Business, Technology and Competition

The Israeli telecommunications services, including cellular services, industries are highly competitive which could have a material adverse effect on our business.

We face significant competition from established and new competitors who provide television, broadband Internet infrastructure access, ISP, fixed-line telephony and cellular services. In some instances, we compete against companies which may have easier access to financing, more comprehensive product ranges, greater personnel resources, wider geographical coverage for their cellular network, greater brand name recognition and experience or longer established relationships with regulatory authorities and customers. These companies may in some cases have fewer regulatory burdens with which they are required to comply because, among other reasons, they use different technologies to provide their services or do not own their own a fixed-line network. Further because the telecommunications and cellular markets in Israel are reaching saturation, there are a limited number of new subscribers entering the market and therefore we are required to increase our market share by attracting our competitors' existing subscribers.

This competition can make it difficult for us to attract new customers and retain existing customers, thereby increasing our churn levels. Increased competition, tiered offerings that include lower priced entry level products, and special promotions and discounts for customers who subscribe for multiple-play services from us may contribute to increased average revenue per unique customer relationship, but will likely reduce our ARPU on a per-service basis for each of our services included in a multi-play package.

Our largest competitor is Bezeq, the incumbent telecommunications provider in Israel, which offers its residential and business customers a suite of products and services, including pay television under the ''YES'' brand through its associate, D.B.S. Satellite Services (1998) Ltd., that is comparable to those offered by us and is currently the only other company in Israel that owns the underlying network infrastructure for broadband Internet infrastructure access and fixed-line telephony. In addition to competing with Bezeq across our product offerings, part of our cable network runs through ducts and poles owned by Bezeq and we also rely on Bezeq for installation and maintenance services related to such parts of our cable network.

We expect competition to continue to increase amid the changing legislation in Israel and consolidation in the telecommunication industry that permits certain service providers to market a combination of

television, Internet and fixed-line telephony products and services (a ''bundle'') for an aggregate price which is lower than the price of the individual products and services in the bundle. For example, Bezeq offers its fixed-line telephony and broadband Internet infrastructure access on a bundled basis, thereby reducing the cost of subscribing to its individual services, and may in the future be able to bundle such fixed-line services with pay television services provided by YES. In addition, we expect additional competitive pressure to result from the convergence of broadcasting and communication technologies, as a result of which other participants in the Israeli media and telecommunications industries may seek to offer a package of fixed-line and mobile voice, Internet and/or video broadcast services in competition with us. These competitive forces may create further downward pressure on prices, which may result in a decrease of our average revenue per customer relationship. These forces could also increase the rate at which we lose subscribers, and increase the cost of providing content for our pay television subscribers. In addition, we may bear higher costs if we introduce new products or services to maintain or improve our competitive positioning and reduce subscriber churn. In combination with difficult economic environments, these competitive pressures could adversely impact our ability to increase, or in certain cases, maintain our ARPUs, RGUs, operating cash flows and liquidity.

Pay Television. The Israeli television market is characterized by a very high penetration rate and an increasing emphasis on new television technology, in particular digital, HD and interactive television services such as VOD, requiring high-bandwidth and bi-directional distribution platforms. In the multi-channel television market we have only one competitor, D.B.S. Satellite Services (1998) Ltd, an associate of Bezeq, which provides satellite technology based multi-channel television services under the brand ''YES''. Despite the two player multi-channel television market in Israel, various other factors also have an impact on competition in the market, including the availability of free-to-air DTT channels and the increasing availability of video content that may be offered via the Internet by our competitors who provide broadband Internet services. 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 introduction of a ''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. See ''*Regulatory—Access to DTT Channels'' and ''Regulatory—Narrow Package Proposal*''.

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 fiber-to-the-home installations, while time consuming and expensive, would have a negative impact on our competitive position in the broadband Internet infrastructure access market. In addition, we 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. 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. See ''*Regulatory—Broadband Internet Infrastructure and Fixed-line Telephony—Decision Regarding the Creation of a Wholesale Market*''. Competition may also increase following the proposed creation of a public-private joint venture between the government-owned Israeli Electric Corporation (''IEC'') and a private company to be selected in a tender procedure, which, if successful, will use the electric transmission and distribution network in Israel owned by IEC to provide wholesale products to telecommunication services providers, and thus compete with HOT and Bezeq in the wholesale market as well as providing such services directly to large business customers. We expect competition, including price competition, from Bezeq, new startups 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.

Fixed-Line Telephony. Competition in providing fixed-line telephony service is intense, with providers introducing substantial price reductions over the 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. As of September 30, 2012, we held a market share in the Israeli fixed-line telephony services market (measured by number of subscribers) of approximately 20% and the market share of Bezeq was approximately 68%. 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 Ministry of Communications requires the various telephony service providers to provide interconnection access in return for payment of an ''interconnection fee'' set by the Ministry. 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.

Cellular services, including those offering advanced higher speed, higher bandwidth technologies and mobile virtual network operators (''MVNOs''), contribute to the competitive pressures that we face as a fixed-line telephony operator. In the past, Israeli cellular operators have engaged in ''cut the line'' campaigns and used attractive mobile calling tariffs to encourage customers with both fixed-line and cellular services to retain only their cellular services. This substitution, in addition to the increasing use of alternative communications technologies, may negatively affect our fixed-line call usage volumes and subscriber growth. As new competitors and new technologies enter the market and prices decrease in line with the downward pressure on telephony prices experienced elsewhere in Israel, our telephony business may become less profitable and experience a decline in revenues and market share. In addition, we may be forced to respond to such developments by investing resources into our own product development initiatives, which may be costly and ultimately unsuccessful.

Cellular Services. The cellular market in Israel is characterized by saturation and a very high penetration level in excess of 100%, thus the competition will be focused primarily on customers moving from one cellular operator to another. Our cellular service competes with three principal cellular network operators in Israel, who between them are currently estimated to directly represent over 92% of the total market for cellular services in Israel as of September 30, 2012, and with an additional new cellular network operator (as well as several Virtual Network Operators, MVNOs). As such, the brand names of the three principal cellular network operators in Israel are better recognized as cellular service providers than our brand, they have better established sales, marketing and distribution capabilities, and are more experienced in the provision of cellular 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 cellular 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 cellular service providers and that these competing providers are part of larger, more established companies than us. 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 cellular 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 Cellular) technology. VoC services may provide an alternative to traditional cellular 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 cellular 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 might not consider attractive, thus negatively affecting our ability to compete with cellular operators who obtain spectrum for LTE and 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 stand-alone 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 stand-alone 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.

Competition can make it difficult to attract new customers and retain existing customers, thereby increasing churn levels, and may lead to increased price pressure. There can be no assurance that we will be able to compete successfully against our current or future competitors in any of our businesses. Our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

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

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 Arab neighbors and Palestinians. Hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners and political instability within Israel or its neighboring countries are likely to cause our revenues to fall and harm our business. Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on our business, financial condition or results of operations. 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 affect on our financial results.

Some of our officers and employees are currently obligated to perform annual reserve duty. Additionally, 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 conditions should change.

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 cellular spectrum granted to us. Under the Equipment Registration and Mobilization to the Israel Defense Forces Law, 1987, the Israel Defense 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 would thus have a negative impact on our revenue and results of operations.

Moreover, the Prime Minister of Israel may, under powers which 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.

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, which led to change in government in some of these countries (including Egypt), 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.

The Israeli Ministry of Communications and Ministry of Finance may raise the rate of our annual royalty payments with respect to our licenses which 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 cellular license and our international long distance telephony services. See ''*Regulatory*''. Although these royalty payments have decreased in recent years and are to be reduced to zero in January 2013, there is no assurance that the Israeli Ministry of Communications and Ministry of Finance would not reinstate or increase them in the future. If the Israeli Ministry of Communications and the Ministry of Finance increase any of the royalty payments we are required to make pursuant to our licenses, it may have a material effect on our results of operations.

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

The use of Internet, television and fixed-line telephony and cellular services in Israel has increased sharply in recent years making Israel one of the most highly penetrated countries for such services in the world. 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 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.

A weak economy and negative economic development in Israel 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 Israel economy, 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 the economy 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 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 and capital market conditions in the EMEA region, including Israel, 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 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.

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. The ongoing hostilities with the Palestinians, future terrorist attacks against Israel, rumors or threats of war, actual conflicts involving Israel or its allies, or military or trade disruptions affecting us or our customers may adversely affect our 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 infrastructure access, fixed-line telephony and cellular businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. 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 FTTB and FTTLA improvements to our last mile fixed-line network. In addition, we are investing in the expansion of our UMTS cellular network to provide 3G cellular 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. 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 such 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 could 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. 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.

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. In addition, enhanced television, fixed-line telephony, broadband Internet infrastructure access and cellular services provided by competing operators, along with the implementation of a wholesale market policy for broadband Internet infrastructure access by the Israeli Ministry of Communications, 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. See ''—*The Israeli telecommunications services, including cellular services, industries are highly competitive which could have material adverse effects on our business*''. 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 infrastructure access 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 premise equipment. Implementing such upgrades may entail additional costs to us 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 cellular telecommunications transmission equipment and devices, including the location of antennas.

A number of studies have been conducted to examine the health effects of cellular phone use and network sites, and some of these studies have been construed as indicating that radiation from cellular phone use causes adverse health effects. Media reports have suggested that radio frequency emissions from cellular network sites, cellular handsets and other cellular 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, our cellular network sites comply with the International Council on Non-Ionizing Radiation Protection standard, a part of the World Health Organization, which has been adopted by the Israeli Ministry of Environmental Protection.

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 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 cellular telephones. We refer our customers to the precautionary rules that have been recommended by the Ministry of Health, as may be amended from time to time.

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 tumors 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 by 2012.

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

The Ministry of Health published in July 2008 recommendations regarding precautionary measures when using cellular handsets. The Ministry of Health indicated that although the findings of an international study on whether cellular phone usage increases the risk of developing certain tumors were not yet finalized, partial results of several of the studies were published, and a relationship between prolonged cellular phone usage and tumor development was observed in some of these studies. These studies, as well as the precautionary recommendations published by the Ministry of Health, have increased concerns of the Israeli public with regards to the connection between cellular phone exposure and illnesses.

The perception of increased health risks related to cellular network sites may cause us increased difficulty in obtaining leases for new cellular network site locations or renewing leases for existing locations or otherwise in installing cellular 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 cellular 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 favorable roaming arrangements for our cellular services, our services may be less attractive or less profitable.

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 cellular customers within Israel while we build-out our UMTS network and with Vodafone for roaming services outside Israel. However, we cannot control the quality of the service that they 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 cellular network. Some of our competitors may be able to obtain lower roaming 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 roaming 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 cellular network or if they cease to provide services comparable to those we offer on our network. Our agreement with Pelephone is valid until 2014 with an option for us to extend for an additional three years. 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. If we are unable to renew or replace services provided under these agreements through the build-out of our own UMTS network in Israel or through similar agreements with other cellular operators inside or outside of Israel, as applicable, on favorable 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 depends upon our ability to interconnect with the telecommunications networks of fixed-line, cellular and international operators in Israel in order to complete calls between our subscribers and parties on a fixed-line or other cellular telephone network, as well as third parties abroad. All fixed-line telephony, cellular and international operators in Israel are obliged by law to provide interconnection to, and not to discriminate against, any other licensed telecommunications operator in Israel. 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. 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 could have an adverse effect on our business, financial condition or results of operations.

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 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, there can be no assurance that the local content we 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, ''must carry'' requirements that we are currently subject to 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.

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.

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 and fixed-line telephony 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 favorable 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 television services, such as our HOT Magic HD service which combines VOD functionality, HD technology and recording capabilities using a single set-top box, we face potential risks in securing the required customer set-top box equipment to maintain this roll out and we currently rely on a single provider of set-top boxes to provide us equipment that is compatible with the conditional access software and related security features that have been deployed on our cable network. 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 addition, we are dependent on Bezeq, one of our competitors, to provide installation and maintenance services on certain parts of our cable network. 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 in the cellular communications field who we may not be able to replace without incurring significant costs. With respect to our 3G cellular operations, we have engaged Nokia Siemens Israel Ltd. (''Nokia Siemens'') as a turnkey contractor to plan and build the new UMTS network. With respect to our iDEN-based cellular 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 Nokia Siemens or Motorola Solutions may harm our ability to provide our cellular 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 centers. The hardware supporting a large number of critical systems for our cable network and cellular network 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 network. 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 cellular network, 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. Although our cable network is built in resilient rings to ensure the continuity of network availability in the event of any damage to its underground fibers, 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 business is 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. 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 network and the offering 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 insured against war, terrorism (except to a limited extent under our general property insurance) and cyber-risks and do not insure the coaxial portion of our network. Any catastrophe or other damage that affects our network 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 from our network operating center 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 cellular 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 regulations, competitive influences, introduction of new products and technology, deterioration of personal financial circumstances and price increases. In Israel, the regulatory framework prohibits, among other things, cable-based service providers and cellular operators from charging exit fees, except in limited circumstances, to subscribers who wish to terminate their services and cellular operators from selling locked handsets or, as of January 2013 linking the terms of sale of handsets to the terms of cellular services, including discounts and other benefits, which has increased churn rates for many cable-based service providers and cellular 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.

We may pursue acquisitions that, if consummated, may adversely affect our business if we cannot integrate these new operations.

Historically, our business has grown, in part, through selective acquisitions, that enabled us to take advantage of existing networks, service offerings and management expertise. We expect to continue growing our business through acquisitions of businesses that we believe will present opportunities to realize synergies and strengthen our market position, among other perceived benefits. Any acquisition we may undertake in the future could result in the incurrence of debt and contingent liabilities and an increase in interest expense 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 benefits of these acquisitions, if any. 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. We cannot also assure you we will be successful in completing business acquisitions or integrating previously acquired companies.

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 favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with weak economics, could adversely impact our cash flows and liquidity.

Our brand is subject to reputational risks.

HOT is a well-recognized brand in Israel. We have developed our brand through extensive marketing campaigns, website promotions, customer referrals, and the use of a dedicated sales force and dealer networks. Our brand represents a material and valuable asset to us.

Although we try to manage our brand, we cannot guarantee that our brand will not be damaged, notably by circumstances that are outside our control or by third parties (e.g., hackers, sponsorees, or interfaces with its clients, such as subcontractors' employees or sales forces) with a resulting negative impact on our activities.

Our businesses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend.

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 it 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 businesses 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 foreign channels that we carry. Successful challenges to our rights to intellectual property could require us to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently 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 the 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. 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. Billing and revenue generation for our services rely on the proper functioning of our conditional access systems.

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, there can be no assurances that we will be able to successfully eliminate the piracy we currently face. In addition, there can be no assurances 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. Although we take precautions to protect subscriber data in accordance with the applicable Israeli privacy requirements, we may fail to do so and certain subscriber data may be leaked to or otherwise used inappropriately. We work with independent and third-party sales agents, service

providers and call center agents, and although our contracts with these third-parties restrict the use of subscriber data, we can provide no assurances that they will abide by the contractual terms. 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.

We are exposed to, and currently engaged in, a variety of legal proceedings, including several existing and potential class action lawsuits related primarily to our network infrastructure and consumer claims.

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 cellular services, which may result in civil liabilities against us or our officers and directors, and consumer claims regarding, for example, our tariff plans and billing methods, 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 is based on a case-by-case assessment of the risk level, 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.

Often plaintiffs in these proceedings are 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 succeed, we may be forced to pay damages or undertake other actions which could affect our business and results of operations. See ''*Description of our Business—Legal Proceedings*''.

Third parties may claim that we infringe their intellectual property rights.

We are subject to the risk of intellectual property rights claims against us. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. Israeli law relating to intellectual property contains provisions allowing the owner of an intellectual property right to apply the Israeli courts to grant various enforcement measures and other remedies, such as temporary and permanent injunctive relief, a right to confiscate infringing goods and damages. If any of these claims succeed, we may be forced to pay damages or may be required to obtain licenses for the infringing product or service and may incur liabilities or reputational damages as a result thereof. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be forced to stop using or selling the products and services, which could adversely affect our ability to provide certain services and products.

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 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 cellular operator in Israel are subject to regulation and supervision by various regulatory bodies, including local and national authorities. These regulations may increase our administrative and operational expenses and limit our revenues. Our cable television, broadband Internet infrastructure access, ISP, fixed-line and international long distance telephony and cellular businesses may also become subject to increasing risks and regulations. See ''*Regulatory*''.

We are subject to, among other things:

- price regulation for certain services that we provide, specifically analog 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 cellular 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;
- anti-trust law and regulations and specific terms within the anti-trust authority's approval for the Cable Consolidation (as defined below);
- 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 cellular telecommunications industries, including providing licenses to MVNOs and eliminating termination fees that operators can charge, except in limited circumstances, and beginning in January 2013 prohibiting the linkage of the price and terms of handsets to the services or benefits of the cellular 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. For further information see ''*Regulatory—Structural Separation*''.

Changes in applicable law, regulations or government policy (or in the interpretation of existing laws or regulations) could greatly influence our viability and how we operate our business and introduce new products and services. 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 favorable conditions for other operators. We cannot assure you that the provision of our services will not be subject to greater regulation in the future.

We can only operate our business for as long as we have licenses from the Israeli Ministry of Communications. Pending legislation may increase the extent of monitoring and enforcement measures of the Israeli Ministry of Communications.

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 cellular 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 and any cancellation or change in the terms of our licenses may materially affect our business and results of operations. See ''*Description of Our Business—Network*'' and ''*Description of Our Business—Licenses*''.

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 cellular 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, which could have a material adverse effect on our financial condition or results of operations.

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.

We are required to carry certain broadcast and other channels on our cable system that we would not necessarily carry voluntarily. 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; (v) channels from a special license broadcaster and (vi) national news broadcasts (until December 2012) that we deliver to all of our pay television subscribers. See ''*Regulatory—Television—Access to DTT*''. 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 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. See ''*Regulatory—Cellular—Construction of Network Sites—National Zoning Plan 36*''.

We have had difficulties obtaining some of the building and environmental permits required for the erection and operation of our cellular network sites, 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 cellular network. Operating cellular 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 cellular network coverage depends in part on our ability to obtain appropriate sites and approvals to install our cellular network infrastructure, including cellular network sites. The erection and operation of most of these cellular 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 cellular network sites and making modifications to our existing cellular 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 cellular network sites.

Cellular 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 us and our officers and directors, and monetary penalties against us, as well as demolition orders. In the future, we may face additional demolition orders, monetary penalties and criminal charges. 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

cellular network sites and other cellular network infrastructure, this could have an adverse effect on the extent, coverage and capacity of our cellular 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 cellular telephony services, we need to further expand our cellular 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 cellular network coverage and quality requirements contained in our license.

In October 2010, a bill was submitted to amend the Non-Ionizing Radiation Law. Despite ongoing opposition from us and the other cellular operators, which delayed the bill, the bill passed a preliminary reading in the Knesset, the Israeli Parliament, and received the approval of the Ministerial legislative committee. The bill was updated and major restrictions were added, including the prohibition on establishing access devices and the obligation to remove access devices following the expiration of the permit. In addition, access devices would no longer be permitted to be located on a rooftop. As the Knesset has been disbanded, approval of the bill would require the convening of a special session of the Knesset. Otherwise, the bill would have to be resubmitted in the next-elected Knesset. If the bill is approved, it will cause significant damage to the telecommunications coverage in urban areas since we will be required to move hundreds of telecommunication sites to less suitable locations which, as a result, will adversely affect our revenues. In addition, we may need to change the location of our cellular network sites to less suitable locations or to dismantle existing network sites, which may have an adverse effect on the quality and capacity of our cellular network coverage.

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 cellular network sites (where required) have been issued in reliance on the Plan. See ''*Regulatory*''.

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 cellular 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 the certain Israeli cellular 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 cellular telephone operators filed a request to appeal this ruling to the Supreme Court. In May 2008, the 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 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 cellular 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 July 31, 2011 (subsequently extended to January 31, 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. If this exemption is not extended, we will have to seek permits, which could result in substantial delays and costs and as a result, i.e., may be unable to meet our license requirements.

If a definitive court judgment holds that the exemption does not apply to cellular 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 cellular 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 cellular 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 cellular 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 Ministry of Communications and have received from the 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 Ministry of Environmental Protection notified us of a new condition for all of our 3G cellular network site operation permits, according to which we must install in our systems software (provided by the Ministry of Environmental Protection) that continuously monitors and reports the level of power created in real time from the operation of our 3G cellular network sites (the ''Monitoring System''). The Ministry of Environmental Protection refused to provide us with any technical data regarding the Monitoring System and therefore we cannot anticipate the manner of operation of the Monitoring System nor its reliability. 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 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. We are now in an advanced stage in the process of connecting to the monitoring system in coordination with the Ministry of Environmental Protection.

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 Ministry of Environmental Protection. However, implementation of the monitoring software increases the exposure of our company and our 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 Ministry of Environmental Protection may revoke existing permits, which would require us to dismantle existing cellular 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 respect of claims against them.

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 cellular companies as a precondition for obtaining a building permit for new or existing cellular network sites. The National Council has decided that until the Plan is amended to reflect a different indemnification amount, cellular 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 cellular 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 Offering Memorandum, we had approximately 180 indemnification letters outstanding to local planning and building committees although no claims have been filed against us from the force of the letters of indemnity. 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 cellular network sites or to expand our cellular network with the erection of new cellular network sites. The indemnification requirement may also cause us to change the location of our cellular network sites to less suitable locations or to dismantle existing cellular network sites, which may have an adverse effect on the quality and capacity of our cellular 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 cellular network site under the Plan and six months from the construction of a cellular network site. The 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 Israel may be subject to change and there may be changes in 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.

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, there may be adverse tax consequences for 2009. In this regard, HOT has included a reserve in its financial statements. The resolution of any of these 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 Shareholders and Related Parties

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

Our key executives and employees possess substantial knowledge of our business and operations. 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 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 center employees to interface with the major part of our residential customers. Their reliability is key, as is our relationship with employee representatives. None of our employees currently belong to organized unions and works councils, although there can be no assurance that our employees will not form unions in the future. We are currently party to legal proceedings relating to the recognition of a workers' union as a negotiating unit. If the workers' union is successful in its claim, any subsequent strikes, work stoppages and other industrial actions could disrupt our operations, cause reputational or financial harm or make it more difficult to operate our businesses.

The interests of Altice, our parent company, may conflict with our interests or your interests as holders of the Notes.

Altice owns 100% of the voting interests in each of the Senior Notes Issuer and Cool Holding. When business opportunities, or risks and risk allocation arise, the interests of Altice (or other Altice controlled entities) may be different from, or in conflict with, our interests on a stand alone basis. Because we are indirectly controlled by Altice, Altice may allocate certain or all of its risks to us and we cannot assure you that Altice will permit us to pursue certain business opportunities.

In addition, the interests of Altice may conflict with your interests as holders of the Notes. Following consummation of the Transaction, HOT will be wholly controlled by Altice. See ''*Principal Shareholder*''. Altice will be able to appoint a majority of each of Cool Holding's and HOT's board of directors and to determine our corporate strategy, management and policies. In addition, Altice will have control over our decisions to enter into any corporate transaction and will have the ability to prevent any transaction that requires the approval of shareholders regardless of whether holders of the Notes believe that any such transactions are in their own best interests. For example, the shareholders could vote to cause us to incur additional indebtedness, to sell certain material assets or make dividends, in each case, so long as the Notes, Revolving Credit Facility Agreement and Intercreditor Agreement permit. The incurrence of additional indebtedness would increase our debt service obligations and the sale of certain assets could reduce our ability to generate revenues, each of which could adversely affect the holders of the Notes.

Risks Relating to the Notes and the Structure

Each Issuer is a holding company and conducts no business of its own. The Senior Secured Notes Issuer will depend on payments under the Pledged Proceeds Notes to provide it with funds to meet its obligations under the Senior Secured Notes and the Senior Notes Proceeds Loan and the Senior Notes Issuer will depend on payments under the Senior Notes Proceeds Loan to provide it with funds to meet its obligations under the Senior Notes.

Each Issuer has no material business operations, no direct subsidiaries and no employees. Upon completion of the Transaction, the Senior Secured Notes Issuer's only material assets will be the Pledged Proceeds Notes and cash in its bank accounts and the Senior Notes Issuer's only material assets will be the Senior Notes Proceeds Loan, cash in its bank accounts and the shares it holds in the Senior Secured Notes Issuer. As such, the Senior Secured Notes Issuer will be wholly dependent upon payments under the Pledged Proceeds Notes and other payments from members of the Group in order to service its debt obligations under the Senior Secured Notes and the Senior Notes Proceeds Loan, to the extent it does not have cash to meet those obligations, and the Senior Notes Issuer will be wholly dependent upon payments from the Senior Secured Notes Issuer under the Senior Notes Proceeds Loan to service its debt obligations under the Senior Notes. Furthermore, the Indentures governing the Notes prohibit the Issuers from engaging in any activities other than certain limited activities. See ''*Description of Senior Secured Notes—Certain Covenants—Limitations with Respect to Business Activities of the Senior Secured Notes Issuer*'' and ''*Description of Senior Notes—Certain Covenants—Limitations with Respect to Business Activities of the Senior Notes Issuer*''. As such the Issuers will be dependent upon payments under the Pledged Proceeds Notes and other payments from members of the Group and the borrower under the Senior Notes Proceeds Loans, as applicable, in order to service their obligations under the Notes.

Each of Cool Holding and SPV1 is a holding company and conducts no business of its own and will depend on payments from its direct and indirect subsidiaries to provide it with funds to meet its obligations under the Pledged Proceeds Notes; their subsidiaries will be subject to restrictions on making any such payments.

Each of Cool Holding and SPV1 conducts no business operations of its own. Each of Cool Holding and SPV1 has no significant assets other than the shares it holds in HOT.

The ability of any of Cool Holding's and SPV1's direct or indirect subsidiaries to pay dividends or to make other payments or advances to Cool Holding or SPV1 depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject and, in some cases, Cool Holding's and SPV1's receipt of such payments or advances may be subject to onerous tax consequences. HOT is subject to limitations and restrictions in the Existing HOT Unsecured Notes that restrict the sale of assets and the distribution of dividends to shareholders or other interested parties, including Cool Holding and SPV1. See ''*—The granting of the Guarantees and the HOT Refinancing Note Guarantees and security interests under the Collateral by Cool Holding, SPV1 and HOT to secure obligations under the Notes and the HOT Refinancing Note, as applicable, may be considered a ''distribution'' under Israeli law*''.

HOT reported net income of NIS 65 million and NIS 216 million during the nine months ended September 30, 2012 and 2011, respectively, a net income of NIS 341 million, a net income of NIS 106 million and a net income of NIS 85 million for the years ended December 31, 2011, 2010 and 2009, respectively. In light of its historical financial performance, we cannot assure you that it will report net profit in future years, which in light of legal requirements in Israel relating to the distribution of dividends, may impact its ability to make distributions to Cool Holding and in turn impact the ability of the Issuers to make payments of principal and interest on the Notes. Under Israeli laws, a company may only make distributions up to the amount of the greater of (i) its retained earnings and (ii) its cumulative net income over the preceding eight quarters (and provided that it meets the solvency test (as defined under Israeli law), which will be reduced by the amount of distributions already made to the extent not already reflected in, the calculation of distributable profits. As of September 30, 2012, HOT had limited distributable profits.

There can be no assurance that arrangements with Cool Holding's and SPV1's direct and indirect subsidiaries and the funding permitted by the agreements governing existing and future indebtedness of Cool Holding's and SPV1's direct and indirect subsidiaries will provide Cool Holding and SPV1, as applicable, with sufficient dividends, distributions or loans to fund payments under their respective

Guarantees of the Notes or under their respective Pledged Proceeds Notes and, in turn, fund payments by the Issuers under the Notes, when due.

The Dollar Senior Secured Notes, Euro Senior Secured Notes or the Senior Notes may be treated as issued with original issue discount for U.S. federal income tax purposes.

The Dollar Senior Secured Notes, Euro Senior Secured Notes or the Senior Notes may be treated as having been issued with original issue discount for U.S. federal income tax purposes. An obligation generally is treated as having been issued with original issue discount if its stated principal amount exceeds its issue price by at least a defined de minimis amount. If a Note is treated as issued with original issue discount, investors subject to U.S. federal income tax will be subject to tax on that original issue discount as ordinary income as it accrues, in advance of the receipt of cash payments attributable to that income (and in addition to qualified stated interest). See ''*Tax Considerations—Certain U.S. Federal Income Tax Considerations*''.

Certain HOT Refinancing Note Collateral may not be taken as of the Completion Date.

Certain HOT Refinancing Note Collateral that is considered License Assets may not be taken as of the Completion Date. License Assets includes those assets of HOT and the HOT Refinancing Note Guarantors necessary for the provision by the relevant company of services under its license and is likely to be interpreted broadly by the Ministry of Communications. Prior to the receipt of regulatory approval with respect to the granting of security over License Assets, the HOT Refinancing Note will be secured by a pledge over the non-License Assets of HOT (including all of the share capital of Hot Mobile) and of the HOT Refinancing Guarantors, and, following receipt of such regulatory approvals, will be secured by a pledge over substantially all of the assets of HOT (including all of the share capital of Hot Mobile) and of the HOT Refinancing Guarantors but, in each case, excluding licenses issued by the Israeli Ministry of Communications and certain end-user equipment with respect to which we are not permitted to grant a security interest. The granting of pledges over the License Assets and the appointment of the security agent on behalf of the Senior Secured Notes Issuer in respect of such License Assets is subject to the prior receipt of regulatory approval from the Israeli Ministry of Communications which may not be received as of the Completion Date. HOT has submitted an application to the Israeli Ministry of Communications for approval, and has agreed to use commercially reasonable efforts to obtain such approval within 180 days of the Issue Date. While we anticipate that the Israeli Ministry of Communications will grant such approval, there can be no assurance that any such approval will be obtained on a timely basis or at all. If we fail to obtain the approval of the Israeli Ministry of Communications within 180 days of the Issue Date, (x) the HOT Refinancing Note and the HOT Refinancing Note Guarantees will not benefit, and as a result the Senior Secured Notes will not indirectly benefit, from pledges over a substantial portion of HOT's and the HOT Refinancing Note Guarantors' assets and (y) on the date that is 180 days from the Issue Date, the interest rate on each series of the Senior Secured Notes will increase by 100 basis points and the interest rate on the Senior Notes will increase by 100 basis points. See ''*Description of Senior Secured Notes—HOT Proceeds Note Security*'', ''*Description of Senior Secured Notes—General—Interest*'', ''*Description of Senior Notes—General—Interest*'' and —''*The security interests in the Collateral will be granted to the Security Agent rather then directly to the holders of the Notes or the Senior Secured Notes Issuer, as applicable. The ability of the Security Agent to enforce certain Collateral may be restricted by local law*''.

Your right to receive payments under the Senior Secured Notes or the Senior Notes may be structurally or effectively subordinated to the claims of certain existing and future creditors of Cool Holding's subsidiaries that do not guarantee the Senior Secured Notes, the Senior Notes or the HOT Refinancing Note on the Completion Date.

Holders of the Senior Secured Notes will have the indirect benefit of the security granted by HOT and the HOT Refinancing Note Guarantors under the HOT Refinancing Note and the HOT Refinancing Note Guarantees, which will be pledged by the Senior Secured Notes Issuer for the benefit of holders of the Senior Secured Notes. The obligations under the HOT Refinancing Note and the HOT Refinancing Note Guarantees will rank senior in right of payment to all other obligations of HOT and the HOT Refinancing Note Guarantors up to the lesser of the value of the assets securing the HOT Refinancing Note and the amount of obligations outstanding thereunder. To the extent the amounts outstanding under the HOT Refinancing Note exceed the value of the assets securing it, such excess amounts will rank *pari passu* in right of payment with all other senior unsecured obligations of HOT and the HOT Refinancing Note

Guarantors, including the Existing HOT Unsecured Notes and claims of any trade creditors. With respect to amounts in excess of the amount outstanding under the HOT Refinancing Note, the Senior Secured Notes and the Senior Secured Note Guarantees will be structurally subordinated to the obligations of HOT and its subsidiaries, including with respect to the Existing HOT Unsecured Notes and claims of any trade creditors. In addition, the Senior Notes and the Senior Notes Guarantees will be structurally subordinated to the subsidiaries of Cool Holding that do not guarantee the Senior Notes, including HOT and its subsidiaries. The Senior Notes will not benefit from any security interest over the HOT Refinancing Note.

HOT Mobile and its subsidiary will not be guarantors of the HOT Refinancing Note, the Senior Secured Notes, the Senior Notes or the Revolving Credit Facility Agreement and, as a result, the Notes will be structurally subordinated to all obligations, including with respect to claims of trade creditors, of HOT Mobile and its subsidiary, and any other subsidiary of HOT that does not guarantee the HOT Refinancing Note or the Notes.

In the event of an insolvency, liquidation or other reorganization of any of Cool Holding's subsidiaries that are not Guarantors of the Notes, holders of their debt, including the Senior Secured Notes Issuer as lender under the HOT Refinancing Note and the holders of the Existing HOT Unsecured Notes, and their trade creditors will typically be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to Cool Holding or SPV1 as equity holders. See ''*Description of Senior Secured Notes—The Issuer Proceeds Notes''.*

The Senior Note Guarantees will be subordinated to certain of our existing and future senior debt.

Each of the Senior Note Guarantees will be a general senior subordinated obligation of the relevant Senior Notes Guarantor. In addition, no enforcement action with respect to the Senior Note Guarantees (or any future guarantee of the Senior Notes) may be taken unless (subject to certain limited exceptions): (i) there is an acceleration of the Revolving Credit Facility, the Senior Secured Notes or any of our other senior secured debt; (ii) there is a default outstanding under the Senior Notes for a period of 179 days and the agent under the Revolving Credit Facility, the Senior Secured Notes Trustee or the creditor representative for holders of other senior secured debt delivers written notice of such default to the Trustee of the Senior Notes; (iii) an enforcement action has been taken with respect to certain secured liabilities; *provided* that the Senior Notes Trustee and holders of the Senior Notes will be limited to taking the same action; or (iv) with respect to any enforcement action in relation to a particular Senior Notes Guarantor, an insolvency event has occurred with respect to such Senior Notes Guarantor. Please see ''*Description of Other Indebtedness—Intercreditor Agreement*''.

Upon any distribution to the creditors of a Senior Notes Guarantor in liquidation, administration, bankruptcy moratorium of payments, dissolution or other winding up of such Senior Notes Guarantor, the holders of senior debt of such Senior Notes Guarantor that are party to the Intercreditor Agreement will be entitled to be paid in full before any payment may be made with respect to the relevant Senior Note Guarantee. As a result, holders of Senior Notes may receive less, rateably, than the holders of such senior debt of the Senior Notes Guarantors, including the lenders under the Revolving Credit Facility, certain hedging counterparties and holders of the Senior Secured Notes.

Your ability to recover under the Collateral securing the Notes may be limited.

The holders of the Notes will benefit from security interests in the Collateral that secures the applicable series of Notes, which in the case of the Senior Secured Notes, includes the Senior Secured Notes Issuer's rights to the HOT Refinancing Note, which will be secured by the HOT Refinancing Note Collateral.

The Collateral will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be set forth in the documents evidencing the security interests granted over the Collateral. The Initial Purchasers have neither analyzed the effect of, nor participated in any negotiations relating to, such exceptions, defects, encumbrances, liens and other imperfections. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral as well as the ability of the Security Agent to realize or foreclose on such Collateral.

Furthermore, the enforcement and realization of any security interest under the Collateral which is governed by Israeli law will be subject to the supervision of the Israeli courts or the Israeli Office of Execution of Judgements and their practices. Enforcement and realization of security interests in Israel is

subject to certain mandatory principles. The general rule under Israeli law is that any enforcement or realization of a fixed pledge or charge or a floating charge is required to be made in accordance with and subject to a court order, with certain exceptions for collateral deposited with the creditor, collateral with respect to which the law specifies another manner of realization and collateral which consists of rights. See ''—*Rights of Noteholders to enforce, secure and realize their rights under the Collateral may be adversely affected in Israeli insolvency proceedings*''.

Furthermore, enforcement or realization of rights with respect to the pledges of the shares of Cool Holding, SPV1 and HOT is subject to the prior approval of and supervision by the Israeli Ministry of Communications, which may be time consuming and cumbersome.

The value of the Collateral may not be sufficient to satisfy our obligations under the Notes and such Collateral may be reduced or diluted under certain circumstances, which may be time consuming and cumbersome.

In the event of foreclosure on the Collateral, the proceeds from the sale of the Collateral that secures the Senior Secured Notes and/or the Senior Notes may not be sufficient to satisfy our obligations under the Senior Secured Notes or the Senior Notes, as applicable. The value of the Collateral and the amounts to be received upon a sale of such collateral will depend upon many factors, including, among others, the ability to sell the Senior Secured Notes Issuer's, the Senior Notes Issuer's, Cool Holding's, SPV1's or HOT's shares in an ordinary sale and the availability of buyers. In addition, the Collateral may be illiquid and may have no readily ascertainable market value. Although the Senior Secured Notes indirectly benefit from the HOT Refinancing Note Collateral through the assignment of the HOT Refinancing Note, the Senior Secured Notes will not have a direct benefit of the HOT Refinancing Note Collateral and the Security Agent will be unable to enforce over the HOT Refinancing Note Collateral except if an event of default has occurred and is continuing under the HOT Refinancing Note. See ''—*The guarantees of the HOT Refinancing Note and the security interests in the HOT Refinancing Note Collateral will not be granted to the holders of the Notes*''.

In addition, the Senior Notes are secured by the Senior Notes Collateral, which does not include the shares of HOT or any Pledged Proceeds Note.

The Indentures will permit the granting of certain liens other than those in favor of the holders of the Notes on the relevant collateral securing the Notes. To the extent that holders of other secured indebtedness or third parties enjoy such liens, including statutory liens, whether or not permitted by the Indenture or the security documents governing the Collateral, such holders or third parties may have rights and remedies with respect to the Collateral that, if exercised, could reduce the proceeds available to satisfy our obligations under the Notes, to the extent such Notes are secured by such Collateral. Moreover, if the Issuers issue additional Notes under the Indentures, holders of such additional Notes would benefit from the same collateral as the holders of the relevant series of Notes being offered hereby, thereby diluting holders of Notes' ability to benefit from the liens on the Collateral securing their series of Notes.

The Intercreditor Agreement will provide for detailed enforcement mechanisms with respect to the Collateral. Please see ''*Description of Other Indebtedness—Intercreditor Agreement*''.

The security interests in the Collateral will be granted to the Security Agent rather than directly to the holders of the Notes or the Senior Secured Notes Issuer, as applicable. The ability of the Security Agent to enforce certain of the Collateral may be restricted by local law.

The security interests in the Collateral that will secure our obligations under the Notes and the obligations of the Guarantors under the Guarantees will not be granted directly to the holders of the Notes but will be granted only in favor of the Security Agent and the security interests in the Collateral that will secure HOT's obligations under the HOT Refinancing Note and the obligations of the HOT Refinancing Note Guarantors under the HOT Refinancing Note Guarantees will not be granted directly to the Senior Secured Notes Issuer but will be granted in favor of the Security Agent. The Indentures will provide (along with the Intercreditor Agreement) that only the Security Agent has the right to enforce the security documents. As a consequence, holders of a series of Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral, except through the Trustee for such series of Notes, who will (subject to the provisions of the relevant Indenture and the Intercreditor Agreement) provide instructions to the Security Agent in respect of the Collateral securing such series of Notes.

The appointment of a foreign security agent will be recognized under Luxembourg law, (i) to the extent that the designation is valid under the law governing such appointment and (ii) subject to possible restrictions, depending on the type of the security interests. Generally, according to article 2(4) of the Luxembourg Act dated August 5, 2005 concerning financial collateral arrangements, a security (financial collateral) may be provided in favor of a person acting on behalf of the collateral taker, a fiduciary or a trustee in order to secure the claims of third-party beneficiaries, whether present or future, provided that these third-party beneficiaries are determined or may be determined. Without prejudice to their obligations *vis-à-vis* third-party beneficiaries of the security, persons acting on behalf of beneficiaries of the security, the fiduciary or the trustee benefit from the same rights as those of the direct beneficiaries of the security aimed at by such law.

The appointment of Citibank N.A., London Branch as the Security Agent in respect of the License Assets is subject to the approval of the Israeli Ministry of Communications. In the event such consent is not obtained, we will be required to appoint a new security agent to act as security agent in respect of the License Assets that is acceptable to the Israeli Ministry of Communications, which may be an Israeli bank. In the event Citibank N.A., London Branch or another security agent for the License Assets is not approved, we will not be permitted to pledge the Licensed Assets to secure the HOT Refinancing Note and the HOT Refinancing Note Guarantees. Please see ''*—Certain HOT Refinancing Note Collateral will not be taken as of the Completion Date*''.

The security documents governing the granting of the Collateral will be governed by the laws of a number of jurisdictions. Bankruptcy laws could prevent the Security Agent on behalf of the holders of the Notes from repossessing and disposing of the Collateral upon the occurrence of an event of default if a bankruptcy proceeding is commenced by or against the relevant grantor of such Collateral before the Security Agent repossesses and disposes of the Collateral.

The holders of the Senior Secured Notes' ability to recover under the Senior Secured Notes Collateral and the Senior Secured Notes Guarantees may be limited. Before any amounts are available to repay the Senior Secured Notes, lenders under our Revolving Credit Facility Agreement and certain hedge counterparties will have a right to be repaid with the proceeds realized following the enforcement of all or part of the Senior Secured Notes Collateral.

The obligations under the Senior Secured Notes and the Senior Secured Notes Guarantees are secured by security interests over the Senior Secured Notes Collateral which will be granted to secure obligations under the Revolving Credit Facility Agreement and certain hedging arrangements that are entitled to be secured by security interests over the Senior Secured Notes Collateral pursuant to the Intercreditor Agreement. Pursuant to the Intercreditor Agreement, the lenders under our Revolving Credit Facility Agreement and such hedging arrangements will have priority over the holders of the Senior Secured Notes with respect to the proceeds from the enforcement of the Senior Secured Notes Collateral. In addition, the creditors under our Revolving Credit Facility Agreement and such hedging arrangements will have priority over any amounts received from the sale of any assets of the Senior Secured Notes Issuer or a Senior Secured Notes Guarantor pursuant to an insolvency event or certain other distressed disposals of the Senior Secured Notes Collateral pursuant to the provisions on the Intercreditor Agreement. As such, you may not be able to recover on the Senior Secured Notes Collateral if the claims of the lenders under our Revolving Credit Facility Agreement and such hedging obligations are greater than the proceeds realized from any enforcement of the security interests over the Senior Secured Notes Collateral. In addition, the Senior Secured Notes Collateral will also secure certain future indebtedness, including certain hedging obligations, that are permitted to be incurred under the Senior Secured Notes Indenture on a *pari passu* basis, and certain of that indebtedness and those hedging obligations may have similar priority to the proceeds of the enforcement of, or certain distressed disposals of, the Senior Secured Notes Collateral. Any proceeds from an enforcement sale of the Senior Secured Notes Collateral by any creditor will, after all obligations under our Revolving Credit Facility Agreement and such priority hedging obligations have been paid from such recoveries, be applied *pro rata* in repayment of the Senior Secured Notes and other senior indebtedness secured on such Collateral. Subject to certain conditions, any security interest in the Senior Secured Notes Collateral will be automatically released at the time of an enforcement sale of the pledged entity or of the assets or shares of any direct or indirect parent entity of such subsidiary. Following such a sale, the Trustee of the Senior Secured Notes and the holders of the Senior Secured Notes will have no claims in relation to such entity and its direct and indirect subsidiaries under the Senior Secured Notes or any Senior Secured Notes Guarantee. See ''*Description of Other Indebtedness—Intercreditor Agreement*'' for further information.

The claims of the holders of the Senior Notes will be effectively subordinated to the rights of our existing and future secured creditors to the extent of the value of the assets constituting Senior Secured Collateral.

The Senior Notes and the Senior Note Guarantees will be secured by the Senior Notes Collateral, which will be substantially less than the Senior Secured Notes Collateral. The Revolving Credit Facility Agreement, certain hedging obligations, the Senior Secured Notes and the Senior Secured Notes Guarantees will also be secured by a first-ranking pledges over all of the Senior Notes Collateral (other than the share pledge over the shares of the Senior Notes Issuer).

The value of the Senior Secured Notes Collateral and Senior Notes Collateral will not be available to pay the obligations under the Senior Notes until the obligations under the Revolving Credit Facility, certain hedging obligations, the Senior Secured Notes and the Senior Secured Notes Guarantees have been satisfied.

The Senior Notes Indenture will allow us and our subsidiaries to incur a limited amount of secured indebtedness which will be effectively senior to the Senior Notes. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, administration, reorganization, or other insolvency or bankruptcy proceeding, holders of such secured indebtedness will have prior claim to those of our assets that constitute their collateral. In these circumstances, we cannot assure you that there will be sufficient assets to pay amounts due on the Senior Notes. As a result, holders of Senior Notes may receive less, ratably, than holders of other secured indebtedness.

There are circumstances other than repayment or discharge of the Notes under which the Collateral and the Guarantees will be released automatically, without your consent or the consent of the Trustee.

Under various circumstances, the Collateral and the Guarantees will be released automatically, including:

- a sale, transfer or other disposal of such Collateral in a transaction not prohibited by the Indenture;
- with respect to Collateral held by a Guarantor, upon the release of the Guarantor from its Guarantee;
- with respect to Collateral that is capital stock, upon dissolution of the issuer of that capital stock not prohibited by the Indentures; and
- in accordance with the Intercreditor Agreement.

See ''*Description of Senior Secured Notes—The Guarantees*'', ''*Description of Senior Secured Notes—Security*'', ''*Description of Senior Notes—The Guarantees*'' and ''*Description of Senior Notes—The Security*''.

The HOT Refinancing Note Guarantees and the security interests in the HOT Refinancing Note Collateral will not be granted to the holders of the Notes.

The HOT Refinancing Note Guarantees and the security interests in the HOT Refinancing Note Collateral will not be granted to holders of the Senior Secured Notes or the Senior Notes. Instead, such security interests will be granted in favor of the security agent under the HOT Refinancing Note, and the first-ranking pledge over the HOT Refinancing Note will in turn serve as part of the Senior Secured Notes Collateral securing the obligations of the Senior Secured Notes Issuer under the Senior Secured Notes. Holders of the Senior Notes will benefit from any interest in the HOT Refinancing Note. Only the security agent under the HOT Refinancing Note will be able to enforce the security interests in the HOT Refinancing Note Collateral upon the occurrence of an event of default that is continuing under the HOT Refinancing Note. As a result, upon the occurrence of an event of default under the Senior Secured Notes, the Senior Secured Notes Trustee and the holders of the Senior Secured Notes will not have the right to enforce such security interests in the HOT Refinancing Note Collateral and will only have the right to enforce the first-ranking pledge over the HOT Refinancing Note. The holders of the Senior Secured Notes must then rely on the ability of the Senior Secured Notes Issuer to enforce its rights under the HOT Refinancing Note upon an event of default thereunder in order to access the HOT Refinancing Note Collateral. An event of default under the Senior Secured Notes or the Senior Notes will not result in an event of default under the HOT Refinancing Note. Moreover, HOT and the HOT Refinancing Guarantors will not have any liability to the holders of the Notes in an event of default under the Indentures. However, if an event of default occurs and is continuing under the HOT Refinancing Noteholders of the Senior

Secured Notes will indirectly benefit to the extent of such liability of HOT and the HOT Refinancing Note Guarantors to the Senior Secured Notes Issuer as the purchaser of the HOT Refinancing Note. This indirect claim over the HOT Refinancing Note Collateral could delay or make more costly any realization of the HOT Refinancing Note Collateral. Furthermore, because the Indentures and the Notes will be governed by New York law and the HOT Refinancing Note Collateral and the security interest in the HOT Refinancing Note Collateral will be governed by the laws of Israel and England, as applicable, realization may be further delayed by court proceedings in multiple jurisdictions. See ''*Enforcement of Judgements*''.

Although pursuant to the HOT Refinancing Note, HOT will agree and agree to cause each of its subsidiaries to agree to be bound by all of the covenants, stipulations, promises and agreements applicable to HOT and its subsidiaries as ''Restricted Subsidiaries'' set forth in the Indenture, there may be circumstances in which a breach of the covenants under the Senior Secured Notes Indenture does not result in a corresponding breach under the HOT Refinancing Note, for example, if HOT has made its required payments under the HOT Refinancing Note and is otherwise not in default of its obligations thereunder but all of the required payments under the Senior Secured Notes have not been made. In such circumstances, the holders of the Senior Secured Notes would only be entitled to enforce the assignment over the HOT Refinancing Note in accordance with the Intercreditor Agreement, however they would not be entitled to accelerate the HOT Refinancing Note or take enforcement action in respect of the HOT Refinancing Note Collateral or the HOT Refinancing Note Guarantees. In addition, there may be circumstances in which the HOT Refinancing Note is in default and there is not a default outstanding under the Indenture, for example a payment default under the HOT Refinancing Note where there is no payment default under the Indenture. In such circumstances, the holders of the Senior Secured Notes and the other creditors secured by the assignment over the HOT Refinancing Note would not be entitled to take any enforcement action with respect to the HOT Refinancing Note, the HOT Refinancing Note Guarantees or the HOT Refinancing Note Collateral. See ''*Description of other Indebtedness—Pledged Proceeds Loan—HOT Refinancing Note—HOT Refinancing Term Note—Limitation of Liability*''.

The dual nationality of Cool Holding may impact the ability to enforce the pledges over the share capital of Cool Holding.

Cool Holding is an entity which has a registered office in Luxembourg and a registered office in the State of Israel. It is registered with both the Luxembourg Trade and Companies Register and the Israeli Registrar of Companies and according to its articles of association its principal place of management and control is Luxembourg. Cool Holding is therefore subject to both Luxembourg laws and Israeli laws and is deemed to have a dual nationality.

The dual nationality of Cool Holding may impact the ability to enforce the pledges over the share capital of Cool Holding depending on whether enforcement will be sought under the Luxembourg law pledges or under the Israeli law pledges, as enforcement formalities and requirements under these laws may differ.

Likewise, there may be limited recognition by a Luxembourg court or an Israeli court respectively of an enforcement of the pledges of the share capital of Cool Holding when performed in the respective other jurisdiction, because each court will consider that in accordance with its own international private law rules, the pledges should have been enforced in its own jurisdiction and in accordance with its own governing laws, rather than those of the other jurisdiction. Furthermore, due to the dual nationality of Cool Holding, there may be an uncertainty as to which of the Luxembourg or the Israeli law pledges it is appropriate to enforce at the time of enforcement.

The granting of the Guarantees and the HOT Refinancing Note Guarantees and security interests under the Collateral by Cool Holding, SPV1 and HOT to secure obligations under the Notes and the HOT Refinancing Note, as applicable, may be considered a ''distribution'' under Israeli law.

The granting of the Guarantees and the HOT Refinancing Note Guarantees and security interests under the Collateral to secure obligations under the Notes and the HOT Refinancing Note, as applicable, to the extent that no valuable consideration has been paid against the granting of the Guarantees, the HOT Refinancing Note Guarantees or the security interests in the Collateral, as applicable, may be considered as a ''distribution'' under Israeli law, and accordingly will be subject to Cool Holding, SPV1 or HOT, as applicable, being able to meet all of its obligations when they become due (the ''Solvency Test'') and certain distributable reserves criteria, as set by Israeli law. See ''*Limitation on Validity and*

Enforceability of the Guarantees and the Security Interests—Israel—Limitation on Distributions and Fiduciary Duties''. Cool Holding, SPV1 or HOT may apply to a competent Israeli court to approve a distribution notwithstanding its non-compliance with the distributable reserves criteria if it complies with the Solvency Test. However, approval of distributions by an order of a court is subject to objections that may be raised by other creditors whose interests may be jeopardized by the distribution.

We may not be able to obtain enough funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control (as defined in the Indentures) as required by the Indentures.

We may not be able to obtain enough funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control (as defined in the Indentures) as required by the Indentures.

Upon the occurrence of certain events constituting a change of control, each Issuer is required to offer to repurchase all outstanding Senior Secured Notes or Senior Notes, as applicable, at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. If a change of control were to occur, we cannot assure you that the Issuers would have sufficient funds available at such time to pay the purchase price of the outstanding Notes or that the restrictions in our credit facilities or other then existing contractual obligations of us or the Issuers would allow the Issuers to make such required repurchases. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The Issuers' ability to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. Further, an event of default under the Indentures may not result in a change of control as defined under the HOT Refinancing Note. Therefore, although the Issuers would be required to make an offer to repurchase the Notes, HOT may not be required to make an offer to repurchase the HOT Refinancing Note from the Senior Secured Notes Issuer and, as a result, the Issuers may not have sufficient funds available to them to repurchase the Notes required. If an event constituting a change of control (as defined in the Indentures) occurs at a time when the Issuers are prohibited from repurchasing Notes or we are restricted from satisfying our obligations under the Pledged Proceeds Notes or the Senior Secured Notes Issuer is prohibited from satisfying its obligations under the Senior Notes Proceeds Loan we may seek the consent of the lenders under such indebtedness to the purchase of Notes or may attempt to refinance the borrowings that contain such prohibition. If we do not obtain such consent or repay such borrowings, the Issuers will remain prohibited from repurchasing any tendered Notes. In addition, we expect that we would require third party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure you that we would be able to obtain such financing. Any failure by the Issuers to offer to purchase Notes would constitute a default under the Indentures, which could, in turn, constitute a default under other agreements governing our debt. See ''*Description of Senior Secured Notes—Certain Covenants—Change of Control*'' and ''*Description of Senior Notes—Certain Covenants—Change of Control*''.

The change of control provisions contained in the Indentures may not necessarily afford you protection in the event of certain important corporate events, including reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a ''change of control'' as defined in the Indentures. Except as described under ''Description of Senior Secured Notes—Certain Covenants—Change of Control'' and ''Description of Senior Notes—Certain Covenants—Change of Control'', the Indentures do not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of ''change of control'' contained in the Indentures includes a disposition of all or substantially all of the assets of the Covenant Parties (as defined in ''Description of Senior Secured Notes'' and ''Description of Senior Notes'') and their restricted subsidiaries taken as whole to any person. Although there is a limited body of case law interpreting the phrase ''all or substantially all'', there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of ''all or substantially all'' of the assets of the Covenant Party and their restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuers, are required to make an offer to repurchase the Notes.

Additional parties may be brought into our Group and any anticipated cost savings and operational synergies may not materialize.

A significant part of the Altice value optimization strategy is establishing a Group corporate structure that minimizes financing costs and maximizes cost savings and operational synergies. Altice expects to make targeted, value-enhancing additions of existing Altice portfolio companies, as well as any portfolio companies Altice may acquire in the future, to the Group. Altice expects this corporate structure to create significant opportunities to reduce operating costs by eliminating duplicative overhead and leveraging supplier relationships and combined purchasing power of the Group to reduce capital and operating expenses. In addition, Altice expects to reduce Group financing costs by meeting Group debt financing needs through capital markets and other financing transactions entered into by the Issuers. The portfolio companies added to the Group will become parties to the Indenture and will be subject to the restrictive covenants contained therein. See ''*Description of Senior Secured Notes—Certain Definitions—Covenant Parties*'' and ''*Description of Senior Notes—Certain Definitions—Covenant Parties*''. However, there can be no assurance that bringing additional companies into the Group will be successful in minimizing financing costs or maximizing cost savings and operational synergies of the Group.

The Issuers cannot assure you that an active trading market will develop for the Senior Secured Notes or the Senior Notes, in which case your ability to sell the Senior Secured Notes or the Senior Notes will be limited.

The Notes will be new securities for which there is no market. The Issuers cannot assure you as to:

- the liquidity of any market that may develop for the Senior Secured Notes or the Senior Notes;
- your ability to sell your Senior Secured Notes or the Senior Notes; or
- the prices at which you would be able to sell your Senior Secured Notes or the Senior Notes.

Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Senior Secured Notes, regardless of our prospects and financial performance. The Initial Purchasers of the Notes have advised the Issuers that they currently intend to make a market in the Notes. However, the Initial Purchasers are not obliged to do so, and they may discontinue any market making activities at any time without notice. As a result, there is no assurance that an active trading market will develop for the Notes. If no active trading market develops, you may not be able to resell your Notes at a fair value, if at all.

Although the Issuers will, in the Indentures, agree to use commercially reasonable efforts to have the Notes listed and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange within a reasonable period after the issue date of the Notes and to maintain such listing as long as the Notes are outstanding, the Issuers cannot assure you that the Notes will become or remain listed. If the Issuers are unable or can no longer maintain the listing on the Luxembourg Stock Exchange or it becomes unduly burdensome to make or maintain such listing (for the avoidance of doubt, preparation of financial statements in accordance with IFRS or any other accounting standard other than the accounting standard pursuant to which the Issuers prepare their financial statements shall be deemed unduly burdensome), the Issuers may cease to make or maintain such listing on the Luxembourg Stock Exchange, provided that they will use reasonable best efforts to obtain and maintain the listing of the Notes on another stock exchange although there can be no assurance that the Issuers will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Luxembourg Stock Exchange or another recognized listing exchange for high yield issuers in accordance with the Indenture, failure to be approved for listing or the delisting of the Notes from the Luxembourg Stock Exchange or another listing exchange in accordance with the Indentures may have a material adverse effect on a holder's ability to resell Notes in the secondary market.

Credit ratings may not reflect all risks.

The credit ratings assigned to the Notes are an assessment by the relevant rating agencies of each Issuer's ability to pay its debts when due, which is, in respect of payment obligations under the Notes,

dependent upon the ability of the obligors under the Pledged Proceeds Notes to pay their debts when due. Consequently, real or anticipated changes in our or the Notes' credit ratings may generally affect the market value of the Notes. Ratings may not reflect the potential impact of all risks relating to structure, market, additional factors discussed in this Offering Memorandum, and other factors may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. An explanation of the significance of such rating may be obtained from the applicable rating agency. There is no assurance that such credit ratings will be issued or remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the applicable rating agency's judgment, circumstances so warrant. It is also possible that such ratings may be lowered in connection with the application of the proceeds of this offering or in connection with future events, such as future acquisitions. Holders of Notes will have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Notes.

Luxembourg insolvency laws may not be as favorable as insolvency laws in other jurisdictions.

The insolvency laws of Luxembourg may not be as favorable to holders of Notes as insolvency laws of jurisdictions with which investors may be familiar. The Issuers are incorporated and have their center of main interests in Luxembourg. Accordingly, insolvency proceedings with respect to the Issuers may proceed under, and be governed by, Luxembourg insolvency laws. The following is a brief description of certain aspects of insolvency laws in Luxembourg. Under Luxembourg insolvency laws, the following types of proceedings (together referred to as insolvency proceedings) may be opened against the Issuers to the extent that the Issuers have their registered office or center of main interest in Luxembourg:

- bankruptcy proceedings (*faillite*), the opening of which may be requested by the Issuer, by any of its creditors or by the Luxembourg public prosecutor. Following such a request, the courts having jurisdiction may open bankruptcy proceedings, if an Issuer (a) is in default of payment (*cessation de paiements*) and (b) has lost its commercial creditworthiness (*ébranlement de crédit*). If a court considers that these conditions are met, it may open bankruptcy proceedings, absent a request made by an Issuer or a creditor. The main effect of such proceedings is the suspension of all measures of enforcement against such Issuer except, subject to certain limited exceptions, for secured creditors, and the payment of creditors in accordance with their rank upon the realization of assets;
- controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by an Issuer and not by its creditors; and
- composition proceedings (*concordat préventif de la faillite*), the opening of which may only be requested by the Issuers (having received prior consent of a majority of its creditors) and not by its creditors. The court's decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by unsecured creditors.

In addition to these proceedings, the ability of the holders of Notes to receive payment on the Notes may be affected by a decision of a court to grant a reprieve from payments (*sursis de paiements*) or to put the Issuers into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious violation of the commercial code or of the Luxembourg law dated August 10, 1915 on commercial companies, as amended. The management of such liquidation proceedings will generally follow similar rules as those applicable to bankruptcy proceedings.

The Issuers' liabilities in respect of the Notes will, in the event of a liquidation of the Issuers following bankruptcy or judicial liquidation proceedings, rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those of the concerned Issuers' debts that are entitled to priority under Luxembourg law. Preferential debts under Luxembourg law for instance include, among others:

- certain amounts owed to the Luxembourg Revenue;
- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured creditors (except after enforcement and to the extent a surplus is realized).

During insolvency proceedings, all enforcement measures by unsecured creditors are suspended. The ability of secured creditors to enforce their security interest may also be limited in the event of controlled management proceedings automatically causing the rights of secured creditors to be frozen until a final decision has been taken by the court as to the petition for controlled management, and may be affected thereafter by a reorganization order given by the court. A reorganization order requires the prior approval by more than 50% of the creditors representing more than 50% of the Issuers' liabilities in order to take effect.

The Luxembourg act dated August 5, 2005 concerning financial collateral arrangements, as amended (the ''Collateral Act 2005'') expressly provides that all financial collateral arrangements (including pledges) including enforcement measures are valid and enforceable even if entered into during the pre-bankruptcy period, against all third parties including supervisors, receivers, liquidators and any other similar persons or bodies irrespective of any bankruptcy, liquidation or other situation, national or foreign, of composition with creditors or reorganization affecting anyone of the parties, save in the case of fraud.

Generally, Luxembourg insolvency laws may also affect transactions entered into or payments made by the Issuers during the pre-bankruptcy hardening period (*période suspecte*) which is a maximum of six months and the days preceding the judgment declaring bankruptcy, except that in certain specific situations the court may set the start of the suspect period at an earlier date. In particular:

- pursuant to article 445 of the Luxembourg code of commerce, some specific transactions (in particular, the granting of a security interest for antecedent debts, save in respect of financial collateral arrangements within the meaning of the Collateral Act 2005; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to article 446 of the Luxembourg code of commerce payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt's cessation of payments;
- pursuant to article 21 (2) of the Collateral Act 2005 concerning financial collateral arrangements, notwithstanding the suspect period as referred to in articles 445 and 446 of the Luxembourg code of commerce, where a financial collateral arrangement has been entered into on the date of the commencement of a reorganization measure or winding-up proceedings, but after the opening of liquidation proceedings or the coming into force of reorganization measures or the entry into force of such measures, that agreement is enforceable and binding against third parties, administrators, insolvency receivers, liquidators and other similar organs if the collateral taker proves that it ignored the fact that such proceedings had been opened or that such measures had been taken or that it could not reasonably be aware of it; and
- pursuant to article 448 of the Luxembourg code of commerce and article 1167 of the civil code (*action paulienne*) gives the insolvency receiver (acting on behalf of the creditors) has the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts except for intuitu personae contracts, that is, contracts for which the identity of the company or its solvency were crucial. The contracts, therefore, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts. However, as of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-á-vis the bankruptcy estate. The bankruptcy order provides for a period of time during which creditors must file their claims with the clerk's office of the Luxembourg district court sitting in commercial matters. After having converted all available assets of the company into cash and after having determined all the company's liabilities, the insolvency receiver will distribute the proceeds of the sale, on a pro rata basis, to the creditors after deduction of the receiver fees and the bankruptcy administration costs.

Rights of Noteholders to enforce, secure and realize their rights under the Collateral and the rights of the Senior Secured Notes Issuer to enforce remedies under the HOT Refinancing Note and enforce, secure and realize its rights under the HOT Refinancing Note Collateral may be adversely affected in Israeli insolvency proceedings.

The ability of the Noteholders to enforce, secure and realize their rights under the Collateral and the ability of the Senior Secured Notes Issuer to enforce remedies under the HOT Refinancing Note and enforce, secure and realize its rights under the HOT Refinancing Note Collateral, may be delayed, restricted, subordinated, completely terminated or otherwise adversely affected in any insolvency proceedings conducted under Israeli jurisdiction or subject to Israeli law. Israeli insolvency law generally favors the continuation of a business over immediate payment of creditors. The following factors, among others, may adversely affect rights of secured creditors generally and in insolvency proceedings particularly:

- *Fraudulent conveyance principles and other similar laws affecting creditors' rights and remedies generally and by application by a competent court of equitable principles*. Under Israeli law, any transfer of asset or creation of a security interest by a debtor may be declared not enforceable in liquidation, reorganization or composition proceedings of the debtor if, generally, the following conditions are met: (a) the debtor is deemed insolvent (as defined in and construed under Israeli law principles) at the time of the conveyance; (b) the conveyance is effected in the three months prior to the commencement of the liquidation or reorganization proceedings; and (c) the conveyance is made by the debtor with the intention of fraudulently preferring a certain creditor or as a result of illegal coercion or persuasion by the creditor. A specific fraudulent conveyance rule applies to security interests created under a floating charge. Under Israeli law, a floating charge created during the six months prior to the start of the liquidation, reorganization or composition proceedings, may be construed as invalid as to the indebtedness secured thereunder and not advanced by the creditor holding the floating charge at the creation of the pledge or immediately thereafter (together with interest at the rate set by law), unless sufficient proof exists to support the fact that the debtor was solvent immediately following the creation of the floating charge.
- *The issuance of a liquidation order by a court of competent authority in respect of a company results in a stay of proceedings*. Upon the issuance of the liquidation order, creditors of a company are prohibited from taking any action against the company or its assets to secure or realize their rights, and any such proceedings not completed are stayed. However, the liquidation order does not prevent creditors holding a secured interest from enforcing and realizing their collateral or to otherwise use it in a different manner (although the enforcement process may be procedurally limited in a certain manner). Notwithstanding the foregoing, a court of competent authority may order a moratorium on proceedings against a company for a period of up to nine months (and may extend that period for additional three month periods (without limitation as to the aggregate time frame), for special reasons) if the court is convinced that the moratorium may contribute to the formation of a compromise or arrangement between the company, its shareholders and its creditors. Secured creditors are restricted from enforcing their collateral during the moratorium period, unless the court is convinced that either (i) no adequate protection exists to safeguard the secured creditors' rights or (ii) enforcement of the secured creditor's rights will not jeopardize the ability of the company to duly form and approve the arrangement or compromise so contemplated.
- *Claims and rights of creditors of a company in insolvency proceedings may abate in whole or in part due to insufficient funds and assets of the company in insolvency*. Generally, the distribution of assets in insolvency proceedings is governed by two core principles: the principle of absolute superiority, according to which creditors of a certain class, who rank higher in priority to other creditors, will be permitted to satisfy their interests in full prior to creditors of a different class, who rank lower in priority, and the principle of absolute equality, according to which creditors of the same class will have a pro rata right to secure and satisfy their interest with other creditors of the same class. Generally, subject to certain exceptions, creditors holding a fixed pledge or charge rank higher in priority to shareholders and other unsecured creditors of a company and may, subject to the limitations described above, proceed in enforcing their security interest without interference. Such creditors are entitled to use the proceeds received in connection with the realization of their security interest to satisfy their entire claim but will be treated as unsecured creditors with respect to any portion of their claim not entirely satisfied by the proceeds so received if such proceeds are insufficient to repay their entire interest. Creditors holding a fixed pledge or charge may, however, be subordinated to (i) certain creditors statutorily preferred under Israeli law (e.g., tax authorities

holding a tax lien in respect of taxes owed and not paid on real estate property of the company); (ii) certain creditors holding a statutory lien; and (iii) creditors holding a fixed pledge or charge over specific assets which were acquired or received by the company using debt advanced by such creditors (''Purchase Money Creditors'').

The powers of the court under Israeli insolvency laws have been exercised broadly to protect a restructuring entity from actions taken by creditors and other parties and to approve various payments to be made by the restructuring entity and various arrangements with specific creditors or classes of creditors. Accordingly, following commencement of or during such proceeding, we cannot predict if payments under the Notes would be made, whether or when the Noteholders, the Trustee or the Security Agent could exercise their respective rights under the Indenture and the documents governing the Collateral or whether and to what extent Noteholders would be compensated for any delays in payment, if any, of principal, interest and cost, including the fees and disbursements of the Trustee.

Furthermore, based on an amendment to the Israeli Companies Law which will become effective in January 2013, the following additional factors may adversely affect rights of secured creditors:

- without approval of creditors, a company will be permitted to use an asset which subject to a charge, including selling the asset free of liens (in the ordinary course of business with either the agreement of the creditor or court approval, and not in the ordinary course of business if approved by the court) if necessary for the reorganization of the company. The secured creditor must have ''adequate protection'', either from the proceeds of the sale or an asset acquired to replace the asset subject to the disposition. If the asset which is subject to a security interest is sold, the proceeds of sale or any replacement asset which can be identified or traced will be subject to a corresponding security interest in favor of the secured creditor.
- without approval of creditors, the company will be able to raise new financing for the continued operations of the company subject to a stay order issued by a court. This new financing is treated as an expense of the reorganization, and is therefore given priority over other liabilities of the company. In such a financing, the company may create a charge in favor of the lenders that would have priority to the existing security interests if the court believes it necessary for the company to raise the funds. The court would need to be satisfied that there is ''adequate protection'' for the existing secured creditors notwithstanding the creation of the new security interest. See ''*Limitation on Validity and Enforceability of Guarantees and Security Interests—Israel*''.

Similarly, in the event that rehabilitation or restructuring is not sought or does not succeed, the rights of the Noteholders and the Trustee to enforce remedies are likely to be sufficiently impaired by bankruptcy, receivership or other liquidation proceedings under applicable Israeli laws such as the Bankruptcy Ordinance [New Version]—1980 and the Companies Ordinance [New Version]—1983, if the benefit of such laws is sought.

Each Issuer is incorporated under and subject to Luxembourg law.

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

Insolvency proceedings may be brought against an Issuer and such proceedings may proceed under, and be governed by, Luxembourg insolvency laws (see ''—*Luxembourg insolvency laws may not be as favorable as insolvency laws in other jurisdictions*'').

Corporate benefit and financial assistance laws and other limitations on the obligations under the Guarantees and the HOT Refinancing Note Guarantees may adversely affect the validity and enforceability of the Guarantees and the HOT Refinancing Note Guarantees.

The Guarantees provide the holders of the Notes, and the HOT Refinancing Note Guarantees indirectly provide the holders of the Senior Secured Notes, with a right of recourse against the assets of the relevant Guarantors and, with respect to the Senior Secured Notes, indirectly against the relevant HOT Refinancing Note Guarantors. Each of the Guarantees and the HOT Refinancing Note Guarantees and the amounts recoverable thereunder will be limited to the maximum amount that can be guaranteed by a particular Guarantor or HOT Refinancing Note Guarantor, as applicable, without rendering its Guarantee or HOT Refinancing Note Guarantee, as applicable, as it relates to that Guarantor or HOT Refinancing

Note Guarantor, as applicable, voidable or otherwise ineffective under applicable law. In addition, the granting of Guarantees or HOT Refinancing Note Guarantees may be considered a ''distribution'' under Israeli law. See ''*Limitation on Validity and Enforceability of the Guarantees and the Security Interests—Israel—Limitation on Distributions and Fiduciary Duties*''. Enforcement of the obligations under the Notes against the Issuers or the Guarantors and enforcement of a HOT Refinancing Note Guarantee against a HOT Refinancing Note Guarantor will be subject to certain defenses available to the Issuers or the relevant Guarantor or HOT Refinancing Note Guarantor, as the case may be. These laws and defenses may include those that relate to fraudulent conveyance, financial assistance, corporate benefit and regulations or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, an Issuer, a Guarantor, or a HOT Refinancing Note Guarantor may have no liability or decreased liability under the Notes or its Guarantee or HOT Refinancing Note Guarantee, as applicable, may be unenforceable.

Employee benefit plan considerations.

Each acquirer or transferee of a Note or any interest therein will be deemed to have represented, warranted and agreed that (1) either (a) it is not, and is not acting on behalf of (and for so long as such acquirer or transferee holds such Notes or any interest therein will not be, and will not be acting on behalf of), a Benefit Plan Investor (as defined under ''Transfer Restrictions'') or a governmental, church or non-U.S. plan which is subject to any Similar Laws (as defined under ''Transfer Restrictions''), and no part of the assets used by it to acquire or hold the Note or any interest herein constitutes the assets of any Benefit Plan Investor or such a governmental, church, or non-U.S. plan, or (b) its acquisition, holding and disposition of such Notes does not and will not constitute or otherwise result in a non-exempt prohibited transaction under the U.S. Employee Retirement Income Security Act of 1974, as amended (''ERISA''), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the ''Code'') (or, in the case of a governmental, church or non-U.S. plan, a non-exempt violation of any Similar Laws); and (2) neither the Issuers nor any of their affiliates is a ''fiduciary'' (within the meaning of Section 3(21) of ERISA or, with respect to a governmental, church or non-U.S. plan, any definition of ''fiduciary'' under Similar Laws) (a ''Fiduciary'') with respect to the purchaser or holder in connection with any purchase or holding of the Notes, or as a result of any exercise by the Issuers or any of their affiliates of any rights in connection with the Notes, and no advice provided by the Issuers or any of their affiliates has formed a primary basis for any investment decision by or on behalf of the purchaser and holder in connection with the Notes and the transactions contemplated with respect to the Notes; and (3) it will not sell or otherwise transfer any Note or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Note.

See ''*Certain Employee Benefit Plan Considerations*'' herein for a more detailed discussion of certain ERISA and related considerations with respect to an investment in the Notes.

Transfers of the Notes are restricted, which may adversely affect the value of the Notes.

The Notes are being offered and sold pursuant to an exemption from registration under the U.S. Securities Act and applicable state securities laws of the United States. The Notes 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 Notes in the United States 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 Notes for an indefinite period of time. The Notes and the Indentures governing the Notes contain provisions that restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S under the U.S. Securities Act, or other exemptions under the U.S. Securities Act. In addition, by acceptance of delivery of any Notes, the holder thereof agrees on its own behalf and on behalf of any investor accounts for which it has purchased the Notes that it shall not transfer the Notes in an aggregate principal amount of less than $200,000 with respect to the Dollar Senior Secured Notes and the Senior Notes and €100,000 with respect to the Euro Senior Secured Notes. Furthermore, the Issuers have not registered the Notes under any other country's securities laws. It is your obligation to ensure that your offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See ''*Transfer Restrictions*''.

You may be unable to recover in civil proceedings for U.S. securities laws violations.

The Issuers are organized under the laws of Luxembourg and do not have any assets in the United States. It is anticipated that some or all of the directors and executive officers of the Issuers will be non-residents of the United States 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 United States upon the Issuers or their directors and executive officers, or to enforce any judgments obtained in U.S. courts predicated upon civil liability provisions of the U.S. securities laws. In addition, the Issuers cannot assure you that civil liabilities predicated upon the federal securities laws of the United States will be enforceable in Luxembourg. See ''*Enforcement of Judgments*''.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Owners of the book-entry interests will not be considered owners or holders of the Notes unless and until Notes in registered definitive form (''Definitive Notes'') are issued in exchange for book-entry interests. Instead, the custodian for DTC (or its nominee) will be the sole holder of the global notes representing the Dollar Senior Secured Notes and the Senior Notes and the common depository for Euroclear and Clearstream (or its nominee) will be the sole holder of the global notes representing the Euro Senior Secured Notes.

Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made to the paying agent, which will make payments to DTC Euroclear and/or Clearstream as applicable. Thereafter, such payments will be credited to DTC Euroclear and/or Clearstream as applicable participants' accounts that hold book entry interests in the Notes in global form and credited by such participants to indirect participants. After payment to DTC Euroclear and/or Clearstream as applicable, none of us, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments of interest, principal or other amounts to DTC Euroclear and/or Clearstream as applicable, or to owners of book-entry interests.

Owners of book-entry interests will not have the direct right to act upon our solicitations for consents or requests for waivers or other actions from holders of the Notes, including enforcement of security for the Notes. Instead, if you own a book-entry interest, you will be reliant on the common depositary (as registered holder of the Notes) to act on your instructions and/or will be permitted to act directly only to the extent you have received appropriate proxies to do so from DTC Euroclear and/or Clearstream as applicable, or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions or to take any other action on a timely basis. See ''*Book-Entry, Delivery and Form*''.

Risks Relating to the Transaction

The Transaction is subject to significant uncertainties and risks.

On November 5, 2012, Cool Holding entered into the Minority Shareholder Agreements to, among other things, purchase shares through SPV1, representing approximately 11% of the outstanding shares of HOT from the Minority Shareholders on the Completion Date. On September 28, 2012, SPV1 and SPV2, wholly owned subsidiaries of Cool Holding, entered into a merger agreement with HOT, which has been approved by HOT's board of directors, audit committee, a committee of independent directors and HOT's disinterested shareholders, pursuant to which SPV2 will merge with and into HOT, such that following the merger, SPV1 will acquire all of the remaining outstanding shares of HOT. As a result of these transactions, upon completion, Cool Holding will own directly or indirectly all of the outstanding shares of HOT. See ''*The Transaction*''.

The consummation of the Take-Private Transaction pursuant to the merger agreement is subject to the conditions as set out therein. The Take-Private Transaction and the Refinancings are also subject to litigation risk that is customary for transactions of this type and may be challenged by HOT's shareholders or creditors notwithstanding that we have received shareholder approval, which may result in a delay or prevent us from closing or require us to pay significant amounts to claimants. For more information about alleged claims related to the Transactions, see ''*Description of Our Business—Legal Proceedings*''. Completion of the Take-Private Transaction is one of the conditions to release of the proceeds from the offering of the Senior Secured Notes from escrow. If the Take-Private Transaction and the Refinancings are not consummated for any reason prior to the Long-Stop Date or certain other

events that trigger escrow termination occur, and, as a result, the proceeds from the sale of the Notes to be held in escrow are not released, the Issuers will be required to redeem the Notes pursuant to the terms of the special mandatory redemption, and you may not obtain the investment return you expect on the Notes. In the event of a special mandatory redemption of the Notes, Altice has committed to fund any amounts deducted from the gross proceeds of the offering of the Notes hereby with respect to fees and expenses, as well as the accrued and unpaid interest, and additional amounts, if any, owing to the holders of the Notes. However, there can be no assurance that interest and additional amounts, if any, accrued while the proceeds remain in escrow will be paid in a timely fashion, if at all. See ''*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*'' and ''*Description of Senior Notes—Escrow of Proceeds; Special Mandatory Redemption*''.

If the conditions to the escrow release are not satisfied, the Issuers will be required to redeem the Notes, which means that you may not obtain the return you expect on the Notes.

The gross proceeds from the offering will be held in escrow pending the satisfaction of certain conditions, some of which are outside of our control. If any of these conditions is not satisfied, the escrow will not be released. Accordingly, there can be no assurance that the escrow will be released. Upon delivery to the escrow agents of an officer's certificate stating that the conditions to the escrow are satisfied, the escrowed funds will be released to the relevant Issuer and utilized as described in ''*Use of Proceeds*''.

Prior to the satisfaction of the conditions to release of the escrow proceeds, the gross proceeds of the offering of the Notes will be held in escrow accounts on behalf of the holders of the Notes. If the Take-Private Transaction does not occur by Long Stop Date or in the event of certain other events that trigger escrow termination occur, the Notes will be subject to a special mandatory redemption and you may not obtain the return you expect to receive on the Notes. See ''*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*'' and ''*Description of Senior Notes—Escrow of Proceeds; Special Mandatory Redemption*''.

The escrow funds will be limited to the gross proceeds of the offering of the Notes and will not be sufficient to pay the special mandatory redemption price, which is equal to 100% of the initial issue price of each of the Notes plus accrued and unpaid interest and additional amounts, if any, from the Issue Date to the date of the special mandatory redemption. On the Issue Date, Altice will enter into a guarantee agreement pursuant to which it will guarantee the Issuers' obligations under the Senior Secured Notes and the Senior Notes in the event the purchase price payable on a special mandatory redemption of the Senior Secured Notes or the Senior Notes, as applicable, exceeds the proceeds in the relevant escrow account. Altice has arranged committed financing in respect of the interest that will accrue on the Notes to the date of the special mandatory redemption and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it.

Your decision to invest in the Notes is made at the time of purchase. Changes in our business or financial condition, or the terms of the Transaction or the financing thereof, between the closing of this offering and the Completion Date, will have no effect on your rights as a purchaser of the Notes.

HOT is not currently our wholly owned subsidiary and will not be our wholly owned subsidiary until completion of the Take-Private Transaction.

HOT is not currently wholly owned by us. We will not obtain the remaining shares of HOT that we do not currently own until completion of the Transaction. We cannot assure you that during the interim period HOT's business will be operated in the same way that we would operate it. The information contained in this Offering Memorandum has been derived from public sources and, in the case of historical information relating to HOT, has been provided to us by HOT, and we have relied on such information supplied to us in its preparation. Further, the Transaction has required, and will likely continue to require, substantial amounts of certain of our management's time and focus, which could potentially affect their ability to operate the business.

In addition, prior to the Completion Date, HOT will not be subject to the covenants described in ''Description of Senior Secured Notes'' and ''Description of Senior Notes'' to be included in the Indentures. As such, we cannot assure you that, prior to such date, HOT will not take an action that would otherwise have been prohibited by the Indenture had those covenants been applicable.

In the event that the Minority Shareholders or certain senior management exercise their options to purchase shares of HOT, such shares will not be pledged to secure the Senior Secured Notes or the Revolving Credit Facility Agreement.

Upon the consummation of the Take-Private Transaction, Cool Holding and SPV1 will own 100% of the outstanding shares of HOT. Pursuant to the Minority Shareholder Agreements, among other things, the Minority Shareholders will hold the right to acquire approximately 11% of the outstanding shares of HOT from Cool Holding pursuant to the Minority Shareholder Call Option. In the event that the Minority Shareholders exercise their rights to acquire shares of HOT, such shares will be released from the pledges that secure the Senior Secured Notes and the Revolving Credit Facility. In addition, certain senior management hold options to acquire shares of HOT (the ''Management Options'') representing, in aggregate, approximately 4.3% of the outstanding shares of HOT. Pursuant to the Merger Agreement, the Management Options to purchase an aggregate of approximately 3.2% of the outstanding shares of HOT will expire if not exercised within 90 days of the delisting from the Tel Aviv Stock Exchange of the shares of HOT and if exercised will be purchased by SPV1 at NIS 42 per share. In the event the remaining Management Options, representing an aggregate of approximately 1.1% of the outstanding share capital of HOT are exercised, the shares purchased thereby will be released from the pledges securing the Senior Secured Notes and the Revolving Credit Facility. See ''*The Transaction*'' and ''*Management and Governance—Management Options*''.

The terms of the Minority Shareholder Agreements grant certain minority rights to the Minority Shareholders that potentially limit Cool Holding's ability to take certain actions with respect to HOT and its shares of HOT, which could adversely affect the financial condition and results of operations of Cool Holding and HOT as well as the value of the Collateral.

Pursuant to the Minority Shareholder Agreements, the Minority Shareholders were granted certain minority rights for so long as the Minority Shareholder Call Option is outstanding including restrictions on a change of control of HOT and material changes to the business of HOT. If the Minority Shareholders exercise the Minority Shareholder Call Option, they will receive additional minority rights including tag along rights with respect to any sale of HOT shares by Cool Holding; preemptive rights with respect to issuance of HOT shares; restrictions on HOT's ability to effect transactions outside of the ordinary course of business (including a transaction resulting in the sale by HOT of a material asset); subject to certain exceptions, restrictions on entering into transactions with any shareholder, director or officer of HOT or any affiliate thereof; restrictions on the incurrence of any material indebtedness; and, subject to certain exceptions, the right to force HOT to re-register and list its shares on the Tel Aviv Stock Exchange. In addition, as a matter of Israeli law, the existence of minority shareholders could limit the ability of Cool Holding or the board of directors of HOT to take actions with respect to the shares of HOT or the business of HOT which they would otherwise have been able to take if there were no minority shareholders of HOT.

The Minority Shareholders have confirmed that these minority rights do not prohibit the granting and enforcement of certain pledges and other security interests in connection with the Transaction, the Minority Shareholder Agreements, and the rights granted thereunder, and will remain in place following any enforcement of the share pledges over HOT or Cool Holding.

The Minority Shareholders may exercise their minority rights and determine not to consent to certain actions or transactions or, under Israeli law, Cool Holding or HOT may not be permitted to enter into actions or transactions that Cool Holding may determine to be in its or HOT's best interests, which could adversely affect the financial condition and results of operations of Cool Holding and/or HOT and, thereby, the value of the Collateral. Furthermore, the mere existence of these minority rights, coupled with the fact that Cool Holding would hold less than 100% of the outstanding shares of HOT if the Minority Shareholder Call Option is exercised, may cause the value of the shares of HOT owned by Cool Holding to be lower than the value that such shares would otherwise have had Cool Holding owned 100% of the shares of HOT without any other parties having rights to purchase shares of HOT.

THE TRANSACTION

As of the date of this Offering Memorandum, Cool Holding owns approximately 69% of the outstanding shares of HOT. On November 5, 2012, Cool Holding entered into agreements with the Minority Shareholders (as defined below) of HOT (the ''Minority Shareholder Agreements'') pursuant to which, among other things, SPV1 will purchase shares representing approximately 11% of the outstanding shares of HOT from the Minority Shareholders at a purchase price of NIS 41 per share (the ''Selling Shareholders Transaction'') on the Completion Date (as defined below). On September 28, 2012, SPV1 and SPV2, wholly-owned subsidiaries of Cool Holding, entered into a merger agreement (the ''Merger Agreement'') with HOT, which has been approved by HOT's board of directors, audit committee, a committee of independent directors and HOT's disinterested shareholders, pursuant to which SPV2 will merge with and into HOT, such that following the merger, SPV1 will acquire all of the remaining outstanding shares of HOT not owned by Cool Holding or the Minority Shareholders at a purchase price of NIS 42 per share. As a result of these transactions, Cool Holding will own directly or indirectly all of the outstanding shares of HOT (collectively, the ''Take-Private Transaction''). Following the consummation of the Take-Private Transaction, HOT's shares will be delisted from trading but the Existing HOT Unsecured Notes will continue to trade on the Tel Aviv Stock Exchange and HOT will continue to comply with the reporting and certain corporate governance requirements applicable to private companies with notes listed on the Tel Aviv Stock Exchange. The consummation of the Take-Private Transaction is subject to approval by the Israeli Ministry of Communications, the Israeli Cable & Satellite Council and certain lenders to HOT, all of which have been received, and certain other customary conditions precedent contained in the Merger Agreement and must be completed by March 31, 2013 (the ''Long-Stop Date''). In addition, the Merger Agreement provides that certain Management Options (as defined in ''Management and Governance'') will expire if not exercised within 90 days of the delisting and, if exercised prior to the cancellation thereof, the HOT shares issued upon such exercise will be purchased by SPV1 at the same price that SPV1 will pay to acquire shares of HOT in connection with the Take-Private Transaction.

Pending the consummation of the Take-Private Transaction and the Refinancings, the Initial Purchasers will deposit the gross proceeds from the offering of the Senior Secured Notes hereby into segregated escrow accounts for the benefit of the holders of the relevant Senior Secured Notes and will deposit the gross proceeds from the offering of the Senior Notes hereby into an escrow account for the benefit of the holders of the Senior Notes. The escrow accounts for the Senior Secured Notes will be controlled by and subject to security on a first-ranking basis in favor of the Trustee on behalf of the holders of the relevant Senior Secured Notes and the escrow account for the Senior Notes will be controlled by and subject to security on a first-ranking basis in favor of the Trustee on behalf of the holders of the Senior Notes. The release of the escrow proceeds is subject to delivery by the Issuers of officer's certificates to the Escrow Agent certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon the release of escrow proceeds (the ''Completion Date''). If the Take-Private Transaction and the Refinancings are not completed by the Long-Stop Date or upon the occurrence of certain other events, the Notes will be subject to a special mandatory redemption. The special mandatory redemption price will be a price equal to 100% of the initial issue price of each Note plus accrued and unpaid interest and additional amounts, if any, from the Issue Date to the date of the special mandatory redemption. In the event of a special mandatory redemption. On the Issue Date, Altice will enter into a guarantee agreement pursuant to which it will guarantee the Issuers' obligations under the Senior Secured Notes and the Senior Notes in the event the purchase price payable on a special mandatory redemption of the Senior Secured Notes or the Senior Notes, as applicable, exceeds the proceeds in the relevant escrow account. Altice has arranged committed financing in respect of the interest that will accrue on the Notes to the date of the special mandatory redemption and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it. See ''*Plan of Distribution—Other Relationships*''. See ''*Description of Senior Secured Notes—Escrow of Proceeds; Special Mandatory Redemption*''. See ''*Description of Senior Notes—Escrow of Proceeds; Special Mandatory Redemption*''.

Upon release of the proceeds from escrow, the Senior Notes Issuer will use the proceeds of the offering of Senior Notes to make the Senior Notes Proceeds Loan and the Senior Secured Notes Issuer will, in turn, use the amounts borrowed under the Senior Notes Proceeds Loan and the proceeds of the offering of Senior Secured Notes (i) to purchase an intercompany note (the ''Cool Proceeds Note'') issued by Cool Holding, the proceeds of which will be used by Cool Holding to repay all amounts outstanding

under the Cool Loan plus any repayment premiums and accrued and unpaid interest and fees thereon and to repay all amounts outstanding under the Cool Interest Loan plus any expenses and fees thereon (the ''Cool Refinancing''), (ii) to purchase an intercompany note (the ''HOT Refinancing Term Note'') issued by HOT, the proceeds of which will be used by HOT to repay all amounts outstanding, plus accrued and unpaid interest and fees thereon, under the Existing HOT Loans (the ''HOT Refinancing'' and, together with the Cool Refinancing, the ''Refinancings''), (iii) to purchase an intercompany note (the ''Acquisition Note'', and together with the Cool Proceeds Note and the HOT Refinancing Note (as defined below), the ''Pledged Proceeds Notes'') issued by SPV1, the proceeds of which will be used by SPV1 to purchase the remaining outstanding shares of HOT not owned by Cool Holding in order to consummate the Take-Private Transaction (iv) to pay certain fees and expenses incurred in connection with the Transaction and (v) for general corporate purposes, including payment of interest under the Notes (if required). For a description of the Pledged Proceeds Notes, see ''*Description of Other Indebtedness—Pledged Proceeds Notes''*.

In connection with the Take-Private Transaction, the Senior Secured Notes Issuer entered into a Revolving Credit Facility Agreement in the amount of $80 million and will enter into a revolving credit facility note (the ''HOT Refinancing RCF Note'' and together with the HOT Refinancing Term Note, the ''HOT Refinancing Note'') pursuant to which the Senior Secured Notes Issuer will make available to HOT amounts borrowed under the Revolving Credit Facility. For a description of the Revolving Credit Facility Agreement and the HOT Refinancing RCF Note, see ''*Description of Other Indebtedness—Revolving Credit Facility Agreement*'' and ''*Description of Other Indebtedness—HOT Refinancing Note—HOT Refinancing RCF Note*''.

The offering of the Notes hereby, the entry into the Revolving Credit Facility, the Refinancings, the issuing of the Pledged Proceeds Notes and the Cool Interest Loan the making of the Senior Notes Proceeds Loan and the Take-Private Transaction are collectively referred to herein as the ''Transaction''. For a description of certain risks related to the Transaction, see ''*Risk Factors—Risks Related to the Transaction*''.

Minority Shareholder Agreements

In October 2010, Cool Holding entered into separate agreements with Yedioth Communications Ltd. (''Yedioth'') and companies from the Fishman Group (collectively, ''Fishman'' and, together with Yedioth, the ''Minority Shareholders''), pursuant to which (i) Cool Holding acquired 4,565,493 shares of HOT from Fishman in March 2011 and 10,012,003 shares of HOT from Yedioth in November 2011 and (ii) Cool Holding agreed that, until the date that is three years from each such acquisition date, Cool Holding would not take any action which would cause HOT to became a private company or for its shares to be delisted from the Tel Aviv Stock Exchange, without receiving the consent of each Minority Shareholder (the ''Take-Private Consent Right'').

On November 5, 2012, Cool Holding entered into separate agreements (each a ''Minority Shareholder Agreement'') with the Minority Shareholders, pursuant to which (i) Cool Holding agreed to acquire directly or through one of its subsidiaries from each of the Minority Shareholders all of their respective shares in HOT, representing approximately 11% of the outstanding shares of HOT (the ''Minority Shareholder Shares''), in consideration for a payment of NIS 41 per share, (ii) each of the Minority Shareholders agreed to waive its Take-Private Consent Right and (iii) as additional consideration for the waiver of the Take-Private Consent Right, Cool Holding granted each Minority Shareholder the right to purchase the Minority Shareholder Shares from Cool Holding or one of its subsidiaries (the ''Minority Shareholder Call Option'') at a price per share equal to NIS 48 (the ''Call Consideration'') during the 24-month period commencing on the first anniversary of the Take-Private Transaction. The Minority Shareholder Call Option may be exercised by the relevant Minority Shareholder in up to three transactions, each of which shall cover at least 30% of the shares sold by such Minority Shareholder to Cool Holding or one of its subsidiaries in the Take-Private Transaction. See ''*Description of Senior Secured Notes—Redemption with Minority Shareholder Option Proceeds*'' and ''*Description of Senior Notes—Redemption with Minority Shareholder Option Proceeds*''.

The Minority Shareholder Agreements contain anti-dilution rights and consent rights with respect to changes in business prior to the exercise of the Minority Shareholder Call Option and certain minority shareholder rights, which will become applicable if the Minority Shareholder Call Option is exercised after the Take-Private Transaction, including tag along rights with respect to any sale of HOT shares by Cool Holding; preemptive rights with respect to issuance of HOT shares; restrictions on HOT's ability to

effect transactions outside of the ordinary course of business (including a transaction resulting in the sale by HOT of a material asset); subject to certain exceptions, restrictions on entering into transactions with any shareholder, director or officer of HOT or any affiliate thereof; restrictions on the incurrence of any material indebtedness; and, subject to certain exceptions, the right to require HOT to re-register and list its shares on the Tel Aviv Stock Exchange. In addition, Cool Holding has certain drag-along rights with respect to the shares sold to the Minority Shareholders upon the exercise of the Minority Shareholder Call Option.

In the event of an enforcement over the shares of HOT or Cool Holding, the Minority Shareholder Agreements and the rights and obligations thereunder will continue to apply.

USE OF PROCEEDS

The gross proceeds from the sale of the Notes will be deposited in escrow accounts in the name of the Trustee on behalf of the holders of the Senior Secured Notes or Senior Notes, as applicable, pending delivery of officer's certificates to the Escrow Agent certifying, among other things, that the Take-Private Transaction and the Refinancings will be consummated, in each case, promptly upon release of the escrow proceeds. Upon release from escrow, the Senior Notes Issuer will use the proceeds of the offering of the Senior Notes to make the Senior Notes Proceeds Loan to the Senior Secured Notes Issuer and the Senior Secured Notes Issuer will, in turn, use the amounts borrowed under the Senior Notes Proceeds Loan and the proceeds of the offering of the Senior Secured Notes to (i) purchase the Acquisition Note issued by SPV1, (ii) purchase the Cool Proceeds Note issued by Cool Holding, (iii) purchase the HOT Refinancing Note issued by HOT, (iv) to pay certain fees and expenses incurred in connection with the Transaction and (v) for general corporate purposes including payment of interest under the Notes (if required). The proceeds of the Notes will be used as described below. The net proceeds of the offering of the Notes upon release from escrow will be $1,055 million.

Sources and Uses for the Transaction

The expected estimated sources and uses of the funds necessary to consummate the Transaction assuming the Transaction closes on December 27, 2012 are shown in the table below. Actual amounts will vary from the estimated amounts depending on several factors, including differences from our estimates of fees and expenses and the actual fees and expenses as of the Completion Date. Convenience translations are provided based on the exchange rate as of September 30, 2012 of $0.255 = NIS1.00

Sources of Funds	$ in millions	NIS in millions	Uses of Funds	$ in millions	NIS in millions
Senior Secured Notes offered hereby[1]	709.3	2,781.7	Purchase Price[2]	241.5	947.2
Senior Notes offered hereby	400.0	1,568.6	Repayment of Existing HOT Loans[3]	484.6	1,900.2
			Repayment of Cool Debt[3][4]	224.2	879.2
			Total Transaction Costs[5]	54.3	213.0
			Cash[5]	104.7	410.7
Total Sources	**1,109.3**	**4,350.4**	**Total Uses**	**1,109.3**	**4,350.4**

(1) Represents (i) the issuance of $450 million aggregate principal amount of Dollar Senior Secured Notes offered hereby and (ii) €200 million aggregate principal amount of Euro Senior Secured Notes offered hereby based on the exchange rate as of December 7, 2012 of €0.771 = $1.00.

(2) The purchase price represents the total aggregate consideration paid to the shareholders of HOT (other than Cool Holding) pursuant to the Take-Private Transaction.

(3) Assumes the Transaction closes on December 27, 2012.

(4) Cool Debt represents the amounts outstanding under the Cool Loan, net of cash at Cool Holding of NIS 65 million, plus repayment premiums and accrued and repaid interest and fees thereon and the amount outstanding under the Cool Interest Loan, plus fees and expenses thereon. Cool Holdings was required to make a scheduled amortization and interest payment under the Cool Loan on November 28, 2012. Cool Holding funded that payment with the proceeds of the issuance of the Cool Interest Loan to Altice. The Cool Interest Loan will be repaid on the Completion Date with a portion of the proceeds of the offering of the Notes.

(5) This amount reflects our estimate of the fees and expenses we will pay in connection with the Transaction, including commitment, placement, financial advisory and other transaction costs and professional fees including an advisory fee to be paid to Altice in connection with the Transaction. This amount may differ from the estimated amount depending on several factors, including changes in exchange rates from September 30, 2012 to the Completion Date.

(6) The remaining proceeds will be used by the Senior Secured Notes Issuer to pay interest due under the Senior Secured Notes (if required) and the Senior Notes Proceeds Loan (if required) and, in turn, by the Senior Notes Issuer to pay interest due under the Senior Notes (if required); and for general corporate purposes. Any differences in the estimates set forth above and the actual payments made will be reflected in an increase or decrease in cash.

CAPITALIZATION

The following table presents, in each case, the cash and cash equivalents and capitalization as of September 30, 2012 of the Group (i) on a historical combined basis and (ii) on an as adjusted combined basis after giving effect to the Transaction, including the offering of the Notes hereby and the application of the proceeds therefrom and the Refinancings. The as adjusted amounts are estimates and may not accurately reflect the amounts outstanding upon the Completion Date. This table should be read in conjunction with ''*Use of Proceeds*'', ''*Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT*'', ''*Description of Other Indebtedness*'' and the financial statements and notes thereto included elsewhere in this Offering Memorandum.

The impact of any derivative instruments that we may enter into to manage foreign currency risk associated with the Notes has not been reflected in the as adjusted data presented in the table. Except as set forth in the footnotes to this table, there have not been material changes to our capitalization since September 30, 2012.

	September 30, 2012	
	Actual	**As Adjusted**
	NIS in millions	
Cash and Cash Equivalents		
HOT and its subsidiaries	7	7
Cool Holding[1]	65	—
Senior Secured Notes Issuer	—	411
Total Cash and Cash Equivalents	72	418
Third-party Debt:		
Third-party senior debt		
Existing HOT Loans[2]	1,656	—
Existing HOT Unsecured Notes[3]	1,456	1,456
Finance leases	138	138
Senior Secured Notes offered hereby[4]	—	2,782
Revolving Credit Facility[5]	—	—
Total third-party senior debt (excluding other liabilities)[6]	3,250	4,376
Senior Notes offered hereby[4]	—	1,569
Cool Loan	845	—
Total Third-party Debt (excluding other liabilities)[6]	4,095	5,944
Shareholder Loan	1,202	1,202
Total Shareholders Equity (including minority)	1,688	1,688
Total Capitalization	6,985	8,834

(1) Actual cash is restricted cash pledged for the benefit of the lenders under the Cool Loan. As adjusted cash will not be restricted following consummation of the Transaction.

(2) The amount reflected above is reduced by capitalized debt issuance costs of NIS 12.6 million.

(3) The amount reflected above is reduced by capitalized debt issuance costs of NIS 11.7 million.

(4) Reflects the issuance of the Senior Notes offered hereby, the proceeds of which will be, upon release from the escrow account, loaned by the Senior Notes Issuer to the Senior Secured Notes Issuer pursuant to the Senior Notes Proceeds Loan, and the issuance of the Senior Secured Notes offered hereby, the proceeds of which will be, upon release from the escrow accounts, along with amounts borrowed under the Senior Notes Proceeds Loan, used by the Senior Secured Notes Issuer to purchase the Acquisition Note, the Cool Proceeds Note and the HOT Refinancing Note from Cool Holding, SPV1 and HOT, respectively, pay certain fees and expenses incurred in connection with the Transaction and for general corporate purposes. See ''*The Transaction*'' and ''*Use of Proceeds*''. The amount is based on the exchange rate as of December 7, 2012 of €0.771 = $1.00 and the exchange rate as of September 30, 2012 of $0.255 = NIS 1.00.

(5) The Revolving Credit Facility will not be drawn to consummate the Transaction. However, the Senior Secured Notes Issuer may draw on the Revolving Credit Facility on or after the Completion Date to support our working capital purposes.

(6) Excludes other long-term and short-term liabilities, other than finance leases, of the Group. Other long-term and short-term liabilities include, among other things, our obligations to the State of Israel related to our Cellular License and our ownership of the cable network, contingent consideration on behalf of the HOT Mobile acquisition, trade payables, other payables, provision for lawsuits, accrued severance liability, and deferred tax liability. See ''*Description of our Business—Material Contracts*'' and ''*Certain Relationships and Related Party Transactions—HOT Mobile Earnout*'' and note 16 to the financial statements of Cool Holding for the year ended December 31, 2011 included elsewhere in this Offering Memorandum.

UNAUDITED PRO FORMA FINANCIAL AND OPERATING DATA OF HOT

The following unaudited pro forma condensed consolidated statements of comprehensive income for the year ended December 31, 2011 and for the nine and three months periods ended September 30, 2011 presents the combined pro forma financial statements of HOT and HOT Mobile and gives effect to the acquisition by HOT of HOT Mobile as if such acquisition had occurred on January 1, 2011, but does not give pro forma effect to the Transaction. These financial statements have not been audited.

These unaudited pro forma results do not purport to be indicative of the financial position and results of operations that HOT will obtain in the future, or that HOT would have obtained if the acquisition of HOT Mobile was effective as of the dates indicated above. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable. These unaudited pro forma condensed financial statements of HOT include historical consolidated financial statement information prepared in accordance with Israeli IFRS and with the provisions of the Israeli Securities Regulation (Annual Financial Statements) 2010, that has been derived from, and should be read in conjunction with, the audited financial statements of HOT Mobile as of and for the year ended December 30, 2010, the audited consolidated financial statements of HOT as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011 and the unaudited interim consolidated financial statements of HOT as of and for the nine and three months ended September 30, 2012, included elsewhere herein.

Pro Forma consolidated statements of comprehensive income for the nine months ended September 30, 2011 (hereinafter—the period)

	Note for the pro forma adjustments	Actual results for the period after reclassification	Hot Mobile actual results for the period (2b(2)(a))	Pro forma adjustments	Pro forma combined consolidated statement of comprehensive income for the period
			Unaudited NIS in Millions		
Revenues	2b(1)	2,482	693	(3)	3,172
Depreciation and amortization	2b(2)(b), 3	609	143	18	770
Operating expenses	2b(1)	1,184	369	(3)	1,550
Sales and marketing expenses	2b(2)(b), 3	165	79	(8)	236
Administrative and general expenses	2b(2)(e)	89	61	(9)	141
Other (income) expenses, net and network set up expenses		16	11	—	27
Operating income		419	30	(1)	448
Financing income		19	8	—	27
Financing expenses related the acquisition	2b(2)(c)	—	—	(20)	(20)
Financing expenses		(178)	(23)	1	(200)
Income before taxes on income		260	15	(20)	255
Taxes on income	2b(2)(d), 3	44	10	—	54
Net income		216	5	(20)	201
Other comprehensive loss (after tax effect):					
Loss on available for sale financial asset		(33)	—	—	(33)
Total other comprehensive loss		(33)	—	—	(33)
Total comprehensive income		183	5	(20)	168

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma consolidated statements of comprehensive income for the three months ended September 30, 2011 (hereinafter—the period)

	Note for the pro forma adjustments	Actual results for the period after reclassification	Hot Mobile actual results for the period (2b(2)(a))	Pro forma adjustments	Pro forma combined consolidated statement of comprehensive income for the period
			Unaudited NIS in Millions		
Revenues	2b(1)	836	217	(1)	1,052
Depreciation and amortization	2b(2)(b), 3	209	45	6	260
Operating expenses	2b(1)	402	121	(1)	522
Sales and marketing expenses	2b(2)(b), 3	63	21	(3)	81
Administrative and general expenses	2b(2)(e)	31	17	(3)	45
Other (income) expenses, net and network set up expenses		20	8	—	28
Operating income		111	5	—	116
Financing income		31	6	—	37
Financing expenses related to the acquisition	2b(2)(c)	—	—	(7)	(7)
Financing expenses		(60)	(6)	—	(66)
Income before taxes on income		82	5	(7)	80
Taxes on income	2b(2)(d), 3	24	4	—	28
Net income		58	1	(7)	52
Other comprehensive loss (after tax effect):					
Loss on available for sale financial asset		(14)	—	—	(14)
Total other comprehensive loss		(14)	—	—	(14)
Total comprehensive income		44	1	(7)	38

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma consolidated statements of comprehensive income for the year ended December 31, 2011 (hereinafter—the period)

	Note for the pro forma adjustments	Actual results for the period after reclassification	Hot Mobile actual results for the period (2b(2)(a))	Pro forma adjustments	Pro forma combined consolidated statement of comprehensive income for the period
			Unaudited NIS in Millions		
Revenues	2b(1)	3,374	833	(4)	4,203
Depreciation and amortization	2b(2)(b), 3	844	186	20	1,050
Operating expenses	2b(1)	1,621	460	(4)	2,077
Sales and marketing expenses	2b(2)(b), 3	242	94	(10)	326
Administrative and general expenses	2b(2)(e)	130	85	(11)	204
Other (income) expenses, net and network set up expenses		(103)	16	—	(87)
Operating income		640	(8)	1	633
Financing income		31	12	—	43
Financing expenses related to the acquisition	2b(2)(c)	—	—	(26)	(26)
Financing expenses		(230)	(34)	3	(261)
Income before taxes on income		441	(30)	(22)	389
Taxes on income	2b(2)(d), 3	100	3	1	104
Net income		341	(33)	(23)	285
Other comprehensive loss (after tax effect):					
Loss on available for sale financial asset		(36)	—	—	(36)
Total other comprehensive loss		(36)	—	—	(36)
Total comprehensive income		305	(33)	(23)	249

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Notes to Pro Forma Consolidated Financial Statements

NOTE 1:—GENERAL

The following unaudited pro forma condensed consolidated statements of comprehensive income (pro forma financial statements) for the year ended December 31, 2011 and for the nine and three months periods ended September 30, 2011 presents the combined pro forma financial statements of HOT (the ''Company'') and Hot Mobile Ltd.(hereinafter—Hot Mobile).

The unaudited pro forma financial statements for the year ended December 31, 2011 and for the nine and three months periods ended September 30, 2011 reflects the transaction as if it had occurred on January 1, 2011. The pro forma financial statements should be read in conjunction with the consolidated financial statements of the company as of December 31, 2011.

The significant accounting policies adopted in the preparation of the pro forma consolidated financial statements are consistent with those followed in the preparation of the interim financial statements of the Company for December 31, 2011 and for September 30, 2011.

NOTE 2:—THE PRO FORMA EVENT AND THE PRO FORMA ASSUMPTIONS

a. The pro forma event:

On November 28, 2011 the acquisition of the entire rights in Hot mobile from Altice Securities S.A.r.l (hereinafter—''Altice''), a company that is controlled by Altice VII S.A.r.l., which is the ultimate parent company of the Company and unrelated party (hereinafter—''Migad'') was completed by the Company, which includes: (1) 33,000,000 ordinary shares of par value NIS 1.00 each in Hot mobile, constituting 100% of Hot mobile's issued and paid up share capital; (2) shareholders' loans in an amount of NIS 69 million, which has been made available to Hot mobile by Altice and Migad; as well as (3) a capital note in an amount of NIS 200 million, which had been issued to Hot mobile by Altice and Migad. The total consideration for the business combination amounted to up to NIS 1.2 billion.

As from the date of the completion of the transaction, the Company has been consolidating Hot Mobile financial statements.

The Company has recognized the fair value of Hot Mobile's assets acquired and the fair value of liabilities assumed in the business combination. The fair value had been determined by management with the assistance of an independent valuation firm.

Consideration

The total consideration for the acquisition of Hot Mobile has been calculated in accordance with the value of Hot Mobile shares which evaluated approximately to NIS 1.2 billion, which is based on the cash paid and the fair value of the contingent consideration, as detailed below:

1. An amount of NIS 750 million before a deduction in the amount of net debt assumed as defined in the purchase agreement (as of June 30, 2011—an amount of NIS 264 million), which was paid at the transaction completion date.
2. Additional contingent consideration, in an amount of NIS 450 million, which is subject to future performance, as detailed below:
    a) Contingent future payment based on the Company's and Hot Mobile's consolidated EBITDA targets—an amount of up to NIS 225 million is to be paid in four equal payments of NIS 56.25 million each, which are conditional upon achieving EBITDA targets in accordance with the consolidated financial statements of the Company (including Hot Mobile) for the years 2013 to 2016 inclusive, as defined in the agreement.
    b) Contingent future payment based on Hot Mobile's market share—an amount of up to NIS 225 million is to be paid conditional upon increasing Hot Mobile's ''market share'', as defined in Hot Mobile's license, up to the end of the year 2016 at a rate of 7% of the overall Israeli market, and this over and above its existing market share.

The fair value of the total consideration for Hot Mobile was determined in amount of NIS 826 million. See also Note 3g of the interim consolidated financial statement as of September 30, 2012 in relation to the update of the contingent liability amount.

b. The assumption used in the preparation of the pro forma consolidated financial statements:

1. Consolidation adjustments:

   Transactions between the Company and Hot Mobile have been eliminated in the pro-forma consolidated financial statements.

2. Pro-forma consolidated statements of comprehensive income:

   a) The pro-forma consolidated financial statements include the historical consolidated statement of comprehensive income of the Company and the historical statement of comprehensive income of Hot Mobile for each reported period.

   b) Depreciation and amortization of tangible assets, intangible assets and liabilities

      The pro-forma consolidated financial statements include the depreciation of tangible assets such as fixed assets, the amortization of intangible assets such as customer relationships, customer relationships with a finite contractual period, license and brand name, based on the assumption that the acquisition accrued on January 1, 2011, as aforesaid.

   c) The pro-forma consolidated financial statements include financing expenses which were derived in respect of the purchase of the shares in Hot Mobile, based on the loan assumed for the acquisition.

      Furthermore, the pro-forma financial statements include financing expenses in respect of the contingent consideration that derived from the acquisition, which was estimated at an amount of NIS 340 million at the date of the acquisition. The contingent consideration has only been updated in respect of the financing component that represents the passage of time, in accordance with the rate of the amount that the Company incurred at the date of the completion the transaction.

   d) The pro-forma consolidated financial statements include the tax effect on the amortization and depreciation of the assets acquired and liabilities assumed upon acquisition in accordance with the tax rate prevailed on that date. During the year 2011 due to change in the Law for Tax Burden Reform (Legislative amendments, 2011), the prevailing tax rates were changed. The company did not adjust the purchase price allocation for those changes.

   e) The pro-forma consolidated financial statements include the elimination of management fees that were recorded by Hot Mobile to its parent company in the year 2011, since that agreement was endorsed as an agreement between Hot Mobile and the Company, and accordingly due to the consolidation of Hot Mobile in the Company's financial statements, it constitutes an inter-company transaction.

NOTE 3:—BUSINESS COMBINATION

a. Allocation of the purchase:

   The purchase price has been allocated to Hot Mobile's tangible and intangible assets as well as to the liabilities assumed in accordance with their assessed fair value. The excess of the purchase price over the fair value of the identified tangible assets and intangible assets accrued and less the fair value of the liabilities assumed has been recorded as goodwill.

   As aforesaid, based on management evaluation, which was performed, the acquisition cost was allocated to Hot Mobiles' assets and liabilities, as follows:

1. The ''Mirs'' brand name (which was evaluated at NIS 8 million) was evaluated in accordance with the ''exemption from royalties'' approach, a method that constitutes the implementation of the income approach in the evaluation of the value of assets.

2. Customer relationships (which were evaluated at NIS 168 million) were evaluated on the basis of the fair value of the existing customers and in accordance with the relationship with them in accordance with the excess earnings method for multiple periods.

3. Customer relationships with defined contractual periods (which were evaluated at NIS 86 million) were evaluated on the basis of the cash flows which are expected to be received during the period of the signed contracts.
4. Goodwill represents the surplus of the cost of the acquisition over the estimated fair value of the tangible and intangible assets after the deducting of the fair value of the liabilities assumed by the Company.
5. The fair value of the fixed assets (approximately NIS 640 million, including an excess cost of NIS 237 million) was determined in accordance with the actual current cost that would have derived where the cable network and other equipment had to be repurchased, and taking into account amortization representing technological and economic depreciation into account.
6. The liability in respect of the marketing contract as a result of its adjustment to fair value (which was estimated at approximately NIS 26 million) has been evaluated using the excess earning method, on the basis of the amounts which are expected to be paid in the course of the period of the marketing contract and the amounts that are expected to be paid under the parallel services contract at market prices.
7. Deferred taxes have been attributed in respect of the said surplus costs (except for goodwill).

b. The total purchase price allocated to the assets and liabilities:

	November 30, 2011 100% Fair value Unaudited
	NIS in millions
Current assets	238
Fixed assets	640
Customer relationships, including with a defined contractual period	254
The Mirs brand	8
Other intangible assets	127
Other non-current assets	83
	1,350
Current liabilities	550
Other non-current liabilities	61
Deferred taxes	120
	731
Identified assets, net	619
Goodwill	207
Total purchase price	826

c. The cost of the acquisition:

	Unaudited
	NIS in millions
Cash paid, including the repayment of a loan to the former shareholder	486
Contingent consideration	340
Total purchase price	826
Cash used as part of the acquisition	
Cash and cash equivalents in the acquired company	6
Cash paid	(486)
Net cash	(480)

NOTE 4:—OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker (''CODM'') in HOT Group to make decisions about resources to be allocated and assess performance in the group. Accordingly, for management purposes, the group is organized into operating segments based on the services of the three major operating segments as follows:

The national landline telecommunication segment	—	HOT, through HOT Telecom, provides national landline telecommunication services
The cable TV segment	—	HOT and its subsidiaries provide multi-channel cable television broadcasting services to subscribers
The Cellular segment	—	HOT, through HOT Mobile, provides wireless cellular communication services

The accounting policy for operating segments is consistent with that described in Note 2 to the Company's annual financial statements.

The segment results reported to the CODM in HOT group include items that are allocated directly to the segments and items that can be allocated on a reasonable basis. Items that were not allocated finance (consisting of finance expense and finance income) and taxes on income are managed on a group basis.

See Note 26b(13) in the financial statements of the Company as of December 31, 2011, regarding the method by which HOT Telecom charges HOT for the use of the cable infrastructure, end equipment and other fixed assets used in operation that is owned by HOT Telecom.

b. Reporting on operating segments:

	For the period of nine months ended September 30, 2011				
	Telecom	Cable Television	Cellular	Adjustments(*)	Total
			Unaudited NIS Millions		
Total revenues	1,510	1,724	693	(755)	3,172
Segmental income	390	38	20	—	448
Other unattributed income, net					—
Operating income					448
Financing expenses					(193)
Income before taxes on income					255

	For the period of three months ended September 30, 2011				
	Telecom	Cable Television	Cellular	Adjustments(*)	Total
			Unaudited NIS Millions		
Total revenues	508	581	217	(254)	1,052
Segmental income	122	(7)	2	—	117
Other unattributed income, net					(1)
Operating profit					116
Financing expenses					(36)
Income before taxes on income					80

	For the year ended December 31, 2011					
	Telecom	Cable Television	Cellular	Other	Adjustments(*)	Total
	Unaudited NIS Millions					
Total revenues	2,004	2,299	899	—	(999)	4,203
Segmental income (loss)	496	163	(24)	(8)	—	627
Other unattributed income, net						6
Operating income						633
Financing expenses						(244)
Income before taxes on income						389

*) Adjustments attributed mainly to the telecom segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF HOT

The following discussion and analysis is intended to assist in providing an understanding of HOT-Telecommunication Systems Ltd.'s financial condition, changes in financial condition and results of operations and should be read together with the HOT's financial statements for the years ended December 31, 2009, 2010 and 2011 and the three and nine months ended September 30, 2011 and 2012, including the accompanying notes, included elsewhere in this Offering Memorandum. Some of the information in this discussion and analysis includes forward looking statements that involve risks and uncertainties. See ''Forward Looking Statements'' and ''Risk Factors'' for a discussion of important factors to be evaluated in connection with a prospective purchase of Notes. The capitalized terms used below have been defined in the notes to HOT's financial statements included herein. Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of September 30, 2012 or December 31, 2011, as applicable. In this section only, references to 'we', 'us', 'our' and the 'Company' may refer to HOT-Telecommunication Systems Ltd. or, collectively, HOT-Telecommunication Systems Ltd. and its subsidiaries, as the context requires.

Overview

We are the sole cable operator in Israel and one of two operators that own a national fixed-line network infrastructure, with our cable network passing most homes in Israel. We are the leading provider of pay television services and the second leading provider of broadband Internet infrastructure access and fixed-line telephony services in terms of number of subscribers in Israel. We are currently the only provider of bundled triple-play services in Israel, which include pay television, broadband Internet infrastructure access and fixed-line telephony services. We are also a growing provider of cellular services in Israel, having launched in May 2012 our Universal Mobile Telecommunication System (''UMTS'')-based third generation (''3G'') cellular services in addition to our existing Integrated Digital Enhanced (''iDEN'') cellular services. As of September 30, 2012, we had approximately 1.2 million Cable Customer Relationships, which accounted for 2.3 million revenue generating units (''RGUs''), and 687,000 cellular RGUs.

We believe that our cable network is among the most technologically advanced in the Middle East region. Our fully-owned cable network includes extensive fiber and is therefore generally accepted as faster, with greater data capacity and able to offer better quality than copper-based digital subscriber line (''DSL'') networks. Our entire cable network is U.S. Docsis 3.0-enabled allowing us to offer subscribers maximum download speeds of up to 100 Mbps, which we believe is higher than those achieved at similar pricing by our largest DSL competitor on a large scale. This enables our customers to connect several devices (such as computers, tablets and smartphones (via Wi-Fi connection)) to the Internet at the same time and receive interactive services like video-on-demand (''VOD'') and personal video recording (''PVR''), as well as high-definition television (''HDTV''). We own an extensive iDEN cellular network with nationwide coverage and we are building an expanding UMTS network, offering the most advanced 3G services available in Israel, covering approximately 30% of the inhabited territory of Israel and approximately 40% of the Israeli population, both as of September 30, 2012. We have entered into a national roaming agreement with a cellular provider with UMTS coverage in the areas of Israel that are currently outside of our UMTS network coverage area.

We provide the following products and services to our customers:

- *Multiple-play.* As of September 30, 2012, approximately 33% of all Cable Customer Relationships, subscribed to our triple-play services, consisting of the television, high-speed broadband Internet infrastructure access and fixed-telephony services described below, while approximately 27% of all Cable Customer Relationships, subscribed to our triple-play services as of September 30, 2011.
- *Pay television.* Our television offering includes over 150 digital television channels, including up to 21 HDTV channels, and several premium digital services and personal video recording (PVR) functionality. We offer customers in our network area the opportunity to subscribe to packages of channels focusing on sports, popular series, documentaries, content for children, content in Arabic and in Russian to address demand from the culturally diverse population of Israel, content for adults and other content. As of September 30, 2012, we provided VOD services to approximately 500,000 of our total cable RGUs. As of September 30, 2012, we had approximately 893,000 pay television RGUs, compared to approximately 890,000 pay television RGUs as of September 30, 2011. Our pay

television, including digital and analog, ARPU was NIS 213 for the nine months ended September 30, 2012.

- *Telecom.* Our current telecom portfolio consists of high-speed broadband Internet infrastructure access with download speeds of up to 100 Mbps and fixed-line telephony services. As of September 30, 2012, we had approximately 768,000 broadband Internet infrastructure access RGUs compared to approximately 764,000 broadband Internet infrastructure access RGUs as of September 30, 2011. Our broadband Internet infrastructure access ARPU was approximately NIS 61 for the nine months ended September 30, 2012. As of September 30, 2012, we had approximately 672,000 fixed-line telephony RGUs compared to approximately 630,000 as of September 30, 2011. Our fixed-line telephony services ARPU was approximately NIS 52 for the nine months ended September 30, 2012.
- *Cellular.* Our cellular services are provided through HOT Mobile, which we acquired on November 28, 2011, and provide customers with various packages which may include unlimited national calls, texts and/or Internet usage. As of September 30, 2012, our iDEN business had approximately 371,000 cellular RGUs and our UMTS business had approximately 316,000 cellular RGUs.
- *Other.* Our current ISP services, which we launched in the first half of 2012, are provided under the ''HOTnet'' brand.

We added a total of approximately 38,000 total cable RGUs, net, during the nine months ended September 30, 2012, respectively. The RGU growth during the nine months ended September 30, 2012 is attributable to growth in our triple-play bundle subscriptions and growth in our fixed-line services, which added approximately 36,000 RGUs, net.

Key Factors Affecting Our Businesses

Our operations and the operating metrics discussed below have been, and may continue to be, affected by certain key factors as well as certain historical events and actions. The key factors affecting the ordinary course of our business and its results of operations include, among others, network upgrades, competition, macro economic and political risks in the areas where we operate, our cost structure, churn and the introduction of new products and services, including new digital television pay services, higher broadband Internet infrastructure access speeds and the roll-out of our UMTS network. For further discussion of the factors affecting our results of operations, see ''*Risk Factors*''.

Network Upgrades

Our ability to provide new HDTV and VOD television services, broadband Internet network infrastructure access at ever higher speeds and fixed-line telephony services to additional subscribers depends in part on our ability to upgrade our cable network. During each of 2009, 2010 and 2011, we deployed fiber on a substantial part of our cable network and upgraded it to U.S. Docsis 3.0 technology, which allows us to offer our customers 100 Mbps broadband Internet access speeds, and better HDTV services. Although not required to do so, in certain areas we have begun and in other areas are considering deploying additional fiber in the form of FTTB and FTTLA in the coming years based on customer needs and speed requirements. For a description of the technical characteristics of our cable network, please see ''*Description of Our Business—Network—Cable Network*''.

In May 2012, we launched our UMTS network, which allows us to offer 3G cellular services to our customers under the ''HOT Mobile'' brand. Under the terms of our license, among other things, we have committed to provide UMTS network coverage to 90% of the Israeli population and inhabited territory by 2018. As of September 30, 2012, our network coverage extended to approximately 40% of the population of Israel and approximately 30% of the inhabited territory of Israel. For the nine months ended September 30, 2012 we invested NIS 328 million in accrued capital expenditures for HOT Mobile, of which most related to the build out of our UMTS network. We expect to continue developing our UMTS network over the next several years and are required to meet certain milestones pursuant to our cellular license. Based on our current network deployment plans, we expect to spend approximately between NIS 1.1 billion and NIS 1.6 billion in total capital expenditures related to the building out of our UMTS network to achieve the network coverage requirements under our cellular license. For a description of the technical characteristics of our cellular network, please see ''*Description of Our Business—Network—Cellular Network*''.

We make expansion-related capital expenditure decisions by applying strict investment return and payback criteria. For the year ended December 31, 2011, we incurred accrued capital expenditure of NIS 619 million, compared to NIS 713 million and NIS 680 million during the years ended December 31, 2010 and 2009, respectively. Of our capital expenditures in 2011, approximately 29% related to modems and converters, 47% related to our cable network and centers, 6% related to HOT Mobile capital expenditures, and 18% related to other capital expenditures. Please see ''—*Capital Expenditures*''.

Competition

Although we continued to increase our total cable RGUs during 2011 and the first nine months of 2012 by increasing the penetration of our advanced services, we are experiencing significant competition. Key competitors of our business include (i) YES's DTH programming that competes primarily with our basic and premium television products; (ii) Bezeq's broadband Internet infrastructure access services that compete with our broadband Internet infrastructure access and fixed-line telephony offerings; (iii) Bezeq and VOB operators that compete with our fixed-line telephony offerings; and (iv) Partner, Pelephone (Bezeq's subsidiary) and Cellcom, which, collectively, have a majority of the market share, and Golan Telecom which launched in May 2012, compete primarily with our cellular telephony products. In general, our ability to increase or maintain the fees we receive for our services is limited by competitive and regulatory factors. In recent years, the Israeli Ministry of Communications has taken certain measures to increase the competition in the telecommunications industries, including the establishment of a DTT platform with the possibility of expanding the number of channels broadcasted over such platform, eliminating exit fees for subscribers, except in limited circumstances and prohibiting the linkage of the price and terms of a handset to cellular services or benefits. The Ministry of Communications has also published a policy for the creating a wholesale market requiring network infrastructure owners to provide third parties access to their network for broadband Internet infrastructure access, which in addition to creating competition for broadband Internet infrastructure access products, could also provide Bezeq and us with relief from certain regulatory restrictions, such as the requirement to maintain structural separation among certain of our business segments. See ''*Regulatory—Structural Separation*''. The competition we face in our markets, as well as any decline in the economic environment, could adversely impact our ability to increase or maintain our revenue, RGUs, operating cash flow or liquidity. We currently are unable to predict the extent of any of these potential adverse effects.

Macro Economic and Political Risks

Our operations are subject to macro economic and political risks that are outside of our control. For example, high levels of sovereign debt in the U.S., certain European countries and countries in the Middle East, combined with weak growth and high unemployment, could lead to fiscal reforms (including austerity measures), sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and, potentially, disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our Company. Moreover, as a business in Israel we are subject to the inherent risks associated with the political and military conditions in Israel and the potential for armed conflicts with Israel's neighbors. Further, while the majority of our revenues are in NIS, a portion of our operational expenses and investments are in U.S. dollars. The exchange rate between U.S. dollars and NIS has been volatile in the past and may continue to be so in the future. Although we attempt to mitigate currency rate risk through hedging, sharp changes in the exchange rate could have a material effect on our results of operations.

Churn

The cable television, broadband Internet infrastructure access, fixed-line telephony and cellular telephony industries typically exhibit churn as a result of high levels of competition. We calculate churn for a specific service for a certain period as the number of disconnected (either at the customer's request or due to termination of the subscription by us) RGUs for such service in the period over the number of total RGUs at the end of such period excluding transfers between services (other than transfers between our cable services and cellular services). Churn levels may be affected by changes in our or our competitors' pricing, our level of customer satisfaction, disconnection of non-paying subscribers and changes in regulations. Increases in churn may lead to increased costs and reduced revenues. Our nationwide presence across most Israeli homes allows us to minimize the impact of our customers moving homes as there is a high likelihood that such customer will move into a homes passed by our cable network or that could be connected to our cable network without materially extending our cable

network plan, although we could in some instances incur some capital expenditures related to installation and connection.

Our churn rates increased in our cellular sector in recent years as subscribers left our iDEN-based network for the more advanced networks of our competitors and regulatory actions of the Israeli Ministry of Communications increased competition by prohibiting exit fees, except in limited circumstances, long-term commitments and, as of January 2013, the linkage of the price and terms of handsets to the cellular service prices and benefits. With the launch of our UMTS network in 2012, we expect that our total cellular segment churn rate will increase from historical levels as 3G cellular services generally have a higher churn rate than iDEN cellular services. Although we expect significant churn in our iDEN services in the last quarter of 2012 as our contract with the Israeli Defense Force terminates, we expect our iDEN churn rate to be offset as subscribers switch to the 3G technologies offered by HOT Mobile as opposed to our competitors.

Introduction of New Products and Services

We have significantly expanded our presence and product and service offerings in the past and have been a leader in bringing cable-based services to the Israeli market. We launched digital cable television in 2001, high-speed broadband Internet infrastructure access in 2003 and cable-based fixed-telephony services in 2005.

In 2005, we began offering our bundled triple-play service, combining pay television services with broadband Internet infrastructure access and fixed-line telephony services. Subscribers who elect to subscribe for our triple-play bundle realize cost savings on their monthly bill as compared to purchasing each of the services individually. We have continued to enhance our product and service offerings, being the first company to introduce VOD services in Israel in 2005, launching a 100 Mbps broadband Internet infrastructure access service in 2010 and launching our HD and PVR set-top box, HOT Magic, in 2011. In addition, we regularly review our channel offerings to provide our subscribers with a flexible and diverse range of programming options, including high quality local content. As of September 30, 2012 we offered over 150 television channels, including up to 21 HD television channels and over 20 channels with ‘‘start-over’’ service.

As a result of our focus on providing our subscribers with attractive service options and bundle packages, we have experienced significant growth in our cable-based services ARPU, while maintaining a relatively stable number of total Cable Customer Relationships, with approximately 1.3 million as of December 31, 2009 and approximately 1.2 million as of December 31, 2011. Our cable-based services ARPU has increased from NIS 191 for the year ended December 31, 2009 to NIS 219 for the nine months ended September 30, 2012. We have experienced an increase in the number of Cable Customer Relationships subscribing for our triple-play service, with the number of triple-play subscribers as a percentage of our Cable Customer Relationships increasing from 19% as of December 31, 2009 to 28% as of December 31, 2011 and to 33% as of September 30, 2012. As a result, the number of RGUs per Cable Customer Relationship has increased from 1.66 services as of December 31, 2009 to 1.84 services as of December 31, 2011 and to 1.93 services as of September 30, 2012, which has had a direct positive effect on our revenue.

Cost Structure

Certain of our cost elements, including a large portion of our cable network operations, customer care, billing and administrative expenses are relatively fixed, while our sales and marketing costs, content-related costs, fixed-telephony interconnection fees and cellular roaming costs, among others, are relatively variable. We have recently incurred significant costs related to the building out and launching of our UMTS network, and as we expand our cellular network we expect to be able to reduce our national roaming costs.

We have worked to limit our fixed costs by implementing initiatives to improve our cost structure, including outsourcing certain service obligations to third-party subcontractors, utilizing temporary and fixed-term employees and, in some instances, reducing headcount. As a result of these initiatives, we have generally been able to preserve margins during recent economic downturns. In 2011, a significant percentage of our operating expenses were comprised of fixed costs (principally wages of permanent employees), with variable and partly variable costs constituting the majority of our operating expenses (including sales and marketing expenses and content and programming expenses).

Key Operating Measures

We use several key operating measures, including number of homes connected, Cable Customer Relationships, RGUs, RGUs per Cable Customer Relationship and ARPUs to track the financial and operating performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been audited or reviewed by an auditor, consultant or expert. All of these measures are derived from our internal operating and financial systems. As defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies. As ARPU varies considerably for our different services, RGU growth is not necessarily indicative of the overall development of our business and results of operations.

	As of and for the year ended December 31,			As of and for the nine months ended September 30,
	2009	2010	2011	2012
	in thousands except percentages and as otherwise indicated			
HOT Summary Statistical and Operating Data				
Total Israeli Homes	2,139	2,166	2,204	2,245*
Customer Relationships				
Cable Customer Relationships[1]	1,316	1,282	1,245	1,207
Cable Revenue Generating Units (RGUs)[2]				
Digital Television RGUs	769	783	840	870
Analog Television RGUs	139	108	51	23
Total Television RGUs	908	891	891	893
Broadband Internet Infrastructure Access RGUs	719	752	768	768
Fixed-Line Telephony RGUs	562	610	635	672
Total Cable RGUs	2,189	2,253	2,294	2,333
RGUs per Cable Customer Relationship (in units)	1.66x	1.76x	1.84x	1.93x
Cellular Revenue Generating Units (RGUs)[3]				
UMTS RGUs	—	—	—	316
iDEN RGUs	476	490	444	371
Total Cellular RGUs[3]	476	490	444	687
Cable Services Penetration				
Television RGUs as % of Total Israeli Homes	42%	41%	40%	40%
Broadband Internet Infrastructure Access RGUs as % of Total Israeli Homes	34%	35%	35%	34%
Fixed-Line Telephony RGUs as % of Total Israeli Homes	26%	28%	29%	30%
Cable Customer Bundling[4]				
Single-Play Customer Relationships as % of Cable Customer Relationships	59%	56%	52%	**
Double-Play Customer Relationships as % of Cable Customer Relationships	22%	20%	20%	**
Triple-Play Customer Relationships as % of Cable Customer Relationships	19%	24%	28%	33%
Churn[5]				
Churn in Pay Television RGUs[6]	15.1%	15.4%	13.2%	15.6%
ARPU[7]				
Cable-based services ARPU (in NIS)	191	202	211	219
Pay television ARPU (in NIS)	201	208	215	213
Broadband Internet infrastructure access ARPU (in NIS)	49	53	57	61
Fixed-line telephony ARPU (in NIS)	75	71	56	52
Market Share				
Cellular Market Share[8]	—	—	—	7%

* Projected figure for year end 2012.

** Not reported

(1) Cable Customer Relationships represents the number of individual end users who have subscribed for one or more of our cable-based services (including pay television, broadband Internet infrastructure access or fixed-line telephony), without regard to how many services to which the end user subscribed. It is calculated on a unique premises basis. Cable Customer Relationships does not include subscribers to either our cellular or ISP services.

(2) RGUs relate to sources of revenue, which may not always be the same as customer relationships. For example, one person may subscribe for two different services, thereby accounting for only one subscriber, but two RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per service basis and RGUs for fixed-line telephony are counted on a per line basis.

(3) Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network.

(4) Cable customer bundling for our stand-alone, double-play and triple-play services is presented as a percentage of Cable Customer Relationships. Our double play package customers include customers who have purchased a combination of two services out of our pay television, broadband Internet infrastructure access and fixed-line telephony services. Our triple-play package comprises pay television, broadband Internet infrastructure access and fixed-line telephony services.

(5) Churn is calculated by dividing the number of RGUs for a given service that have been disconnected during a particular period (either at the customer's request or due to a termination of the subscription by us) by the average number of RGUs for such service, excluding transfers between our services (other than a transfer between our cable services and cellular services), during such period. For example, an analog television customer who migrates to our digital television services or a customer who migrates from our double-play to triple-play services or vice-versa will not increase churn.

(6) For the nine months ended September 30, 2012, the churn shown is the annualized churn, calculated by dividing the churn for the nine months ended September 30, 2012 by three and multiplying by four.

(7) ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the service provided, in each case including the proportional allocation of the bundling discount, and after certain deductions) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.

(8) Our cellular market share is based on our estimate of the total cellular lines in Israel, which is based on the number of lines reported by other cellular operators in Israel. This market share calculation is not indicative of nor does it correlate to the market share calculation required under our cellular license. In relation to the addition of frequencies to our cellular license enabling us to provide UMTS based 3G services, we were required to pay a total license fee of NIS 705 million, out of which we paid NIS 10 million at the time of receiving the license. The remaining amount equal to NIS 695 million is payable in 2016 subject to certain deductions based on market share gained by HOT Mobile (based on the higher of the market share as measured in September 2013 and September 2016). See ''*Description of our Business—Material Contracts—Provision of certain bank guarantees to the State of Israel relating to performance of certain license terms*''.

Subscribers and RGUs

Cable-based services

Cable Customer Relationships represent the number of individual end users who have subscribed for one or more of our cable-based services (including pay television, broadband Internet infrastructure access and fixed-line telephony). RGUs (revenue generating units) relate to sources of revenue, which may not always be the same as Cable Customer Relationship numbers. For example, one person may subscribe for two different services, thereby accounting for only one Cable Customer Relationship, but two RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per service basis. RGUs for fixed-line telephony services are counted on a per line basis.

As of December 31, 2011, we had approximately 1,245,000 Cable Customer Relationships, which represented a decrease of approximately 71,000 Cable Customer Relationships compared to December 31, 2009. The decrease in our Cable Customer Relationships was due primarily to Cable Customer Relationship increased competition in the cable-based services industry and offset by an increase in Israeli homes passed. As of September 30, 2012, we had approximately 1,207,000 Cable Customer Relationships, representing a decrease of 3.1% compared to December 31, 2011. The decrease in the number of Cable Customer Relationships was due largely to increased competition for our product offerings and the transition of our subscribers to bundled products and offset by an increase in homes passed. We have experienced an increase in the number of Cable Customer Relationships subscribing for our triple-play service, with the number of triple-play subscribers as a percentage of our Cable Customer Relationships increasing from 19% as of December 31, 2009 to 28% as of December 31, 2011 and to 33% as of September 30, 2012. The number of Cable Customer Relationships as a percentage of total Israeli homes decreased from approximately 62% as of

December 31, 2009, to 56% as of December 31, 2011, and decreased to approximately 54% as of September 30, 2012.

We experienced an increase in the number of RGUs per Cable Customer Relationship as a result of our attractive bundling strategy, with the average number of RGUs per Cable Customer Relationship increasing from 1.66 services in the year ended December 31, 2009 to 1.84 services in the year ended December 31, 2011. In the nine months ended September 30, 2012, the average number of RGUs per Cable Customer Relationship increased to 1.93 services.

As of December 31, 2011, we had approximately 891,000 pay television RGUs, compared to approximately 908,000 pay television RGUs as of December 31, 2009, representing a decrease of approximately 1.2% per annum on average during such period. As of September 30, 2012, the number of pay television RGUs had increased to approximately 893,000, an increase of approximately 0.2% as compared to December 31, 2011. The increase in pay television RGUs was primarily due to our efforts to increase the attractiveness of our television channel offering, including an overall increase in HD content, VOD and PVR services, and our continued marketing of our triple-play bundles. As of September 30, 2012, we had approximately 23,000 analog television RGUs compared to 139,000 analog television RGUs as of December 31, 2009. We are in the process of phasing out our analog services, which we plan to complete in 2013.

As of December 31, 2011, we had approximately 768,000 broadband Internet infrastructure access RGUs, compared to approximately 719,000 broadband Internet infrastructure access RGUs as of December 31, 2009, representing a CAGR of approximately 3.4%. As of September 30, 2012, the number of broadband Internet infrastructure access RGUs has increased further to approximately 768,000. The increase in broadband Internet infrastructure access RGUs was primarily due to the growth in the number of subscriptions to broadband Internet infrastructure access overall in Israel and our ability to offer our subscribers higher speeds and increased bandwidth capacity compared to alternative technologies such as xDSL and mobile broadband networks, which has allowed us to expand our market share in Israel and our ability to offer triple-play bundles, including our pay television offerings.

As of December 31, 2011, we had approximately 635,000 fixed-line telephony RGUs, compared to approximately 562,000 fixed-line telephony RGUs as of December 31, 2009, representing a CAGR of approximately 6.2%. As of September 30, 2012, the number of fixed-line telephony RGUs was approximately 672,000. The increase in fixed-line telephony RGUs since 2009 was primarily due to the increase in take-up of our multiple-play service bundles, in particular fixed-line telephony bundled with broadband Internet infrastructure access (double-play) and fixed-line telephony bundled with broadband Internet infrastructure access and pay television (triple-play).

Cellular Services

Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network. As of December 31, 2011, we had approximately 444,000 cellular RGUs and, as of September 30, 2012, we had approximately 687,000 cellular RGUs, including 316,000 RGUs for our UMTS service and 371,000 RGUs for our iDEN service. The increase in cellular RGUs was primarily due to the launch of our 3G network and was offset by subscribers disconnecting from our existing iDEN cellular network.

ARPU

ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the service provided, in each case including the proportional allocation of the bundling discount) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.

Pay television ARPU increased by NIS 7, or 3.5%, from NIS 201 for the year ended December 31, 2009 to NIS 208 for the year ended December 31, 2010 and by NIS 7, or 3.4%, to NIS 215 in the year ended December 31, 2011. Pay television ARPU decreased slightly at NIS 213 in the nine months ended September 30, 2012 compared to NIS 215 for the nine months ended September 30, 2011. The increases since 2009 were primarily the result of an increase in take-up of our HOT Mega and HOT More pay television packages due to our continued enhancement of the attractiveness of our service offerings by expanding the range of local content available, including high-definition content, and by enhancing

the ability of our subscribers to watch television when they choose through the launch and expansion of VOD and ''start-over'' services, and offset by discounts applicable to our bundling strategies. Our ARPU in the nine months ended September 30, 2012 decreased as compared to the prior year's period as a result of an increase in triple-play subscribers and subscribers taking higher capacity broadband Internet infrastructure access services as part of their bundle.

Broadband Internet infrastructure access ARPU increased by NIS 4, or 8.2%, from NIS 49 in the year ended December 31, 2009 to NIS 53 in the year ended December 31, 2010 and by NIS 4, or 7.5%, to NIS 57 in the year ended December 31, 2011. Broadband Internet infrastructure access ARPU increased by NIS 4, or 7.0%, to NIS 61 in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. The increase in broadband Internet infrastructure access ARPU was primarily the result of our introduction of higher speeds (including 100 Mbps services in 2010) and offset by discounts applicable to our bundling strategies.

Fixed-line telephony ARPU decreased by NIS 4, or 5.3%, from NIS 75 in the year ended December 31, 2009 to NIS 71 in the year ended December 31, 2010 and by NIS 15, or 21.1%, to NIS 56 in the year ended December 31, 2011. Fixed-line telephony ARPU decreased by NIS 4, or 7.1%, to NIS 52 in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. The decrease was the result of decreased interconnect fees and call volumes, as subscribers reduced the number of calls placed over landlines, which we believe is consistent with general industry-wide trends, increased demand for our bundled service offers and the reduction in revenue as a result of unlimited fixed-line telephony offerings.

We intend to continue focusing on increasing ARPU by increasing RGUs per Cable Customer Relationship, promoting the migration of analog cable television subscribers to our digital services and launching other revenue and service enhancing measures.

Key Income Statement Items

Below is a summary description of the key elements of the line items of our income statement under IFRS.

Revenue

Revenue consists of income generated from the delivery of services to our residential and business subscribers. Revenue is recognized when it is likely that future economic benefits will flow to the Company and these benefits can be reliably measured. Revenue only includes gross inflows of economic benefits received or receivable by the Company. Revenue is recognized at the fair value of the consideration received or receivable, less rebates given. We record revenue generated from the following services:

- *Telecom:* Revenues from broadband Internet infrastructure access services and fixed-line telephony are invoiced monthly after services are delivered to subscribers, although a small portion is invoiced monthly in advance of delivery of services. Revenue also includes interconnection revenue received for calls that terminate on our cable network. Revenues from broadband Internet infrastructure access and fixed-line telephony services are recognized as the service is utilized.
- *Cable television:* Revenues from pay television, pay-per-view and VOD services are invoiced monthly after services are delivered to subscribers and are recognized as the service is utilized. Revenues from other pay television services are invoiced monthly after services are delivered to subscriber and are recognized as the service is utilized.
- *Cellular:* Revenues from cellular telephony services are invoiced monthly after services are delivered to subscribers. Revenue from sales of handsets is recognized on the date of transfer of ownership. Revenue includes interconnection revenue received for calls terminated on our network. Revenues from cellular telephony services are recognized as the service is utilized.
- *Other:* Revenues from our ISP services are invoiced monthly after services are delivered and recognized as the service is utilized.
- *Adjustment.* Elimination of inter-company transactions is an adjustment to the consolidated revenues. Adjustments reflects mainly revenues that were received by HOT Telecom from HOT in respect of rental of the cable network which is owned by HOT Telecom, which is reported in the revenue line item for Telecom and is required to be eliminated in consolidation. It also includes

adjustments resulting from inter-company payments by HOT Mobile to HOT for subscriber acquisition costs and transmission services.

Depreciation and Amortization

Depreciation and amortization includes depreciation of fixed assets related to production, sales and administrative functions and amortization of intangible assets.

Operating Expenses

Operating expenses includes salary and associated payments for operations, royalties and other payments to the Israeli government, content and programming costs, expenses inherent in call completion, subscriber, infrastructure and network maintenance, office rent and maintenance, and other operating expenses.

Sales and Marketing Expenses

Sales and marketing expenses relate to salary and associated payments for sales and marketing personnel, advertising and sale promotion, office rent and maintenance, commission's for marketers, external sales and storage and other expenses related to sales and marketing efforts.

Administrative and General Expenses

Administrative and general expenses relate to salary and associated payments related to administrative personnel, office rent and maintenance, professional and legal advice, expenses for doubtful and lost debts, recruitment and placement, welfare and other administrative expenses.

Other Expenses (Income), Net and Network Setup Expenses

Other expenses (income), net and network setup expenses includes expenses related to setting up of HOT Mobile's cellular network that are not capitalized, changes in liability to the Israeli Government and others, changes in provisions for claims, transaction costs for the purchase of HOT Mobile, dividends received and other expenses.

Financing Income

Financing income consists of changes in the net fair value of the financial derivatives, returns of financing fees, net exchange rate differences, and other financing income.

Financing Expenses

Financing expenses includes financing expenses for short-term credit facilities, changes in the net fair value of the financial derivatives, financing expenses for banking and credit card companies' commissions, financing expenses for long-term loans, financing expenses for bonds, net exchange rate differences and other financing expenses.

Taxes on Income

Taxes on income comprise current tax and deferred tax. Taxes on income are recognized in the income statement except when the underlying transaction is recognized in other comprehensive income, at which point the associated tax effect is also recognized under other comprehensive income or in equity. The corporate tax rate in Israel in 2009, 2010 and 2011 was 26%, 25% and 24%, respectively. The corporate tax rate in 2012 is 25%.

Loss on Available for Sale Financial Asset

Loss on available for sale financial assets include losses on tradable financial instruments (including equity shares of a third party) on the Tel Aviv Stock Exchange that are available for sale. The loss is calculated at fair value (after deduction of discount for the quote price per share due to limitations of the held shares) of the asset through profit or loss in respect of which we are exposed to risk in respect of fluctuations in the price of the security based on market prices.

Discussion and Analysis of Our Consolidated Operating Results

Nine Months Ended September 30, 2012 compared to Nine Months Ended September 30, 2011

This section provides an analysis of our results of operations for the nine months ended September 30, 2012 and 2011. As further described in the ''*Unaudited Pro Forma Financial and Operating Data of HOT*'', the operating results of HOT Mobile are not included in our historical consolidated condensed financial statements prior to November 28, 2011. In order to provide meaningful comparisons, the following discussion and analysis of our results of operations for the nine months ended September 30, 2011 is based on pro forma statements of operations and statistical data that give effect to the acquisition of HOT Mobile as if such transaction had been completed on January 1, 2011. As a result, the pro forma statements of operations for the nine months ended September 30, 2011 presented below include the operating results of HOT Mobile. For more information regarding our pro forma financial statements, see ''*Unaudited Pro Forma Financial and Operating Data of HOT*''.

The table below sets forth our results of operations and the period on period percentage change for the periods under review:

	For the nine months ended		Change	
	September 30, 2011 (pro forma)	September 30, 2012	Amount	%
	NIS in millions except percentages			
Revenue				
Telecom	1,510	1,502	(8)	(0.5)
Cable television	1,724	1,714	(10)	(0.6)
Cellular	693	619	(74)	(10.7)
Other	—	7	7	*
Adjustments	(755)	(716)	39	5.2
Total revenue	**3,172**	**3,126**	**(46)**	**(1.5)**
Expenses				
Depreciation and amortization	770	792	22	2.9
Operating expenses	1,550	1,651	101	6.5
Sales and marketing expenses	236	238	2	0.8
Administrative and general expenses	141	123	(18)	(12.8)
Other expenses (income), net and network set up expenses	27	—	(27)	*
Operating income	448	322	(126)	(28.1)
Financing income	27	21	(6)	(22.2)
Financing expenses for the acquisition of HOT Mobile	(20)	(15)	5	25.0
Financing expenses	(200)	(218)	(18)	(9.0)
Income before taxes on income	**255**	**110**	**(145)**	**(56.9)**
Taxes on income	54	45	(9)	(16.7)
Net income	201	65	(136)	(67.7)
Other comprehensive loss (after tax effect)				
Loss on available for sale financial asset	(33)	(12)	(21)	(63.6)
Total comprehensive income (loss)	**168**	**53**	**(115)**	**(68.4)**

* Not meaningful

Total Revenue. For the nine months ended September 30, 2012, we generated total revenue of NIS 3,126 million, a 1.5% decrease compared to NIS 3,172 million on a pro forma basis for the nine months ended September 30, 2011. As compared to the nine months ended September 30, 2011 on a pro forma basis, our total revenue for our cable-based business (Telecom, Cable and Other) increased by approximately 1.6% and our cellular revenue decreased by approximately 10.7%.

Telecom. Revenue generated by our fixed-line telephony and broadband Internet infrastructure access division was little changed at NIS 1,502 million for the nine months ended September 30, 2012 as compared to NIS 1,510 million for the nine months ended September 30, 2011 on a pro forma basis. This is a result of an increase in fixed-line telephony and broadband Internet infrastructure access RGUs due to bundling strategies and increased download speeds, but offset by the decrease in ARPU in fixed-line telephony as a result of increased take-up of our unlimited package and discounted prices in connection with our bundled offerings.

Cable television. Cable television revenue for the nine months ended September 30, 2012 amounted to NIS 1,714 million as compared to NIS 1,724 million for the nine months ended September 30, 2011 on a pro forma basis. This decrease in revenue is a result of an increase in triple-play subscribers and subscribers taking higher capacity broadband Internet infrastructure access services as part of their bundle resulting in a decrease in ARPU for pay television and offset by an increase in the number of RGUs subscribing to pay television.

Cellular. Revenue generated by our cellular segment through our subsidiary, HOT Mobile, decreased to NIS 619 million for the nine months ended September 30, 2012 from NIS 693 million on a pro forma basis for the nine months ended September 30, 2011. While our revenue provided from the sale of cellular handsets remained stable at NIS 132 million for the nine months ended September 30, 2012 from NIS 131 million on a pro forma basis for the nine months ended September 30, 2011, our cellular services revenue, including subscriptions and interconnection fees received, decreased to NIS 488 million for the nine months ended September 30, 2012 from NIS 561 million on a pro forma basis for the nine months ended September 30, 2011. This revenue decrease is mainly due to the churn of iDEN customers as a result of decreased marketing and the start of disconnection in the third quarter of our contract with the Israeli Defense Force and offset by an increase in total cellular RGUs as a result of new subscribers to our UMTS-based network which launched in May 2012.

Other. Other revenue was NIS 7 million for the nine months ended September 30, 2012 and includes revenue related to our ISP services which we began offering in the first half of 2012. We had no revenue for ISP services in 2011.

Adjustments. Adjustments decreased from NIS 755 million for the nine months ended September 30, 2011 on a pro forma basis to NIS 716 million for the nine months ended September 30, 2012. The majority of adjustments relate to payments from HOT to HOT Telecom related to use of the cable network.

Total Expenses. Total operating expenses amounted to NIS 2,804 million for nine months ended September 30, 2012, an increase of 2.9% compared to NIS 2,724 million on a pro forma basis for the nine months ended September 30, 2011.

Depreciation and amortization. Depreciation and amortization totaled NIS 792 million for the nine months ended September 30, 2012, which is relatively unchanged as compared to NIS 770 million on a pro forma basis for the nine months ended September 30, 2011. This was a result of increases in depreciation of hardware and commissions related to our cable-based services and depreciation of our iDEN network and was offset by decrease in depreciation of our handsets.

Operating expenses. Operating expenses continued to represent the majority of our total expenses. Our operating expenses increased for the nine months ended September 30, 2012 to NIS 1,651 million from NIS 1,550 million on a pro forma basis for the nine months ended September 30, 2011 (an increase of 6.5% period-on-period). Operating expenses increased as a result of the launch of our UMTS cellular telephony network, including increased cost of sales in respect of handsets of NIS 27 million and interconnection fees related to our national roaming costs, maintenance on our iDEN network and ISP services, and the inability to capitalize certain subscriber acquisition costs and were offset by a decrease in salaries and social benefits and other related expenses that were capitalized until launch of our UMTS network.

Sales and marketing expenses. Sales and marketing expenses increased 0.8% from NIS 236 million on a pro forma basis for the nine months ended September 30, 2011 to NIS 238 million for the nine months ended September 30, 2012. Compared to the prior year period, our sales and marketing expenses increased as a result of increased salary expense as a result of inability to capitalize commissions and salaries of sales personnel and offset by decreased sales commissions, advertising and sales promotion as compared to the prior year period.

Administrative and general expenses. Administrative and general expenses decreased 12.8% from NIS 141 million on a pro forma basis for the nine months ended September 30, 2011 to NIS 123 million for the nine months ended September 30, 2012 as a result of a decrease in salary and social benefits expenses because of a reduction in head count.

Other expenses (income), net, and network set up expenses. We did not have any other expenses (income), net, and network setup expenses for the nine months ended September 30, 2012 as compared to expenses of NIS 27 million on a pro forma basis for the nine months ended September 30, 2011. The decrease in other expenses, net, and network set up expenses is a result of a decrease in the fair value of the contingent liability for the earnout related to the acquisition of HOT Mobile and the decrease in network set up costs related to our UMTS network and an increase in provisions made for lawsuits.

Financing income and expenses. Net financing expenses were NIS 212 million for the nine months ended September 30, 2012 compared to NIS 193 million on a pro forma basis for the nine months ended September 30, 2011. The increase primarily resulted from increased interest expense and reduced financing income in the nine months ended September 30, 2012 and was offset by the payment fees payable in connection with the repayment of our credit facility in March 2011 that were not paid in the nine months ended September 30, 2012.

Financing Income. Financing income for the nine months ended September 30, 2012 totaled NIS 21 million, down compared to NIS 27 million on a pro forma basis for the nine months ended September 30, 2011. The decrease in financing income was a result of decreased foreign currency exchange transaction gains.

Financing expenses. Our financing expenses for the nine months ended September 30, 2012 totaled NIS 233 million, up from NIS 220 million on a pro forma basis for the nine months ended September 30, 2011. The increase in financing expenses was a result of increased interest expense as a result of increased principal amount of debt and offset by financing expenses incurred in the first nine months of 2011 to refinance our bank facilities.

Taxes on income. For the nine months ended September 30, 2012 we recorded an income tax expense of NIS 45 million compared to an income tax expense of NIS 54 million on a pro forma basis for the nine months ended September 30, 2011. The decrease in income tax expense was a result of a decrease in net income, the updating of deferred tax assets and expenses which we could not deduct for tax purposes related to financing expenses. Our effective tax rate for the nine months ended September 30, 2012 was 40.9% as compared to an effective tax rate of 21.1% for the nine months ended September 30, 2011.

Net income. We recorded a net income of NIS 65 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2011, we reported a net income of NIS 201 million on a pro forma basis. The underlying decrease in net income on a like-for-like basis primarily reflects decreased revenue in the cellular segment and increased net financing expenses and expenses related to the launch of our 3G cellular network.

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

This section provides an analysis of our results of operations for the years ended December 31, 2011 and 2010. As further described in note 3 to our financial statements for the year ended December 31, 2011, included elsewhere in this Offering Memorandum, the operating results of HOT Mobile are not included in our historical consolidated condensed financial statements prior to November 28, 2011. Therefore, the comparability of the our financial statements for the year ended December 31, 2011 included in this Offering Memorandum with the corresponding prior year period is subject to the impact of the results of operations of HOT Mobile in the our financial statements for the year ended December 31, 2011 for the period between November 28, 2011 and December 31, 2011 as the results of operations of HOT Mobile are not included in the corresponding prior year period.

	For the year ended December 31,		Change	
	2010	2011	Amount	%
	NIS in millions except percentages			
Revenue				
Telecom	2,010	2,004	(6)	(0.3)
Cable television	2,226	2,299	73	3.3
Cellular	—	66	66	*
Other	—	—	—	—
Adjustments	(982)	(995)	(13)	(1.3)
Total revenue	**3,254**	**3,374**	**120**	**3.7**
Expenses				
Depreciation and amortization	665	708	43	6.5
Operating expenses	1,699	1,621	(78)	(4.8)
Sales and marketing expenses				
Amortization of intangible assets	112	130	18	16.1
Other sales and marketing expenses	204	244	40	19.6
Administrative and general expenses	129	134	5	3.9
Other expenses (income), net and network set up expenses	154	(103)	(257)	(166.9)
Operating income	**291**	**640**	**349**	**119.9**
Financing income	10	31	21	210
Financing expenses	(201)	(230)	29	14.4
Income before taxes on income	**100**	**441**	**341**	**341.0**
Taxes on income (benefit)	(6)	100	106	1,766.7
Net income	**106**	**341**	**235**	**221.7**
Other comprehensive loss (after tax effect)				
Loss on available for sale financial asset	(4)	(36)	(32)	(800.0)
Total comprehensive income (loss)	**102**	**305**	**203**	**199.0**

* Not meaningful

Total revenue. 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.

Telecom. Our fixed-line telephony and broadband Internet infrastructure access segment generated revenue NIS 2,004 million for the year ended December 31, 2011, a 0.3% decrease from NIS 2,010 million for the year ended December 31, 2010. 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 ARPU for broadband Internet infrastructure access as a result of increased bandwidth offerings at higher prices.

Cable television. For the year ended December 31, 2011, we generated NIS 2,299 million of cable television revenue, a 3.3% increase as compared to the NIS 2,226 million we generated for the year ended December 31, 2010. This increase was primarily as a result of higher cable television ARPU due to expanded use of paid services, such as VOD, and subscriber transition from analog to digital services.

Cellular. On November 28, 2011, we acquired HOT Mobile. For the period from November 28, 2011 and ending December 31, 2011, our cellular segment generated revenue of NIS 66 million. Prior to November 28, 2011 we did not generate any revenue in our cellular segment.

Adjustments. Adjustments increased from NIS 982 million for the year ended December 31, 2010 to NIS 995 million for the year ended December 31, 2011.

Total expenses. Total expenses totaled NIS 2,734 million for the year ended December 31, 2011, a 7.7% decrease compared to NIS 2,963 million for the year ended December 31, 2010. The acquisition of HOT Mobile resulted in an increase of our total expenses of NIS 72 million.

Depreciation and amortization expenses. Depreciation and amortization expenses were NIS 708 million for the year ended December 31, 2011, an increase of 6.5% compared to NIS 665 million for the year ended December 31, 2010. This increase reflected the impact of accelerated depreciation with respect to upgrades of our network and terminal equipment. The acquisition of HOT Mobile resulted in an increase in depreciation and amortization expenses of NIS 13 million as a result of depreciation of its network sites and capitalization of subscriber acquisition costs.

Operating expenses. Operating expenses totaled NIS 1,621 million for the year ended December 31, 2011, a 4.6% decrease compared to NIS 1,699 million for the year ended December 31, 2010. The decrease in operating expenses was primarily a result of a decrease in call completion expenses in the domestic fixed-line telephony services due to lower interconnect fees as a result of regulatory changes and offset by the acquisition of HOT Mobile, which affected our operating expenses by NIS 41 million.

Sales and marketing expenses. Sales and marketing expenses increased to NIS 374 million for the year ended December 31, 2011 from NIS 316 million for the year ended December 31, 2010, a 18.4% increase, as result of ceasing capitalization of subscriber acquisition costs beginning in August 2011, as a result of cancellation of exit fees charged to customers. The acquisition of HOT Mobile impacted sales and marketing expenses by an increase of NIS 9 million.

General and administrative expenses. General and administrative expenses increased to NIS 134 million for the year ended December 31, 2011 from NIS 129 million for the year ended December 31, 2010, a 3.9% increase, however this increase was only as a result of the NIS 4 million impact from the acquisition of HOT Mobile and other general administrative expenses were unchanged.

Other expenses (income), net, and network set up expenses. Other expenses (income), net, and network set up expenses provided an income of NIS 103 million for the year ended December 31, 2011 as compared to NIS 154 million of expense for the year ended December 31, 2010. This specific cost line predominantly reflects the recognition of revenue with respect to amounts set aside as provision for legal and other claims that was released during the period. The acquisition of HOT Mobile resulted in an expense of NIS 4 million for the year ended December 31, 2011.

Financing expenses. Net financing expenses were NIS 199 million for the year ended December 31, 2011 compared to NIS 191 million for year ended December 31, 2010. This increase in net financing expenses was a result of refinancing of our credit facilities in 2011. Further, the acquisition of HOT Mobile accounted for NIS 2 million of the increase.

Taxes on income. For the year ended December 31, 2011, we recorded an income tax expense of NIS 100 million compared to an income tax benefit of NIS 6 million for the year ended December 31, 2010, reflecting a higher pre-tax income, creation of deferred tax asset with respect to temporary differences and the effect of reduced corporate tax rates on deferred taxes and a reduction in available net operating losses compared to the prior year. In addition, the acquisition of HOT Mobile contributed NIS 34 million of income tax expense in the year ended December 31, 2011. Our effective tax rate for the year ended December 31, 2011 was 22.7%. In the year ended December 31, 2010 we had a tax benefit as a result of available net operating losses which reduced our net income.

Net income. We recorded a net profit of NIS 341 million for the year ended December 31, 2011 as compared to NIS 106 million for the year ended December 31, 2010. This increase was primarily as a result of an increase in other expenses (income), net, and network set up expenses as a result of recognition of revenue with respect to an update of the provision for legal other claims along with recognition of the Company's share of HOT Mobile's loss, including with respect to amortization of excess costs, amount of NIS 42 million.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

	For the year ended December 31,		Change	
	2009	2010	Amount	%
	NIS in millions except percentages			
Revenue				
Telecom	1,889	2,010	121	6.4
Cable television	2,198	2,226	28	1.3
Cellular	—	—	—	—
Other	—	—	—	—
Adjustments	(958)	(982)	(24)	(2.5)
Total revenue	**3,129**	**3,254**	**125**	**4.0**
Expenses				
Depreciation and amortization	747	665	(82)	(11.0)
Operating expenses	1,728	1,699	(29)	(1.7)
Sales and marketing expenses				
Amortization of intangible assets	110	112	2	1.8
Other sales and marketing expenses	183	204	21	11.5
Administrative and general expenses	125	129	4	3.2
Other expenses (income), net and network set up expenses	(38)	154	192	505.3
Operating income	**274**	**291**	**17**	**6.2**
Financing income	7	10	3	42.9
Financing expenses	(202)	(201)	1	0.5
Income before taxes on income	**79**	**100**	**21**	**26.6**
Taxes on income (benefit)	(6)	(6)	—	—
Net income	**85**	**106**	**21**	**24.7**
Other comprehensive loss (after tax effect)				
Loss on available for sale financial asset	14	(4)	(18)	(128.6)
Total comprehensive income (loss)	**99**	**102**	**3**	**3.0**

Total revenue. For the year ended December 31, 2010, we generated revenue of NIS 3,254 million, a 4.0% increase compared to NIS 3,129 million for the year ended December 31, 2009.

Telecom. Our fixed-line telephony and broadband Internet infrastructure access segment generated revenue NIS 2,010 million for the year ended December 31, 2010, a 6.4% increase from NIS 1,889 million for the year ended December 31, 2009. This increase in revenue is primarily the result of increases in the number of subscribers that selected a bundle including cable television, broadband Internet infrastructure access and fixed-line telephony (triple-play) and higher average revenue per broadband Internet infrastructure access subscriber due to customers selecting higher bandwidth options.

Cable television. For the year ended December 31, 2010, we generated NIS 2,226 million of cable television revenue, a 1.3% increase as compared to the NIS 2,198 million we generated for the year ended December 31, 2009. This increase was primarily as a result of higher average revenue per cable television subscriber due to expanded use of paid services and subscriber transition from analog to digital services.

Cellular/Other. We did not have any cellular or other operations in 2010 or 2009.

Adjustments. Adjustments increased from NIS 958 million for the year ended December 31, 2009 to NIS 982 million for the year ended December 31, 2010.

Total Expenses. Total expenses totaled NIS 2,963 million for the year ended December 31, 2010, a 3.8% increase compared to NIS 2,855 million for the year ended December 31, 2009.

Depreciation and amortization expenses. Depreciation and amortization expenses were NIS 777 million for the year ended December 31, 2010, a decrease of 9.3% compared to NIS 857 million for the year ended December 31, 2009. This decrease was primarily due to the conclusion of asset depreciation of certain CPE purchased in connection with the Cable Consolidation.

Operating expenses. Operating expenses totaled NIS 1,699 million for the year ended December 31, 2010, broadly flat as compared to NIS 1,728 million for the year ended December 31, 2010. Operating expenses increased as a result of higher call completion expenses in the telecom segment, but were offset by decreased content expenses in the cable television segment, salary and social benefit expenses, royalties to the Israeli government and expenses related to employee services.

Sales and marketing expenses. Sales and marketing expenses increased to NIS 204 million for the year ended December 31, 2010, an increase of 11.5%, from NIS 183 million for the year ended December 31, 2009 as result of discontinuation of capitalization of subscriber acquisition costs with respect to subscribers not charged an exit fee.

General and administrative expenses. General and administrative expenses was relatively unchanged year-on-year, increasing slightly to NIS 129 million for the year ended December 31, 2010 from NIS 125 million for the year ended December 31, 2009. This increase was a result of an increase in salaries and related expenses in the amount of NIS 12 million, which was offset by a decrease in invoice delivery expense of NIS 4 million and a decrease in recruiting expense of NIS 4 million.

Other expenses (income), net, and network set up expenses. Other expenses (income), net, and network set up expenses provided an expense of NIS 154 million for the year ended December 31, 2010 as compared to income of NIS 38 million for the year ended December 31, 2009. This specific cost line predominantly reflects the recognition of expenses with respect to an update of the provision for legal and other claims.

Financing expenses. Net financing expenses were NIS 191 million for the year ended December 31, 2010 compared to NIS 195 million for year ended December 31, 2010. This decrease primarily reflects a decrease in our interest expense related to our credit facilities.

Income Taxes. For the years ended December 31, 2010 and December 31, 2009, we recorded an income tax benefit of NIS 6 million as a result of available net operating losses from the prior year.

Net income. We recorded a net profit of NIS 106 million for the year ended December 31, 2010 as compared to NIS 85 million for the year ended December 31, 2009. This increase was primarily as a result of increased revenue in our pay television and telecom segments and a reduction in depreciation and other expenses.

Liquidity and Capital Resources

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. We hold cash primarily in NIS. Historically, we have relied primarily on operating cash flows and drawings under the Existing HOT Loans to provide funds required for operations. Following completion of the Transaction, our principal source of liquidity is expected to be our operating cash flows and borrowings under the Revolving Credit Facility, by way of the HOT Refinancing RCF Note.

Our liquidity and the liquidity of our operating subsidiaries generally is used to fund operating expenses, working capital requirements, capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time, including (i) the repayment of outstanding debt, (ii) acquisitions and other investment opportunities or (iii) distributions or loans to Cool Holding and our other shareholders. No assurance can be given that any external funding would be available to our subsidiaries on favorable terms, or at all.

Our most significant financial obligations are our debt obligations. The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result, additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments. Upon completion of the Transaction, all of the Existing HOT Loans will be repaid with the proceeds of the offering of the Notes hereby. See ''*Description of Other Indebtedness*''.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that, following completion of the Transaction, our cash and cash equivalents, the cash provided from the operations of our subsidiaries and any available borrowings under the Revolving Credit Facility, by way of the HOT Refinancing RCF Note, will be sufficient to fund our currently anticipated working capital needs, capital expenditures, and

debt service requirements during the next 12 months, although no assurance can be given that this will be the case. However, as our debt matures in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity. See ''*Risk Factors—Risks Relating to Our Financial Profile*''.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our EBITDA and to achieve adequate returns on our capital expenditures and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our and our affiliates' various debt instruments. See ''*Description of Senior Secured Notes*'', ''*Description of Senior Notes*'' and ''*Description of Other Indebtedness*''. In this regard, if our EBITDA were to decline, we or our affiliates could be required to repay or limit borrowings under the HOT Refinancing RCF Note or the Revolving Credit Facility, as applicable in order to maintain compliance with applicable covenants. No assurance can be given that we or our affiliates would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment.

Upon completion of the Transaction, Cool Holding and its subsidiaries will own 100% of the share capital in HOT. Cool Holding is a holding company and its primary assets are cash and cash equivalents and investments in its consolidated subsidiaries, including HOT. Cool Holding has no operations of its own and is wholly dependent on distributions from HOT to service its debt obligations.

The Senior Secured Notes Issuer is a special purpose financing vehicle and its primary assets are cash and cash equivalents and its rights under the Pledged Proceeds Notes. The Senior Secured Notes Issuer will be dependent on the Pledged Proceeds Notes, borrowings under the Revolving Credit Facility, cash in its bank accounts and other payments from Cool Holding and its subsidiaries to service its debt obligations.

The Senior Notes Issuer is a special purpose financing vehicle and its primary assets are cash and cash equivalents, share capital in the Senior Secured Notes Issuer and its rights under the Senior Notes Proceeds Loan. The Senior Notes Issuer will be dependent on the Senior Notes Proceeds Loan and distributions from the Senior Secured Notes Issuer to service its debt obligations.

Consolidated Cash Flow Statements

The table below summarizes our consolidated cash flow for the different periods.

	For the year ended December 31,			For the nine months ended September 30,	
	2009	2010	2011	2011	2012
	NIS in millions				
Cash and cash equivalents at beginning of period	3	2	1	1	16
Net cash generated by current operations	911	1,103	1,240	942	748
Net cash provided by (used in) investment operations[(1)]	(735)	(592)	(898)	(223)	(750)
Net cash provided by (used in) financing operations[(1)]	(177)	(512)	(327)	(600)	(7)
Cash and cash equivalents at end of period	**2**	**1**	**16**	**120**	**7**

(1) In 2012, HOT reclassified certain line items in its cash flow financial statements comparable figures in order to adjust the current period presentation. For more information see note 2 to HOT's financial statements for the three and nine months ended September 30, 2012 included elsewhere in this Offering Memorandum.

Nine Months Ended September 30, 2012 compared to Nine Months Ended September 30, 2011

Net cash generated by current operations. Net cash generated by current operations decreased by 20.1% to NIS 748 million for the nine months ended September 30, 2012 compared to NIS 942 million for the nine months ended September 30, 2011. This decrease can be attributed to the decrease in net income and working capital mainly driven by an increase in trade payables as a result of increasing the

Days Payable Outstanding (DPOs) and offset by an increase in trade receivables as a result of migrating to invoicing on a post-services basis as opposed to pre-services, which we are required by the Council for Cable and Satellite Broadcasting to complete by the end of 2012, and offset by an increase in the adjustments required to present cash flows from current activity. The acquisition of HOT Mobile resulted in an increase in net cash generated by current operations of NIS 5 million during the nine months ended September 30, 2012.

Net cash provided by (used in) investment operations. Net cash used in investing operations was NIS 750 million for the nine months ended September 30, 2012, up 236% compared to the NIS 223 million we used for the nine months ended September 30, 2011. The increase of our net cash used in investing activities for the nine months ended September 30, 2012, mainly reflected an increase in investments in fixed asset and intangible assets, including NIS 407 million of investments made by HOT Mobile, investments in fixed assets of NIS 177 million, investments in the acquisition of a building of NIS 38 million and an NIS 20 million investment in software acquisition.

Net cash provided by (used in) financing operations. Net cash used in financing operations amounted to NIS 7 million for the nine months ended September 30, 2012, compared net cash used in financing operations NIS 600 million for the nine months ended September 30, 2011. The cash movement for the nine months ended September 30, 2012 reflected receipt of loans from banking institutions and bonds which were offset by payment of a dividend to our shareholders, the purchase of treasury shares and the repayment of other long-term liabilities including bonds. For the nine months ended September 30, 2011, we reflected repayment of loans from banking entities and the issuance of NIS 1,485 million of the Existing HOT Unsecured Notes, which was offset by the issuance of NIS 83 million of share capital via a private issue. Further, on behalf of the acquisition of HOT Mobile by HOT did not impact net cash provided by financing operations during the nine months ended September 30, 2012.

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Net cash generated by current operations. Net cash generated by current operations increased by 12.4% to NIS 1,240 million for the year ended December 31, 2011 compared to NIS 1,103 million for the year ended December 31, 2010. This increase was primarily a result of increased net income, decreased working capital from the reduction of provisions for legal claims and an adjustment to income related to tax expenses. In addition, the acquisition of HOT Mobile impacted net cash generated by current operations by NIS 21 million.

Net cash provided by (used in) investment operations. Net cash used in investment operations was NIS 592 million for the year ended December 31, 2010. For the year ended December 31, 2011, net cash used in investment operations increased by 51.7% to NIS 898 million, as cash used in investment operations during 2011 was impacted by the acquisition of HOT Mobile by NIS 480 million and a decrease in designated cash related to the repayment of certain of our credit facilities in 2011.

Net cash provided by (used in) financing operations. Net cash used in financing operations amounted to NIS 327 million for the year ended December 31, 2011, compared to net cash used in financing operations of NIS 512 million for the year ended December 31, 2010. The decrease in net cash used in financing operations in the amount of NIS 185 million is due to the NIS 1,485 million issuance of the Existing HOT Unsecured Notes, the NIS 83 million issuance of shares via a private issuance and NIS 60 million increase in short-term loans from banks, net (including an increase in long term receivable in favor of reorganization of finance agreement fees) offset of NIS 1,423 million increase in repayment of long-term loans from banks and NIS 20 million increase in repayments of other long-term liabilities.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

Net cash generated by current operations. Net cash generated by current operations increased by 21.1% to NIS 1,103 million for the year ended December 31, 2010 compared to NIS 911 million for the year ended December 31, 2009. This increase was primarily a result of improvement in working capital driven mainly by an increase in trade payables and an increase in our provisions for legal claims and a decrease in interest payments due to the reduction of third-party debt. The increase in working capital of NIS 223 million is mainly due to an increase in provisions for legal claims of NIS 179 million.

Net cash provided by (used in) investment operations. Net cash used in investment operations was NIS 735 million for the year ended December 31, 2009. For the year ended December 31, 2010, net cash

used in investment operations decreased by 19.5% to NIS 592 million, as cash used in investment operations during 2010 was impacted by a decrease in investment in fixed and intangible assets mainly related to CPE.

Net cash provided by (used in) financing operations. Net cash used in financing operations amounted to NIS 512 million for the year ended December 31, 2010, compared to net cash used in financing operations of NIS 177 million for the year ended December 31, 2009. The increase in net cash used in financing operations of NIS 355 million is due to a decrease in short term loans from banks of NIS 188 million and repayment of long-term liabilities from banks, net of NIS 187 million.

Capital Expenditures

We classify our capital expenditures on an accrued basis in the following categories.

- *Modems and Converters Related.* Connection of customer premises and investment in hardware, such as set-top boxes, routers and other equipment, which is directly linked to RGU growth;
- *Cable Network Related.* Investment in improving or expanding our cable network, investments in the television and fixed-line platforms and investments in Docsis network capacity;
- *HOT Mobile Related.* Investment in improving or expanding our cellular networks, investments in cellular platforms and investments in UMTS and network capacity and other intangible assets; and
- *Other.* Investment in other fixed property and immaterial assets including computers, motor vehicles and other intangible assets. It does not include fixed assets acquired as part of business acquisitions.

The difference between accrued capital expenditure in the period and cash used for capital expenditure during the period is a result of delayed payment obligations in relation to our capital expenditures. For the years ended December 31, 2009, 2010 and 2011 we had cash used for capital expenditures of NIS 683 million, NIS 613 million and NIS 511 million, respectively, and for the nine months ended September 30, 2011 and 2012 we had cash used for capital expenditures of NIS 345 million and NIS 752 million, respectively. We also had cash used to capitalize commissions which were reflected in our operating cash flow of NIS 38 million, NIS 38 million and NIS 26 million for the years ended December 31, 2009, 2010 and 2011, respectively, and NIS 29 million and NIS 76 million for the nine months ended September 30, 2011 and 2012, respectively. We had total cash used for capital expenditures for the years ended December 31, 2009, 2010 and 2011 of NIS 721 million, NIS 651 million and NIS 537 million, respectively, and for the nine months ended September 30, 2011 and 2012, NIS 374 million and NIS 828 million, respectively.

The table below summarizes our capital expenditures for the different periods.

	For the year ended December 31,			Fiscal Year 2012			YTD 2012
	2009	2010	2011	Q1	Q2	Q3	Total
	NIS in millions						
Modems and Converters Related	301	346	178	**	**	**	**
Cable Network Related (Including Centers)	273	274	289	**	**	**	**
Other	106	93	114	**	**	**	**
Building				38	—	—	38
Total HOT Capital Expenditures	**680**	**713**	**581**	**300**	**318**	**140**	**758**
HOT Mobile Related[(1)]	—	—	38	74	182	72	**328**
Total Capital Expenditures	**680**	**713**	**619**	**374**	**500**	**212**	**1,086**

** Not reported

(1) Beginning from November 28, 2011.

Nine Months Ended September 30, 2012 compared to Nine Months Ended September 30, 2011

Total capital expenditures were NIS 1,086 million for the nine months ended September 30, 2012, representing 34.7% of revenue as compared to total capital expenditures of NIS 365 million for the nine months ended September 30, 2011. This increase was a due in large part to increased capital

expenditures related to our modems and converters and the build out of our UMTS cellular network in the first nine months of 2012.

Total HOT Capital Expenditures. Total HOT Capital Expenditures during the nine months ended September 30, 2012 were NIS 758 million, representing 24.2% of revenue. The increase in Total HOT Capital Expenditures as compared to prior periods was primarily a result of capital expenditures incurred during the first two quarters of 2012 relating to our new set top boxes (HOT Magic HD) for which delivery was delayed and which we had expected to incur during the second quarter of 2011 and did not receive until the last quarter of 2011. We also incurred one time capital expenditures of NIS 38 million in the first quarter of 2012 related to the purchase of a building which will house one of our call center operations. In addition our total capital expenditures for HOT were affected by decreased capitalized sales commissions in the third quarter of 2011 due to regulatory prohibition of long-term commitments for subscriber contracts, except in certain limited circumstances and, in 2012, completion of the upgrade to 100Mb capacity throughout our cable network and fiber roll out in certain areas.

HOT Mobile Related. HOT Mobile related capital expenditures represented NIS 328 million for the nine months ended September 30, 2012, or 30.2% of total capital expenditures, which was due primarily to the building out of our UMTS network and the purchase of other intangible assets related to our cellular services operations.

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Capital expenditures were NIS 619 million for the year ended December 31, 2011, representing 18.3% of revenue, and a decrease versus NIS 713 million for the year ended December 31, 2010.

Modems and Converters Related. Modems and converters related capital expenditures represented NIS 178 million, or 28.8% of total capital expenditures for the year ended December 31, 2011, as compared to NIS 346 million or 48.5% of total capital expenditures for the year ended December 31, 2010. The decrease in modems and converters related capital expenditures resulted from a delay in delivery in our HOT Magic HD set top boxes which we expected to receive during the second quarter of 2011 and did not begin receiving until the fourth quarter of 2011.

Cable Network Related (Including Centers). Cable network related (including centers) capital expenditures represented NIS 289 million, or 46.7% of total capital expenditures for the year ended December 31, 2011, as compared to NIS 274 million or 38.4% of total capital expenditures for the year ended December 31, 2010. The increase in cable network related (including centers) capital expenditures resulted from investments in our UFI-channel in 2010, recurring maintenance and installation.

HOT Mobile Related. HOT Mobile related capital expenditures represented NIS 38 million, or 6.1% of total capital expenditures for the period beginning November 28, 2011 until December 31, 2011. We did not have any capital expenditures related to HOT Mobile in the year ended December 31, 2010. The HOT Mobile related capital expenditures resulted from the consolidation of HOT Mobile since November 28, 2011 and capital expenditures related to our cellular services.

Other. Other capital expenditures represented NIS 114 million, or 18.4% of total capital expenditures for the year ended December 31, 2011, as compared to NIS 93 million or 13.0% of total capital expenditures for the year ended December 31, 2010. The increase in other capital expenditures resulted from an increase in hardware expense in an amount of NIS 34 million including investment in our CRM technology which was offset by a decrease in capitalization of sales commissions of NIS 12 million.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

Capital expenditures were NIS 713 million for the year ended December 31, 2010, representing 21.9% of revenue, and an increase versus NIS 680 million for the year ended December 31, 2009.

Modems and Converters Related. Modems and converters related capital expenditures represented NIS 346 million, or 48.5% of total capital expenditures for the year ended December 31, 2010, as compared to NIS 301 million or 44.3% of total capital expenditures for the year ended December 31, 2009. The increase in modems and converters related expenditures resulted from expenditures related to XTV and HD set top boxes.

Cable Network Related (Including Centers). Cable network related (including centers) capital expenditures represented NIS 274 million, or 38.4% of total capital expenditures for the year ended December 31, 2010, as compared to NIS 273 million or 40.0% of total capital expenditures for the year ended December 31, 2009. The slight increase in cable network related (including centers) expenditures resulted from upgrades to our cable network and cable modem termination systems (''CMTS'').

HOT Mobile Related. We did not have any HOT Mobile related capital expenditures in the year ended December 31, 2009.

Other. Other capital expenditures represented NIS 93 million, or 13.0% of total capital expenditures for the year ended December 31, 2010, as compared to NIS 106 million or 15.6% of total capital expenditures for the year ended December 31, 2009. The decrease in other capital expenditures resulted from a decrease in software expenses of NIS 8 million and a decrease in investment in office equipment of NIS 4 million.

Contractual Obligations

The following table summarizes the financial payments that we, the Issuers and Cool Holding will be obligated to make, including under our and their respective debt instruments, as of September 30, 2012 on an as adjusted basis after giving effect to the Transaction, including the repayment of the Existing HOT Loans and the Cool Loan. The information presented in the table below reflects management's estimates of the contractual maturities of our, Cool Holding's and the Issuers' obligations. These maturities may differ significantly from the actual maturity of these obligations.

Payments due by period

	Period ending December 31,						
	2012	2013	2014	2015	2016	2017 or later	Total
	NIS in millions						
Existing HOT Unsecured Notes, excluding capitalized debt issuance costs	—	127	127	127	127	960	1,468
Notes	—	—	—	—	—	4,273	4,273
Finance leases	9	33	31	27	19	19	138
Total	9	160	158	154	146	5,252	5,879

For a description of the material terms of our existing long-term financing arrangements and our anticipated long-term financing arrangements, see ''*Description of Other Indebtedness*'', ''*Description of Senior Secured Notes*'' and ''*Description of Senior Notes*''.

Off Balance Sheet Arrangements

We are not party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital resources, other than as disclosed below and as disclosed in note 26b to HOT's financial statements as of and for the year ended December 31, 2011 and note 4 to HOT's financial statements as of and for the nine months ended September 30, 2012, each included elsewhere in this Offering Memorandum.

Foreign Exchange Transactions

We have various foreign exchange transactions totalling $130 million as of September 30, 2012.

Guarantees

In connection with our operations, we are required to provide a certain number of commitments in terms of performance guarantees for the completion of work, guarantees to municipalities, guarantees to suppliers and guarantees to the Israeli Ministry of Communications. At September 30, 2012, these guarantees amounted to NIS 1,151 million.

Property Rental Agreements

We are party to contracts for rental of buildings and vehicles for various terms through 2022. The minimum future rent payments for lease rental agreements, as of September 30, 2012, not including any optional extension periods, are NIS 507 million.

Critical Accounting Policies, Judgments and Estimates

See note 2 to our financial statements for the nine months ended September 30, 2012 and note 2 our financial statements for the year ended December 31, 2011, each included elsewhere in this Offering Memorandum.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks relating to fluctuations in interest rates and foreign exchange rates, primarily as between the U.S. dollar and NIS, and use financial instruments to manage our exposure to interest rate and foreign exchange rate fluctuations.

Liquidity Risk

Ultimate responsibility for liquidity risk management rests with our board of directors, which has established an appropriate liquidity risk management framework for the management of our short-, medium- and long-term funding and liquidity management requirements. We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Please see note 22b(2) to our financial statements for the year ended December 31, 2011 included elsewhere in this Offering Memorandum.

Interest Rate and Related Risk

For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. We do not currently have any obligation to prepay fixed rate debt prior to maturity and, accordingly, interest rate risk and changes in fair market value should not have a significant effect on the fixed rate debt until we would be required to refinance such debt. At September 30, 2012, as adjusted to reflect completion of the Transaction, Cool Holding had, on a consolidated basis, outstanding fixed rate debt and other obligations (including finance leases but excluding other liabilities) of NIS 5,048 million. A portion of our debt, including Series A of the Existing HOT Unsecured Notes, bears interest at variable rates. In addition, under the terms of our existing interest rate hedging arrangements, our effective interest rates may be higher than actual interest rates, resulting in increased costs.

Foreign Currency Risk

Our reporting currency is NIS. However, we conduct, and will continue to conduct transaction in currencies other than NIS, particularly the U.S. dollar. We have entered into U.S. dollar hedging contracts designed to secure foreign currency liabilities and to reduce exposure associated with contracting the purchase of equipment and broadcastings content in foreign currency. We have a strategy to hedge foreign currency exposure at between 50% and 70% of total annual exposure. In the year ended December 31, 2011 we had forward contracts amounting to $168 million, which mature before November 2012 at various exchange rates.

Upon completion of the Transaction, to manage the Issuers', Cool Holding's and our exchange rate exposure with respect to the Notes and the Revolving Credit Facility Agreement, we and they expect generally to enter into hedging foreign exchange transactions to effectively exchange a portion of the payment obligations for interest, principal, amortization and premium, if any, of such indebtedness from U.S. dollars to NIS. We believe such foreign exchange hedging transactions will enable us and them to match the currency of the interest expense to the currency of our revenues more accurately.

INDUSTRY AND MARKET OVERVIEW

Israel

We operate our business in Israel, which had a population of approximately 7.9 million and approximately 2.2 million households as of December 31, 2011 and is one of the few developed economies with a growing number of inhabitants and households. Between 2009 and 2011, the population of Israel grew at an average rate of 1.8% per annum and is expected to continue to grow at an average rate of 1.6% per annum from 2011 to 2015 (Source: Euromonitor), faster than in most developed economies, thus providing a natural floor to expansion in number of inhabitants and households, the addressable market for our cable-based and cellular services.

Israel has a developed market economy, has joined the Organization for Economic Co-operation and Development (''OECD'') in 2010 and has a GDP per capita (based on purchase price parity) of $30,330, which is comparable to Western Europe ($32,109), as defined by Euromonitor. Israeli real GDP grew at a rate of 4.5% since 1991, compared to the average real GDP growth rate of 1.9% in the Western Europe and of 2.6% in the United States. During this period, Israel has faced only 2 years of decline in real GDP, in 2001 and 2002. Since the beginning of the global economic slowdown in 2007 the Israeli economy has witnessed a high level of resilience: Israeli real GDP has grown at an average rate of 3.6% versus 0.1% for Western Europe, as defined by Euromonitor, and 0.2% for the U.S, and Israel maintains a sovereign rating A+ and A1 from S&P and Moody's, respectively, and limited levels of government debt relative to GDP (72.7% for 2011) while its currency has been relatively stable. Israel's real GDP is expected to grow at an average rate of 3.7% per annum from 2010 to 2015 versus 2.4% for the U.S. and 1.2% for Western Europe (Source: Euromonitor). The country also enjoys high levels of literacy, life expectancy and disposable income as attested by it being ranked #17 on the Human Development Index (HDI), ahead of countries such as Belgium, France or Austria. Israel's economy is diversified and competitive internationally with significant level of exports focused around high-technology equipment, cut diamonds, and agricultural products (fruits and vegetables). Israel usually posts sizable trade deficits, notably it imports crude oil, grains, raw materials, and military equipment. However, these imports are covered by tourism and other service exports, as well as significant foreign investment inflows, which contribute to the balance of payments.

Israel operates under a parliamentary system as a democratic state with universal suffrage and enjoys a history of rule of law. Israel has a well-developed and transparent prudential financial sector supervision, a well regarded central bank and a stable currency over the years versus U.S. Dollar and Euro.

Industry Convergence

The Israeli media and telecommunications markets have, over the past several years, slowly been converging as customers tended to seek to receive their media and telecommunications services from a single provider. Israel has relatively high penetration rates for pay television, broadband Internet infrastructure access and cellular telephony of 68%, 68% and 128%, respectively, as of December 31, 2011 (Source: IHS Screen Digest for pay television and broadband Internet and Informa Telecoms and Media for cellular telephony), compared to Western Europe, as defined by Euromonitor, and the United States. This environment fosters a market for packaged offerings or ''multiple play'', whereby television, broadband Internet infrastructure access and fixed-line telephony services are bundled into integrated offerings referred to as ''dual-play'' or ''double-play'' (two services provided together), or ''triple-play'' (three services provided together). When cellular telephony subscriptions are added to ''triple-play'' packages, these are known as ''quad-play'' or ''quadruple play'' packages, but currently such packages are prohibited by law in Israel under certain operators' licenses.

The only operator currently offering triple-play packages including pay television, broadband Internet infrastructure access and fixed-line telephony in Israel is HOT, with approximately 33% of its Cable Customer Relationships subscribing to its triple-play offerings as of September 30, 2012. While convergence has occurred at relatively fast pace in a number of Western European markets, notably in France and in the UK, a series of regulations, notably those affecting integrated telecommunications operator Bezeq's ability to bundle products, have historically prevented such convergence to occur en masse in Israel, and still are a significant impediment to a broader convergence. For example, Bezeq is forced by current regulation to maintain a structural separation between its various subsidiaries. We believe that offering bundled services allows media and telecommunication service providers to meet customers' communication and entertainment requirements, increases customer loyalty and attracts new customers as the value proposition of the offering is enhanced.

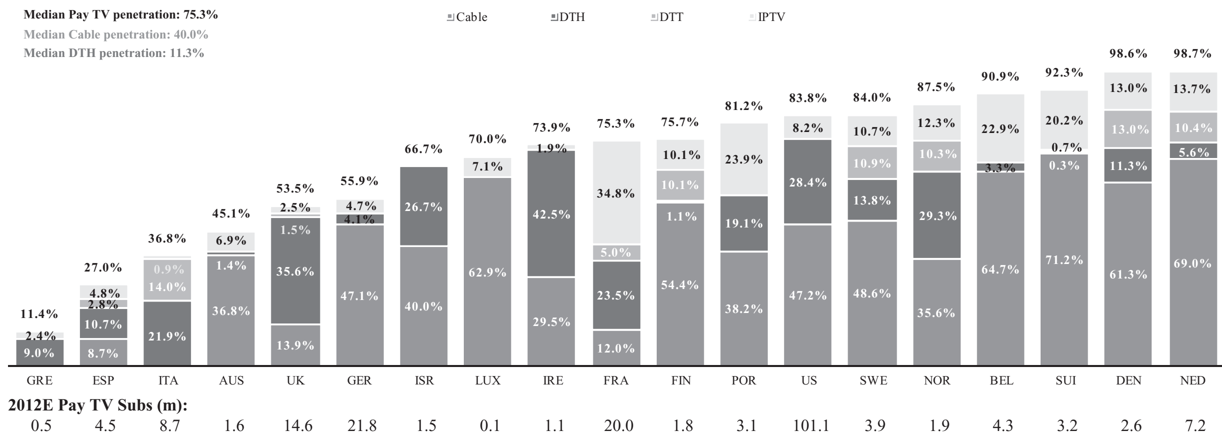
Pay Television

Introduction

Israel's primary television platforms are dominated by pay television with relatively limited penetration of free platforms such as terrestrial television or free DTH. As a result of the free to air platforms being relatively unattractive given access to only 6 channels offered by DTT and limited local content for free DTH, Israel's pay television market has a penetration level of approximately 68.1% as of December 31, 2011, in line with its peer countries in Western Europe (France 71.9%, Portugal 75.0%, Finland 74.9%). While the Israeli pay television market has been stable by number of subscribers since 2009 at approximately 1.5 million subscribers, the market revenues have expanded from NIS 3.8 billion in 2009 to NIS 4.1 billion in 2011 (Source: IHS Screen Digest) as pay television ARPUs have grown historically for both HOT and YES. Similar to Western European markets, television consumer behavior in Israel is currently focused on digital, innovative, HDTV and interactive television services such as VOD and ''start-over''.

Most Israeli households subscribe to pay television packages via cable or satellite, mostly digital, provided by HOT and YES, respectively. Free DTT service started in 2010 but has achieved a limited primary penetration of TV households of approximately 11.1% based on IHS Screen Digest's reports, although we believe these numbers include numerous *Haredi* or *ultra-orthodox* Jewish households who do not watch television. While the established pay television operators face competition from free television (including DTT) and alternatives ways of accessing television channels (such as ''over-the top'' (''OTT'') television), the competitive advantage of pay television via cable or DTH (reliability, image quality, diversified international and local language content and the ability to offer advanced interactive services among others) and the loyalty of the existing customer base lead to the pay television industry having relatively stable subscription revenues when compared to other countries where competition from other platforms is more acute. As of December 31, 2011, there were an estimated 2.2 million (Source: IHS Screen Digest) television households in Israel of which 1.5 million subscribed to pay television as their primary means of watching television, split into approximately 60% through cable and 40% through satellite.

2012E Israeli Pay TV Platforms vs. Western European and U.S. Peers



Cable

We are the sole cable operator in Israel and generate revenues principally from subscription fees paid by customers for the services provided. Services provided via cable networks are characterized by easy-to-use technology, the efficient installation of customer equipment and the reliability of a protected signal delivered directly to the home. Given the trend towards offering bundled media and telecommunications services, the market share of cable television distribution is expected to benefit from cable's ability to deliver triple-play services with high bandwidth, high speed and bi-directional capacity. On a standalone basis, i.e. without a broadband internet connection, bi-directional capabilities of digital cable television over DTH are substantial for both the users and the cable operator: digital cable subscribers can order VOD products and use interactive television while the cable operator is able to track usage patterns and target customer advertising more efficiently.

Cable's share of the pay television market has remained relatively stable over the last three years at approximately 61%. The ARPU generated by cable television customers has continued to expand from NIS 201 per month in 2009 to NIS 213 per month in the nine months ended September 30, 2012, notably on the back of digitalization and the emergence of a broader offering of channels and additional services.

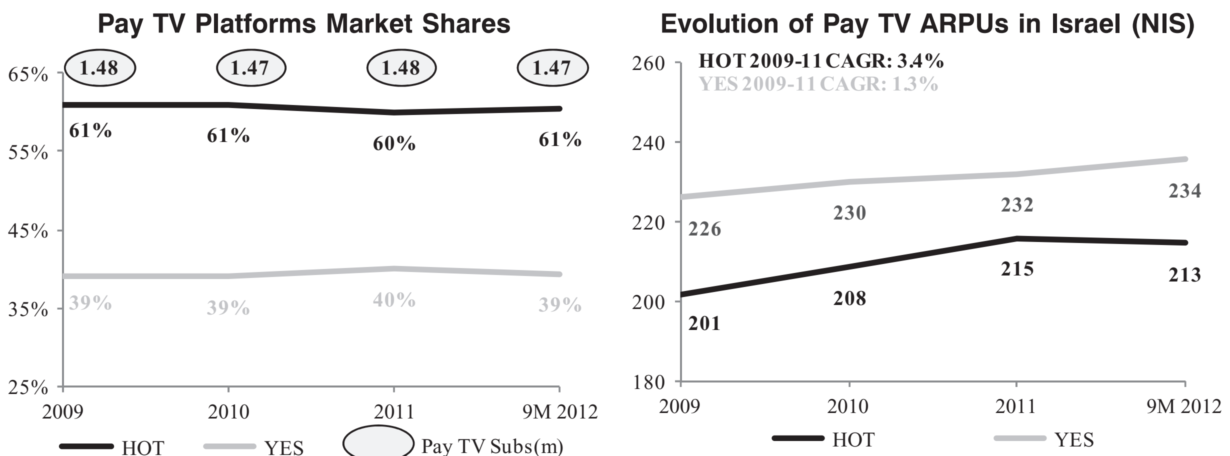
Satellite

Satellite television is the main alternative to cable television in Israel. Television viewers can receive ''free-to-air'' or paid satellite television, which is offered by YES, an associate of Bezeq. Satellite operators distribute digital signals nationally via satellite directly to television viewers. To receive programming distributed via satellite, viewers need a satellite dish, a satellite receiver and a set-top box. Viewers also require a smart card for subscription-based and premium television services distributed via satellite. Satellite providers of free-to-air satellite services do not have any relationships with viewers as they do not receive any subscription or other fees from them.

Satellite distribution has a number of competitive advantages over cable television services, including a wider range of programs available to a wider geographic area, especially rural areas. However, given the lack of integrated return path, satellite struggles to deliver easy-to-handle interactive television services, including VOD services, without the subscriber having broadband Internet connection. We believe that satellite has the following additional disadvantages compared to cable television: (i) the higher up-front cost of procuring and installing a satellite dish, as compared to the ''plug-and-play'' convenience of cable television; (ii) the lack of an ongoing maintenance service, which cable network operators offer to their subscribers; and (iii) the vulnerability of satellite reception to external interference, such as adverse weather conditions.

Satellite's share of the pay television market has remained relatively stable over the last three years at approximately 39%. The ARPU generated by satellite television customers has continued to expand at a more moderate pace than for cable television, from NIS 226 per month in 2009 to NIS 234 per month in the nine months ended September 30, 2012, notably on the back of digitalization and the emergence of a broader offering of channels and additional services.

Pay TV Market Shares and ARPUs by Platform Since 2009 (Source: Bezeq public filings for Bezeq data, IHS Screen Digest and our internal estimates).



DTT

Subscribers are also able to receive television services through DTT, an alternative way of watching certain television channels. Current penetration rates of DTT is low due to several reasons: (i) DTT currently offers access to 6 channels only, (ii) there is no access to premium or thematic content, such as sports, movies or children's programming, (iii) DTT has no interactive functionalities such as VOD or ''start-over'' and (iv) DTT has limited capacity to transfer significant number of channels simultaneously and quality can be affected by weather. DTT could become more attractive in the future as a total of three multiplexers (MUXes) allowing for 18 channels have recently been approved by the Israeli government and are being rolled out. However, we believe that cable television will maintain its advantage over DTT as the increase in the number of channels doesn't fundamentally address some of the key customers'

requirements such as interactivity and ability to choose *a la carte* content, and DTT channels have struggled to be successful without the revenue generated by customer subscriptions charges.

Other Emerging Technologies

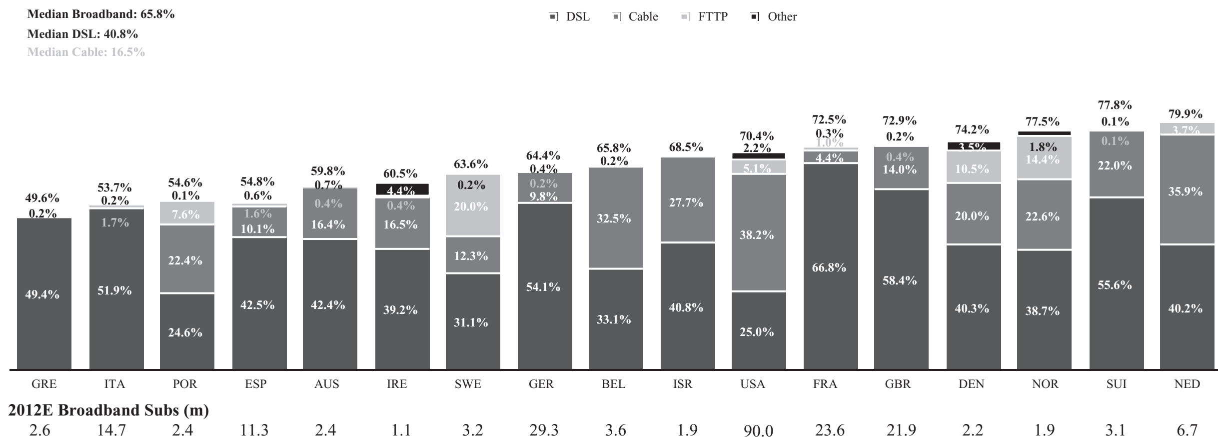
We face a growing but limited competition from other technologies when compared to European markets. Bezeq is currently lobbying to offer IPTV which is currently prohibited by law. Other players, such as websites and online aggregators of content that deliver broadcasts ''over-the-top'' of existing broadband networks may become significant competitors in the future. The full extent to which these alternative technologies will compete effectively with our cable television system is not yet known; however we believe that the international IPTV market will have difficulty impacting the Israeli multichannel TV market due to various reasons, including the (i) availability of certain local language content on cable or satellite only, (ii) quality of the signal on certain DSL-enabled connections located far from exchanges, (iii) inability to access HDTV content on most DSL connections during peak times and (iv) ability of cable operators to bundle pay television with other fixed-line products.

Broadband Internet

Introduction

Israel is a mid-sized broadband Internet market based on penetration when compared to Western European or North American peer countries, with approximately 1.9 million broadband subscriptions as of December 31, 2011. While the current broadband penetration rate in Israel (being the number of broadband subscriptions per 100 households in Israel) is lower than in some other European markets, the growth of broadband penetration rates tends to be faster. The broadband penetration rate in Israel, which has increased steadily over the last three years, was approximately 68.2% as of December 31, 2011, compared to approximately 65.5% as of December 31, 2009, which makes Israel a relatively less mature broadband market when compared to Western European peers, where, as of December 31, 2011, broadband penetration rates were approximately 72.0% in Denmark, 77.0% in Netherlands and 69.0% in France (Source: IHS Screen Digest).

2012E Israeli Fixed Broadband Platforms vs. Western European and U.S. Peers



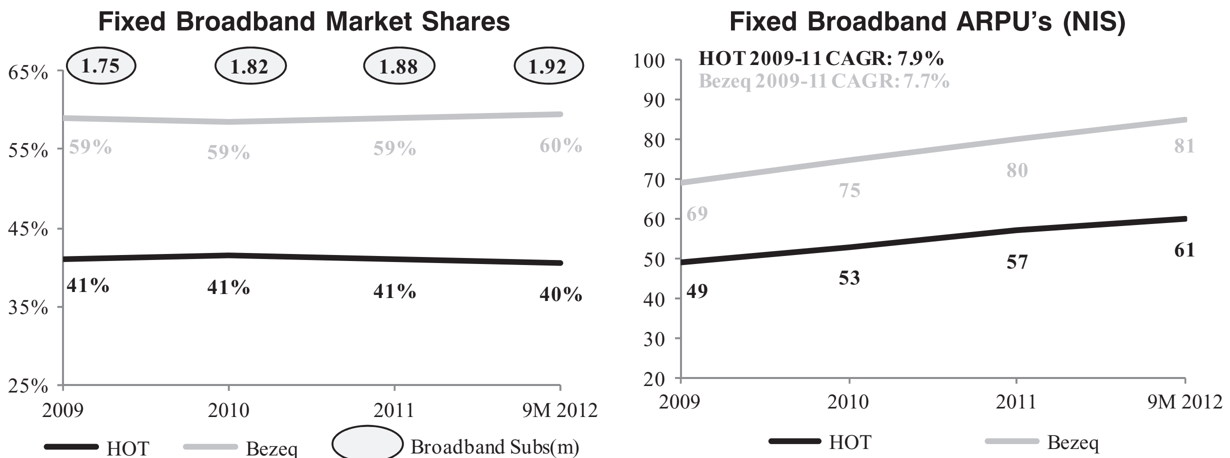
Broadband Internet in Israel is uniquely structured as households wishing to subscribe to broadband Internet need to purchase an Internet access service from a licensed Internet Service Provider (''ISP'') and a broadband Internet infrastructure access service from HOT or Bezeq, the only telecommunication operators which own a nationwide physical fixed-line infrastructure.

Broadband Internet Infrastructure Access

Currently HOT and Bezeq are the only nationwide fixed infrastructure owners, using cable and DSL technology platforms, respectively. Growth in the Israel broadband Internet infrastructure access market has been driven by (i) the number of subscribers to broadband Internet infrastructure access increasing steadily from 1.7 million to 1.9 million from 2009 and to the quarter ended December 31, 2011 and (ii) significant growth in broadband Internet infrastructure access ARPU of approximately 8% per annum on average during the same period, from NIS 61 in 2009 to NIS 71 as of December 31, 2011 (Source:

Bezeq public filings for Bezeq data, ARPU is based on blended ARPU of HOT and Bezeq weighted by number of subscribers).

Exhibit 2: Broadband Internet Market Shares and ARPUs by Platform Since 2009 (Source: Bezeq public filings for Bezeq data)



Broadband Internet Infrastructure Access—DSL

Bezeq through Digital Subscription Line (''DSL''), is the leading broadband Internet infrastructure access provider in Israel, with 1.2 million subscriptions as of September 30, 2012, representing approximately 60% of the total broadband Internet infrastructure access market by number of subscribers. The maximum download speed provided via DSL is typically limited to 28 Mbps, with effective speed delivered to the user being typically significantly lower and dependent on the distance separating the household from the nearest exchange. In order to offer broadband Internet speeds that exceed 28Mbps, in 2009, Bezeq began rolling out access its Next Generation Network (''NGN'') based on the Very-High-Bit-Rate Digital Subscriber Line 2 (''VDSL2'') technology.

VDSL2 is the newest and most advanced standard for DSL broadband wireline communications. It was originally designed to support the wide deployment of triple-play services such as voice, video, data, HDTV and interactive gaming and was intended to enable operators and carriers to gradually, flexibly, and cost-efficiently upgrade existing xDSL infrastructure. VDSL2 permits the transmission of asymmetric and symmetric aggregate data rates up to 200 Mbps downstream and upstream on twisted pairs using a bandwidth up to 30 MHz and allows for significantly lower signal deterioration due to distance between the cabinet and the customer's premise when compared to older DSL technologies.VDSL2-enabled networks could theoretically allow for up to 100 Mbps at 0.4 km, 40-50 Mbps at 0.7km and approximately 30 Mbps at 1 km. It is widely recognized that effective speeds delivered on DSL networks are lower than theoretical speeds, especially when the quality of the copper lines between the cabinet and the premises is poor.

Based on Bezeq's public filings, Bezeq is currently rolling out a Fibre-to-the-Cabinet (FTTC) infrastructure aiming at bringing fiber connections within what we believe to be distances as limited as 700 meters from the end user's premises, the remaining portion of the ''last mile'' relying on existing copper cables. While Bezeq does not disclose whether it uses Profile 30a or Profile 17a VDSL2 technology, based on our estimates, we believe Bezeq is able to offer effective average speeds of 30 Mbps on most of its upgraded network with only certain households, those which are located closest to the cabinets, effectively able to get 100 Mbps download speeds. Bezeq has reported that, as of September 30, 2012, approximately 60% of its 1.2 million broadband customers have been migrated to its NGN.

On August 29, 2012, Bezeq announced it has decided to broaden the deployment of the optical fibers so that they will arrive as close as possible to the customers through Fibre-to-the-Home (FTTH) or Fibre-to-the-Building (FTTB), to form the basis for future supply of advanced communication services and with greater bandwidth than currently provided. A substantial challenge facing the expansion of FTTH or FTTB is that such technology is capital- and time-intensive, requiring significant digging and rewiring. In April 2012, Analysis Mason, a consultancy specializing in telecommunications, estimated the cost of upgrading DSL-enabled premises and connecting customers to FTTC, FTTB and FTTH at up to

approximately $250, $700 and $1,200 per home respectively, with effective cost per active customer significantly higher given that all homes passed do not typically have active customers in them. As a result, we believe the cost of upgrading the network to VDSL2/FTTC incurred by Bezeq so far has been substantially lower than the upcoming cost of upgrading even the densest areas of Israel to FTTH. Given current levels of broadband Internet infrastructure access ARPUs in Israel, we believe such investments would offer limited or negative return on investment for Bezeq except in the most densely populated urban areas.

Over the last three years, Bezeq's market share of the broadband Internet infrastructure access market has remained stable at approximately 60%.

Broadband Internet Infrastructure Access—Cable

Hybrid Fiber Coaxial (HFC) cable is a telecommunications industry term for a broadband network which combines optical fiber and coaxial cable. In Israel, HFC cable broadband Internet is provided exclusively by HOT.

The cable network has been designed for the transmission of large amounts of analog and digital television and radio signals and is able to deliver consistent speeds irrespective of the distance to the customer, unlike DSL. Our network has been 100% upgraded to bi-directionality, is fully U.S. Docsis 3.0 enabled, uses the full spectrum bandwidth capacity of 750-862 MHz in most areas and offers up to 100 Mbps download speeds to all of the homes passed, with the theoretical potential for up to 304 Mbps with current U.S. Docsis 3.0 modems on our FTTB footprint. In 2011, we began to selectively roll out FTTB and Fiber-To-The-Last-Amplifier (''FTTLA'') to further increase the speeds we can make theoretically available to our customers up to 304 Mbps.

It is generally accepted that cable networks offer faster broadband Internet infrastructure access than DSL. Copper is a significantly more distance-sensitive medium than HFC cable, and accordingly access speeds for DSL technology decrease substantially as distance from DSL hubs increases. Furthermore, the maximum download speed of DSL networks has to be shared between broadband internet infrastructure access and telephony, while our HFC cable broadband Internet allows subscribers to use all of the 100 Mbps capacity for Internet access while still using television services. Our ability to offer the highest speeds in Israel on a large scale allows our customers to connect several devices (such as computers, tablets and smartphones (via Wi-Fi connection) simultaneously without impairing the quality of television signal or the speed and quality of the Internet connection. Based on Bezeq's public filings and third party sources, we believe, under currently available VDSL2 FTTC technology, Bezeq would able to provide broadband internet infrastructure access of comparable quality to those provided over cable networks but to a limited number of its customers. FTTH is the only infrastructure that offers similar speeds with the potential for higher internet speeds (upload and download) than are currently possible over our HFC network. We believe that Bezeq currently has only a limited number of homes passed by FTTH.

Over the last three years, our market share of the broadband Internet infrastructure access market has remained stable at approximately 40%.

ISPs

As of December 31, 2011, there were numerous ISP providers in Israel, although Netvision (a subsidiary of Cellcom), 012 Smile (a subsidiary of Partner Communications) and Bezeq International accounted for 90.8% of the subscriptions. Netvision was the largest with a market share of 33.5%, 012 Smile with 32.7% and Bezeq International with 24.6% (Source: IHS Screen Digest, combined market share of tracked ISPs).

The ISP subscription varies depending on numerous parameters such as the speed of access, the ISP provider or the broadband Internet access infrastructure the customer purchase the access to with the ISP subscription. In 2012, we launched an ISP product, through our subsidiary HOT Net, priced at NIS 20 per month no matter the speed or the package, a significant discount to prices offered by competitors.

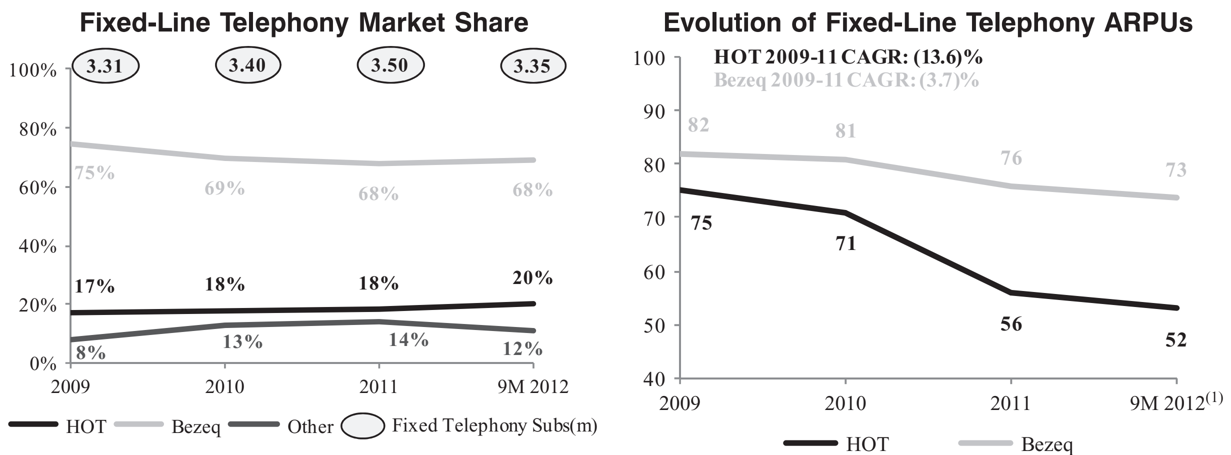
Fixed-Line Telephony

As of December 31, 2011, there were approximately 3.5 million fixed-line telephony lines in Israel. Subscribers to fixed-line telephony services include households and enterprises. The number of lines has been growing slowly since 2009, which compares well with most Western European countries where

fixed-line penetration of households has declined on the back of an increase in number of individuals who use cellular phones only. Bezeq, the incumbent fixed-line telephony service provider in Israel, is the largest provider of fixed-line telephony services, with 2.3 million fixed telephony lines or approximately 68% market share as of September 30, 2012. In addition to Bezeq and HOT, who are by far the largest players, fixed-line telephony can also be purchased from VOBs who cumulatively hold approximately 12% of the market. HOT has approximately 20% of the fixed-line telephony market share.

The market for residential telephony in Israeli faces pressure from alternative carriers, declining cellular termination and interconnection rates, as well as alternative access technologies such as Voice Over Internet Protocol (VoIP) (e.g. Skype). In recent years, fixed-line telephony services have been largely a commodity and uptake as become increasingly dependent on a quality broadband Internet offering by the same provider. Fixed-line telephony has experienced some price erosion over the past few years, partly driven by a reduction in termination rates, and resulted in the decline in Bezeq and HOT's reported fixed-line telephony ARPUs.

Fixed-Line Telephony Customers and ARPUs by Operator Since 2009 (Source: Bezeq public filings for Bezeq data)



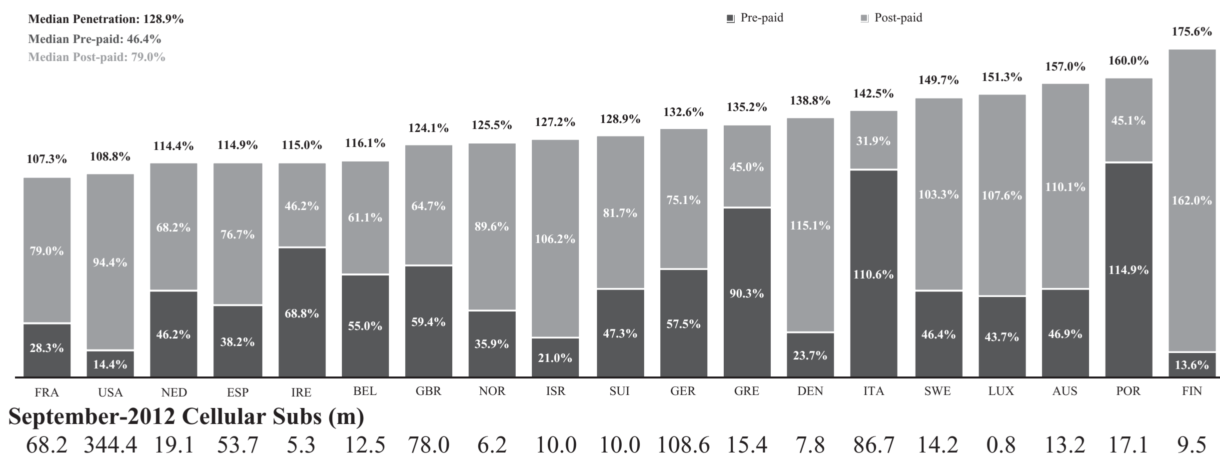
Note: market share excludes ISPs

(1) Fixed Telephony ARPU for Bezeq for 9M 2012 has been implied using the Q1, Q2 and Q3 ARPUs.

Cellular Telephony

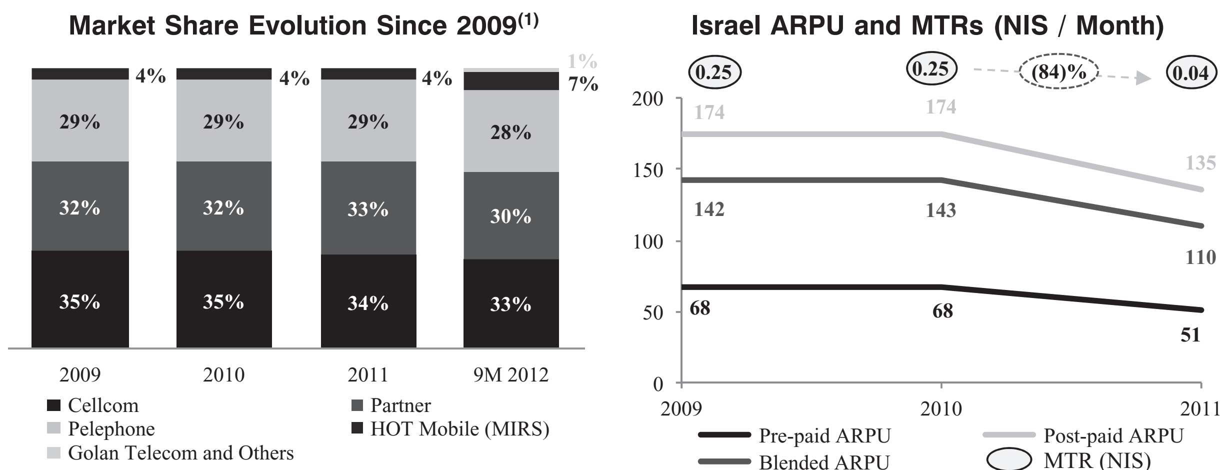
As of September 30, 2012, there were approximately 10 million cellular telephony customers in Israel, representing a penetration of 125%, broadly in line with countries such as Switzerland, Great Britain, Belgium and Germany. Approximately 88% of the customers were ''post-paid,'' i.e. purchased subscriptions rather than pre-paid cards allowing a fixed number of minutes of use (Source: Informa Telecoms & Media). On average Israeli cellular phone users spent approximately NIS 110 per month (excluding VAT) on their cellular telephony services in 2011 (Source: IHS Screen Digest), a relatively modest figure when compared to most Western European and U.S. markets.

2012E Israeli Cellular Telephony Penetration vs. Western European and U.S. Peers



There are currently five licensed Mobile Network Operators (MNOs) which offer cellular telephony services to the public and several players who operate Mobile Virtual Network Operators (MVNOs), although MVNOs currently have insignificant market share of the cellular telephony market. Market shares of the top three cellular operators, Cellcom, Partner Communications and Pelephone (Bezeq), have been relatively stable over the past years at approximately 30% each. New entrants, HOT Mobile (previously MIRS) and Golan Telecom, were granted licenses in 2011 with services launched in the second quarter of 2012 via a combination of proprietary networks and national roaming agreements with existing operators. As of September 30, 2012, HOT Mobile had approximately 687,000 cellular subscribers, corresponding to a market share of approximately 7% compared to 4% as of December 31, 2011. In 2011, the combined ARPU for cellular telephony subscribers of all mobile operators in Israel declined to NIS 110 from NIS 143 in 2010 primarily driven by a new cellular termination rate regulation in September 2010 which reduced cellular termination rates from NIS 0.25 to NIS 0.04, a decline of approximately 84%.

Cellular Telephony Market Shares by Operator Since 2009 (Source: Informa Telecoms and Media, IHS Screen Digest)



(1) 2009-2011 market shares based on Informa Telecoms & Media and 9M 2012 based on company estimates

The Israeli cellular communications market is more competitive than some of the markets in Western Europe, notably given the recent legislation, enacted in April 2012, preventing operators from charging exit fees, except in limited circumstances. As a result, the Israeli cellular market now offers fewer barriers to entry for the new 4th and 5th cellular license owners HOT Mobile and Golan Telecom.

Mobile Broadband

As of December 31, 2011, there were 5.8 million active 3G mobile subscribers in the Israeli market (Source: Informa Telecoms and Media). Mobile operators' network capability can be further enhanced by Long-Term Evolution (''LTE'') network roll-out, although the Ministry of Communications has not yet tendered for the frequencies necessary for LTE-based services, enabling the provision of higher-speed mobile broadband Internet. Mobile broadband Internet operators, however, currently only offer speeds and capacities significantly lower than cable and DSL operators. As a result, we believe that, in the coming years, HFC cable will be the only broadband Internet infrastructure access alternative to DSL with an extensive coverage and high bandwidth for the foreseeable future.

DESCRIPTION OF OUR BUSINESS

Overview

We are the sole cable operator in Israel and one of two operators that own a national fixed-line network infrastructure, with our cable network passing most homes in Israel. We are the leading provider of pay television services and the second leading provider of broadband Internet infrastructure access and fixed-line telephony services in terms of number of subscribers in Israel. We are currently the only provider of bundled triple-play services in Israel, which include pay television, broadband Internet infrastructure access and fixed-line telephony services. We are also a growing provider of cellular services in Israel, having launched in May 2012 our Universal Mobile Telecommunication System (''UMTS'')-based third generation (''3G'') cellular services in addition to our existing Integrated Digital Enhanced (''iDEN'') cellular services. As of September 30, 2012, we had approximately 1.2 million Cable Customer Relationships, which accounted for 2.3 million revenue generating units (''RGUs''), and 687,000 cellular RGUs.

We believe that our cable network is among the most technologically advanced in the Middle East region. Our fully-owned cable network includes extensive fiber and is therefore generally accepted as faster, with greater data capacity and able to offer better quality than copper-based digital subscriber line (''DSL'') networks. Our entire cable network is U.S. Docsis 3.0-enabled allowing us to offer subscribers maximum download speeds of up to 100 Mbps, which we believe is higher than those achieved at similar pricing by our largest DSL competitor on a large scale. This enables our customers to connect several devices (such as computers, tablets and smartphones (via Wi-Fi connection)) to the Internet at the same time and receive interactive services like video-on-demand (''VOD'') and personal video recording (''PVR''), as well as high-definition television (''HDTV''). We own an extensive iDEN cellular network with nationwide coverage and we are building an expanding UMTS network, offering the most advanced 3G services available in Israel, covering approximately 30% of the inhabited territory of Israel and approximately 40% of the Israeli population, both as of September 30, 2012. We have entered into a national roaming agreement with a cellular provider with UMTS coverage in the areas of Israel that are currently outside of our UMTS network coverage area.

Our Competitive Strengths

We believe that we benefit from the following key strengths:

Israel has a highly attractive macroeconomic environment. We operate in a highly-attractive market for cable operators due to strong macroeconomic fundamentals. Israel has a developed market economy, joined the Organization for Economic Co-operation and Development (''OECD'') in 2010 and, according to independent third-party sources, has a GDP per capita (based on purchase price parity) of $30,330, which is comparable to Western Europe ($32,109), as defined by Euromonitor. According to independent third-party sources, Israeli GDP grew at a rate of 4.5% since 1991, compared to the average GDP growth rate of 1.9% in Western Europe and 2.6% in the United States. Despite the global economic slowdown, since 2007 the Israeli real GDP has grown at an average rate of 3.6% compared to 0.1% for Western Europe and 0.2% for the United States and Israel maintains a sovereign credit rating of A+ and A1 from S&P and Moody's, respectively.

The Israeli telecommunications market benefits from favorable dynamics. The Israeli market presents a number of favorable characteristics and trends for cable and cellular operators such as the high concentration of its population in metropolitan areas, high levels of broadband Internet penetration and a long history of digital television use. As we operate primarily in metropolitan areas, our footprint is characterized by high population density, which facilitates highly efficient cable operations and yields comparatively higher profitability and cash flow margins than cable operations serving lower population density markets. According to independent third-party sources, the Israeli market has high levels of pay television, broadband Internet infrastructure access and cellular telephony penetration, with penetration rates of 68%, 68% and 128%, respectively as of December 31, 2011. We believe that the Israeli pay television, broadband Internet infrastructure access and fixed-line telephony markets are characterized further by their high degree of concentration among providers, with only two operators (one of them being HOT), having significant market share in these markets stemming from the fact that only two operators have extensive nationwide infrastructure allowing the provision of these services. We believe that Israeli market is particularly suited for the continued rollout of innovative services like VOD, PVR and HDTV and, in the longer term, the potential rollout of 4G cellular services, which provide potential for

future growth. In cellular telephony, we believe the recent legislation preventing early termination fees except in limited circumstances, and, as of January 2013, the linkage of the price and terms of a handset to the cellular service prices and benefits, in addition to established regulations allowing number portability have made the cellular market more attractive to new entrants, such as HOT Mobile, as it has contributed to facilitating our ability to gain market share and has reduced subscriber acquisition costs.

We have strong market positions with a history of relatively stable or growing market shares in our markets. We were the leading provider of pay television, the second leading provider of broadband Internet infrastructure access, the second leading operator in fixed-line telephony and the fourth leading operator of cellular services by number of subscribers as of September 30, 2012. As of September 30, 2012, we had approximately a 61% market share by number of subscribers in the pay television market, approximately a 40% market share by number of subscribers in the broadband Internet infrastructure access market, approximately a 20% market share by number of subscribers in the fixed-line telephony market and approximately a 7% market share (including both our iDEN-based and UMTS-based subscribers) by number of subscribers in the cellular services market (based on 687,000 cellular RGUs for HOT Mobile (including iDEN and UMTS) and our internal estimates of the total number of cellular services subscribers as of September 30, 2012). Since 2009, we have largely maintained or grown our market shares across all our markets, while significantly increasing ARPUs in our pay television and broadband Internet infrastructure access segments.

We have an attractive product offering and the ability to offer multiple-play bundles for our cable-based services. We believe we offer the best services at the most attractive prices across our business segments. In pay television, we provide over 150 digital channels, including up to 21 HDTV channels and a wide range of on demand programs through the largest VOD library available in Israel, while offering our customers interactive television capabilities which are not offered by our DTH competitor independently from a broadband Internet subscription. In our broadband Internet infrastructure access service, our U.S. Docsis 3.0-enabled cable network makes it possible for all our customers to achieve download speeds of up to 100 Mbps, with a high level of service and reliability of effective speed delivered, which is widely recognized as being superior to DSL-based infrastructure. In fixed-line telephony, we provide a wide range of post-paid packages and offer the ability to take the service as part of several multi-play bundles, which we believe makes our product more attractive than what is currently offered by our competitors. In cellular services, our offer is focused on unlimited national voice, SMS and data package, with an option to include unlimited international voice calls to a variety of destinations through a third-party provider which we believe is a competitively-priced offering with a high quality of service.

Consistent with the developed markets of Western Europe, offering bundled services has become increasingly important for Israeli media and telecommunications service providers to meet customers' telecommunication and entertainment requirements. We expect that customers will increasingly adopt multiple-play packages and that, over the coming years, these will become the most common products on the market, notably in light of the convenience and cost savings that result from acquiring television, broadband Internet infrastructure access and fixed-line telephony services from a single provider for an all-in price which is lower than the cost of each product purchased separately. We believe we are uniquely positioned to benefit from our customers adopting multiple-play packages given the intrinsic quality of our various products and the possibilities offered by our unified fixed-line infrastructure. As of September 30, 2012, 33% of our Cable Customer Relationships subscribed to triple-play services. As a result of our ability to offer multiple-play packages, among other things, we have been able to provide customers with high quality services and have seen steady growth in ARPU of customers subscribing to our cable-based services, which has grown from NIS 191 for the year ended December 31, 2009 to NIS 211 for the year ended December 31, 2011 and to NIS 219 for the nine months ended September 30, 2012.

Our state-of-the-art and highly invested cable network infrastructure and advanced 3G cellular network provide us a competitive edge over our competitors by enabling us to offer what we believe are more attractive triple-play cable services and cellular services. We are the sole cable operator in Israel and one of the two operators that own a national fixed-line network infrastructure. We believe that our fully-owned state-of-the-art, highly invested fiber and coaxial cable network allows us to offer highly attractive and competitive services in terms of picture quality, speed and connection reliability. As of September 30, 2012, our cable network was fully upgraded to bi-directional capability and U.S. Docsis 3.0, thus enabling us to offer most Israeli households our triple-play services, including

up to 100 Mbps broadband Internet infrastructure access and advanced pay television services such as HDTV, VOD and PVR. We believe our advanced technology has allowed us to successfully up-sell broadband Internet infrastructure access, fixed-line telephony and premium digital television services to our existing customer base, increasing our average RGUs per Cable Customer Relationship from 1.66 services on December 31, 2009 to 1.93 services on September 30, 2012.

While we continue to operate a nationwide iDEN mobile network, on May 15, 2012 we began rolling out UMTS-based cellular services to expand our cellular customer base and, as of September 30, 2012, our UMTS network covered approximately 30% of the inhabited territory of Israel and 40% of the Israeli population and through our national roaming partner we offer nationwide coverage. The stable cash flows and market knowledge provided by our mature iDEN business has supported the roll out of our UMTS-based 3G cellular services. We have further optimized the amount of additional cash necessary to support this roll out by not subsidizing handsets and by requiring subscribers to purchase our UMTS-based 3G cellular services on a post-paid basis. Our UMTS network is based on HSPA+ technology and we believe that, when completed, it will be one of the most advanced nationwide networks in Israel, providing voice as well as advanced data services with download speeds of up to 42 Mbps, which we are seeking to increase to 84 Mbps in the future. Based on our current deployment plans, we expect our UMTS network to cover over 50% of the Israeli population by 2014 and 90% of the Israeli population by 2018. In addition, if the Israeli Ministry of Communications tenders frequencies for LTE and if we acquire such frequencies, we believe that, because of our extensive fixed-line network and our 3.9 Ghz UMTS network, upgrading our cellular network to the 4G standard will involve significantly less capital expenditure than we incurred to roll out our 3G network because our cellular network infrastructure will require minimal upgrading as compared to some of our competitors and will allow us to more quickly market the newest LTE-based packages to our customers.

Moreover, the combination of the nationwide reach of our fiber and coaxial cable network's backbone and last mile infrastructures and our existing iDEN network (comprising 640 cellular sites across Israel as of December 31, 2011) allows us to benefit from significant efficiencies in the roll out and operations of our UMTS cellular network such as, among others, reduced cost and increased speed of tower sites connectivity. We believe this will enable us to achieve better quality of service, higher profitability and lower capital expenditures than some of our competitors who do not own an extensive fixed-line network or competitors who do not operate a large existing cellular services operation.

Our content department has over 15 years of experience purchasing and developing award-winning local content broadcast on our cable network. Shows co-developed by our content department have been nominated for more awards by the Israeli Academy than any one else in the last three years, with 50 nominations in 2011, 28 nominations in 2010 and 38 nominations in 2009. We have also developed several show platforms, including ''In treatment'' and ''Homeland'', to which we have sold the rights to parties outside of Israel. We have longstanding partnerships with script writers and local production studios whereby we are involved in developing locally-produced pay television content which are broadcast on our popular channel, ''HOT 3''. We also have a proven history of purchasing high-quality local content, in addition to the content that we co-develop, with a combined total investment of over NIS 150 million in 2011. We believe the high quality and popularity of the local content developed and/or purchased by us and only available on our cable network is a significant factor in our customers' decision to continue to subscribe to our pay television offerings and minimizes churn. Further, over the years, we believe that our involvement with local content production companies has allowed the HOT brand to benefit from the significant popularity of our television series, movies or shows among the Israeli population by leveraging the fame of the local actors and actresses in our marketing campaigns to promote our offerings. We believe our significant experience in purchasing a wide range of channels, co-developing and purchasing local content and our sustained spend over the years is a barrier to entry for other players and contributes to the stability of our customer base in pay television.

Our ability to effectively advertise and sell our products benefits from the strength of the HOT brand and our distribution capabilities across Israel. We believe HOT's brand is among the best known telecommunications names in Israel as result of an average of approximately NIS 85 million spent on marketing per year from 2009 to 2011 and the ''HOT'' name and logo being used for all our products across business segments, other than our existing iDEN-based cellular services. We believe that our nationwide mass media marketing campaigns are highly effective as they benefit all our products either directly or indirectly through the ''HOT'' brand, thus allowing us to enjoy economies of scale in our marketing spending while maximizing reach. Our ability to sell our products is supported by our

distribution network of door-to-door and telemarketing representatives, numerous booths and shops and an interactive website. As a result, we believe customers increasingly perceive us as a leader in product innovation and a one-stop shop for media and telecommunication services.

Our cable-based business enjoys strong and recurring cash flows, which allow us to finance investments in growth. Our cable-based services revenue is recurring in nature as it stems for the most part from monthly subscriptions paid by a large and stable customer base of approximately 1.2 million Cable Customer Relationships with historically stable churn rates for Cable Customer Relationships. Similar to cable businesses across Western Europe, we have a relatively fixed cost base and have a track record of successful management of operating expenses as demonstrated by the steady increase of our cable-based services EBITDA margin over the last three years. Our cable-based business's capital expenditures are largely driven by network upgrades and customer acquisition-related items such as customer premises equipment (CPE) and installations. We have a relatively high degree of control over the renewal cycle of CPEs and network upgrades, most of which are not essential given the significant level of investment in our cable network over the past several years. As a result, we have experienced cable-based services revenue growth, with an average growth rate of 2.8% per annum between the year ended December 31, 2009 and the year ended December 31, 2011, cable-based EBITDA growth of approximately 12.0% per annum between the year ended December 31, 2009 and the year ended December 31, 2011 and cash flow generation in our cable-based businesses over the past three years. In the three years ended December 31, 2011, our accrued capital expenditures for cable-based services totaled NIS 658 million per annum on average and accounted for approximately 53% of our cable-based services EBITDA over the period, resulting in a cash flow conversion of 47%.

Our growing cellular services business benefits from (i) an existing iDEN network, (ii) efficiencies from the connectivity with our fixed-line cable network, (iii) limited subscriber acquisition costs stemming from HOT Mobile not subsidizing handsets, (iv) predictable cellular services capital expenditures to the extent the majority relates to cellular network deployment and (v) a positive trend for cable-based EBITDA margin which has and will continue to support our cellular network roll-out. In the nine months ended September 30, 2012, our HOT Mobile related capital expenditures (i.e. paid by HOT Mobile) totaled approximately NIS 328 million, the majority of which related to UMTS network coverage expansion. Based on our current network deployment plans, we expect to spend approximately between NIS 1.1 billion and NIS 1.6 billion in total capital expenditures related to our UMTS network to complete the full roll out of our UMTS network to achieve the network coverage requirements under our cellular license by the end of 2018. As a result, we believe that, in the near future, the capital expenditures related to our cellular services operation should decrease from levels seen in the nine months ended September 30, 2012 due to high capital expenditures during such period as a result of the launching of our UMTS network. As we roll out our UMTS network, we also expect our customers to be using our cellular network more than our roaming partner's and therefore we expect our margin to benefit from lower roaming costs per customer per unit of traffic.

We have a highly experienced management team with a successful track record. Our management team has a proven track record of managing telecommunication businesses in Israel while delivering growth, managing cost efficient businesses and increasing return on capital expenditures. Stella Handler, HOT's chairwoman since 2011, was previously the chief executive officer of 012 Smile and has 24 years of experience in the telecommunications sector. HOT's chief executive officer, Hertzel Ozer, joined in 2008 and has 27 years of business experience, including as chief executive officer of Go Next, the mobile internet service provider owned by Pelephone. HOT's chief financial officer, Jean-Luc Berrebi, joined in 2010 and has over 17 years of financial and accounting experience, including as a partner at a major accounting firm where he headed its European telecom and technology practice.

Our Strategy

We intend to increase our revenues, profit margins and cashflow by striving to be the leading telecommunications company in Israel and the preferred provider of pay television, broadband Internet infrastructure access, fixed-line telephony services and cellular services. The key components of our strategy are to:

Continue to drive revenue growth and cash flow generation by increasing triple-play penetration and average RGU per Cable Customer Relationship. By increasing the number of our customers receiving multiple-play packages and by offering additional premium services and products under the "HOT" brand name, we believe that we will be able to grow our cable-based ARPU by increasing the

number of services a customer purchases from us and provide our customers with a better overall cable service. We have increased our average RGU per Cable Customer Relationship from 1.66 services on December 31, 2009 to 1.93 services on September 30, 2012. We expect to benefit from our premium television offerings to attract additional customers to our higher bandwidth broadband Internet infrastructure access offering and fixed-line telephony and to market our premium television and fixed-line telephony products to customers who only subscribe to our broadband Internet infrastructure access service. We expect to grow the revenues from our television offering by continuing to expand the penetration of our value-added and interactive services, such as VOD and PVR. We believe the large scale of our existing footprint and upgraded cable network provides us with the platform to roll out new products and services to a large existing customer base and translate revenue growth into profitability and cash flow generation.

Derive revenue growth from increasing our market share in the cellular services sector and expanding our presence in the business customer channel. We expect to increase revenue and market share in the cellular services sector by offering competitively priced 3G services with fixed-price plans with desirable features such as unlimited national calls to fixed-line and mobile telephone numbers, text messaging and national data access as well as pay-as-you-use plans. The roll out of our 3G cellular network has enabled us to provide faster data transmission services, created higher traffic capacity and allowed us to offer a wider range of handsets. We plan to further accelerate our growth in the cellular services sector by continuing to make disciplined investments that enable us to take advantage of developments in technology. We believe that our historic and planned investment in a 3.9 Ghz UMTS network will significantly lower the capital expenditure required to transition to 4G technology. If the Israeli Ministry of Communications tenders frequencies for LTE and if we acquire such frequencies, we believe our speed to market with an offering of LTE mobile phones will enable us to increase revenue and market share while prudently managing working capital. In addition, we believe our broadband and cellular services offerings are well positioned to provide national and international data services to business enterprises, as well as home offices, and we expect to increase revenues by expanding our presence in the market for business customer telecommunication services.

Increase broadband Internet infrastructure access market share by leveraging speed capacities. We expect to increase broadband Internet infrastructure access market share as our high-speed broadband Internet infrastructure access offering provides a compelling solution to the increasing demand by customers for high-bandwidth products. Our technologically advanced cable network allows us to offer, at similar prices, faster broadband speeds than our competitors who employ technologies such as DSL or VDSL. As of September 30, 2012, approximately 40% of broadband Internet infrastructure access subscribers in Israel were served by our high-speed broadband Internet infrastructure access service at various download speeds, including 100 Mbps, and with an average speed subscribed to of approximately 13 Mbps as compared to DSL subscribers' average speed subscribed to of approximately 8 Mbps. We believe the speed advantage of our broadband Internet infrastructure access product and high-quality service will enable us to grow our broadband Internet infrastructure access business by targeting customers who do not have broadband Internet infrastructure access and DSL subscribers who are looking for higher download speeds and by incentivizing our existing television and fixed-line telephony customers to add our broadband Internet infrastructure access service to the bundle of products they purchase from us.

Grow operating margins and increase cash flow by leveraging the expertise of Altice and our senior management team to achieve economies of scale and identify operational synergies. Altice has successfully improved the performance of cable operators in France, Portugal, Belgium, French Antilles and Luxembourg and HOT's senior management team has a proven track record of running cost efficient operations and maximizing return on capital expenditures. We expect to benefit from Altice's operational and financial expertise, including expertise with product bundling and convergence, cost structure, operational performance and supplier relationship benchmarks and deep knowledge of the capital markets. We expect to grow our operating margins by focusing on internal process efficiency and continued optimization of our operations and by reducing service costs through streamlining of our interface with our subscribers. In addition, we expect to grow our operating margins as a result of cost savings from reduced churn due to improvements in our service quality and subscriber satisfaction. Furthermore, we expect to realize economies of scale in operating and capital expenditures from the growth of our business which we believe will result in additional operating margin improvements.

Increase subscriber loyalty and reduce churn by creating a superior television product offering. We aim to attract cable-based subscribers and reduce churn by differentiating the HOT service with an offering of superior television programming and premium services. The HOT pay television offering includes content and channels purchased from a variety of third-party local and foreign producers, leading original local productions co-developed by us with local producers and broadcast on our HOT 3 channel, and a VOD library containing on average 18,000 hours of content, the largest in Israel. We broadcast original local television programming including popular shows such as Haborer, Asfur 2, Split 2, Wedding Season and TLV. We continue to focus on broadcasting high quality content over our cable network, and in particular on the HOT suite of channels, including HOT 3, HOT Family, seven movie channels, the Israeli Entertainment Channel, sports channels and more than 10 children's channels. We believe that by differentiating HOT through the most attractive content broadcast on our cable network, including by maintaining our investment in popular locally-produced content, we will be able to attract new subscribers to our cable-based services and will reduce churn by increasing HOT brand loyalty among our existing subscribers.

History

Our Group was formed on December 31, 2006 as a result of the merger (the ''Cable Consolidation'') of the three existing cable companies in Israel, Arutzey Zahav, Matav and Tevel, which were the exclusive providers of multi-channel television services in Israel from 1990 until July 2000. As a result of the regulatory framework governing cable television prior to the merger, the operations of each of our predecessor companies were restricted to defined concession areas in which they had a monopoly over cable television services. Following the introduction of satellite television technology into Israel in 2000, our predecessor companies initiated the consolidation process designed to integrate their cable network and operations under a single group in order to effectively compete with satellite television as well as expanding their operations to provide broadband Internet access and fixed-line telephony services. Following the completion of the merger, HOT-Telecommunication Systems Ltd. (''HOT''), is the primary Group entity responsible for the pay television operations of the Group.

In 2003, as a part of the consolidation process, our predecessor companies formed HOT Telecom Limited Partnership (''HOT Telecom'') as a joint venture to provide broadband Internet infrastructure access and fixed-line telephony services over their respective cable networks. HOT Telecom commenced operations on January 1, 2004 and manages the broadband Internet infrastructure access and fixed-line telephony operations of the Group. Following the completion of the merger, HOT Telecom became a wholly-owned subsidiary of HOT. As a result of certain regulatory requirements, HOT Telecom also owns the Group's cable network. For further details, see ''*Regulatory—Structural Separation*''.

In November 2011, we completed the acquisition of MIRS Communications Ltd. (''MIRS''), pursuant to which we have expanded our range of services to include cellular services. On May 21, 2012 MIRS was renamed as HOT Mobile Ltd. (''HOT Mobile'') and is the Group entity responsible for the cellular operations of the Group. HOT Mobile is a wholly-owned subsidiary of HOT.

In February 2012, we commenced ISP operations through HOT Net Internet Services Ltd (''HOT Net''), which is a wholly-owned subsidiary of HOT operating under structural separation.

HOT is registered with the Israeli Registrar of Companies under number 52-004007-2. HOT completed an initial public offering of shares in October 1993 and its shares are listed on the Tel Aviv Stock Exchange. HOT's shares will be delisted as a result of the Take-Private Transaction, if successful. HOT Telecom is registered with the Israeli Registrar of Partnerships under number 55-021525-5. HOT Mobile is registered with the Israeli Registrar of Companies under number 51-261596-4. HOT Net is registered with the Israeli Registrar of Companies under number 51-212970-1. Our principal business addresses are Europark, Yakum, 60972, Israel and 3 Negev Street, Airport City, 70100, Israel.

Products and Services

Cable Services

We provide pay television, broadband Internet infrastructure access and fixed-line telephony services under the ''HOT'' brand to residential subscribers and businesses in Israel via our cable network. In addition, we provide a range of advanced telecommunications solutions to our business customers.

Multiple-play. We are currently the only provider of bundled triple-play services, comprising pay television, broadband Internet infrastructure access and fixed-line telephony, in Israel, which enable our

customers to conveniently subscribe to pay television, broadband Internet infrastructure access and fixed-line telephony services together at attractive prices that are lower than the sum of the stand-alone services. We also offer various double-play packages comprising of a combination of two of these services. We believe that the several bundled options we have introduced allow our customers to customize their packages according to their requirements and offer them greater value for money compared to similar services offered by our competitors. As of September 30, 2012, 33% of our Cable Customer Relationships subscribed to our triple-play packages. We have increased total RGUs for cable-based services from 2.2 million RGUs as of December 31, 2009 to 2.3 million RGUs as of September 30, 2012 and increased our average RGUs per Cable Customer Relationships from 1.66 services on December 31, 2009 to 1.93 services on September 30, 2012 by investing in the marketing of our multiple-play offerings and transitioning our analog and digital video-only customers to multiple-play packages. The content of our main triple-play packages are summarized in the table below:

Package	Services Offered	Price per Month
Platinum Triple	*Television*: 74 standard channels + six extra content packages* channels + 12 HD channels *Maximum Internet speed*: 100 Mbps** *Fixed-Line Telephony*: Unlimited calls to fixed and mobile lines in Israel	NIS 383
Gold Triple	*Television*: 74 standard channels + six extra content packages* + 12 HD channels *Maximum Internet speed*: 30 Mbps** *Fixed-line telephony*: Unlimited calls to fixed and mobile lines in Israel	NIS 332
Silver Triple	*Television*: 74 standard channels + three extra content packages* + 12 HD channels *Maximum Internet speed*: 12 Mbps** *Fixed-line telephony*: 500 free outgoing minutes per month to fixed and mobile lines in Israel	NIS 299

* Our extra content packages include packages ranging from 5 to 7 television channels.

** Customers have the option to choose their preferred ISP.

While we highlight our multiple-play packages in our marketing efforts, we continue to offer stand-alone pay television, broadband Internet infrastructure access and fixed-line telephony services to our customers as required by regulations. For further details, see ''*Regulatory—Structural Separation*''. Each of our cable services are described in further detail below.

Pay Television. We are the largest provider of pay television services in Israel based on number of subscribers. We offer our residential and business customers a full range of pay television services that includes digital television and premium digital services under the HOT brand name. Our premium digital services include theme and premium content packages, HDTV channels and PVR services. Our cable network is entirely bi-directional which enables us to offer interactive digital services to most of our customers. As of September 30, 2012, we had approximately 893,000 RGUs to our pay television service, a decrease from 908,000 RGUs as of December 31, 2009, representing approximately 74% of our Cable Customer Relationships and 61% market share of the pay television market in Israel based on number of subscribers.

We have invested in co-developing with our local production partners and procuring quality content in order to offer our customers high quality television programming. We package such original and purchased content into a range of television channels that we own and broadcast under the HOT brand to our television customers. The HOT suite of channels includes HOT 3, where we broadcast our co-developed local content, HOT Family, seven movie channels, the Israeli Entertainment Channel, sports channels and more than 10 children's channels, which we believe are highly popular in Israel and run shows with top television ratings such as Haborer, Asfur 2, Split 2 Wedding Season and TLV. We also purchase rights to broadcast popular foreign channels over our network. Our total spend on television programming content during 2011 was NIS 639 million, out of which over NIS 150 million was spent on co-developing and purchasing original local content. We believe the quality of content we provide over

our network generally and the HOT television channels in particular, has been a critical factor in attracting new customers, maintaining our existing customers and minimizing churn. Under existing regulations, we are subject to certain ownership restrictions that limit the number of television channels we are permitted to own. In addition, we are subject to certain minimum investment requirements relating to the production of original local content. We have been in compliance with these regulatory requirements in all material respects. Due to a recent decision of the Israeli Council for Cable and Satellite Broadcasting (the ''Israeli Broadcasting Council'') we may be required to significantly increase the level of investment in local content we are required to make. For further details, see ''*Regulatory—Television—Minimum Investment in Local Content Productions*''.

Digital Television

Our standard digital television package consists of 74 television channels and 33 radio channels, which we believe is higher than the number of channels offered by our competitor. Our standard television package contains a range of Israeli and international sports, current affairs, entertainment, music, film, documentaries, children, and adult channels as well as channels in Arabic and in Russian to address demand from the culturally diverse population of Israel. These include the HOT suite of channels and others such as Eurosport, Fox News, MSNBC, BBC Entertainment, MTV and Zee TV as well as ''must carry'' channels that we are required to carry on our network under existing regulation. We regularly update our standard digital television package to reflect changes in viewer interest. We also offer our digital television customers access to 47 premium television channels which can be purchased for an additional monthly subscription fee in the form of individual television channels or as extra content channel packages. The content of our main pay television packages are summarized in the table below:

Package	Services Offered	Price per Month
HOT Mega	74 standard channels + six extra content packages* + 12 HD channels	NIS 236
HOT More	74 standard channels + three extra content packages*	NIS 231
HOT Light	74 standard channels + two extra content packages*	NIS 221

* Our extra content packages include packages ranging from 5 to 7 television channels.

We also provide our digital customers with a start-over service for over 20 television channels, which is included in all our digital television packages, enabling the viewer who misses the start of a program to go back to the beginning of the program while a broadcast is in progress.

Premium or Value-Added Services

We offer up to 21 television channels in HD that have enhanced picture and sound quality compared to regular television channels and therefore improve the customer's viewing experience. We provide our digital television customers who rent a suitable HD set-top box from us with a package of 12 television channels in HD for a monthly subscription fee.

We were the first television services provider in Israel to offer VOD services, which are provided by means of a dedicated set-top box. Our VOD library is extensive containing over on average 18,000 hours of content. Our VOD service currently comprises two delivery portals, namely HOT VOD and HOT VOD Young, which provides our customers with instant access to on-demand content including a wide selection of movies, television shows, children's programming, music videos, content in Arabic and in Russian and other on-demand content on a monthly subscription basis. We also provide our customers with access to additional content libraries that are not included in the HOT VOD and HOT VOD Young portals, including premium movies from our HOT VOD Movies portal and content exclusively in Russian from our HOT Russian VOD portal, on a pay-per-view or monthly subscription basis. Our VOD service is an interactive service enabling viewers to watch programs of their choice instantly, without the need for buffering, and to pause, fast-forward and rewind the content at will. This gives our customers increased control over the content and timing of their television viewing. As of September 30, 2012, our VOD penetration rate was 56% of our total cable RGUs, we believe the highest in Israel, compared to 47% as of December 31, 2009. In 2011, we commenced offering digital customers a HOT Magic HD set-top box, which combines VOD functionality, HD technology and recording capabilities in a single set-top box. The customer is thus able to control viewing of content of choice at a higher quality. This set-top box has a

removable disk for recording content which allows for preservation of the recorded content if the set-top box is replaced.

We also offer digital customers our PVR service, HOT Magic, for a monthly subscription fee by means of a set-top box that, in addition to receiving the regular digital broadcasts, enables digitally recording television programs to a hard disk in real-time. The PVR functionality allows customers to play-back, pause, fast-forward or rewind programs at any point during or for a period after the broadcast. In 2011, we commenced offering digital broadcast subscribers a HOT HD-PVR set-top box, which combines PVR and HDTV technology in a single set-top box.

Analog Services

As of September 30, 2012, we continued to provide analog television services to approximately 23,000 customers. Our basic analog television service consists of a standard package of 57 television channels and 32 radio channels. We are in the process of phasing out our analog services, which we plan to complete during the course of 2013. We believe that phasing out our analog services will free up bandwidth over our network which will enable us to expand our digital services. We have developed targeted promotional offers to migrate our existing analog customers to digital television.

Broadband Internet Infrastructure Access. Internet service in Israel is uniquely structured in as much as it is segregated into two separate elements comprised of infrastructure or network access services and ISP services. Infrastructure access service relates to access to the physical network infrastructure within Israel that is required to connect the customer's device to the infrastructure access provider's operator. This service is provided exclusively by us and Bezeq, the only telecommunication operators in Israel that own a national fixed-line network infrastructure. ISP services, which can be provided by any licensed provider, consist of providing access to the customer from the infrastructure provider's operator, through its own operator, to the local and global Internet network. ISPs generally also provide certain value added services such as data protection services, security solutions, e-mail services and system administration services. A customer wishing to subscribe to Internet services in Israel effectively needs to purchase each of these services and accordingly retains the choice with regards to providers for both services, i.e., it may choose to subscribe to the broadband Internet infrastructure access facilities of us or Bezeq while using a separate ISP provider. Under the terms of our ISP license, we are required to provide ISP services to any customer or other ISP license holder, including to customers of other broadband Internet infrastructure access providers, on equal terms. For further details, see ''*Regulatory—Internet Service Providers*''.

We have been providing residential and business customers with broadband Internet infrastructure access services over our cable network since HOT Telecom began operations in 2004. The services are provided by our subsidiary HOT Telecom. In 2010, we completed a cable network upgrade that made our entire cable network U.S. Docsis 3.0-enabled. This allows us to provide ultra fast broadband Internet infrastructure access services with download speeds of up to 100 Mbps with limited or no degradation in speed throughout our cable network, which we believe is the highest in Israel on a large scale. Our U.S. Docsis 3.0-enabled cable network can theoretically support download speeds of up to 300 Mbps with new CPEs and certain limited modification to network equipment, which will allow us to easily upgrade our services in the future. We currently provide our customers with options to purchase broadband Internet infrastructure access services with download speeds ranging from 2.5 Mbps up to 100 Mbps subject to certain time or data volume restrictions which are not currently enforced, although we reserve the right to restrict usage to prevent abuse, at competitive prices. Our customers can also choose from our triple-play and double-play packages which include broadband Internet infrastructure access services along with our television and fixed-line telephony services. As of September 30, 2012, we had approximately 768,000 RGUs to our broadband Internet infrastructure access service, an increase from approximately 719,000 RGUs as of December 31, 2009, representing approximately 64% of our Cable Customer Relationships and 40% market share of the broadband Internet infrastructure

access market in Israel based on number of subscribers. The content of our main broadband Internet infrastructure access packages are summarized in the table below:

Download Speed/Upload Speed	Price per Month
100Mbps/2,000Kbps	NIS 180
30Mbps/1,500Kbps	NIS 110
12Mbps/1,000Kbps	NIS 80
5Mbps/500Kbps	NIS 70

Fixed-Line Telephony. We provide fixed-line telephony services using PacketCable™ technology on our secure cable network by offering individual lines to residential customers and to businesses as well as PRI trunks (consisting of up to 30 voice lines per trunk) to our business customers. We also provide business numbering services allowing for toll free calls from anywhere in Israel to 1-800 numbers and a split-billing calling service to businesses (1-700). In addition, our services include several ancillary value added features for end users such as caller identity, call waiting and call waiting with caller identity, follow me (a call forwarding service enabling the user to be reached at any of several phone numbers), conference calling, last call return, blocking of calls with no caller identity, blocking of caller identity for outgoing calls and voicemail services. As of September 30, 2012, we had 672,000 RGUs to our fixed-line telephony service, an increase from 562,000 RGUs as of December 31, 2009, representing approximately 56% of our Cable Customer Relationships and a 20% market share of fixed-line telephony market in Israel based on number of subscribers.

We provide our fixed-line telephony services on a stand-alone basis or as a component of our triple-play and double-play packages allowing customers to choose from a range of pricing options based on their expected usage. We offer four types of fixed-line telephony packages:

Package	Services Offered	Price per month
Fix 200	200 free minutes to mobile and land line	NIS 39
Fix 300	300 free minutes to mobile and land line	NIS 49
Fix 500	500 free minutes to mobile and land line	NIS 69
Fix Extra	1000 free minutes to land line (calls to mobile not included)	NIS 59

Fixed-line and cellular telephony in Israel is segregated into three separate services comprised of domestic fixed-line telephony services, cellular and international long distance services, each of which require a separate license. Currently, our fixed-line telephony services do not include an international long distance calling service.

We seek to maximize the use of our own cable network when routing calls in order to minimize interconnection costs and capitalize on our control over quality of service. We have reciprocal interconnection arrangements with all the domestic telephony operators, international long distance operators and cellular operators in Israel pursuant to which we pay interconnection fees to such other service providers when our subscribers connect with another network and receive similar fees from providers when their users connect with our network through interconnection points. We recently received a separate license permitting us to provide international long distance services.

Advanced Telecommunication Services. We provide a range of advanced telecommunication solutions to our business customers. We offer data and video transmission and VPN services to business customers and to other telecommunication providers using synchronous digital hierarchy SDH technology or IP technology. These services include network services for transferring data from point to point, transferring data between computers and between different communications networks, communications network connection to the Internet and remote business access services.

In February 2012 we started providing ISP services to our customers under the HOTnet brand through our subsidiary, HOT Net. As a result, we are now in a position to provide a comprehensive range of telecommunication services generally required by residential customers. Unlike our competitors who generally offer ISP services at prices that increase depending on the access speeds desired by the subscriber, we offer our ISP services at NIS 20 per month irrespective of access speeds, which we believe make our ISP offerings very attractive. We are currently permitted to provide ISP services only on a stand-alone basis and not as a part of our multiple-play packages.

International Long Distance. On May 30, 2012, our subsidiary Mirs International Communications Ltd, and in its new name HOT Mobile International Communication Ltd. (''Hot International'') was granted a general international telecommunications service provider license, pursuant to which it is permitted to provide international long distance telephony services. We are planning to apply for an operational approval to start providing these services. We are required to interconnect with all fixed-line telephony service providers, including VoB service providers, and with all cellular operators, including MVNOs. In addition, we are required to procure an irrevocable right of use of an international transmission infrastructure for no less than a five year period, covering at least 25% of the projected traffic volume, based on Hot International's business plan. The license is valid until 2032 and may be extended by the Ministry of Communications.

Cellular Services

We completed the acquisition of HOT Mobile, which was the fourth largest cellular operator in Israel, on November 28, 2011. Our cellular operations consist of our UMTS-based 3G cellular services which we provide under the ''HOT Mobile'' brand, making us the only participant in the Israeli telecommunications market that is currently able to market pay television, broadband Internet infrastructure access, fixed-line telephony and cellular services under a single brand, and our existing iDEN-based cellular services which we continue to provide under the ''MIRS'' brand. Due to current regulations, we currently offer our cellular services only on a stand-alone basis although we are permitted to offer ISP services in a bundle with cellular services.

UMTS-Based 3G Services. In 2011, HOT Mobile was awarded additional frequencies under its cellular license enabling the provision of UMTS-based 3G cellular services, which we launched in May 2012 under the ''HOT Mobile'' brand. Our UMTS network is based on the HSPA+ technology and we believe that, when completed, it will be one of the most advanced nationwide networks in Israel. The roll out of our 3G cellular services has enabled us to compete effectively in the cellular services market in Israel as we are able to provide up-to-date services to customers, including faster data transmission services with a higher traffic capacity. Our customers also have the option of using a wider range of devices compatible with our network, including Android-based and Apple branded handsets. Consequently, we will also be able to expand the range of value-added services we offer to include a wide variety of applications and content requiring higher data bandwidth and more advanced devices. We have entered into a three year agreement with Pelephone, a subsidiary of Bezeq, pursuant to which we use Pelephone's in-country roaming services to service our customers while we build-out our UMTS network. We have also entered into a roaming contract with Vodafone pursuant to which Vodafone provides our 3G customers with international roaming capabilities. For further details, see ''—*Material Contracts—Agreement with Pelephone and Vodafone relating to UMTS cellular roaming services*''.

We currently offer to private subscribers unlimited local calls, text messaging and Internet access for a fixed-price of NIS 89 per month as well as unlimited international calls to selected destinations for an additional NIS 10. We also offer users pay-as-you-use packages, which charge customers on a per minute used basis. Our 3G services are targeted at post-paid subscribers who account for approximately 83% of the cellular market in Israel. Since the launch of our UMTS based 3G cellular services in May 2012, we added approximately net 316,000 RGUs as of September 30, 2012.

iDEN-Based Services. Historically, HOT Mobile provided cellular services using iDEN technology which enables the combination of regular cellular services such as incoming and outgoing calls with a push to talk (''PTT'') or walky-talky service, the only cellular operator in Israel to do so. We continue to provide iDEN-based cellular services under the ''MIRS'' brand and as of September 30, 2012, we had approximately 371,000 RGUs who subscribed to this service, most of whom are business customers. We also provide our iDEN customers with data transfer, text messaging and international roaming services as well as various ancillary value added services such as call waiting, caller identity, conference calling, voicemail, navigation using GPS, e-mail and a platform for downloading basic digital applications. We offer our iDEN based cellular customers mobile handsets compatible with iDEN technology. The handsets consist of a range of devices, from a basic device which only allows for making cellular calls, PTT calls and sending text messages to advanced Android-based devices. A substantial majority of our iDEN customers are post-paid subscribers.

We provide our 3G and iDEN cellular customers with roaming services enabling them to make calls while overseas. Due to the fact that devices using iDEN technology are not supported in many countries around the world (mainly in Europe), our iDEN customers travelling to such countries are required to use

an alternate Global System for Mobile Communications (''GSM'') compatible phone, which we provide to use our roaming services. We expect customers for our UMTS based 3G services will receive superior roaming coverage because UMTS technology is fairly common around the world.

Marketing and Sales

Cable Services

We combine the marketing and sales efforts for our pay television, broadband Internet infrastructure access, ISP services and fixed-line telephony services, which we offer under the ''HOT'' brand. Our marketing department is responsible for our strategic brand positioning and developing and monitoring our advertising campaigns. Our marketing strategy is based on increasing the penetration of triple-play services within our subscriber base, increasing distribution of television-based value added services and ensuring a high level of customer satisfaction in order to maintain a low churn rate. We highlight our multiple-play offerings in our marketing efforts and focus on transitioning our analog and digital video-only customers to multiple-play packages. We target our marketing efforts primarily at residential customers in single dwelling units and multiple-dwelling units such as apartment buildings. We also market our services to institutional customers and businesses such as nursing homes, kibbutzim, governmental and administrative agencies, hospitals and hotels. We advertise our services through advertisements on commercial television, including on the HOT suite of channels and the DTT channels, as well through other advertisement channels such as newspaper advertisements, billboards and telemarketing. We contract with popular Israeli celebrities, including actors associated with local content that we broadcast, to market our services and increase customer awareness of the HOT brand.

We use a broad range of distribution channels to sell our cable-based services throughout Israel, including 36 dedicated sales booths owned by the Group and operated by external dealers (the ''HOT Booths''), other dealer outlets, inbound and outbound telemarketing, and a door-to-door sales team. We have an in-house sales department for cable services, which is responsible for our sales, and we also hire external sales agents to facilitate our sales who earn a commission based on number of sales. Our largest distribution channel is telemarketing, while door to door sales and dealer sales also accounted for a significant portion of our sales.

Cellular Services

We combine the marketing effort and sales efforts for our 3G cellular services with our cable-based services. We market our 3G services to residential customers under the ''HOT Mobile'' brand, which allows us to leverage the brand recognition associated with HOT to our cellular services. We continue to market our iDEN based cellular services to business customers under the MIRS brand. We target our marketing efforts for our 3G services primarily at individual customers and our iDEN services primarily at institutional and businesses customers. For the nine months ended September 30, 2012, our largest customer for cellular services was the Israeli Defense Force (''IDF''), which subscribed to our iDEN services and accounted for 12% of our revenues from cellular operations. Our contract with IDF expired in October 2012 and will not be renewed.

We use a broad range of distribution channels to sell our cellular services, with the majority of our sales through the HOT Booths and approximately 20 sales and service centers, and a smaller portion through other dealer outlets such as branches of the Israel Postal Corporation and Menta stores located at Delek gas stations, our HOT Mobile website and inbound and outbound telemarketing for which we share HOT's personnel. In the ultra orthodox sector, we market our cellular services through an external distributor. Additionally, we focus on recruiting individual customers through our business customers by offering attractive packages and plans to their employees.

Customer Contracts and Billing

Cable-Based Services

We typically enter into standard form contracts with our customers. We offer our residential customers commitment free contracts meaning that they can terminate the contract at any time without paying an exit fee. Our residential customers are charged a monthly fee based on our standard rates at the time of subscription, which includes a monthly rental fee for end-user equipment such as set-top boxes. We are gradually implementing new regulations which require that the monthly fee for our pay television can only be collected at the end of the month for the services delivered during the preceding month and we plan to complete its implementation by 2012. We are generally locked-in to these prices for the duration

of the contract, which is usually 18 months, although we are permitted to increase prices based on an increase of the CPI index used to measure inflation. We review the standard rates for our services on an on-going basis. In addition to the monthly fees, customers generally pay an installation fee upon connecting or re-connecting to our cable network. The price of our analog television services is subject to a maximum tariff, which is determined by the Israeli Broadcasting Council from time to time, accounts for 23,000 pay television RGUs as of September 30, 2012. The prices of our other cable-based services are subject to general oversight of the regulatory authorities, including notification requirements for price changes, but are not subject to a maximum tariff. Our contracts with business customers are generally not commitment free, provided the amount exceeds NIS 5,000 per month, and pricing is based on our standard rates for the services subscribed to or in certain cases on individually negotiated rates.

Our billing system for cable-based services has been developed by Convergys Solutions Limited (''Convergys'') and we receive certain consulting, support and maintenance services from Convergys. We offer our customers the choice between electronic and paper statements and the ability to pay by bank order or credit card. As of September 30, 2012, over 65% of our pay television, broadband Internet infrastructure access and fixed-line telephony customers had enabled credit card payments.

We monitor payments and the debt collection process internally. We perform credit evaluation of our residential and business subscribers and undertake a wide range of bad debt management activities to control our bad debt levels, including direct collections executed by our employees, direct collections executed in co-operation with third-party collection agencies and pursuing legal remedies in certain cases.

Cellular Services

We typically enter into standard form contracts with our post-paid cellular customers. We offer our residential customers commitment free contracts meaning that they can terminate the contract without paying an exit fee at any time. We were among the first cellular operators in Israel to unbundle our services from the purchase of handsets by offering customers our 3G services on handsets of their choice which they need not have purchased from us. Our cellular customers are generally charged a monthly fee based on our standard rates at the time of subscription and a one-time fee relating to SIM cards, and if purchased from us, the sale of handsets which we do not subsidize.

Our billing system for our 3G cellular operations is an integrated billing and customer contact management system developed by Comverse Ltd. (''Comverse''). Our billing system for our iDEN cellular operations has been developed by Motorola Israel Ltd. We offer our residential customers the choice between electronic and paper statements and the ability to pay by credit card. As of September 30, 2012, over 90% of our UMTS cellular customers had enabled credit card payments. We work with our business customers to set up appropriate billing and payments processes.

We perform payment monitoring and collection and bad debt management activities for our cellular services that are similar to those undertaken for our cable services.

Customer Service

We aim to increase our customer satisfaction and decrease churn with high product quality and dedicated service. The customer service function for our cable-based and cellular services is carried out by approximately 20 internal customer service centers located in Israel. We also provide our customers with access to a technical support help desk which operates at all times. Our institutional and business subscribers are served by a special business service and technical centers.

We have launched and implemented initiatives aimed at improving our customers' experience. These initiatives include enhanced Customer Relationship Management (''CRM'') systems, which allow us to better manage new subscribers and identify and offer special retention packages to subscribers at risk of leaving.

We believe a large proportion of our customers are loyal to the HOT brand thereby reducing churn. As of December 31, 2011, approximately 52%, 33% and 23% of our pay television, broadband Internet infrastructure access and fixed-line telephony customers respectively have been our customers for over four years.

Competition

Pay Television

The pay television market in Israel is comprised of two players, with our only competitor being D.B. S. Satellite Services (1998) Ltd, an associate of Bezeq, which provides satellite technology based multi-channel television services under the ''YES'' brand. Market shares have been relatively stable over time between HOT and YES. As of September 30, 2012, we held a 61% market share in the pay television market in Israel based on number of subscribers compared to 61% as of December 31, 2009 and the market share of YES was approximately 39% as of September 30, 2012 compared to 39% as of December 31, 2009. Various other factors also have an impact on competition in the market, including the availability of free-to-air DTT channels and the increasing access to video content that may be offered via the Internet. In addition, we believe that the implementation of certain proposed regulatory changes may have an impact on competition in the market, including the proposed expansion of the number of free-to-air DTT channels 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. For further details, see ''*Regulatory—Television*''.

Broadband Internet Infrastructure Access

Broadband Internet infrastructure access services are provided exclusively by us, through our subsidiary HOT Telecom, and Bezeq, the only telecommunication operators in Israel that own a national network infrastructure. In addition to Bezeq, we also are required to offer our services to customers of all ISPs on equal terms. As of September 30, 2012, we held a 40% market share in the broadband Internet infrastructure access market in Israel based on number of subscribers compared to 41% as of December 31, 2009 and the market share of Bezeq was approximately 60% as of September 30, 2012 compared to 59% as of December 31, 2009. In addition, we believe that the implementation of certain existing and proposed regulatory changes may have an impact on competition in the market, including the policy introduced by the Israeli Ministry of Communications in order to create a wholesale market for broadband Internet infrastructure access services and the proposed creation of a public-private joint venture between the government-owned Israeli Electric Corporation (''IEC'') and a private company to be selected, which, if successful, will utilize the electric transmission and distribution network in Israel owned by the IEC to provide broadband Internet infrastructure access and fixed-line telephony services. For further details, see ''*Regulatory—Israeli Electric Company Infrastructure*''. Although we do not currently consider cellular service providers as competitors for Internet services, we expect that the rapid development of cellular technology will result in the ability of cellular service operators to provide Internet services at increasing speeds to a variety of devices.

Fixed-Line Telephony

The largest player in the fixed-line telephony services segment by number of lines is Bezeq, the incumbent telephony services provider in Israel. Our other principal competitors are Partner Communications Ltd., which provides fixed-line telephony services under the ORANGE and 012 brand and Cellcom Israel Ltd., which provides fixed-line telephony services under the CELLCOM and NETVISION brands using voice over broadband (''VOB'') technology over our and Bezeq's fixed-line network. As of September 30, 2012, we held a 20% market share of fixed-line telephony market in Israel based on number of subscribers compared to 17% as of December 31, 2009 and the market share of Bezeq was approximately 68% as of September 30, 2012 compared to 76% as of December 31, 2009. We believe that competition in this market will increase due to the low barriers to entry which exist primarily as a result of regulations pursuant to which new service providers who receive a license can provide fixed-line telephony services using VOB technology over the infrastructure network owned by either our Group or Bezeq for payment of only an interconnection fee. We also expect competition to increase following the commencement of operations by the proposed IEC joint venture, if successful. In addition, cellular services, including those offering advanced higher speed, higher bandwidth technologies and MVNOs contribute to the competitive pressures that we face as a fixed-line telephony operator.

Multiple-Play

We are currently the only provider of bundled triple-play services in Israel, which enable our customers to conveniently subscribe to pay television, broadband Internet infrastructure access and fixed-line telephony services together at attractive prices that are lower than the sum of the stand-alone services.

Our principal competitor for multiple-play services is Bezeq, which currently offers broadband Internet infrastructure access, ISP services and fixed-line telephony bundles at the same price for each service as offered on standalone basis and has the ability to provide triple-play bundles, including pay television services provided by an associate under the YES brand, although it is required to receive the consent of the Israeli Ministry of Communications prior to offering such triple-play bundles. In addition, Partner Communications Ltd and Cellcom Israel Ltd. provide multiple-play packages which include ISP, fixed-line telephony through VOB and cellular services at prices that are lower than the sum of the stand-alone services. We expect that the ability of our competitors, particularly Bezeq, to provide multiple-play packages as a result of regulatory changes and consolidation in the telecommunications industry could have a significant impact on competition for multiple-play and stand-alone services.

ISP

We commenced offering ISP services in February 2012 through our subsidiary, HOT Net. The principal ISPs we compete with are Partner Communications Ltd., which provides ISP services under the 012 SMILE brand, Cellcom Israel Ltd., which provides ISP services under the NETVISION brand and Bezeq, which provides ISP services under the BEZEQ BENLEUMI brand.

Cellular Services

Our principal competitors in the cellular services market are Cellcom Israel Ltd., which provides cellular services under the CELLCOM brand, Partner Communications Ltd., which provides cellular services under the ORANGE brand and Pelephone, a subsidiary of Bezeq, which provides cellular services under the PELEPHONE brand. As of September 30, 2012, we held approximately a 7% market share in the cellular services market in Israel based on number of subscribers and the market share of Cellcom Israel Ltd., Partner Communications Ltd. and Bezeq respectively was approximately 33%, 30% and 28%. In addition, we face competition from nine MVNOs that have entered the market, including Rami Levy which commenced operations in 2011 and had a market share of approximately 1%. We also compete with Golan Telecom Ltd. which launched its 3G services at the same time as HOT Mobile. We believe that a variety of factors will serve to further increase competition in the market, including regulations that permit licensed MVNOs to provide cellular services under their own brand using the network infrastructure of another service provider for a reasonable fee with a view to creating a wholesale market for cellular services and the introduction of VoC technology which has been rolled out on an experimental basis.

Network

Cable Network

We provide our pay television, broadband Internet infrastructure access and fixed-line telephony services through our extensive fully-owned cable network which we believe is one of most technologically advanced networks in the EMEA region. Our cable network passes most of Israel's 2.2 million households. The fiber rich characteristic of our network generally gives it inherent capacity, speed and quality advantages as compared to copper-based DSL networks. In particular, a fiber and coaxial cable offers a larger bandwidth than copper cable and, unlike the latter, it is not significantly affected by attenuation (i.e., a reduction in the strength of the signal) or distortion (i.e., a reduction in quality of the signal) when the signal is carried over a long distance. Our cable network allows the provision of fiber optic transmission services using DWDM technology, SDH technology or IP technology. In addition, our cable network backbone includes two national and regional strategically interconnected head-ends that enable transmission of signals over our cable network, 4 Nortel CS2000 telephony switches and an advanced Session Initiation Protocol ("SIP") switch which is used to create and control communication sessions over an IP network.

Our cable network is entirely bi-directional which enables us to deliver broadband Internet infrastructure access, fixed-line telephony and other interactive services such as VOD, to our customers throughout our cable network in addition to regular digital and analog television services. Our entire cable network is also U.S. Docsis 3.0 enabled allowing us provide ultra fast broadband Internet infrastructure access services at a download speed of up to 100 Mbps with limited or no degradation in speed throughout our network, which we believe is the fastest in Israel on a large scale and can support theoretical download speeds of up to 300 Mbps with certain limited modification to network equipment, which will allow us to easily upgrade our network to increase download speeds in the future. In 2011, we also began selectively deploying FTTB and FTTLA network upgrades, which involves replacing existing copper

wires used for local loop connectivity with optical fiber to reach the end user's street or home. We plan to continue the selective deployment of FTTB and FTTLA at our discretion which will enable an expansion in the traffic capacity over our cable network and improve our VOD services, increase the number of television channels we are able to offer and increase the speed of our Internet services.

Our cable network is fully owned by HOT Telecom. Part of our cable network runs through ducts and poles owned by Bezeq. We are party to certain continuing arrangements with Bezeq relating to the installation and maintenance of such parts of our cable network. We incurred total costs of NIS 42 million, NIS 43 million and NIS 46 million in 2009, 2010 and 2011 respectively for services provided by Bezeq under these arrangements. For further details, see ''—*Material Contracts*''.

Cellular Network

HOT Mobile historically provided cellular services using an iDEN-based cellular network infrastructure, which as of December 31, 2011 comprised of 640 network sites distributed throughout Israel providing nationwide coverage. In relation to the roll out of our UMTS-based 3G cellular services, we are in the process of building and expanding a UMTS network based on modern HSPA+ technology. We have committed to the State of Israel to achieve the following periodic coverage milestones for our UMTS network based on total Israeli population: by September 2013—coverage of 20% of the settled area of Israel and where at least 20% of the Israeli population is residing; by September 2015—coverage of 40% of the settled area of Israel and where at least 40% of the Israeli population is residing; by September 2016—coverage of 55% of the settled area of Israel and where at least 55% of the Israeli population is residing; by September 2017—coverage of 75% of the settled area of Israel and where at least 75% of the Israeli population is residing; and by September 2018—coverage of 90% of the settled area of Israel and where at least 90% of the Israeli population is residing and coverage of 90% of the roads in Israel. We estimate that approximately 1,700-2,000 cellular network sites are needed to achieve 90% coverage. We plan to meet the UMTS network coverage requirements through a combination of modifying our existing cellular network sites by installing UMTS equipment enabling the use of the new frequencies and building new UMTS enabled sites. As of September 30, 2012, our UMTS network covered approximately 30% of the inhabited territory of Israel and 40% of the Israeli population. We have entered into a three year agreement with Pelephone pursuant to which we use Pelephone's in-country roaming services to service our customers while we build-out our UMTS network. Currently, our UMTS network permits data transfer at speeds of up to 42 Mbps which we are seeking to increase to 84 Mbps in the future. We are building our UMTS network so that it will be able to support, in the future, the LTE standard, which is the standard for 4G network, with limited additional capital expenditure, should the Israeli Ministry of Communications tender such frequencies in the future. The following table sets forth details regarding the spectrum allocated to us and our competitors for the provision of cellular services.

Service Provider	UMTS Bandwidth (Mhz)	GSM Bandwidth (Mhz)
Hot Mobile	850 – 2,100	
Pelephone	850 – 2,100	
Cellcom	850 – 2,100	1,800
Partner	900 – 2,100	900 – 1,800
Golan	850 – 2,100	1,800

We expect that the Israeli Ministry of Communications will tender LTE frequencies in the 1,800 Mhz and 2,500 Mhz range in next few years. A tender committee has been formed, but it has not yet published any tender information. We understand that some of the relevant frequencies are used by the Israeli Ministry of Defense and may only be allocated for commercial use once the frequencies are released by the Israeli Ministry of Defense.

Licenses

The telecommunications industry in Israel is highly regulated and requires service providers to obtain licenses from the Israeli Ministry of Communications with respect to each of the various telecommunication services before offering them to the public.

We provide our pay television services pursuant to a general cable broadcasting license granted to us by the Council of Cable and Satellite Broadcasting applying to all areas of Israel and a general cable broadcasting license applying to Judea and Samaria (the ''Broadcasting Licenses''). Our Broadcasting Licenses are valid until 2017 and may be extended for periods of ten years at a time upon approval by the

Israeli Ministry of Communications. We also have a special license for operating a broadcasting center which is valid until April 2017. We provide our broadband Internet infrastructure access and fixed-line telephony services pursuant to a general domestic operator license for the provision of inland stationary telephone services in Israel and a general license for provision of telecom services in Judea and Samaria (the ''Fixed-Line Licenses''). Our Fixed-Line Licenses are valid until 2023 and may be extended for periods of ten years at a time upon approval by the Israeli Ministry of Communications. We provide our ISP services pursuant to a license to provide internet access services (the ''ISP License''), which is valid until December 31, 2015 and may be extended upon approval by the Israeli Ministry of Communications. We provide our cellular services pursuant to a license to erect, maintain and operate a cellular network system and to provide cellular services (the ''Cellular License''). The Cellular License was amended in September 2011 to add additional frequencies enabling us to create a UMTS network. The Cellular License with respect to the original frequencies which we use to deliver our iDEN based cellular services is valid until February 2016, and for some frequencies until 2013. The Cellular License with respect to the additional frequencies which we utilize to provide UMTS based cellular services is valid until September 2031. The Cellular License may be extended for periods of six years at a time upon approval by the Israeli Ministry of Communications. In addition, we have a general license for provision of international long distance (''ILD'') telephony services which is valid until May 2032 although we have not yet launched this service. For further details, see ''*Regulatory*''.

Suppliers

We have relationships with several suppliers that provide us with hardware, software and various other products and services necessary to operate our businesses.

Our key infrastructure, hardware and software suppliers for our pay television, broadband Internet infrastructure access and fixed-line telephony operations include Bezeq which provides us with design, installation and maintenance services relating to certain parts of our cable network which pass through ducts and poles owned by Bezeq; Nortel and Bynet, which provide us with equipment and services relating to telephony switches; NDS Limited, which provides us with equipment and services related to unified encryption systems, Technicolor, which provide us with set-top boxes; Sagemcom, which manufactures an enhanced modem known as the HotBox on our behalf that combines the functionality of an Internet modem, telephony modem and wireless router; and Nagravision, which provides us with software for set-top boxes. We have entered into a number of reciprocal interconnection agreements with fixed-line telephony providers in Israel, cellular operators in Israel and internal long distance telephony operators. We have also entered into an agreement with Convergys in relation to certain billing related services for our cable services. In addition, we contract with suppliers for the purchase of television programming content that we package and broadcast under the HOT suite. We also purchase rights to broadcast independent Israeli and international channels on our network and content for our VOD service. We use a limited number of subcontractors to install broadband Internet, telephony and digital television equipment in customer homes. Our agreements require that the subcontractors maintain certain quality levels and use trained personnel, and we monitor the efficiency and quality of service provided by the subcontractor on a regular basis.

With respect to our cellular operations, we have engaged Nokia Siemens Israel Ltd. (''Nokia Siemens'') as a turnkey contractor to plan and build the new UMTS network. We have entered into an agreement with Pelephone, which provides us with in-country roaming services for our 3G cellular operations and also have roaming agreements with several foreign cellular operators. We have agreements with various suppliers for the purchase of 3G compatible handsets. Comverse supplies us with certain services relating to an integrated billing and customer relation management (CRM) system for our 3G cellular operations. The main suppliers for our iDEN based cellular operations are Motorola Solutions, which owns the rights to the iDEN technology and is the primary manufacturer of infrastructure equipment for iDEN technology and Motorola Mobility which manufactures end-user equipment for iDEN technology.

We are dependent on the following key suppliers: Bezeq, NDS Limited, Technicolor, Sagemcom and Nokia Siemens. We have entered into multi-year contracts with these suppliers for the provision of products and services. For further details, see ''*—Material Contracts*''. We believe that we are not dependent on any other supplier or the loss of any one other supplier would not have a material adverse effect on our business, and we could replace each of our other suppliers without materially disrupting our business. For further details, see ''*Risk Factors—Risks Relating to Our Business, Technology and Competition—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''.

Material Contracts

The agreements described below are of material importance to our Group. The summary of each agreement set forth below is a summary of the material terms of such agreement as in effect as of the date of this Offering Memorandum.

Agreement with the State of Israel relating to ownership of our cable network

In July 2001, our predecessor companies entered into an agreement with the State of Israel pursuant to which they agreed to waive all claims against the State of Israel arising out of the grant of a satellite broadcast license to D.B. S. Satellite Services (1998) Ltd, an associate of Bezeq which provides satellite technology based multi-channel television services under the YES brand. In exchange, the State of Israel agreed to waive all of its claims and rights concerning the cable infrastructure, such that our predecessor companies would hold all right and title to the cable infrastructure in their respective concession areas and have the right to operate the cable network even after the end of the concession periods. The agreement, which was transferred to our Group as part of the Cable Consolidation, sets out a payment mechanism based on revenues deriving from the use of the cable infrastructure pursuant to which we are required to make annual payments to the State of Israel until January 1, 2015. In addition, we are required to pay certain amounts to the State of Israel, as provided in the agreement, in the event we sell any of our cable network assets or operations carried out via the cable infrastructure or in the event we issue securities through a public offering, investment or similar transaction. In each year ended December 31, 2010 and 2011, we paid the State of Israel over NIS 50 million under this agreement. We have provided a second-ranking floating charge over all of the assets of HOT to the State of Israel to secure our payment obligations under the agreement.

Provision of certain bank guarantees to the State of Israel relating to performance of certain license terms

In relation to the addition of frequencies to our Cellular License enabling us to provide UMTS based 3G services, we were required to pay to the State of Israel a total license fee of NIS 705 million, out of which we paid NIS 10 million at the time of receiving the license. For the remaining NIS 695 million, which is payable in 2016 subject to the deductions set out below, we were required to provide the State of Israel a bank guarantee. Under the terms of the license, the remaining license fee will be reduced by one-seventh for every percent of market share gained by HOT Mobile since the date of the license. The market share of HOT Mobile will be calculated as the average of: (i) the ratio of HOT Mobile subscribers (including UMTS and iDEN) in the private sector to the total number of cellular subscribers in the private sector; (ii) the ratio of the number of outgoing cellular call minutes initiated by subscribers (including UMTS and iDEN and call minutes in the same network) of HOT Mobile in the private sector to the total number of outgoing cellular call minutes (including call minutes in the same network) by all cellular subscribers in the private sector; and (iii) the ratio of revenues from HOT Mobile subscribers (including UMTS and iDEN) to the total revenues from all cellular subscribers in the private sector. The market share will be measured in September 2013 and September 2016. Three months after the second testing date, HOT Mobile will pay the remaining license fee, which will be the lowest fee as calculated on each of the testing dates. As a condition for such bank guarantee, HOT Mobile and HOT signed an irrevocable letter of undertaking in favor of the bank that issued the guarantee, which is secured by a pledge of all of the assets of HOT Mobile which HOT Mobile is permitted by law to pledge. In addition, we have agreed to indemnify the State of Israel for any monetary liability that it incurs as a result of our use of the cellular license and have entered into an insurance agreement to be insured for any such liability. We have also provided bank guarantees to the State of Israel for an amount of approximately NIS 27 million and $8.4 million (approximately NIS 33 million based on the exchange rate as of September 30, 2012) as surety for the compliance with the terms of our Broadcasting Licenses and Fixed-Line Licenses, respectively.

Agreements with Bezeq relating to installation and maintenance of portions of our cable network

In the 1990s, certain of our predecessor companies entered into agreements with Bezeq for the purpose of planning, installation and maintenance of the cable networks pursuant to which they intended to

provide cable television services. The cable networks and the related agreements with Bezeq were transferred to our Group as part of the Cable Consolidation. The agreements are valid until we have valid Broadcasting Licenses. For further details regarding the term of our Broadcasting Licenses, see ''—*Regulatory—Television—overview*''.

Under the terms of the agreements, Bezeq is required to maintain the portion of our cable network that passes through its ducts on an on-going basis and is also responsible for repairing breakdowns in the network. The scope of the agreements extends to the possibility of expanding the cable network to additional sites, connecting new homes and new neighborhoods. Bezeq is permitted to terminate the agreement in case we breach the agreement and have not cured such breach within six months of written notice from Bezeq. The agreements set forth a payment mechanism pursuant to which we pay Bezeq an annual amount representing capital expenditure and maintenance costs based on the length of the cable network passing through its ducts as well as one-time payments in respect of certain services provided by Bezeq. Capital expenditure costs are staggered over a 12 year period and the amounts payable to Bezeq are accordingly reduced by approximately 65% after 12 years of the delivery of each segment of the cable network. We incurred total costs of NIS 42 million, NIS 43 million and NIS 46 million in 2009, 2010 and 2011 respectively for services provided by Bezeq under these agreements.

Agreement with Nokia Siemens relating to installation of the UMTS network

In June 2011 we entered into an agreement with Nokia Siemens for the establishment of the new UMTS network infrastructure pursuant to which we provide 3G cellular services to our customers. Under the terms of the agreement, Nokia Siemens has agreed to plan and erect the new network infrastructure on a turnkey basis. In the first stage scheduled to be competed in 2012, Nokia Siemens is required to complete the network with coverage extending to approximately 20% of the Israel population according to our cellular license requirements regarding the first check point. Following the completion of the first stage, we have the right to expand the new network both in terms of coverage and LTE technology capability. We estimate that the amount payable for all of Nokia Siemens' commitments will be approximately $52 million.

The agreement is for a term of 15 years. Nokia Siemens has agreed to provide certain warranties for the repair or replacement of network components that do not meet the functionality and capacity requirements established under the agreement. Nokia Siemens has also agreed to provide maintenance with respect to our cellular network.

Interconnection Agreements

Interconnection is the means by which users of one telephony network are able to communicate with users of another telephony network and, as the case may be, through a third telephony network. For a subscriber located on one telephony network to complete a telephone call to an end-user served by another telephony network, the subscriber's network service provider must interconnect either to the end-user's network, or to the network that transfers the call to the end-user's network. Typically, the network transferring the call and the end-user's network charge the subscriber's service provider a fee to transfer or to terminate the communication, which is regulated by the Israeli Ministry of Communications. Generally, the cost of interconnection fees that we pay is taken into account in the price we charge our subscribers.

We have entered into reciprocal interconnect agreements for our fixed-line telephony and cellular operations with seven domestic fixed-line operators in Israel, four cellular operators in Israel representing all the major cellular operators and eight international long distance telephony operators. Our interconnection agreements generally have terms that continue for the duration of the parties' licenses to pursue telecommunication activities and may be terminated in the event of a material breach or the commencement of liquidation or insolvency proceedings. For the nine months ended September 30, 2012, we incurred interconnection fees of NIS 203 million and received interconnection revenue of NIS 96 million.

Agreement with Pelephone and Vodafone relating to UMTS cellular roaming services

In November 2011, HOT Mobile entered into an agreement with the cellular operator Pelephone, a subsidiary of Bezeq, pursuant to which Pelephone agreed to provide domestic roaming services for 3G users to HOT Mobile and HOT Mobile agreed to exclusively purchase such services from Pelephone.

The agreement, which is valid until December 2014 and has an option for us to extend for three additional years, enables us to provide 3G cellular services to our cellular customers while we continue to build-out our UMTS network. The cost for the services provided by Pelephone is based on agreed rates and depends on the actual usage of Pelephone's cellular network by our 3G customers.

In addition, we have entered into a roaming agreement with Vodafone through which we receive roaming services for 3G around the world including approximately 500 cellular networks. We are also in the process of negotiating roaming contracts directly with individual cellular operators in various countries. Our roaming agreement with Vodafone enables our 3G cellular customers to access other cellular networks while abroad. Although the particular terms depend on the country in which roaming services are accessed, the agreement regulates billing and accounting, settlement procedures, customer care, technical aspects of the roaming agreement, security and connectivity. The agreement 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.

We have also entered into international roaming agreements with various operators of GSM networks around the world, allowing our iDEN customers to make calls while overseas using a GSM compatible phone which we provide.

Agreement with NDS relating to purchase of a unified encryption system

In February 2007 we entered into an agreement with NDS Limited pursuant to which NDS Limited supplies certain software and services for the implementation of a unified encryption system which enables us to provide pay-television services, control access to particular pay-programming packages and charge fees on an individual subscriber basis. This system encrypts transmitted signals sent to customers and customers decrypt the signals using a set-top box which allows them to receive the pay programming offered. The agreement also requires NDS Limited to provide certain support and maintenance services related to the encryption system. The agreement is for a term of 10 years although we have the right to terminate the agreement with respect to the support and maintenance services after five years. In April 2011 the agreement was amended to expand the range of services to be provided by NDS Limited in order to include encryption systems for a new type of set-top box provided by Technicolor. We are required to pay NDS Limited an annual fixed amount for delivery of the encryption systems and related software licenses and provision of support services in addition to royalties and a fee for each set-top box with encryption technology.

Agreement with Technicolor relating to purchase of set-top boxes

In October 2007 we entered into a memorandum of understanding with Technicolor for the purchase of set-top boxes manufactured by Technicolor. We formalized the understanding by entering into an agreement in 2009 and subsequently amended the agreement in June 2011 to include the purchase of set-top boxes that combine HD technology and recording capability functionality (known as the HD-PVR set-top box). Technicolor is responsible for the design, production and delivery of the set-top boxes and to ensure compatibility with the software developed for the HD-PVR set top-box. In consideration, we are obligated to pay Technicolor a fixed amount for each set-top box. The price of set-top boxes includes a warranty extending for three years covering the hardware and 12 months covering the software elements of the HD-PVR box. Technicolor is also required to provide hardware and software support and maintenance services after the expiry of the warranty period. The agreement is valid until May 2016.

Agreement with Sagemcom relating to purchase of equipment

In March 2011 we entered into an agreement with Sagemcom Broadband SAS for the development and purchase of a product which combines the functionality of an Internet modem, telephony modem and wireless router (known as the HOT Box). Under the terms of the agreement, Sagemcom has agreed to develop the product and to grant licenses to use the product software. In consideration, we are obligated to pay Sagemcom a fixed amount for each set top box. Sagemcom is also required to provide a warranty and maintenance services under the agreement. The agreement is for a term of four years and is automatically renewed for periods of one year at a time unless one party notifies the other of its intention to terminate the agreement upon expiry of the current term.

Agreement with Bezeq for the Provision of Transmission Services

In October 2006, an agreement was signed between HOT Mobile and Bezeq for the supply of various transmission services required for the purpose of providing radio cellular telephone services provided by HOT Mobile. The agreement's validity is for a period of five and a half years from September 1, 2006 (''the first period''), following which the agreement could be extended for an additional one-year period each time up to a total additional period of five years, unless a party to the agreement notified the other 90 days before the end of the first period, or one of the extension periods as relevant, of its desire to end the association. Furthermore, in the framework of the agreement, Bezeq purchased equipment and a management systems from HOT Mobile that are required for the purpose of providing the service to HOT Mobile at its sites in exchange for $2.5 million.

In the framework of the agreement, it was determined that Bezeq would bear the cost of carrying out the infrastructure work that would be required for the purpose of providing the transmission services up to HOT Mobile's sites, subject to certain exceptions. Furthermore, the agreement provides that Bezeq would be the one to bear the cost of frequency fees that would be required by the Israeli Ministry of Communications during the term of the agreement. In exchange for all of the services provided to HOT Mobile by Bezeq, HOT Mobile agreed to pay Bezeq a total of approximately NIS 11.6 million per year. HOT Mobile is currently in negotiations with Bezeq on a new agreement which is expected to have a term of five years.

Agreement with Comverse

In October 2011, an agreement was signed between HOT Mobile and Comverse Ltd., pursuant to which Comverse would provide a BSS system (an integrated billing system with a customer contact management (CRM) system) and related hardware, software and services to HOT Mobile, including operation and maintenance of the CRM system. In exchange for Comverse's services, hardware and software, we agreed to pay a total of $12.5 million. The agreement is expected to be in effect for a period of approximately five years. In January 2012, the parties signed an addendum to this agreement, whereby Comverse committed to make seven additional employees available for the project (in lieu of the manpower that should have been made available for the project by us), against payment of $500,000.

Content Agreements

We are party to several contracts with both local and international content providers for the distribution of digital television channels. Different compensation models apply, including revenue-sharing models, and remuneration may be based on a fixed fee or upon numbers of subscribers. For the year ended December 31, 2011, we spent NIS 639 million in aggregate on local and international content for the distribution of television channels.

Our material content agreements include:

Agreement with Dori Media Spike Ltd. (''Dori'')

In July 2007, we entered into an agreement with Dori, for the production of several broadcast channels. According to the agreement, Dori produces and supplies us with five movie channels that are not included in our base package (four of them in HD format), in addition to channels and services decided by us, including, as of the date of this Offering Memorandum, three series channels (one of them in HD format). The agreement, as amended from time to time, will expire at the end of December 2013. In consideration for the services, we undertook to pay Dori a fixed price as determined in the agreement. The parties have the right to terminate the agreement by giving advance notice and under the conditions set forth in the agreement.

Agreements with the Sport Channel Ltd. (''Sport Channel'')

In July 2008, we entered into an agreement with the Sport Channel, according to which the Sport Channel undertook to produce a number of channels, to purchase content for the channels, to edit such content and prepare it for broadcast. According to the agreement, the Sport Channel provides us with a basic sport channel (a channel that is offered in our basic package), a pay channel and several more channels such as 5+ live channel, 5+ Gold channel and 5HD Sports. In addition, the Sport Channel undertook to produce and provide an interactive sports channel to us at no additional cost.

According to the agreement, the consideration to which the Sport Channel is entitled is a function of the number of subscribers watching the channels provided by Sport Channel on our cable network and the revenue we receive from such channels. With regard to the pay channel, the Sport Channel is entitled to a percentage of our revenue from such pay channel.

The agreement includes, among other things, sections regarding the responsibility of the sports channel as well as its undertaking to indemnify us in certain circumstances. The agreement shall expire at the end of June 2016, however, we are entitled to terminate the agreement earlier under certain circumstances, including for reasons of a substantial drop in the quality of the channels, the cessation of broadcast as a result of regulations and a substantial drop in the number of subscribers for the pay channel.

Agreement with Noga Communications (1995) Ltd (''Noga'')

In 1996, we entered into an agreement with Noga, for the production of various broadcast channels which is expiring as of December 31, 2012. In 2012, we agreed in principle with Noga on an agreement which will replace the prior agreement pursuant to which Noga will continue to produce and supply broadcast channels. In consideration for the services, we expect to pay Noga a fixed amount for the production and supply of the channels and an additional fixed amount to be used for local production of content. The agreement is expected to expire on December 31, 2015.

Seasonality

Although our businesses are not subject to significant seasonal effects, revenue from our content operations tends to increase during the second and third quarters as a result of the holidays in Israel. Revenue from our pay television, broadband Internet infrastructure access and fixed-line telephony operations tend to be slightly higher in the second half of the year.

Intellectual Property

Trademarks

We use a variety of trade names and trademarks in our business, including our denominative trademark ''HOT'' and the name of certain of our services and channels such as 'HOT'', ''VOD Young'', ''3 ערוץ'' ''HOT 1'' ''HOT 2'' ''HOT 3'', ''TOO HOT'', ''סרטים HOT'', ''אינסופי HOT VOD'', ''HOT Mobile'' and ''UFI''. All of our trademarks are protected in Israel.

Copyrights

We license some of our television programming content for the HOT suite of channels from third-party content providers. We also enter into license agreements with producers of independent channels which we broadcast over our network. In addition, we have entered into agreements with two authors' right societies in Israel, namely AKUM Association of Music Composers, Writers and Producers in Israel Ltd. (AKUM) and Israel Screen and Television Artists Royalties Company Ltd (TALI). We entered into agreements with AKUM in 2011 following an arbitration proceeding initiated by AKUM to resolve the mechanism for calculating annual royalties for the use of works whose rights are protected by AKUM. Under the present arrangements which are valid until 2016, we have a license to broadcast works whose rights are protected by AKUM in consideration for which we have agreed to settle all of AKUM's claims from 2003 until 2010 with respect to past royalties and have also agreed on royalty rates for 2011 to 2016. In 2011, we signed an agreement with TALI providing for the payment of royalties between 2003 and 2014.

Employees

As of September 30, 2012, we had an aggregate of approximately 5,600 employees.

Israeli labor laws govern the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days, advance notice of termination of employment, equal opportunity and anti-discrimination laws and other conditions of employment. Subject to certain exceptions, Israeli law generally requires severance pay upon the retirement, death or dismissal of an employee, and requires us and our employees to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration.

None of our employees currently belong to organized unions and works councils. There can be no assurance that our employees will not form unions in the future. We are currently party to legal proceedings relating to the recognition of the workers' union as a negotiating unit. Certain of our subsidiaries also use contract and temporary employees, which are not included in this number, for various projects. We believe that our employee relations are good. We provide retirement benefits to our employees as required by Israeli law by means of a contributory pension fund to which we are required to contribute an amount equal between 4.16% to 8.33% of an employee's basic salary. In 2011 we funded NIS 19 million to the pension fund.

Properties

We lease and own certain properties for our corporate offices, sales offices, broadcast centers, communication rooms, customer service centers, sales stores, cellular network sites, hubs, switches and head-end sites. Our main corporate offices are located at Yakum and Airport City both located in proximity to Tel Aviv and our main customer service centers are located at Neshar, Yakum and Beersheva. We believe that our properties meet their present needs and are generally well—maintained and suitable for their intended use. We believe that we generally have sufficient space to conduct our operations but maintain flexibility to move certain operations to alternative premises.

Environmental Matters

We are subject to a variety of laws and regulations relating to land use, environmental protection and health and safety in connection with our ownership of real property and other operations, including laws regulating non-ionic radiations emitted as a result of our cellular services. While we could incur costs, such as clean-up costs, fines and third-party claims for property damage or personal injury, as a result of violations of or liabilities under such laws or regulations, we believe we substantially comply with the applicable requirements of such laws and regulations and follow standardized procedures to manage environmental risks.

Insurance

We maintain a property insurance policy with wide coverage based on ''extended fire'' wording to cover our property on a new replacement basis. We also maintain a business interruption policy based upon the same perils. The property coverage is supported by coverage for electronic equipment. We maintain various liability insurance policies including comprehensive third party liability, products liability & professional liability, multimedia liability and employer's liability insurance policies. In addition to these policies we maintain motor vehicle insurance policies, heavy equipment policy, open policy for contract works to cover maintenance and development works and few other small policies. We have a directors' and officers' liability insurance policy for all members of the management board.

In our view, the sum insured, the limits of liability, the deductibles and scope of cover in our policies are satisfactory and suitable for companies acting in the pay television business (subject to the wording of the policies, conditions and exclusions). However, we cannot guarantee that no losses will be incurred or that no claims will be filed against us which go beyond the type and scope of the existing insurance coverage. We do not insure against war and terrorism risks, which we believe are covered by the Property Tax and Compensation Fund Law, 1961.

Legal Proceedings

We are involved in a number of legal and administrative proceedings arising in the ordinary course of our business. In light of the nature of our business, a majority of these legal proceedings are suits seeking certification as class action suits. The Israeli Class Action Law that was enacted in 2006 significantly expanded the grounds for certification of class action suits as well as the persons entitled to submit a class action suit as a result of which the number of such proceedings against us has increased significantly and may continue to increase in the future.

The legal proceedings initiated against us include, amongst others, the following categories of claims: claims by or on behalf of customers on various grounds such as alleged misrepresentation or breach of service or license terms or breach of telecommunication, broadcasting, consumer or health and safety regulations, intellectual property claims primarily relating to alleged copyright infringement brought by copyright collection societies, claims by suppliers and other telecommunications providers and claims by employees.

We proactively manage our litigation risks by assessing disputes where we believe the claimant may have merit and attempting to settle such disputes on favorable terms, including in the case of suits seeking certification as class action suits at a stage prior to such certification, and contesting others where we believe the claim does not have merit. Other than as discussed below, we do not expect the legal proceedings in which we are involved, or with which we have been threatened, to have a material adverse effect on our business or consolidated financial position. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and we can offer no assurances in this regard. For details regarding provisions recorded in HOT's financial statements relating to such legal proceedings, refer to note 4 in the unaudited consolidated interim financial statements of HOT and its subsidiaries as of and for the nine months ended September 30, 2012 and note 26 to the audited consolidated financial statements of HOT and its subsidiaries as of and for the year ended December 31, 2011 included elsewhere in this Offering Memorandum.

Warner Brothers Litigation Relating to a Breach of Contract

In December 2002, Warner Brothers International Television Distribution (''Warner''), a division of Time Warner Entertainment Company L.P., filed a claim against Golden Channels & Co. Partnership (''Golden Channels''), a wholly-owned subsidiary of HOT, in the Los Angeles District Court alleging a breach of the terms of the license agreement pursuant to which Warner provided content and other broadcasting rights to Golden Channels. In September 2004, the Los Angeles District Court ruled in favour of Warner and awarded damages of approximately $21.7 million, which included compensation for future revenue for the entire period of the original license agreement notwithstanding that Warner cancelled the agreement in December 2002. Golden Channels filed an appeal in the California Court of Appeals, which, in an April 2008 ruling, determined that Golden Channels had not breached the terms of the license agreement and overturned the decision of the Los Angeles District Court, reversing and remanding so that the Los Angeles District Court can make a damages determination based on Warner getting paid whatever was due to Warner from Golden Channels under the license agreement for the performance it had rendered through December 9, 2002. In proceedings before the Los Angeles District Court relating to this issue, Warner has claimed that it is entitled to amounts of up to $104 million (exclusive of interest and attorney fees) for copyright infringement, which is significantly higher than the amount originally claimed. Golden Channels has contested these claims and denied that any amounts are owed to Warner. The proceeding is currently pending before the Los Angeles District Court.

AGICOA Litigation Relating to Copyright Infringement

In March 2000, the Association for the International Collective Management of Audiovisual Works (''AGICOA''), a society engaged in the collection and distribution of payments of royalties to the producers of audiovisual works, initiated legal proceedings in the Central District Court against HOT relating to a copyright infringement claim, seeking monetary damages of approximately $20 million. In September 2010, the court ruled in favour of AGICOA and instructed HOT to pay damages of approximately NIS 10 million plus linkage differences, interest from the date of filing the claim and plaintiff's expenses and attorney fees. Appeals were filed by both parties to the Supreme Court regarding the ruling. The proceeding is still pending.

Other Material Litigation

We are or have been subject to several legal proceedings relating to alleged breaches of the Broadcasting Licenses and the Fixed-Line Licenses resulting from our failure to connect certain areas of Israel to our cable network. In January 2011, a suit seeking certification as a class action suit was filed in the Tel Aviv District Court relating to alleged breaches of the Fixed-Line Licenses in this respect and claiming damages of approximately NIS 60 million. The matter is currently pending.

In March 2010, a suit seeking certification as a class action was filed against HOT in the Central District Court regarding an alleged breach of provisions of the Communications Law regarding the disconnection of subscribers from its services. The applicant has claimed damages of NIS 105 million. As of the date of this Offering Memorandum, a settlement agreement including a contribution to the community valued at NIS 7.5 million and certain benefits to subscribers was filed to the Central District Court but has been denied by the Central District Court. A motion to appeal on the same decision was filed to the Supreme Court. The matter is still pending.

In June 2010, a suit seeking certification as a class action was filed against us in the Tel Aviv District Court, relating to alleged breach of certain provisions of the Communications Law when sending short

message service (SMS) notices, which included advertising material to some of our subscribers' without receiving such subscribers' prior consent. The applicants estimates damages in the suit of no less than NIS 754 million. The matter is still pending.

In October 2010, a suit seeking certification as a class action was filed against HOT in the Central District Court relating to alleged breach of HOT's Broadcasting License and certain provisions of its agreements with subscribers when collecting subscribers' fees in respect of the month in which the company's services were provided to subscribers, rather than charging at the following month. The applicant has estimated damages in the suit of NIS 433 million. The matter is still pending.

In February 2011, a suit seeking certification as a class action was filed against HOT by two applicants to the Central District Court, relating to alleged breaches of certain subscribers' agreements by increasing the price of services to subscribers, including alleged misleading of subscribers when increasing the prices of services. The applicants estimated damages in the suit of NIS 666 million. The matter is still pending.

In January 2012, a suit seeking certification as a class action was filed against HOT and HOT Telecom in the Tel Aviv District Court relating to alleged misleading of subscribers when increasing the prices of the services to the subscribers without notifying them, and without obtaining their consent. The applicants have claimed damages in the suit of NIS 287 million. The matter is still pending.

In March 2012, a suit seeking certification as a class action was filed against HOT to the Haifa District Court. The applicant claims, *inter alia*, that HOT acted unlawfully when it did not pay CPI linkage differentials and interest to disconnecting subscribers with respect to the period beginning on the disconnection date until the refund date. The applicants estimate damages of approximately NIS 112.4 million. The matter is still pending.

In April 2012, a suit seeking certification as a class action was filed against HOT and against HOT Telecom in the Tel Aviv District Court regarding alleged breach of certain provisions of the law regarding the supply of frontal services. The applicant has claimed damages in the suit of NIS 186 million. The matter is still pending.

In June 2012, a suit seeking certification as a class action was filed against HOT in the Jerusalem District Court relating to an alleged misleading of its ''HOT Mega'' package subscribers. The applicant estimates damages of NIS 240 million. The matter is still pending.

In August 2012, a suit seeking certification as a class action was filed against HOT in the Tel Aviv District Court relating to alleged misleading of subscribers with respect to the functionality of HOT Magic HD set-top boxes. The applicant estimates damages of NIS 115 million. The matter is still pending.

In September 2012, a suit seeking certification as a class action was filed against HOT and HOTnet in the Tel Aviv District Court relating to alleged breach of the law by sending its fixed-line subscribers from the private sector telephone bills with insufficient details. The applicant estimates damages of NIS 101 million. The matter is still pending.

In September 2012, HOT Mobile, received a claim and an application for the approval of the claim as a class action, which was presented against HOT Mobile by a customer (''the Applicant'') in the District Court in Nazareth. The Applicant claims that HOT Mobile blocks the ''hot-spot'' access point technology in smart-phone hand-sets, which enables the use of the same hand-set as a modem for the purpose of Internet surfing through a lap-top computer or any other supporting device, by use of the cellular data network. The Applicant claims that HOT Mobile's said action is in contradiction with the law, the Ministry of Communication's instructions and/or its license. The Applicant defines the group members which he requests to represent, as all the customers that purchased and received form HOT Mobile cellular services since the beginning of its activity, and in another place—all the customers that use HOT Mobile's cellular network since it began to market the service and/or since its establishment. The total amount of the claim (including monetary and non-monetary damages) is estimated by the Applicant by NIS 105,000,000. HOT Mobile is studying the details of the application for the approval of the claim as a class action.

In October 2012, HOT Telecom received a claim and an application for the approval of the claim as a class action, which was presented against Partner Communications Ltd. and against HOT Telecom (hereinafter—''The Respondents''), by two applicants in the District Court in Haifa. The applicants claim that the Respondents have blocked and/or restricted the operation of functionalities in smart phone hand-sets, which enable to transform such hand-set to a ''hot-spot'' that produces radio signals (WiFi),

in such manner that enables another equipment (such as computer or tablet) located nearby, to use the cellular Internet service purchased or received by the applicants as part of their package (the ''tethering'' functionality). The alleged causes of claim include, inter alia, violations of the Consumer Protection law (misleading, misrepresentation) and tort causes. With respect to HOT, the applicants estimate the number of group members by 563,000. The amount of the claim is estimated by the applicants by NIS 84,450,000 with respect to monetary damages and an additional amount of NIS 2,815,000,000 with respect to non-monetary damages related to distress and infringement of personal autonomy. On October 22, 2012, we received a petition to correct errors in the claim and the application, which was granted by Court. In the petition the applicants added violations of the Communications Law and negligence as causes of action in the claim. We are studying the details of the application for the approval of the claim as a class action.

On November 20, 2012, a purported shareholder of HOT filed a suit seeking certification as a class action against Cool Holding, the Minority Shareholders, HOT and members of the board of directors of HOT in the Economic Division of the Tel Aviv District Court. The suit claims that, among other things, the consideration for the Take-Private Transaction has been allocated in a manner that prejudices the public shareholders of HOT, by providing the Minority Shareholders with consideration in excess of the consideration received by the other public shareholders and that certain conflicts of interest existed. The suit calls for the parties other than HOT to reallocate the consideration, in a manner that would result in the public shareholders (other than the Minority Shareholders) whose shares of HOT will be acquired in the Take-Private Transaction receiving an additional aggregate amount in excess of NIS 54 million. A similar claim, also seeking certification as a class action, was filed on behalf of another purported shareholder on November 26, 2012 challenging the allocation of consideration in the Take-Private Transaction, alleging that the share price in the transaction is unfair and asking the court to appoint an expert to determine a fair price; this claim seeks total damages of up to NIS 195 million.

REGULATORY

Our business is subject to various regulatory requirements and obligations including communications and broadcasting laws, general antitrust law, environment, health and safety laws, planning and construction laws, consumer protection laws as well as technical and other regulations. The communications and broadcasting industry in Israel is highly regulated and requires service providers to obtain licenses from, and comply with the terms of such licenses and the policy statements of, the Israeli Ministry of Communications or the Broadcasting Council with respect to the various communications and broadcasting services, respectively, before offering them to the public. The ever changing regulatory environment can have a material effect on our activities. Certain key provisions of the regulations governing our activities in our business segments are set forth below. This description is not intended to be an exhaustive description of all regulation in this area nor a review of specific obligations which have been imposed on us.

As a general matter, the regulatory principles are set forth in the laws enacted by the Israeli legislature (the ''Knesset''), primarily the Communications Law (Telecommunication and Broadcasting), 5742 - 1982 (the ''Communications Law''), as described below. These laws are amended from time to time upon enactment of the Knesset. The laws authorize the Israeli Ministry of Communications (in some cases with the approval of the Economic Affairs Committee of the Knesset) to issue regulations which provide for specific requirements based upon the principles set forth in the laws. The Israeli Ministry of Communications grants licenses in accordance with the Communications Laws and regulations. In addition to the regulations, the Israeli Ministry of Communications issues policy statements after a public review and consultation process. These policy statements expand upon the Israeli Ministry of Communication's policy with respect to certain basic issues in the relevant market.

Television

Overview

Our television operations are subject to extensive legislative and regulatory requirements that apply to the telecommunication industry in Israel, including the Communications Law, and the regulations enacted in accordance with it. We are also subject to specific legislation applying to the television broadcasting industry in Israel, such as the Harmful Broadcasts Classification, Marking and Prohibition of Damaging Broadcasts Law, 5761-2001 (which imposes certain classification and marking obligations with respect to television broadcasts) and the Television Broadcasts Law (Sub-Titles and Sign Language), 5765-2005 (which imposes certain obligations regarding the accompaniment of television broadcasts with sub-titles and translation into sign language).

We provide our television services pursuant to a non-exclusive general cable broadcasting license applying to all areas of Israel and a non-exclusive general cable broadcasting license applying to Judea and Samaria (the ''Broadcasting Licenses''). The Broadcasting Licenses contain certain conditions and restrictions relating to the provision of cable television services to our customers, including amongst others, a requirement to extend our services to customers in all areas of Israel which, in some cases, creates an obligation on us to provide services even though it would not be worthwhile economically to do so. There are certain places in Israel in which we do not currently provide services. The Broadcasting Licenses also stipulate the maximum fees that may be charged for our analog package. Our Broadcasting Licenses are valid until 2017 and may be extended for periods of ten years at a time by the Broadcasting Council. We also have a special license (held by HOT Telecom) for operating a broadcasting hub which is valid until April 2017. As a general rule, the Broadcasting Licenses are non-transferable. In addition, the transfer of any of means of control in the relevant license holders is subject to prior approval of the Israeli Ministry of Communications and the Broadcasting Council.

Our operations in the pay television segment are subject to the supervision of the Israeli Ministry of Communications and the Broadcasting Council, including, among others things, in connection with the prices of analog services, broadcasting content, and launching of new channels or ceasing to broadcast existing channels. In addition, we have been declared a monopoly in the area of multi-channel television broadcasts for subscribers, and accordingly, the Anti Trust Commissioner (the ''Commissioner'') is permitted to issue instructions to us pursuant to the Restrictive Business Practices Law, 5748-1988. Accordingly, our ability to make acquisitions in the broadcasting sector will be limited. The Commissioner has set various conditions which apply to us as part of its decision to approve the Cable Consolidation. These conditions include, among others, separation of broadcasting and cable infrastructure activities, limitations on possessing means of control and relationships with producers of

the channels, limitations on the purchase of programs and ownership of broadcast programs; limitation on agreements with producers of channels, a requirement to provide telephony services; investing in infrastructure; and provision of a bank guarantee. We are also subject to general anti-trust law which prohibits certain restrictive agreements and the abuse of dominant position in a market. Certain key features of the regulations and Broadcasting Licenses governing our television operations, including certain proposed regulatory changes that may have a significant impact on our operations, are set forth below.

Obligation to Extend Services

Under the terms of the Broadcasting Licenses, we are required to extend our cable television services to customers in all areas of Israel even where it would not be economically profitable to do so. Although we extend our services to most of Israel, there are currently certain areas of the country where we do not provide these services.

Access to DTT Channels

The Second Authority for Television and Radio (the ''Second Authority''), a statutory body set up under the Second Television and Radio Authority Law (the ''Second Authority Law''), is responsible for facilitating the development of, and regulating, commercially operated television and radio broadcasts in Israel. Pursuant to an amendment to the Second Authority Law, the Second Authority was charged with planning, establishing and operating, itself or via others, digital broadcasting stations for the free reception and distribution of television broadcasts (''DTT'') to the general public. Accordingly, in August 2009, the Second Authority launched broadcasts on a nationwide basis, enabling the free distribution to the public of the following DTT channels: the Israeli Broadcasting Authority channels (Channel 1 and Channel 33), the commercial television channels (Channel 2 and Channel 10) and the Knesset Channel (Channel 99). The establishment of the digital broadcasting stations infrastructure enables subscribers to view the broadcasts of DTT channels free of charge upon purchasing a set top box. We are also required to carry the DTT channels over our network.

In April 2012, the Distribution of Broadcasts through Digital Infrastructure Law, 5772 - 2012 was passed into law (the ''DTT Law''). Pursuant to the DTT Law, the DTT array may be expanded to include a maximum of 18 additional channels. Currently, the DTT has already been expanded to include all radio channels broadcasted in Israel and an educational television channel. Additional DTT channels due to be included in the DTT array may include, among others, the Israeli Russian language Channel (Channel 9), the Israeli Music Channel (Channel 24), the Israeli Arabic language Channel, three additional channels dedicated to specific themes and HD versions of any of the channels included in the DTT array.

Narrow Package Proposal

In September 2012, the Broadcasting Council made a decision to compel both multi-channel television broadcasters to offer, in parallel with a basic package of channels a more limited basic package of channels (the ''Narrow Package'') on a pilot basis, with the goal of reducing the cost of the most basic pay television services. The Narrow Package, which we would be required to offer by December 1, 2012, is to include all the channels distributed through the DTT array and four other channels, which include sport, children and youth, series and movies and global news.

Ownership of Television Channels

We are subject to regulatory limitations in connection with the ownership and production of television channels, including the rules set forth in the Communications Rules (Telecommunication and Broadcasting) (Broadcasting Licensees), 5748-1987 (''Communications Rules''). Pursuant to the provisions of the Communications Rules we are subject to restrictions regarding the number of channels that we can produce ourselves or in collaboration with another broadcasting license holder, such that the number of such television channels does not exceed two-fifths of the number of independent channels that we broadcast on our network. However, we are subject to more restrictive ownership rules pursuant to the decision of the Broadcasting Council approving the Cable Consolidation in 2006 that resulted in the formation of our Group. Accordingly, the number of channels that we can produce, including channels produced by our predecessor companies at the date of approval, must not exceed 20% of the independent channels that we broadcast. In addition to those channels, we are also permitted to hold controlling interests in additional channels so long as the number of such channels

does not exceed 4% of the total independent channels that we broadcast and we are not the controlling shareholder of such independent channels.

As a result of our monopoly status in multi-channel television broadcasting, we are also subject to the decision of the Commissioner approving the Cable Consolidation in 2006, pursuant to which are only permitted to hold means of control in the HOT 3 Channel and the HOT Movies Channel (previously Channel 3 and Channel 4) and four additional channels, unless we obtain prior approval of the Commissioner.

Minimum Investment in Local Content Productions

In accordance with the Communications Law, the Communications Rules and decisions of the Broadcasting Council, we are required to invest at least 8% of our annual television revenues from subscriber fees in local productions to be broadcast for the first time over our network. During 2009, 2010 and 2011, we fulfilled the required rate of investment. In 2011, the Broadcasting Council notified our Group that with effect from 2012, the revenues from subscription fees forming the basis for calculating the minimum investment requirement must also include all payments made by customers for the purpose of receiving their broadcasts, including revenues from the rental of set-top boxes. We disputed this stipulation, which we communicated in writing to the Broadcasting Council. In response, the Broadcasting Council has permitted our Group to deploy the additional investment amount required in 2012 as a result of the new basis of calculation over the next three years in equal proportions.

Special Licenses for Cable Broadcasts

Under the Communications Law, the Broadcasting Council is permitted to grant special licenses for cable broadcasts with a view to increasing the number of competitors involved in the broadcasting industry. In such cases, the general broadcasting licensees will be required to transmit the special licensee's broadcasts over their networks subject to the condition that the capacity available to the general broadcasting licensee will not fall below five-sixths of the total capacity available over its network. In August 2007, the Israeli Minister of Communications determined the minimum carriage fee to be paid by a special licensee for distribution of its channel by a general cable broadcasting licensee. We are also required to maintain a minimum level of capacity for transmitting special licensee broadcasts pursuant to the conditions established for approving the Cable Consolidation. In addition, in accordance with the Communications Law, the Broadcasting Council is permitted to grant special licenses to the broadcasters of designated channels. Unlike other special licensees, the designated channel licensees are not obliged to pay a carriage fee to the general broadcasting licensee although the parties are free to agree to such consideration contractually.

Prohibition of Termination Fees

In 2011, the Communications Law was amended to prohibit a license holder from collecting an exit or termination fee from residential and business subscribers whose monthly bill is under NIS 5,000 who terminate their agreement with the license holder before the end of minimum term of such agreement. While a license holder is permitted to collect the balance of the payment in respect of end-user equipment purchased by the subscriber and debts accumulated by the subscriber, if payment for end-user equipment is due in installments, the license holder is not permitted to demand immediate repayment of the entire balance. With regards to some residential and small-business subscribers with contracts which predate the effectiveness of the amendment, the termination fee is limited to a maximum of 8% of the subscriber's monthly account, multiplied by the number of months remaining until the end of the commitment period. The maximum amount does not include the purchase price or rental amount for end-user equipment.

In addition, pursuant to a decision of the Broadcasting Council in 2011, we are only permitted to collect payments from new subscribers only in respect of services provided in the past month and cannot collect payment for service in advance. This decision has had an impact on our cash flows as we transition customers to a post services billing basis.

Prohibition on Advertising

The Communications Law prohibits broadcasting licensees from including commercials in their broadcasts other than promotional advertisements for upcoming broadcasts. Commercial channels,

including certain ''must carry'' channels, and foreign channels may be permitted to include commercials on their channels.

Proposed Transition from Franchises to Licenses for Television Broadcasts

Currently, the commercial DTT channels such as Channel 2 and Channel 10 are operated on an exclusive franchisee basis granted by the Second Authority. However, an amendment to the Second Authority Law was passed in February 2011, which proposes to increase the number of broadcasters by transitioning from the exclusive franchisee system to a non-exclusive license system under which any entity which satisfies certain threshold conditions may apply for a commercial broadcasting license.

Fees and Royalty Payments

The Communications Law obligates general telecommunications licensees to pay royalties to the State of Israel. The regulations enacted under the Communications Law provide for an ongoing decrease in the rate of royalties applicable to such licensees, subject to their reaching 0% commencing on January 2, 2013.

In addition, in accordance with an agreement dated July 2001 between HOT and the State of Israel regarding the consideration payable to the State of Israel for the cable infrastructure, HOT has undertaken to pay the State of Israel royalties at a rate of up to 4% of its revenue until the end of 2015. In each of the years ended December 31, 2010 and 2011, we paid the State of Israel over NIS 50 million under this agreement. See ''*Description of our Business—Material Agreements—Agreement with the State of Israel relating to ownership of our cable network*''.

Broadband Internet Infrastructure Access and Fixed-Line Telephony

Overview

Our broadband Internet infrastructure access and fixed-line telephony operations are subject to extensive legislative and regulatory requirements that apply to the telecommunication industry in Israel, including the Communications Law, and the regulations enacted in accordance with it. Our operations are subject to the supervision of the Israeli Ministry of Communications.

We provide our broadband Internet infrastructure access, fixed-line telephony services and certain other communication services pursuant to a general domestic operator license for the provision of fixed-line services in Israel and a general license for provision of telecom services in several towns in Judea and Samaria (the ''Fixed-Line Licenses''). Among other things, the Fixed-Line Licenses prohibit disconnection of any subscriber from the services other than in certain specified cases listed in the license. Our Fixed-Line Licenses are valid until 2023 and may be extended for periods of ten years at a time upon approval by the Israeli Ministry of Communications. As a general rule, these Licenses are non-transferable. In addition, the transfer of means of control of in the relevant license holders is subject to prior approval of the Israeli Ministry of Communications.

Certain key features of the regulations and licenses governing our broadband Internet infrastructure access and fixed-line telephony operations, including certain proposed regulatory changes that may have a significant impact on our operations, are set forth below.

Decision Regarding the Creation of a Wholesale Market

In February 2010, the Israeli Ministry of Communications and Ministry of Finance appointed a commission headed by the former General Manager of the Israeli Ministry of Industry, Trade and Labor, Amir Hayek (the ''Hayek Committee''), to review and make recommendations with respect to Bezeq's retail telephony rates and the setting of rates for different segments with regard to provision of services in the broadband Internet infrastructure access wholesale market. The Hayek Committee published its recommendation in October 2011. In May 2012, the Israeli Ministry of Communications published the final policy document on the subject of the expansion of the level of competition in the fixed-line communications field, which primarily adopts the recommendations made by the Hayek Committee.

In broadband Internet infrastructure access in particular, on May 2, 2012, the Israeli Ministry of Communications published the final policy document on the subject of the expansion of the level of competition in the fixed-line communications field adopting the main recommendations made by the Hayek Committee in October 2011 with respect to the creation of a wholesale market for fixed line

communications. The Ministry of Communications adopted the following principles affecting the broadband Internet infrastructure access market:

- In order to increase competition between providers of fixed-line communications services, owners of nationwide fixed-line access networks who also provide retail communications services (''infrastructure owners''), shall be obliged to sell wholesale services to communications license holders, who will provide services based on these infrastructures (''service providers''), including bitstream access, leasing of access elements (unbundling), leasing of dark fibers, duct access and transmission services (the ''wholesale services''), on the basis of non-discriminatory terms.
- A service provider may issue a request to the infrastructure owners to make use of their network elements, including wholesale services. Service providers and infrastructures owners will conduct commercial negotiations to reach a usage agreement or provision of the aforementioned services, and immediately upon the signing of such an agreement, each infrastructure owner shall publish a reference offer. The reference offer will include the services that are included in the agreement between the infrastructure owner and the service provider, according to the tariffs and the terms set in the agreement, as well as other wholesale services, in accordance with a list that will be published by the Israeli Ministry of Communications from time to time, including an offered price for each service. An infrastructure owner shall not be allowed to offer volume discounts to a service provider. This offer will be offered to anyone who requests, on equitable and non-discriminatory terms, it will be available for perusal by any seeker, and will be presented on the website of the infrastructure owner, as well as on the website of the Israeli Ministry of Communications. For the purposes of this paragraph, ''an agreement''—an agreement between an infrastructure owner and a significant service provider, which is not a related company to an infrastructure owner.
- Should the Minister of Communications see that a tariff or a term was demanded by an infrastructure owner, or a tariff or a term was agreed to, for a wholesale service, which is not reasonable, may harm competition, may harm the public interest, or may harm the interests of a service provider, the Minister of Communications shall set that tariff or term. In the absence of a demand or an agreement on one or more terms or on a tariff, as stated above, the Minister of Communications shall set them, provided that an agreement has been signed or 6 months have passed since the issuance of this document, whichever shall come first, according to his authority under the Communications Law.
- The ancillary activities, services and arrangements to the wholesale services (rental of space, maintenance, etc.), arrangements for ordering, payment terms, and provisioning, and their tariffs—shall also be set in commercial negotiations between service providers and infrastructure owners, and infrastructure owners shall be allowed to demand reasonable and equitable prices. In the absence of agreement between the relevant license holders, the Minister of Communications shall decide according to his authority under the Communications Law.
- The Israeli Ministry of Communications shall make use of a model for enforcement and supervision, which will help the Israeli Ministry of Communications ensure that the tariffs set in the reference offers are in accordance with the conditions set out above, and to monitor the actual provision of the wholesale services in a reasonable and non-discriminatory manner, and to track the level of implementation of the wholesale market.
- Infrastructure owners shall provide, on an ongoing basis, information about ordering of wholesale services and the deployment of existing infrastructures, to other license holders, in accordance with the requirements of the Israeli Ministry of Communications and will exceptions that will be set by the Ministry.
- When a reference offer is published by an infrastructure owner, related corporations to that owner shall be allowed to purchase wholesale services in order to provide services according to the terms of their licenses, on the condition that such wholesale services are offered without discrimination to any seeker.
- When Bezeq publishes a reference offer, Bezeq shall be allowed to supply telephony services which are not provided over broadband networks, to its subsidiaries, in a wholesale arrangement; should Bezeq decide to provide the aforementioned services it shall provide them concurrently to any license holder who seeks them without discrimination, all subject to the relevant regulations regarding Bezeq subsidiaries.
- Within 9 months of the publication of the reference offer, as described above, the Minister of Communications shall order the abolishment of the structure separation between an infrastructure

owner who published the reference offer, and providers of international calls and ISP services which are related corporations to that infrastructure owner, so that Bezeq, for example, will be allowed to provide to its subscribers bundles which are not disintegrable of all its services (local and international telephony, broadband access and ISP service). All this, except if the Minister of Communications shall determine that in the situation of the wholesale market at that time, abolishment of structural separation might cause significant harm to competition or to the public interest. Should the aforementioned structural separation be abolished, it will be replaced with accounting separation, in a format that will be set by the Minister of Communications.

- The Israeli Ministry of Communications shall set indicators or conditions, under which the Minister of Communications may conclude that the level of development of the wholesale market and the level of development of competition based on bundles include fixed and mobile services in the household sector, allows the granting of easements of the structure separation between an infrastructure owner and a radio-telephone operator which is a related company, or the abolishment of the said structural separation and its replacement with accounting separation.
- Should the Minister of Communications decide that the development of the wholesale market and the level of development of competition based on bundles of fixed and mobile services in the household sector allow it, the Minister of Communications shall consider the abolishment of the structural separation between an infrastructure owner and a radio-telephone operator which is a related company.
- The Minister of Communications shall review the matter of the disintegrability of television broadcasting services, included in service bundles which also include telecommunications services (whether fixed or mobile) or broadband services. The abolishment of the structural separation between infrastructure owners and the multi-channel broadcasting sector, will be done while providing a reasonable opportunity to provide a basic television broadcasting package on the internet, by operators who do not have a fixed nationwide network.
- If the wholesale market will not develop in a sound and proper manner, according to indicators which will be set for this purpose, within 24 months of the publication of this policy document, the Minister of Communications shall act to enforce structural separation between the infrastructure of a fixed domestic license holder and the services provided by that license holder to end users.
- Within six months of the publication of the reference offer, as described above, the Minister of Communications will act to change the tariff control mechanism over the tariffs of the Bezeq company, such that the control shall be done by setting a maximum tariff.
- The Israeli Ministry of Communications shall set, within nine months, regulatory policy with the aim of increasing investment in, and upgrading the fixed communications infrastructure in Israel.

Obligation to Extend Services

Similar to the Broadcasting Licenses, the Fixed-Line Licenses contain a requirement to extend our services to customers in all areas of Israel even where it would not be economically profitable to do so. Although we extend our services to most of Israel, there are currently certain areas of the country where we do not provide these services and we have applied for exemptions from the terms of the Fixed-Line Licenses in accordance with the procedure specified under existing regulations. Pursuant to the Fixed-Line Licenses we are also required to provide network access service to other license holders on reasonable commercial terms so as to enable them to provide services to their subscribers and we must also avoid preferential provision of network access to our affiliated companies, including with regard to payment terms and service availability.

Removal of Certain Restrictions on Bezeq

In 2010, following the reduction in the market share of Bezeq, the incumbent telephony services provider in Israel, in the field of land-based communications below 85%, the Israeli Ministry of Communications announced that it was amending the licenses granted to Bezeq and its subsidiaries thus enabling it to commence marketing multiple-play packages to residential customers and allowing it to market its ISP and fixed-line telephony and broadband Internet infrastructure access services together. To the best of our knowledge, Bezeq currently markets two communications multiple-play packages which include: (a) Internet infrastructure access services (ADSL) as well as ISP services from subsidiary Bezeq International; and (b) Internet infrastructure access services (ADSL), ISP services from subsidiary Bezeq International as well as fixed-line telephony services. Bezeq has also recently began to market bundles

including its fixed-line domestic services (both telephony and broadband Internet infrastructure access) with cellular services provided by its subsidiary, Pelephone. Bezeq has recently been permitted to provide multiple-play packages to business customers as well. However, Bezeq will not be permitted to discriminate with its Internet infrastructure access services prices between a subscriber that uses the service together with telephone service and a subscriber that only uses the Internet infrastructure access service.

Israeli Electric Company Infrastructure

In 2010, the Israeli Ministry of Communications announced that in order to leverage the existing infrastructure owned by the Israeli Electric Corporation, which is a government-owned company and the principal owner of the electric transmission and distribution network in Israel, with a view to increasing competition in the fixed-line telephony and broadband Internet infrastructure access market, it intended to grant a license to a joint venture between the Israeli Electric Corporation and a private sector partner pursuant to which such joint venture would be permitted to provide various communication services, including fixed-line telephony and broadband Internet access to large business customers. The procedure to select the private sector partner to the Israeli Electric Corporation has also been initiated.

Telephony Services over Broadband

In 2007, the Israeli Ministry of Communications published the licensing policy for the provision of telephony services via broadband Internet infrastructure or Voice Over Broadband. The policy stipulated that the provision of Voice Over Broadband services will be regulated via general specific licenses to be granted pursuant to the provisions of the Communications Regulations (Telecommunications and Broadcasting) (Processes and Conditions for Receipt of a General Specific License), 5764-2004. A general specific licensee will be permitted to provide telephony services using VoIP or VOB technology via the broadband infrastructure access service of a general fixed-line licensee (currently only us and Bezeq). This policy thus permits a general specific licensee to provide services using a fixed-line licensee's network without the requirement to pay the owner of the network infrastructure charge, although they still must pay interconnection fees, whilst competing with it in providing fixed-line telephony services.

Elimination of Gigabit Ethernet Transmissions Fees

In the Israeli broadband Internet market, the broadband Internet infrastructure access providers, Bezeq and us, receive payment from subscribers for access to the infrastructure and from ISPs for the Gigabit Ethernet (GBE) connections used as part of the connection to the Internet. On June 26, 2012, the Israeli Ministry of Communications announced a hearing and request for comment on the subject of GBE connections for ISPs. The proposal was issued in light of the expectation that the use of the television broadcasting services via the open internet network (OTT) will increase, thus increasing the need for internet bandwidth. In order to ease the entry of additional players into the broadcasting field through OTT, the Israeli Ministry of Communications is considering changing the service files which describe the fee structure charged with respect to the broadband Internet access services provided to customers, so that such fees and services include all of the components that are required to provide the connection speeds for the purchasers of the service, including the carrying of traffic on the access and core networks. Thus, the proposed legislation would eliminate the payments that are currently paid to the owners of the infrastructure by the ISPs for the GBE connections, other than the transmission from point-to-point segment which connects between the networks of the owners of the infrastructure and the facilities of the ISPs and which may be purchased from the owners of the infrastructure or from one of the other appropriate license holders, who provide GBE transmissions. It was also proposed that the owners of the infrastructure maintain a minimum number of connection points on the basis of geographic regions and regulate the ability of the ISP to select a certain number of connection points. The proposal also provides that the owners of the infrastructure will be required to provide GBE connections at a certain rate based on the aggregate connection rate that has been ordered by the subscribers of that ISP. The GBE proposal could reduce the revenue our broadband Internet infrastructure access segment receives as a result of the prohibition on charging ISPs for the GBE connections.

Fees and Royalty Payments

The regulations enacted under the Communications Law obligate HOT Telecom to make royalty payments to the State of Israel in connection with its domestic fixed-line operator license. These royalty payments will be reduced to zero in January 2013.

Internet Service Provider

We provide our ISP services through our subsidiary, HOT Net, pursuant to a special license to provide Internet access services (the ''ISP License''). The ISP license permits us to provide various services, including Internet access services, email services, installation and maintenance of a network for transmission of data, documents and electronic messages (EDI), processing, management and routing of messages and system administration services (including monitoring and handling malfunctions, information security, information systems and information compression, and securing access to service recipient's computer). Under the terms of the ISP License, we are required to provide ISP services to any customer or other ISP license holders, including to customers of other broadband Internet infrastructure access providers, without discrimination and under identical terms and conditions. Our ISP License is valid until December 31, 2015 and may be extended upon approval by the Israeli Ministry of Communications. As a general rule, the transfer of any means of control in a relevant license holder is subject to prior approval of the Israeli Ministry of Communications.

Cellular

Our cellular operations are subject to the Communications Law, the Telegraphy Ordinance [New Version], 1972, and the regulations enacted in accordance with them. We are also subject to the Planning and Construction Act and regulations with regard to site construction, the Consumer Protection Law, 1981 and the Non-Ionizing Radiation Law. We provide our cellular services pursuant to a non-exclusive license to erect, maintain and operate a cellular system and to provide cellular services (the ''Cellular License''). The Cellular License was amended in September 2011 to add additional frequencies in relation to the creation of a UMTS network. The Cellular License with respect to the main original frequencies which we use to deliver our iDEN based cellular services is valid until February 2016. The Cellular License with respect to the additional frequencies which we will utilize to provide UMTS based cellular services is valid until September 2031. The Cellular License may be extended for periods of six years at a time upon approval by the Israeli Ministry of Communications. As a general rule, the Cellular License is non-transferable, and the transfer of any means of control in a relevant license holder is subject to prior approval of the Israeli Ministry of Communications.

Certain key features of the regulations and licenses governing our cellular operations, including certain proposed regulatory changes that may have a significant impact on our operations, are set forth below.

Construction of Network Sites

The regulation of network site construction and operation are primarily set forth in the Israeli National Zoning Plan 36 for Communications, which was published in May 2002 (''National Zoning Plan 36''). The construction of radio access devices, which are cell sites of smaller dimensions, is further regulated in the Planning and Building Law and Communications Law.

National Zoning Plan 36

National Zoning Plan 36 includes guidelines for constructing cell sites in order to provide cellular broadcasting and reception communications coverage throughout Israel, while preventing radiation hazards and minimizing damage to the environment and landscape. National Zoning Plan 36 sets forth the considerations that the planning and building authorities should take into account when issuing building permits for cell sites. These considerations include the satisfaction of safety standards meant to protect the public's health from non-ionizing radiation emitting from cell sites, minimizing damage to the landscape and examining the effects of cell sites on their physical surroundings. However, National Zoning Plan 36 is in the process of being revised. Current proposed changes will impose additional restrictions and requirements on the construction and operation of cell sites. On June 1, 2010, the National Council for Planning and Building approved the National Zoning Plan No. 36/A/1 version that incorporates all of the amendments to the Plan (the ''Amended Plan''). The main amendments to the Plan are: (a) the plan provides for full liability for depreciated property claims on the cellular operators; (b) the plan prohibits the erection of poles in urban areas (excluding industrial zones) and in rural areas (excluding next to existing infrastructure); (c) the plan grants to the municipalities the authority to approve local zoning plans that will regulate the deployment of site; and (d) the plan demands a minimum distance of 4 meters between antenna poles on a rooftop.

The Amended Plan is subject to governmental approval, in accordance with the Planning and Building Law. It is unknown if and when the government intends to approve the Amended Plan. If the Amended Plan is approved, it might have a significant impact on our ability to get permits for our cellular

sites. In addition, we may need to change the location of our future cellular network sites to less suitable locations, which may have an adverse effect on the quality and capacity of our cellular network coverage. The cost of complying with the Amended Plan might be substantial, and may adversely affect our revenues and profits.

Radio Access Devices

Most cellular operators have historically relied on an exemption from obtaining a building permit under the Construction and Planning Law for constructing rooftop cellular radio access devices, which was consistent with the Israeli Attorney General opinion on the matter. In May 2008 the District Court of Tel Aviv-Jaffa, in its capacity as court of appeals, ruled that the cellular operators' devices do not meet the exemption's requirements and therefore the exemption may not be relied upon. An appeal was filed against this ruling to the Supreme Court and the Israeli government notified the Supreme Court that it concurs with the appeals against the District Court ruling. Furthermore, in July 2008, a petition seeking to annul the Attorney General's opinion and apply the District Court ruling was filed with the Supreme Court by the Union of Local Authorities in Israel and certain local planning and building authorities which also requested to join our appeal and argue against the position of the State. In June 2009, another petition seeking similar remedies, was also filed with the Supreme Court. The Supreme Court decided to hear both petitions and our appeal together. In September 2009, following publication of the recommendations of an inter-ministry committee established to examine the appropriateness of future application of the exemption, the Attorney General concluded that the application of the exemption does not balance properly the different interests involved and therefore cannot continue. In March 2010 draft regulations were issued setting conditions for the application of the exemption, which include significant limitations on the ability to construct radio access devices based on such exemption, including a limitation of the number of such radio access devices to 5% of the total number of cell sites constructed or to be constructed with a building permit in a certain area during a certain period (which will render the construction of radio access devices based on the exemption practically impossible), and circumstances in which a request for a building permit for the radio access device was filed and no resolution has been granted within the timeframe set in the regulations. In September 2010, the Supreme Court issued an interim order prohibiting further construction of radio access devices in cellular networks in reliance on the exemption. The interim order, that was issued pursuant to the Israeli Attorney General's request, will be in effect until the enactment of the proposed regulations or other decision by the court. A further decision of the Supreme Court in February 2011, states that the order will not apply to the replacement of existing radio access devices under certain conditions. In September 2010, pursuant to the Israeli Attorney General, the Supreme Court issued an interim order prohibiting further construction of radio access devices for cellular 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 July 31, 2011 (subsequently extended to January 31, 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.

Radio access devices also require permits from the Israeli Ministry of Environmental Protection. The local planning and building committee's engineer may object to the exemption for a permit requirement prior to installing radio access devices. An annulment of, or inability to rely on, or substantial limitation of, the exemption could adversely affect our existing network and network build-out particularly given the objection of some local planning and building authorities to grant due permits where required, could have a negative impact on our ability to obtain environmental permits for these sites, could negatively affect the extent, quality, capacity and coverage of our network, and our ability to continue to market our cellular services effectively.

Indemnification Obligations

In January 2006, the Planning and Building Law was amended to provide that as a condition for issuing a building permit for a cell site, local building and planning committees shall require letters of indemnification from cellular operators indemnifying the committees for possible depreciation claims under Section 197 of the Planning and Construction Law, in accordance with the directives of the National Council for Planning and Building. Section 197 establishes that a property owner whose property value has depreciated as a result of the approval of a building plan that applies to his property or neighboring properties may be entitled to compensation from the local building and planning

committee. In February 2007, the Israeli Minister 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 under National Zoning Plan 36 for a cell site and one year from the construction of a cell site. The Minister retains the general authority to extend such period further. This extension of the limitation period increases our potential exposure to depreciation claims.

The Non-Ionizing Radiation Law

The Non-Ionizing Radiation Law prohibits the construction and operation of cell sites without a permit from the Israeli Ministry of Environmental Protection. The Commissioner of Environmental Radiation, or the Commissioner, is authorized to issue two types of permits: construction permits, for cell site construction; and operating permits, for cell site operation. These permits contain various conditions that regulate the construction and operation of cell sites. A construction permit is valid for one year, and will allow us to operate a cell site for a period not exceeding three months and an operating permit will allow to operate a cell site for a period of five years. We are required to submit to the Commissioner annual reports regarding radiation surveys conducted on our cell sites and other facilities by third parties that were authorized to conduct such surveys by the Commissioner. In order to receive an operating permit from the Commissioner, certain conditions must be met, such as presenting a building permit or an exemption and means taken (including technological means) to limit exposure levels from each cell site or facility (relevant also for the receipt of a construction permit). The Non-Ionizing Radiation Law, grants the Commissioner authority to issue eviction orders if a cell site or other facility operates without complying with its permit, and it imposes criminal sanctions on a company and its directors and officers for violations of the law. Failure to comply with the Non-Ionizing Radiation Law or the terms of a permit can lead to revocation or suspension of the permit, as well as to withholding the grant of permits to additional cell sites.

The Ministry of Environmental Protection notified us of a new condition for all of our cellular network site operation permits in order to receive operating permits, according to which we must connect to a monitoring system of the Ministry of Environmental Protection that continuously monitors and reports the level of power created in real time from the operation of our cellular network sites.

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 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 the commissioner an application for extended time to connect to the monitoring system. As of November 2012, we start receiving operation permits, which are subject to the demand to connect to the monitoring system no later than February 5, 2013. We are now in an advanced stage in the process of connecting to the monitoring system in coordination with The Ministry of Environmental Protection.

Prohibition of Exit Fee

On March 21, 2012, the Knesset passed an amendment to the Communications Law in order to prohibit a license holder from collecting an exit or termination fee from new subscribers who cancel their agreement with the license holder. A license holder will still be permitted to collect the balance of payment owed to it by the subscriber relating to the purchase of end-user equipment. The amendment will not apply to large subscribers who have purchased 100 or more lines. Additionally, under the terms of the amendment, effective from January 1, 2013, it will not be possible to link a transaction for the purchase of end-user equipment and the provision of cellular services.

Mobile Virtual Network Operator

A mobile virtual network operator, or MVNO, is a cellular operator that does not own its own spectrum and does not have its own radio network infrastructure. Instead, MVNOs have business arrangements with existing cellular operators to use their infrastructure and network for the MVNO's own customers. The Communications Law was amended in July 2009 to provide for MVNO licenses and in January 2010, the regulations necessary for the granting of an MVNO license were promulgated. The regulations regulate the operation of an MVNO pursuant to an agreement to be reached and entered between a cellular operator and an MVNO and sets, among others, the conditions for receiving an MVNO license, including a requirement to operate a mobile phone switch, a restriction on a cellular operator and a

fixed-line operator to receive an MVNO license and limitations on parties related to an existing cellular operator and on other communication licensees, to receive an MVNO license. The amendment provides that in the event that a MVNO and the cellular operator will not have reached an agreement as to the provision of service by way of MVNO within six months from the date the MVNO has approached the cellular operator, and if the Israeli Ministry of Communications together with the Israeli Ministry of Finance determine that the failure to reach an agreement is due to unreasonable conditions imposed by the cellular operator, the Ministry of Communications will use its authority to provide instructions. Such instructions may include intervening in the terms of the agreement, including by setting the price of the service. To date the Ministry of Communications has granted nine MVNO licenses.

Fees and Royalty Payments

In accordance with our Cellular License, we were required to pay to the State of Israel a total license fee of NIS 705 million, out of which we paid NIS 10 million at the time of receiving the license. We have provided a bank guarantee to the State of Israel for the remaining NIS 695 million, which is payable in 2016 subject to certain deductions. See ''*Description of our Business—Material Agreements—Provision of certain bank guarantees to the State of Israel relating to performance of certain license terms*.''

Copyright/Trademark Law

Israel grants copyright protection to original literary, dramatic, musical and artistic works, as well as sound recordings and computer programs under the Copyright Law, 5767-2007. Copyright protection automatically subsists with respect to works which comply with the terms set forth in the Copyright Law. Under the Copyright Law, generally, protection of a work runs from the date of creation until the end of the seventieth year after the year of the death of the author. Israel is party to a number of multinational treaties relating to copyrights, including the Berne Convention.

In Israel, trademarks are governed by Trade Marks Ordinance (New Version), 5732-1972. A trademark registration is valid for ten years from the date of the trademark application. The registration may be renewed for further periods of 10 years after each renewal. The legal protection of a trademark is conditioned on it having distinctive character. Israeli law also provides for legal protection to unregistered trademarks. Under the Trade Marks Ordinance an owner of a trademark that is well-known in Israel can exclude others from using the mark, even when the trademark was not registered in Israel. Israel is also party to a number of multinational treaties relating to trademarks.

Structural Separation

In order to promote competition in the telecommunication and broadcasting industry in Israel the various licenses issued to us to conduct our business contain provisions that require us to maintain strict structural separation between our Group entities that hold the licenses, including separation of assets, management and employees. As a result, we generally operate our cable television services which are subject to the Broadcasting Licenses, our broadband Internet infrastructure access and fixed-line telephony services which are subject to the Fixed-Line Licenses, our ISP services which are subject to the ISP License and our cellular services which are subject to the Cellular License as separate businesses conducted by separate entities within our Group. For details, see *''Description of our Business—History''*. In addition, pursuant to the license provisions, our cable network assets are owned by HOT Telecom and access to the network is provided to other Group entities pursuant to certain inter-company arrangements and subject to legal requirements. Under the terms of the licenses, we are also prohibited from making any of our services conditional upon subscription to another service. For example, we are not allowed to force customers to opt for our multiple-play packages and must continue to offer our various services on a stand-alone basis also. However, notwithstanding the requirement to maintain such structural separation, we are permitted to offer our customers multiple-play services and conduct related marketing, billing and collection activities of our pay television, broadband Internet infrastructure access and fixed-line telephony on the condition that only commercial information necessary for marketing, billing and collection our multiple-play services are shared between the relevant Group entities.

MANAGEMENT AND GOVERNANCE

The Issuers

The Senior Secured Notes Issuer is a public limited liability company (*société anonyme*) incorporated under the laws of Luxembourg. The Senior Secured Notes Issuer was incorporated as a public limited liability company (*société anonyme*) under the laws of Luxembourg on August 17, 2012 under the name of ''Altice Financing S.A.''. The registered office (*siège social*) of the Senior Secured Notes Issuer is at 37, rue d'Anvers, L-1130 Luxembourg, Grand Duchy of Luxembourg. The Senior Secured Notes Issuer's telephone number is +352 283 71 079. The Senior Secured Notes Issuer is registered with the Luxembourg Register of Commerce and Companies under number B 171162.

The Senior Notes Issuer is a public limited liability company (*société anonyme*) incorporated under the laws of Luxembourg. The Senior Notes Issuer was incorporated as a public limited liability company (*société anonyme*) under the laws of Luxembourg on August 17, 2012 under the name of ''Altice Finco S.A.''. The registered office (*siège social*) of the Senior Notes Issuer is at 37, rue d'Anvers, L-1130 Luxembourg, Grand Duchy of Luxembourg. The Senior Notes Issuer's telephone number is +352 283 71 079. The Senior Notes Issuer is registered with the Luxembourg Register of Commerce and Companies under number B 171151.

The following table sets forth certain information regarding the members of the board of directors of the Senior Secured Notes Issuer and the Senior Notes Issuer as of the date hereof. The number of directors is not subject to any maximum limit. The sole shareholder of the respective Issuer has the authority to dismiss any director and fill any vacancy.

Name	Age	Position
Jérémie Bonnin	38	Chairman
Emilie Schmitz	30	Director
Laurent Godineau	39	Director

Jérémie Bonnin, see below.

Emilie Schmitz, Emilie Schmitz, 30, is a director of the Senior Secured Notes Issuer and the Senior Notes Issuer. Mrs Schmitz serves as an accountant manager of Centralis SA, a corporate and trust services provider. Prior to joining Centralis S.A. in 2010, Mrs Schmitz was a Senior Advisor at Deloitte SA (Luxembourg). She graduated from the School Robert Schuman of Metz (France) with a bachelor's degree specializing in accountancy and management.

Laurent Godineau, 39, is a director of the Senior Secured Notes Issuer and the Senior Notes Issuer. Mr Godineau serves as a General Manager of Centralis S.A., a corporate and trust services provider. Prior to joining Centralis S.A. in 2007, Mr. Godineau was a Senior Advisor at Alter Domus (Luxembourg). He graduated from the ESC Bretagne Brest with a master's in Finance and Chartered Accountancy and also holds a Master of Sciences degree in International Business and Finance from the University of Reading.

Cool Holding

The following table sets forth certain information with respect to members of the board of directors of Cool Holding, the parent company of HOT, as of the date hereof. Cool Holding's directors are appointed by its sole shareholder, Altice. The board of directors of Cool Holding is composed of at least three directors but is not subject to any maximum limit. Altice has the authority to dismiss any director and fill any vacancy. The registered office (*siège social*) of Cool Holding is at 37, rue d'Anvers, L-1130 Luxembourg, Grand Duchy of Luxembourg.

Name	Age	Position
Jérémie Bonnin	38	Chairman
Anne-Laure Coates	31	Director
Laurent Godineau	39	Director

Anne-Laure Coates, 31, is a director of Cool Holding. Mrs. Coates joined Altice in 2009 as an analyst. Prior to joining Altice, Mrs. Coates worked for a Boussard & Gavaudan hedge fund and then as a private banker within Credit Suisse. She graduated from Exeter University, with a bachelor's degree in Hispanic studies.

HOT

Board of Directors

The following table sets forth certain information with respect to members of the board of directors of HOT as of the date hereof.

Name	Age	Position
Stella Handler	50	Chairperson
Dexter Goei	41	Vice-Chairperson
Isia Tchetchik	73	Director
Inon Engel	59	Director
Jérémie Bonnin	38	Director
Relly Shavit	63	Director
Amos Sapir	75	Director
Abraham Burstyn	65	Director

Stella Handler has served as chairperson of HOT's board of directors since May 2011. From February 2010 until April 2011, Ms. Handler served as chief executive officer of 012 Smile Telecom Ltd., a wholly owned subsidiary of Ampal from that date. From January 2007 until January 2010, Ms. Handler served as chief executive officer of 012 Smile.Communications Ltd. From 1997 to 2006, Ms. Handler was employed by 012 Golden Lines and served as its chief executive officer beginning in 2002. From 1992 to 1997, Ms. Handler served as the Head of Subsidiary Companies Division of Bezeq The Israel Telecommunication Corp. Ltd., responsible for control, management and operations of all subsidiary companies. Ms. Handler earned a BA in Economics and an MA in Economics and Business Management from the Hebrew University of Jerusalem.

Dexter Goei has served as vice-chairperson of HOT's board of directors since December 2011 and as chairperson from February 2010 to May 2011. Mr Goei is the Managing Director and CEO of Altice. Mr. Goei joined Altice in 2009. Prior to this, Mr. Goei worked as an investment banker at Morgan Stanley & Co. between 1999 to 2009, in its European Media and Telecommunications Group, which he co-headed from 2008 to 2009. From 1993 to 1999, he worked as an investment banker at J.P. Morgan & Co. in its New York and Los Angeles investment banking divisions. Mr. Goei graduated cum laude from Georgetown University School of Foreign Service in 1993 with a Bachelor of Science in International Economics.

Isia Tchetchik has been a director of HOT since January 2007 and served as chairperson from January 2007 to February 2010. Mr. Tchetchik also serves on the boards of directors of a number of additional companies, including as chairman of Alliance Tire Company Ltd. From 1984 to 1994, Mr. Tchetchik was the chairman of Champion Motors. Mr. Tchetchik served as CEO of OREK from 1994 to 2001. From 1997 to 2006, Mr. Tchetchik was the chairman of Golden Lines. Mr. Tchetchik also served as chairman of Nextcom from 2006 to 2008 and has been the chairman of Alians since 2001. Mr. Tchetchik has a BA in Economics and Statistics from Hebrew University, a BA in Psychology from Tel Aviv University, a Masters in Industry and Management from the Technion and an MBA from INSEAD.

Inon Engel has been a director of HOT since January 2007. Mr. Engel has been Vice President of Yediot Aharonot Ltd. since 1989. In addition, Mr. Engel has or is serving as director of various companies of the Yedioth Ahronoth Ltd. group and Yedioth Communications Ltd. Mr. Engel earned a Certificate of Accountancy from Hebrew University of Tel Aviv.

Jérémie Bonnin has been a director of HOT since November 2011. Mr. Bonnin is Vice President of the Altice Group, in charge of mergers and acquisitions, financing planning, strategy and execution. Mr. Bonnin joined the Altice Group in 2005. Prior to this, Mr. Bonnin worked as a Manager at KPMG between 1998 and 2004, in the Transaction Service department. Mr. Bonnin is an engineer with a degree in information system architecture from Institute d'Informatique d'Enterprise and a BA in Economics and Accounting from the Conservatiore National des Arts et Metiers. Mr. Bonnin has been a director of HOT since November 2010.

Relly (Rachel) Shavit has served as an external director of HOT since July 2010. Ms. Shavit has been the vice president of finance for Bar-Ilan University since 2006. Ms. Shavit has been a director of ILDC Energy since 2011. Ms. Shavit has a BA in Economics and Statistics and a Masters degree in Economics from Tel Aviv University and completed an advanced coursework for accountants a the Israel Management Center.

Amos Sapir has served as an external director of HOT since June 2007. Mr. Sapir serves as a business and economic advisor, as well as Chairman of the Board of Directors at various private and public companies, including N. Feldman & Son. Until October 2009, Mr. Sapir served as the Chairman of Standard & Poor's Maalot Ltd. Previously, Mr. Sapir held various senior positions at Clal Group. Mr. Sapir earned a BA in Economics and International Relations from the Hebrew University in Jerusalem, as well as an MBA with a focus in finance from Columbia University, where he also studied for a doctorate in finance and banking.

Abraham Burstyn has served as a director since December 2010. From 2005 to 2011, Mr. Burstyn was the chief executive officer of MIRS Communications Ltd. (now known as HOT Mobile Ltd.). Mr. Burstyn earned a BA in Economics and Business Management from Haifa University.

In accordance with HOT's Articles of Association, the Board of Directors of HOT shall consist of no less than six and no more than ten members (currently, there are eight members). Directors are elected by shareholders for four year terms. HOT is also required by law to appoint two external directors, who serve for three year terms. Currently, Mr. Sapir and Ms. Shavit are HOT's external directors.

Senior Management

Hertzel Ozer has served as chief executive officer of HOT since December 2008. From 2005 to 2008, Mr. Ozer served as the CEO of the culinary division at Osem. From 2002 to 2004 served as CEO of Nesher Israel cement enterprises Mr. Ozer earned a BA in Economics and Statistics and an MBA from the Hebrew University of Jerusalem.

Jean-Luc Berrebi has served as the chief financial officer of HOT since June 2012. Previously, from August 2010, he served as Vice President for Supply Chain and Performance Enhancement of HOT. From January 1998 to July 2010 Mr. Berrebi was a partner at Deloitte & Touche. Mr. Berrebi earned a BA and Masters degree in Accounting from Dauphine University in France.

Orit Gidron-Harit has served as legal counsel of HOT since March 2008. From 2007 to 2008 Ms. Gidron-Harit served as the Company's secretary. Ms Gidron-Harit earned a BA in Law from Tel Aviv University.

Yoram Mokady has served as Vice President of Content & Regulation of HOT since December 2009. From 2008 to 2009 he served as the company's VP of Regulation. Mr. Mokady earned a degree in Law from the Hebrew University.

Maximiliano (Max) Blumberg has served as Chief Technology Officer of HOT since February 2012. In the past, he served as CTO at 012 Smile (4.5 years) and as VP of IT & Engineering at Internet Zahav (3 years). Mr. Blumberg earned a degree in Computer Science & Mathematics from Netanya Collage.

Ilan Zachi has served as Vice President of Private Customers of HOT since September 2011. From April 2010 through August 2011, Mr. Zachi served as Vice President of Customer Service. In his previous positions, Mr. Zachi served as manager of customer service for Cellcom Ltd. Mr. Zachi earned a BA in Business Management from the Rupin Academic Center and an MBA from the College of Management.

Lilach Tal has served as Vice President & HQ of HOT since September 2009. From 2005 to 2009, Ms. Tal served in the Israeli Foreign Ministry abroad. From 1995 to 2005, Ms. Tal was manager of marketing at Nestle-Osem. Ms. Tal earned a BA in Management (Economics) and a Masters degree in Marketing and Management from Tel Aviv University.

Savion Bar-Sever Sigalat Ms. Bar-Sever Sigalat has served as Vice President of Marketing of HOT since October 2009. From 2007 to 2009 Ms. Bar-Sever Sigalat served as Vice President of Marketing for the Central Beverage Company and from 2004 to 2007 she served as CEO of Kidum. From 2000 to 2004, Savion served as VP of Marketing at ''Burger Ranch'' Israel. Ms. Bar-Sever Sigalat earned a BA in Industrial Engineering and Management from the Technion and an MBA from Tel Aviv University.

Amalia Zarka has served as Vice President HR of HOT since September 2007. From 2004 to 2007 Ms. Zarka served as Head of HR & Training at Israel's Union Bank, and from 2000 to 2004 she served as HR Manager at Tnuva. Ms. Zarka earned a BA in Social Work from Bar Ilan University and a masters degree in Management & Organizational Behavior from Tel Aviv University.

Asi Moyal has served as Vice President Business Customers since February 2012. Mr. Moyal served as managers of the Telecom Industry and Trade of Microsoft Israel for 3.5 years and as the head of business division of the company for 2 years. Mr. Moyel earned a BA in political science from Tel Aviv University and a Masters in marketing from the College of Management Academic Studies.

Xavier Darche has served as Vice President of Technology of HOT since March 2010. He was a vice president of Platforms Operation for 2.5 years, and VP information Systems for 1 year at Numericable. He was the chief technology officer of Altice One for 2 years. Mr. Darche earned a degree in electrical engineering and an MBA from Universitee Catholique de Louvain.

Board Committees

Audit Committee

HOT's Audit Committee is comprised of Ms. Shavit, Chairperson, and Messrs. Tchetchik, Engel and Sapir. The Israeli Companies Law requires public companies, such as HOT, to appoint an audit committee comprised of at least three Board members, including all the company's external directors, the majority of whom must be Israeli independent directors. Under the Companies Law, the chairman of the audit committee is required to be an external director and neither the controlling party or his relative, the chairman of the Board of Directors, any director employed by the company or by its controlling party or by an entity controlled by the controlling party, any director who regularly provides services to the company, to its controlling party or to an entity controlled by the controlling party, nor any director who derives most of its income from the controlling party, may be eligible to serve as a member of the audit committee. Our audit committee is comprised of both our external directors and of an Israeli independent director. The responsibilities of our audit committee under the Companies Law include, *inter alia*, identifying irregularities in the management of the company's business and approving related party transactions as required by law, determining whether certain related party actions and transactions are ''material'' or ''extraordinary'' in connection with their approval procedures, assessing the scope of work and compensation of the company's independent accountant, assessing the company's internal audit system and the performance of its internal auditor and making arrangements regarding the handling of complaints by employees about company's business management deficiencies and regarding the protection given to employees who have made complaints.

Balance Sheet Committee

HOT's Balance Sheet Committee is comprised of Mr. Sapir, chairperson, Ms. Shavit, Mr. Engel and Mr. Tchetchik. Regulations promulgated under Israeli Companies Law require public companies, such as HOT, to appoint a balance sheet committee comprised of at least three members, the majority of whom must be independent directors. The responsibilities of our balance sheet committee under the Companies Law include reviewing our financial statements and the estimates and assumptions used in their preparation, recommending the approval of the financial statements and reporting to the Board of Directors regarding any problem or defect found in such financial statements.

Management Options

Certain senior management of HOT hold rights to purchase shares of HOT representing, in aggregate, approximately 4.3% of the outstanding shares of HOT (the ''Management Options''). Pursuant to the Merger Agreement, Management Options to purchase an aggregate of approximately 3.2% of the outstanding shares of HOT will expire if not exercised within 90 days of the delisting of HOT's shares from the Tel Aviv Stock Exchange and, if exercised prior to cancellation thereof, the HOT shares issued upon such exercise will be purchased by SPV1 at the same price that SPV1 will pay to acquire the other shares of HOT in connection with the Take-Private Transaction. See ''*The Transaction*''.

PRINCIPAL SHAREHOLDER

Following the completion of the Transaction, the Senior Secured Notes Issuer will be a wholly owned subsidiary of the Senior Notes Issuer, which is a wholly owned subsidiary of Altice, and HOT will be a wholly owned subsidiary of Cool Holding, which is also a wholly owned subsidiary of Altice. Altice is controlled by Mr. Patrick Drahi. See ''*General Description of our Business and the Offering—Summary Corporate and Financing Structure*''.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Shareholder Loan

On November 26, 2012, Altice entered into an amended and restated interest free loan agreement with Cool Holding pursuant to which it has agreed to grant Cool Holding a loan in a maximum aggregate amount of NIS 1.5 billion (the ''Shareholder Loan''). As of September 30, 2012, the aggregate amount outstanding under the Shareholder Loan is NIS 1,202 million. The Shareholder Loan is scheduled to be repaid on September 30, 2087. The Shareholder Loan is subordinated in right of payment to the prior payment in full of the Notes. The Shareholder Loan does not accrue any interest.

HOT Mobile Earnout

In connection with the acquisition by HOT of HOT Mobile from Altice Securities S.à r.l. (''Altice Securities''), a subsidiary of Altice and affiliate of HOT, HOT agreed to pay to the managers of HOT Mobile and an unrelated third party (''Migad'', and, together with the managers of HOT Mobile and Altice Securities, the ''Earnout Recipients'') additional consideration, in an amount of NIS 450 million, which is subject to future performance targets with respect to HOT Mobile (the ''Earnout''). The Earnout includes (i) a contingent future payment of NIS 225 million, paid in four equal installments of NIS 56.25 million, conditioned upon achievement of certain EBITDA targets by HOT Mobile for the years 2013 to 2016, inclusive, and (ii) a contingent future payment of NIS 225 million conditioned on achievement of 7% market share, as defined in the Cellular License, in the cellular market by 2016. There is a mechanism to reduce the payments required under the Earnout to the extent HOT Mobile is required to make payments to the Israeli Ministry of Communications pursuant to the Cellular License. As of September 30, 2012, we estimate that the fair value of the Earnout is NIS 336 million and Altice Securities has pro rata rights to approximately 94% of the Earnout. On November 28, 2011, in connection with the entrance by Cool Holding into the Cool Loan, Altice Securities transferred its rights and entitlements to payments under the Earnout to Cool Holding (the assigned rights only include such payments that would actually have been received by Altice Securities). For more information, see note 3 to HOT's financial statements for the year ended December 31, 2011, included elsewhere in this Offering Memorandum.

Cool Interest Loan

On November 26, 2012, Altice entered into an interest free loan agreement with Cool Holding pursuant to which it has agreed to grant Cool Holding a loan in an amount of NIS 37 million (the ''Cool Interest Loan''), which will be repaid on the Completion Date with a portion of the offering of the Notes. Cool Holding will use the proceeds of the Cool Interest Loan to pay interest and an amortization payment due under the Cool Loan. The Cool Interest Loan is subordinated in right of payment to the Cool Loan. The Cool Interest Loan does not accrue any interest. Cool Holding will repay the Cool Interest Loan promptly upon release of the proceeds of the offering of the Notes from escrow.

DESCRIPTION OF OTHER INDEBTEDNESS

The following contains a summary of the terms of the Existing HOT Unsecured Notes and the Revolving Credit Facility Agreement and the expected terms of the Intercreditor Agreement and the Pledged Proceeds Notes. It does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the underlying documents. The Intercreditor Agreement and the Pledged Proceeds Notes will not be executed until the Completion Date. There can be no assurance that the terms of the Intercreditor Agreement or the Pledged Proceeds Notes will not differ from the terms described below. Terms not otherwise defined in this section shall, unless the context otherwise requires, have the same meanings set out in the Existing HOT Unsecured Notes, the Revolving Credit Facility Agreement, the Intercreditor Agreement and the Pledged Proceeds Notes as applicable.

The Revolving Credit Facility Agreement

The Revolving Credit Facility Agreement is an $80 million super senior secured revolving credit facility entered into on November 27, 2012, between, among others, the Senior Secured Notes Issuer, as borrower and guarantor, certain lenders party thereto, BNP Paribas, Crédit Agricole Corporate and Investment Bank, Credit Suisse AG, London Branch, Goldman Sachs Bank USA, HSBC Bank plc, ING Bank N.V., J.P. Morgan Limited and Morgan Stanley Bank International Limited as Mandated Lead Arrangers, Citibank International Plc as Facility Agent and Citibank, N.A., London Branch as Security Agent. The Revolving Credit Facility Agreement provides for the accession of additional borrowers and guarantors subject to the requirements set out therein. References to the ''borrower'' or ''borrowers'' under this section refer to the Senior Secured Notes Issuer and any additional borrowers who accede to the Revolving Credit Facility Agreement in that capacity.

Structure

The final maturity date of the Revolving Credit Facility Agreement is the earlier of (i) the date falling five years after the Completion Date and (ii) the date on which the Revolving Credit Facility has been fully repaid and cancelled. The borrowers are permitted to make drawdowns under the Revolving Credit Facility Agreement for terms of, at the relevant borrower's election, one, two, three or six months (or any other period agreed by the Senior Secured Notes Issuer and the lenders), but not to end beyond the final maturity date of the Revolving Credit Facility Agreement. Drawdowns under the Revolving Credit Facility Agreement must be repaid at the end of the interest period for the relevant loan and repaid amounts may be re-borrowed up to one month prior to the final maturity date (save for certain roll-over loans).

Limitations on Use of Funds

The Revolving Credit Facility may be used by the borrowers for general corporate and working capital purposes of the Group (other than the Senior Notes Issuer, the ''RCF Group''), including, but not limited to, the refinancing of all or part of any existing financial indebtedness of the RCF Group.

Conditions to Borrowings

A drawdown under the Revolving Credit Facility Agreement cannot be made until, among other things, the Facility Agent has received in form and substance satisfactory to it customary conditions precedent documents, including the occurrence of the Completion Date. Drawdowns under the Revolving Credit Facility Agreement are subject to further conditions precedent on the date the drawdown is requested and on the drawdown date including the following: (i) no default continuing or occurring as a result of that drawdown; and (ii) certain, and in the case of drawdowns on the Completion Date, all representations and warranties specified in the Revolving Credit Facility Agreement being true in all material respects.

Interest Rates and Fees

The interest rate on each loan under the Revolving Credit Facility Agreement for each interest period is equal to the aggregate of: (x) the applicable margin; (y) LIBOR; and (z) any mandatory cost (which is the cost of compliance with reserve asset, liquidity, cash margin, special deposit or other like requirements).

The initial margin is 4.25 per cent. per annum but if: (i) no event of default has occurred and is continuing under the Revolving Credit Facility Agreement; (ii) at least twelve months have elapsed since the Completion Date, then the margin will be adjusted depending on the consolidated leverage ratio of the

RCF Group so that: (a) if the consolidated leverage ratio is greater than or equal to 3.0:1, the applicable margin will be 4.25 percent per annum; (b) if the consolidated leverage ratio is less than 3.0:1 but greater than or equal to 2.0:1, the applicable margin will be 3.75 percent per annum; and (c) if Consolidated Leverage Ratio is less than 2.0:1, the applicable margin will be 3.25 percent per annum.

The margin may increase by up to a further 0.50 per cent. per annum in the event that the Israeli Ministry of Communications has not approved the granting of Liens over the License Assets of HOT and certain of the HOT Refinancing Note Guarantors within 90 days after the date of the Revolving Credit Facility Agreement provided that if the Israeli Ministry of Communications has not approved the granting of liens within 90 days from the date of the Revolving Credit Facility Agreement but is subsequently obtained within 180 days from the date of the Revolving Credit Facility Agreement, the margin shall be reduced by 0.50 per cent. as of and from any interest period commencing after the Israeli Ministry of Communications approvals are obtained.

Interest accrues daily from and including the first day of an interest period and is payable on the last day of each interest period (unless the interest period is longer than six months, in which case interest is payable on the last day of each six-month period) and is calculated on the basis of a 360-day year. With respect to any available but undrawn amounts under the Revolving Credit Facility Agreement, the borrowers are obligated to pay a commitment fee on such undrawn amounts at the rate of 40 per cent. of the applicable margin calculated on undrawn commitments from the date falling 30 days after the date of the Revolving Credit Facility Agreement until one month prior the final maturity date.

Guarantees

Each Guarantor of the Senior Secured Notes guarantees, on a senior basis, the obligations of each other obligor under the Revolving Credit Facility Agreement and related finance documents.

Security

The Revolving Credit Facility is secured by the same Collateral securing, *inter alia*, the Senior Secured Notes (except that the RCF will not benefit from the security interest over the rights of the Senior Secured Notes Issuer under the Escrow Agreement and the assets in the Escrow Account). See ''*Description of Senior Secured Notes—Security*''.

Mandatory Prepayment

For so long as an event of default has occurred and is continuing under the Revolving Credit Facility Agreement, proceeds otherwise required to be applied in prepayment of the Notes shall instead be applied in cancellation and prepayment of the Revolving Credit Facility in priority to any other indebtedness.

Upon the occurrence of a Change of Control (as defined in the Indenture), the borrowers must repay the Revolving Credit Facility in full together with accrued interest and all other amounts accrued under related finance documents and the Revolving Credit Facility will be cancelled.

If an amount in excess of 50 per cent. of the Notes is repaid, prepaid, purchased, redeemed or defeased or acquired directly or indirectly by a member of the Group, the borrowers must apply an amount equal to such excess in cancellation of the Revolving Credit Facility and, if applicable, prepayment of the loans.

Certain excess proceeds received by the RCF Group from certain disposals of assets and not applied or invested or committed to be applied or invested to (i) prepay, repay, purchase or redeem certain indebtedness, (ii) invest in or purchase additional assets, or (iii) make certain capital expenditure, must be applied in prepayment of the Revolving Credit Facility.

Automatic Cancellation

The Revolving Credit Facility will be automatically cancelled if the Completion Date does not occur before 5:00 pm on March 31, 2013.

The Revolving Credit Facility will be automatically cancelled and the borrowers must repay all loans thereunder if any of the Notes are repaid pursuant to a Special Mandatory Redemption (as defined in the Indentures).

Financial Covenants, Events of Default

The Revolving Credit Facility requires the RCF Group to maintain a Consolidated Leverage Ratio, tested as of the end of each fiscal quarter of no more than (i) 4.5:1 for the first year following the Completion Date and (ii) 4.00:1 thereafter.

The Revolving Credit Facility Agreement contains certain events of default the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the lenders party thereto to: (i) cancel the total commitments; (ii) accelerate all outstanding loans together with other accrued amounts and/or (iii) declare that all or part of the loans be repayable on demand.

Pursuant to the terms of the Intercreditor Agreement described below, the proceeds of any enforcement of Collateral will be applied towards repayment of the Revolving Credit Facility and certain hedging obligations prior to repayment of the Notes.

Representations and Warranties

The Revolving Credit Facility Agreement contains certain representations and warranties customary for facilities of this type subject to certain exceptions and customary materiality qualifications.

Undertakings

The Revolving Credit Facility Agreement contains certain restrictive covenants which reflect the covenants contained in the Senior Secured Notes.

The Revolving Credit Facility Agreement also requires the RCF Group to observe certain affirmative undertakings subject to materiality and other customary and agreed exceptions. These affirmative undertakings, include, but are not limited to, undertakings related to: (i) obtaining and maintaining all necessary consents, licenses and authorizations; (ii) compliance with applicable laws; (iii) compliance with environment laws/approvals and notification of potential environmental claims; (iv) compliance with all necessary taxation requirements; (v) ensuring that any necessary authorization is not likely to be challenged, revoked, suspended or withdrawn so as to cause a material adverse effect; (vi) *pari passu* ranking of all payment obligations under the Revolving Credit Facility Agreement and related finance documents with other unsecured unsubordinated payment obligations; (vii) the maintenance of insurance; (viii) compliance with laws and contracts relating to pension schemes and the maintenance of such pension schemes; (ix) the Facility Agent/Security Trustee/accountants/other professional advisers having access to investigate reasonably suspected defaults; (x) maintenance and protection of intellectual property rights; (xi) no amendments to constitutional documents that are likely to materially adversely affect the share pledges; (xii) an entity not moving its centre of main interest from its jurisdiction of incorporation; (xiii) restricting the business and trading activities of and assets and liabilities held by Cool Holding, SPV1 and the Senior Secured Notes Issuer; and (xiv) restricting the making of proceeds drawn under the Revolving Credit Facility Agreement available to any sanctioned person or sanctioned country.

The Existing HOT Unsecured Notes

On February 27, 2011, HOT entered into a trust deed between HOT and Ziv Haft Trust Co. Ltd (the ''Existing HOT Unsecured Notes Trustee'') with respect to the Existing HOT Unsecured Notes, which were issued on March 30, 2011 in two series: (i) in a nominal value equal to NIS 825 million or $210 million (based on the exchange rate as of September 30, 2012) pursuant to a debenture dated March 30, 2011 (the ''Existing Series A HOT Notes'') and (ii) in a nominal value equal to NIS 675 million or $172 million (based on the exchange rate as of September 30, 2012) pursuant to a debenture dated March 30, 2011 (the ''Existing Series B HOT Notes'') . The Existing Series A HOT Notes are linked to the Consumer Price Index in Israel (''CPI'') and therefore actual amounts outstanding may vary from time to time and differ from the nominal amount outstanding. As of September 30, 2012, the CPI-linked principal amount of Existing Series A HOT Notes outstanding was NIS 821 million or $209 million (based on the exchange rate as of September 30, 2012) and the principal amount of the Existing Series B HOT Notes outstanding was NIS 647 million or $165 million (based on the exchange rate as of September 30, 2012).

The Existing Series A HOT Notes and the Existing Series B HOT Notes mature on September 30, 2018. The amortization schedule for each of the Existing Series A HOT Notes is as follows: 8.3% in 2013; 8.3% in 2014; 8.3% in 2015; 8.3% in 2016; 8.3% in 2017 and 54.2% in 2018. Based on the CPI as of September 30, 2012 of 106.2, we estimate the amortization schedule, which includes estimated future

increases in CPI of three points per year, under the Existing Series A HOT Notes is approximately: NIS 73 million in 2013, NIS 75 million in 2014, NIS 77 million in 2015, NIS 79 million in 2016, NIS 81 million in 2017 and NIS 543 million in 2018. The amortization schedule for the Existing Series B Notes is as follows approximately: NIS 56 million in 2013, NIS 56 million in 2014, NIS 56 million in 2015, NIS 56 million in 2016, NIS 56 million in 2017 and NIS 366 million in 2018. The Existing Series A HOT Notes bear interest at a rate of 3.9% per annum, payable semi-annually. The Existing Series B HOT Notes bear interest at a rate of 6.9% per annum, payable semi-annually.

The Existing HOT Unsecured Notes contain certain financial covenants, which require maintenance of a maximum Net Debt to EBITDA ratio of 6.0 and maintenance of minimum equity equal to NIS 300 million. Further, in order for HOT to be able to distribute dividends, the maximum Net Debt to EBITDA ratio is 5.5. In addition, the Existing HOT Unsecured Notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration of other HOT indebtedness of NIS 300 million or more in the aggregate, grants the holders the right to call for immediate payment of the Existing HOT Unsecured Notes.

The Existing HOT Unsecured Notes are senior obligations that rank equally with all of its existing and future senior debt and are senior to all of its existing and future subordinated debt. The Existing HOT Unsecured Notes are not secured by any assets of HOT or its subsidiaries.

The Existing HOT Unsecured Notes are not redeemable by HOT prior to maturity.

The Existing HOT Unsecured Notes will be:

a. effectively subordinated to the HOT Refinancing Note and the guarantees thereof granted by the HOT Refinancing Note Guarantors to the extent of the lesser of (x) the value of the assets of HOT and the HOT Refinancing Note Guarantors securing the HOT Refinancing Note and the guarantees thereof and (y) the amount owing under the HOT Refinancing Note;

b. *pari passu* with the HOT Refinancing Note to the extent the amount of the HOT Refinancing Note exceeds the value of the assets of HOT and the HOT Refinancing Note Guarantors securing the HOT Refinancing Note; and

c. structurally senior to the Notes and the guarantees of the Notes granted by the Guarantors.

The Existing HOT Unsecured Notes will not be subject to the Intercreditor Agreement and, as a result, in the event of an enforcement sale of the shares of Cool Holding or HOT pursuant to the Intercreditor Agreement, the debt claims of the holders of the Existing HOT Unsecured Notes are not required to be released or otherwise transferred.

The Intercreditor Agreement

To establish the relative rights of certain of our creditors under the new financing arrangements the obligors under the Notes, the Revolving Credit Facility Agreement and certain counterparties to hedging obligations relating to the foregoing, we will enter into an intercreditor agreement (the ''Intercreditor Agreement'') with:

- the creditors of the Revolving Credit Facility (the ''RCF Creditors'');
- any persons that accede to the Intercreditor Agreement as counterparties to certain hedging agreements in accordance with the terms of the Intercreditor Agreement (the ''Hedging Agreements'' and any person that accedes to the Intercreditor Agreement as counterparties to the Hedging Agreements are referred to in such capacity as the ''Hedging Banks'', and together with the RCF Creditors, the ''Super Priority Creditors'');
- any persons that accede to the Intercreditor Agreement under any future term or revolving bank facility designated a senior bank facility (the ''Senior Bank Facility'') in accordance with the terms of the Intercreditor Agreement (the ''Senior Bank Creditors'');
- the trustee for the Senior Secured Notes (the ''Senior Secured Notes Trustee'') on its behalf and on behalf of the holders of the Senior Secured Notes (the ''Senior Secured Notes Creditor'' and together with any Senior Bank Creditors, the ''Senior Creditors'' and together with the Super Priority Creditors, the ''Senior Secured Creditors'');
- any persons that accede to the Intercreditor Agreement as trustee for the Senior Subordinated Notes (the ''Senior Subordinated Notes Trustee'' on its behalf and on behalf of the holders of the

Senior Subordinated Notes (the ''Senior Subordinated Notes Creditors'' or the ''Senior Subordinated Creditors'');

- certain intra-group creditors (the ''Intercompany Creditors'')
- certain members of the group who are or become structural creditors in respect of certain intra-group liabilities (the ''Structural Creditors'');
- certain investors (the ''Shareholders'', together with Intercompany Creditors, the ''Subordinated Creditors'');
- Citibank, N.A., London Branch, as security agent for the Senior Secured Creditors (the ''Security Agent'');
- Citibank International plc, as facility agent (the ''RCF Agent''); and
- Citibank, N.A., London Branch as security agent for the Structural Creditors (the ''Structural Creditor Security Agent'').

The Intercreditor Agreement will provide that future indebtedness may be incurred by us and our subsidiaries subject to the terms of the Intercreditor Agreement and each finance document then existing. Future Super Priority Debt may, however, only be in the form of a revolving credit facility, which is a working capital facility or hedging indebtedness to the extent permitted (or not prohibited) by the terms of each finance document (including the indentures) or consented to by the appropriate parties. The aggregate commitment under all revolving credit facilities (including the Revolving Credit Facility) that are designated as Super Priority Debt cannot exceed the greater of $80 million or 4% of total assets at any time.

For the purposes of the Intercreditor Agreement, the creditors of each class of debt will vote together and a representative trustee or agent of debt within that class of debt (a ''Representative'') may act on the instructions of the majority of creditors of that class of debt (or, in the case of the Super Priority Debt or Senior Bank Debt (each as defined below), on the instructions of 66⅔% of creditors of that class of debt) (a ''Relevant Majority''). Hedging Banks will vote together with the Super Priority Creditors while any Super Priority Debt remains outstanding. In addition, in certain circumstances (as set out in the Intercreditor Agreement) certain classes of creditors will vote together as part of an instructing group (the ''Instructing Group''), which is the Relevant Majority of (i) (if Senior Bank Debt has not been incurred or, if incurred, has been discharged and while any Senior Secured Notes Debt remains outstanding) the Senior Secured Notes Creditors, (ii) (while Senior Bank Debt (as defined below) remains outstanding) the Senior Creditors, and (iii) (if any Senior Secured Debt has been discharged and while the Senior Subordinated Notes Debt remains outstanding) the Senior Subordinated Creditors.

By accepting a Senior Secured Note or a Senior Subordinated Note, as the case may be, the relevant holder thereof shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement.

The following description is a summary of certain provisions, among others, that will be contained in the Intercreditor Agreement that relate to the rights and obligations of the Senior Secured Notes Creditors and the Senior Subordinated Notes Creditor. It does not restate the Intercreditor Agreement nor does it describe provisions relating to the rights and obligations of holders of other classes of our debt or capital expenditures and you are urged to read that document in its entirety because it, and not the discussions here, defines certain rights of the parties to the Intercreditor Agreement, including the Senior Secured Notes Creditors and the Senior Subordinated Notes Creditors.

Order of Priority

Ranking & Priority

The Intercreditor Agreement will provide, subject to certain provisions, that the liabilities of each issuer, obligor or borrower subject to the Intercreditor Agreement (the ''Obligors'') (other than the issuer of the Senior Subordinated Notes) under or in respect of the Revolving Credit Facility Agreement (the ''RCF Debt''), the Hedging Agreements (the ''Hedging Debt'' and together with the RCF Debt, the ''Super Priority Debt''), any Senior Bank Facilities (the ''Senior Bank Debt''), the Senior Secured Notes (the ''Senior Secured Notes Debt'' and together with the Senior Bank Debt, the ''Senior Debt''), the Senior Subordinated Notes (the ''Senior Subordinated Notes Debt''), structural intra-group debt owed to the Structural Creditors (the ''Structural Debt'') and certain liabilities of members of the group owed to the

Senior Notes Issuer (the ''Holdco Debt'') and certain other liabilities will rank in right and order of payment in the following order:

i. *first*, the RCF Debt, the Hedging Debt, the Senior Bank Debt, the Senior Secured Notes Debt, the Structural Debt and future permitted senior or super priority debt, *pari passu* without any preference among them;

ii. *second*, the Senior Subordinated Notes Debt and future permitted senior subordinated debt, *pari passu* without any preference among them;

iii. *third*, the intercompany debt and the Holdco Debt, *pari passu*, without any preference among them; and

iv. *fourth*, the shareholder debt.

To the extent any liability is owed by the Senior Notes Issuer in respect of any debt, the debt will rank in right and order of payment:

i. *firstly*, the Senior Secured Debt (as defined below), *pari passu* without any preference among such debt; and

ii. *secondly*, the shareholder debt.

Priority of Security

The Intercreditor Agreement will provide that the Security (other than any Security created pursuant to the pledge of the shares of the Senior Notes Issuer) provided by the Obligors (and any other parties) for the Super Priority Debt, the Senior Debt (together, the ''Senior Secured Debt''), the Senior Subordinated Notes Debt (together with the Senior Secured Debt, the ''Secured Debt'') will rank in the following order:

i. *firstly*, the Senior Secured Debt (*pari passu* among such class of debt); and

ii. *secondly*, the Senior Subordinated Notes Debt.

Restrictions

Subject to certain limited exceptions and subject to, *inter alia*, the provisions set forth under the captions ''*—Permitted Payments*'' and ''*—Restrictions on Enforcement*'', while any Senior Secured Debt is outstanding, the Intercreditor Agreement restricts (to the extent not otherwise (i) prohibited by each of the Revolving Credit Facility Agreement, the indenture governing the Senior Secured Notes (the ''Senior Secured Notes Indenture'') and the indenture governing the Senior Subordinated Notes (the ''Senior Subordinated Notes Indenture'') or (ii) consented to by the relevant Representative representing the Relevant Majority of (i) Super Priority Creditors while any Super Priority Debt is outstanding), (ii) Senior Bank Creditors (if any Super Priority Debt has been discharged and while any Senior Bank Debt is outstanding) and (only to the extent prohibited under the Senior Secured Notes Indenture) the Senior Secured Notes Creditors and/or (iii) (only to the extent prohibited under the Senior Secured Notes Indenture) the Senior Secured Notes Creditors (if any Super Priority Debt or Senior Bank Debt has been discharged and while any Senior Secured Notes Debt remains outstanding):

- the ability of the Obligors and their subsidiaries to create or permit to subsist any security interest over any of their assets for any debt owed to the Senior Subordinated Creditors and the intercompany creditors and shareholders (the ''Subordinated Debt''), unless not prohibited by the Senior Secured Debt documents;

- the ability of the Obligors and their subsidiaries to pay, purchase, redeem or acquire any of the Senior Subordinated Notes Debt or the Holdco Debt, or otherwise to provide financial support in relation to such liabilities, except in respect of any Senior Subordinated Notes Debt in connection with any such payment or acquisition of any Senior Subordinated Notes Debt by the issuer in respect of the Senior Subordinated Debt (the ''Senior Subordinated Notes Issuer''); and

- the ability of the Senior Subordinated Creditors to enforce the Senior Subordinated Notes Debt or the Holdco Debt and the security relating thereto, to demand or receive payments toward the discharge of any Senior Subordinated Notes Debt, any Holdco Debt or to apply money or property toward the discharge of any Senior Subordinated Notes Debt or any Holdco Debt.

In addition, the Intercreditor Agreement will provide that the Security and guarantees relating to the Senior Secured Debt (and the Senior Subordinated Notes Debt) will be released in certain circumstances. See ''—*Release of Security and Guarantees*''. Moreover, certain proceeds received by the Senior Secured Creditors and the Senior Subordinated Creditors or the Subordinated Creditors (other than in connection with the Senior Subordinated Notes Debt of the Senior Subordinated Notes Issuer) must be turned over to the Security Agent pursuant to the Intercreditor Agreement for application in accordance with the Intercreditor Agreement. See ''—*Turnover*''.

The Intercreditor Agreement will provide for certain additional restrictions on the form, provisions and terms of the documents evidencing the Structural Debt. No Structural Creditor and no member of the Group will be entitled to make material amendments to the documents evidencing the Structural Debt without the prior written consent of the relevant Representative representing the Super Priority Creditors, the Senior Bank Creditors and the Senior Secured Notes Creditors.

Limitation of Credit Support

Pursuant to the Intercreditor Agreement, the Obligors will be prohibited from granting any security in favor of any Senior Secured Debt unless that security is given in favor of the Security Agent to hold for the benefit of all other Senior Secured Debt. The Obligors will also be prohibited from granting any security in favor of the Senior Subordinated Notes Debt or the Subordinated Debt except (in respect of the Senior Subordinated Notes Debt) for security that is permitted under the Senior Secured Notes Indenture and given in favor of the Security Agent to hold for the benefit of all other Senior Secured Debt, and other security agreed by the Relevant Majority of the Super Priority Creditors and the Relevant Majority of the Senior Bank Creditors and the Relevant Majority of the Senior Subordinated Notes Creditor or otherwise required by the relevant debt documents.

Permitted Payments

The Intercreditor Agreement will permit Obligors to pay, *inter alia*:

1. while any Senior Secured Debt is outstanding, any amounts then due under the Senior Subordinated Notes Debt if:
    a. the payment is a Permitted Payment (as defined below) (or in lieu thereof, a payment of an amount to the issuer of Senior Subordinated Notes to enable it to make a corresponding Permitted Payment) or is not prohibited under the terms of any documents governing the Senior Secured Debt;
    b. on the date falling two days prior to the date of payment, no payment default is outstanding (or has been accelerated/placed on demand); and
    c. no Stop Notice (as defined below) is outstanding; or
    d. with the consent of each of:
        i. (while any of the Super Priority Debt is outstanding) the Representative representing the Relevant Majority of the Super Priority Creditors;
        ii. (while any Senior Bank Debt is outstanding) the Representative representing the Relevant Majority of (A) the Senior Bank Creditors and (B) (only to the extent prohibited by the Senior Secured Notes Indenture) the Senior Secured Notes Creditors; and
        iii. (if any Senior Bank Debt has been discharged and while the Senior Secured Notes Debt is outstanding) (only to the extent prohibited under the Senior Secured Notes Indenture) the Representative representing Relevant Majority of the Senior Secured Notes Creditors;
2. while any Senior Subordinated Debt is outstanding, any amounts under the intercompany debt and the shareholder debt if:
    a. except in relation to an intercompany debt to an Obligor, the amount is due and payable under the terms of the intercompany debt documents;
    b. the payment is not prohibited under the terms of any documents governing the Senior Secured Debt and/or the Senior Subordinated Notes Debt; and

c. in relation to an intercompany debt to a non-Obligor and any shareholder debt, no enforcement trigger event is outstanding; or

d. with the consent of each of:

   i. (while any Super Priority Debt is outstanding) the Representative representing the Relevant Majority of the Super Priority Debt;

   ii. (while any Senior Bank Debt is outstanding) the Representative representing the Relevant Majority of (A) the Senior Bank Creditors and (B) (only to the extent prohibited by the Senior Secured Notes Indenture), the Senior Secured Notes Creditors;

   iii. (if any Senior Bank Debt has been discharged but while any Senior Secured Notes Debt is outstanding and only to the extent prohibited under the Senior Secured Notes Indenture (to the extent prohibited by a Senior Secured Notes Designated Debt Document (as defined below)) the Representative representing the Relevant Majority of the Senior Secured Notes Creditors; and

   iv. (while any Senior Subordinated Debt is outstanding), the Representative representing the Relevant Majority of Senior Subordinated Creditors; and

3. while any Senior Secured Debt is outstanding, the Obligors will only be permitted to make payments of Holdco Debt

   a. with the prior written consent of:

      i. (while any Super Priority Debt is outstanding) the relevant Representatives representing the Relevant Majority of the Super Priority Creditors;

      ii. (while any Senior Bank Debt is outstanding) the Representatives representing the Relevant Majority of (x) the Senior Bank Creditors and (y) (only to the extent prohibited by the Senior Secured Notes Indenture) the relevant Representatives Senior Secured Notes Creditors; and

      iii. (if any Senior Bank Debt has been discharged and while the Senior Secured Notes Debt is outstanding) (only to the extent prohibited by the Senior Secured Notes Indenture) the relevant Representatives representing the Relevant Majority of the Senior Secured Notes Creditors; or

   b. such payments are equal to the amount of payments in respect of the liabilities owed to the Senior Subordinated Notes Creditors.

A Representative representing i) the relevant Senior Bank Lenders or ii) the relevant Senior Secured Notes Creditors or iii) the relevant Super Priority Creditors (each in accordance with its underlying documents) may serve a notice specifying that an event of default is outstanding and suspend the payment of any Senior Subordinated Notes Debt (a ''Stop Notice'') until the earlier of: (i) 179 days after the Stop Notice, (ii) if an enforcement notice specifying a default under the Senior Subordinated Notes Debt has been served by a Representative of the Relevant Majority of the Senior Subordinated Creditors (an ''Enforcement Notice'') and a standstill period of 179 days (a ''Standstill Period'') is already in effect, the date on which the aforementioned Standstill Period expires, (iii) the date on which the event of default under the relevant Super Priority Debt document or Senior Debt document has been remedied or waived in accordance with the relevant debt document, (iv) the date on which each Representative that served the Stop Notice cancels such Stop Notice, (v) the date on which the creditors with respect to the Senior Subordinated Debt take enforcement action in accordance with (and as permitted by) the Intercreditor Agreement, and (vi) the date the Senior Secured Debt is no longer outstanding. The Stop Notice is to be issued within 45 days of receipt of notice of such default and only one such notice may be served within any 360 day period and not more than one Stop Notice may be served in respect of the same event or set of circumstances. Notwithstanding the foregoing, the Senior Secured Notes Trustee will be entitled to receive and retain certain amounts payable for its own account. A Stop Notice shall be deemed to be in effect if a payment default is outstanding in respect of any Senior Secured Debt.

For purposes of the Intercreditor Agreement, ''Permitted Payments'' is defined to include certain customary permitted payments which include scheduled payments of interest; amounts payable under Senior Subordinated Notes by way of default interest, liquidated charges or penalty interest; amounts payable under applicable gross up provisions or currency indemnities; fees, costs, expenses and taxes

incurred in respect of the issuance and offering of the Senior Subordinated Notes or the ordinary day-to-day administration of the Senior Notes; principal amount of the Senior Subordinated Notes upon or after their originally scheduled maturity; any other amount not exceeding an agreed amount in any 12-month period; note trustee costs and security agent costs; certain permitted defeasance trust payments; amounts funded from the proceeds of issuance of, or exchanged for or converted into certain defined permitted junior securities any other amounts consented to by the Representatives representing the Relevant Majority of each of the Super Priority Debt and Senior Debt.

Restrictions on Enforcement

Subject to certain limited exceptions, and except with the consent of the Relevant Majority of Super Priority Creditors (while the Super Priority Debt is outstanding) and the Instructing Group, while Senior Secured Debt is outstanding, the Senior Subordinated Creditors cannot (i) demand payment of any Senior Subordinated Notes Debt or Subordinated Debt, (ii) accelerate any of the Senior Subordinated Notes Debt or the Subordinated Debt or otherwise declare any of the aforementioned debt prematurely due or payable on an event of default or otherwise, (iii) enforce any of the Senior Subordinated Notes Debt or Subordinated Debt by attachment, set-off, execution or otherwise, (iv) (in the case of Senior Subordinated Creditors) enforce the Security relating to the Senior Subordinated Notes Debt, (v) petition for, initiate, support or take any steps with a view to any insolvency or any voluntary arrangement or assignment for the benefit of creditors or any similar proceedings involving an Obligor, (vi) sue or bring or support any legal proceedings against any Obligor or its subsidiaries or (vii) otherwise exercise any remedy for the recovery of any Senior Subordinated Notes Debt or Subordinated Debt. The aforementioned does not prohibit the Senior Subordinated Creditors from, among others, (i) taking any necessary action to preserve the validity and existence of any claims, (ii) taking any action against any creditor to challenge the basis on which any sale or disposal is to take place pursuant to powers granted under any security documents, (iii) bringing proceedings in relation to violations of securities laws/ regulations or for fraud, (iv) solely for injunctive relief to restrain any actual or punitive breach of the indenture governing the Senior Subordinated Notes or for specific performance not claiming damages not inconsistent with the Intercreditor Agreement, (v) against the Senior Subordinated Notes Issuer, or (vi) requesting judicial interpretation of any provision of any Senior Subordinated Creditor finance document. A Senior Subordinated Creditor or Subordinated Creditor will be allowed to bring or support proceedings to prevent the loss of any right to bring or support proceeding by reason of expiry of statutory limitation periods. Subject to the written instructions of the Security Agent (acting on the instructions of the relevant Creditors entitled to take enforcement action with respect to the Collateral) no Structural Creditor may, while any Senior Secured Debt is outstanding take certain actions in respect of the Structural Debt including (i) accelerate any of the Structural Debt or otherwise declare any of the Structural Debt prematurely due or payable as a result of a default or an event of default (howsoever described), (ii) enforce any of the Structural Debt by attachment, set-off, execution or otherwise, (iii) enforce (or give instructions to the Structural Creditor Security Agent to enforce) the security securing the Structural Debt, (iv) petition (or vote in favour of any resolution in favour for) or initiate or take any steps with a view to any insolvency or any voluntary agreement or assignment for the benefit of creditors or any similar proceedings involving HOT and/or its direct or indirect subsidiaries, (v) sue or bring or support any legal proceedings against HOT and/or any of its direct or indirect Subsidiaries, or (vi) otherwise exercise any remedy for the recovery of any Structural Debt.

In addition to customary termination rights under the Hedging Agreements, the Hedging Banks will benefit from certain additional termination rights permitting termination or close-out of the relevant Hedging Agreement prior to its stated maturity in the following circumstances (in each case subject to a grace period of at least 30 days from the date of occurrence of the relevant circumstance, and subject in each individual circumstance to the applicable grace periods set out in the relevant finance document):

(a) a payment default exceeding an amount to be agreed under any financial indebtedness (subject to any applicable grace period) of the Senior Notes Issuer, any Covenant Party or their subsidiaries has occurred;

(b) a default and subsequent acceleration of any amounts of financial indebtedness equal to or greater than $20 million;

(c) failure by the Senior Secured Notes Issuer, an Obligor or a Significant Subsidiary (as defined in ''*Description of Senior Secured Notes*'') to pay final judgments aggregating in excess of $20 million (exclusive of any amounts that a solvent insurance company has acknowledged

liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgement becomes final;

(d) any impairment of security and/or guarantees which constitutes an event of default under the Senior Secured Notes Indenture;

(e) any event of default or prepayment event under the Senior Secured Notes Indenture or any other relevant finance document caused by a change of control; or

(f) any event of default or prepayment event under the Senior Secured Notes Indenture or any other relevant finance document which is caused as a result of: (i) a cross-default, (ii) a breach of the covenant relating to indebtedness, (iii) a breach of the covenant relating to restricted payments, (iv) a breach of the covenant relating to certain distributions, (v) a breach of the covenant relating to asset sales and subsidiary stock, (vi) a breach of the covenant relating to issuer activities, (vii) a breach of the covenant relating to holding company activities, (viii) a breach of the covenant relating to impairment of security and (ix) a breach of the covenant relating to affiliate transactions.

Permitted Enforcement

Despite the restrictions of enforcement described above, the Intercreditor Agreement allows the Senior Subordinated Creditors to take the aforementioned enforcement actions while any Senior Secured Debt is outstanding if (i) payment of the Senior Secured Debt has been accelerated or declared prematurely due and payable or payable on demand or the Relevant Majority of Super Priority Creditors and/or Senior Creditors have taken any enforcement action under the security documents in relation to such debt, (ii) certain insolvency, liquidation or other similar enforcement events have occurred with respect to an Obligor (other than an Obligor that is not a borrower or guarantor under any Senior Secured Debt) and such actions are taken with respect to such Obligor, (iii) there is an event of default under the Senior Subordinated Notes Debt for failure to pay principal at its originally scheduled maturity, (iv) the proposed enforcement action has been consented to by the Relevant Majority of Super Priority Debt, Senior Bank Creditors, Senior Secured Notes Creditors or (v) a period (the ''Standstill Period'') of not less than 179 days has elapsed from the date any Representative of the Senior Secured Creditors received an Enforcement Notice from the Senior Subordinated Creditors relating to an event of default under the applicable documents relating to such Senior Subordinated Debt and such event of default is outstanding at (and has not been waived prior to) the end of the Standstill Period.

The Intercreditor Agreement will require the Security Agent to give prompt notice to the representative of the Senior Subordinated Notes Debt if it is instructed to enforce the security relating to the equity/ownership interest securing Senior Secured Debt (a ''Senior Enforcement''). During the period from the giving of that notice to the date that the Security Agent ceases to use all reasonable commercial efforts to carry out that Senior Enforcement as expeditiously as reasonably practicable having regard to the circumstances:

- the Security Agent will not be permitted to enforce any Security over such equity interests in a manner that would adversely affect such Senior Enforcement; and
- no Senior Subordinated Creditor will be permitted to take, or will be permitted to give any instructions to the Security Agent to take, any enforcement action prohibited by the preceding bullet,

provided that the foregoing will not prejudice any other rights of the Senior Subordinated Creditors to take any enforcement action against any other Obligor that are permitted under the Intercreditor Agreement. The Intercreditor Agreement will require the Security Agent to give prompt notice to the Representative of Senior Subordinated Notes Debt of its ceasing to carry out a Senior Enforcement.

Enforcement Instructions

No Senior Secured Creditor or Senior Subordinated Notes Creditor has any independent power to enforce, or have recourse to, any Security except through the Security Agent and the Security Agent shall enforce Security (if then enforceable) if so instructed by (i) while the Super Priority Debt is outstanding, the Relevant Majority of Super Priority Creditors or the Instructing Group, and (ii) after the discharge of the Senior Secured Debt (or if permitted to do so as described above under ''—Limitations on Enforcement''), the Relevant Majority of Senior Subordinated Creditors. The Security Agent may

disregard any instructions from any other person to enforce the Security and may disregard any instructions to enforce any Security if those instructions are inconsistent with the Intercreditor Agreement. The Security Agent is not obliged to enforce the Security if it is not appropriately indemnified by the relevant creditors.

No Structural Creditor has any independent power to enforce, or have recourse to, any security serving the Structural Debt.

To the extent that the Super Priority Creditors or the Instructing Group wish to enforce Security, they must notify the Senior Agent and each other Senior Secured Representative 10 business days prior to the date it issues the enforcement instructions (the ''Proposed Enforcement Instruction Date''). To the extent any Super Priority Creditors or the Instructing Group wish to accelerate any debt owing to any Senior Secured Creditor, they must notify the Security Agent and each other Senior Secured Representative at least three business days prior to the date it intends to accelerate. If the Security Agent receives conflicting enforcement instructions prior to the Proposed Enforcement Instruction Date, the Representatives of the Super Priority Creditors and the Representative of the Instructing Group shall consult with one another and with the Security Agent in good faith for 30 days (or such shorter date as may be agreed) (the ''Consultation Period''). Consultation will not be required if the Security has become enforceable as a result of an insolvency event relating to an Obligor against whom such enforcement action is taken or if any of such instructing representatives determines in good faith that consultation (and thereby the delay) could reasonably be expected to have a material adverse effect on the ability to enforce the Security or the realization of proceeds of enforcement.

While the Super Priority Debt is outstanding, if the Security Agent receives conflicting enforcement instructions from the Representatives of the Super Priority Debt or the Instructing Group, and the 30 day consultation period between the two parties has passed, the Security Agent shall comply with the instruction from the Instructing Group. The failure by a creditor group to issue enforcement instructions will be deemed to be conflicting, provided that if the representatives of the Instructing Group fail to give instructions as to enforcement and the 30 day consultation period has elapsed without the Instructing Group issuing instructions, the Security Agent will comply with the instructions of the representative of the Super Priority Debt. The instructions of the Super Priority Creditors will prevail if i) the Super Priority Creditors have not been fully and finally discharged in cash within six months of the Proposed Enforcement Date, or ii) the Security Agent has not commenced any enforcement action within 3 months of the Proposed Enforcement Date. All enforcement instructions will need to comply with the following security enforcement principles:

1. It shall be the aim of any enforcement of the Security to achieve the Security Enforcement Objective (hereinafter defined). ''Security Enforcement Objective'' means maximising, so far as is consistent with a prompt and expeditious enforcement of the Security, the recovery of the Super Priority Creditors and (without prejudice to the waterfall described in ''*Application of Proceeds*'' below) the Senior Creditors.

2. The security enforcement principles may be amended, varied or waived with the prior written consent of the Relevant Majority of Super Priority Creditors, an Instructing Group and the Security Agent.

3. Without prejudice to the Security Enforcement Objective, the Security will be enforced and other action as to enforcement of the Security will be taken such that either:

   (a) in the event enforcement is being effected in accordance with the instructions of the Instructing Group either:

      (i) all proceeds of enforcement are received by the Security Agent in cash for distribution in accordance with the waterfall described in ''*Application of Proceeds*'' below; or

      (ii) sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that when the proceeds are applied in accordance with the waterfall described in ''*Application of Proceeds*'' below), the Super Priority Debt is repaid and discharged in full (unless the Relevant Majority of Super Priority Creditors agree otherwise); or

(b) in the event enforcement is being effected in accordance with the instructions of the Super Priority Creditors either:

(i) all proceeds of enforcement are received by the Security Agent in cash for distribution in accordance with the waterfall described in ''*Application of Proceeds*'' below; or

(ii) with the consent of the Instructing Group, the proceeds are received by the Security Agent in cash and non-cash consideration for distribution in accordance with the waterfall described in ''*Application of Proceeds*'' below.

4. The enforcement must be prompt and expeditious it being acknowledged that, subject to the other provisions of the Intercreditor Agreement, the time frame for realization of value from the enforcement of the Security pursuant to enforcement will be determined by (while any Super Priority Debt is outstanding) the Representatives representing the Relevant Majority of Super Priority Creditors or the relevant Representatives representing an Instructing Group *provided that* it is consistent with the Security Enforcement Objective.

5. On:

(a) a proposed enforcement of any of the Security over assets other than shares in a member of the Group, where the aggregate book value of such assets exceeds U.S.$ 3,000,000 (or its equivalent); or

(b) a proposed enforcement of any of the Security over some, but not all, of the shares in a member of the Holdco Group over which Security exists.

the Security Agent shall, if so requested by (while the Super Priority Debt is outstanding) the Representatives representing the Relevant Majority of Super Priority Creditors or the relevant Representatives representing an Instructing Group, and at the expense of such creditors, obtain an opinion from any (X) ''big four'' accounting firm, (Y) reputable and independent internationally recognised investment bank, or (Z) other reputable and independent professional services firm experience in restructuring and enforcement (a ''Financial Advisor''), that the consideration for the sale is fair from a financial point of view after taking into account all relevant circumstances. If the Security Agent is unable to obtain an opinion pursuant to this paragraph 5, it shall notify the Super Priority Representatives and the Senior Representatives representing an Instructing Group and may proceed to enforce the Security without obtaining such opinion.

6. The Security Agent shall be under no obligation to appoint a Financial Advisor or to seek the advice of a Financial Advisor, unless expressly required to do so by the security enforcement principles or any other provision of the Intercreditor Agreement.

7. The Financial Advisor's opinion will be conclusive evidence that the Security Enforcement Objective has been met.

8. If enforcement of any Security is conducted by way of public auction in any relevant jurisdiction, no Financial Advisor shall be required to be appointed in relation to such enforcement action. Nothing shall require the enforcement of Security to take place by way of public auction.

Release of Security and Guarantees

An Obligor may dispose of an asset outside of the Holdco Group (being any Covenant Party and the Senior Notes Issuer and their respective Subsidiaries from time to time) if i) the disposal is not prohibited by the underlying finance documents, or ii) the disposal is being effected at the request of the relevant creditor in circumstances where it is entitled to take enforcement action under the Intercreditor Agreement (and such disposal is consistent with certain security enforcement principles), or iii) the disposal is pursuant to enforcement action in accordance with the Intercreditor Agreement, and, in each case, the Security Agent is authorised to release any Security or any security securing the Structural Debt and other claims (including guarantees) under any finance document over that asset and, if that asset comprises of the shares in the capital of an Obligor or any of its subsidiaries which are subject to Security or any security securing the Structural Debt, release on behalf of the relevant creditor and each Obligor and its Subsidiaries that subsidiary and its subsidiaries from all present and future obligations and liabilities under the relevant finance document provided that the proceeds of the disposal is applied in accordance with the relevant finance document and with the Intercreditor Agreement.

Where a disposal relates to ii) or iii) above, the Security Agent is only authorised to release the relevant Security and liabilities owing to the Senior Subordinated Creditors if i) the proceeds are received by the Security Agent in cash (or substantially all cash); ii) the disposal is made pursuant to a public auction or with an opinion from a restructuring advisor confirming that the disposal price is fair (taking into account all relevant circumstances); iii) the debt is simultaneously and unconditionally released (and not assumed by a purchaser or affiliate of a purchaser) and iv) the proceeds are applied in accordance with the Intercreditor Agreement.

Where liabilities in respect of any Senior Secured Debt would otherwise be released, the relevant creditor may elect to transfer such liabilities to the Senior Notes Issuer or the original Shareholder. If shares in an Obligor or its holding company are being disposed of and the Security Agent decides to dispose of all or part of the liabilities of such Obligor, holding company or any subsidiary under the finance documents, the Security Agent may: (a) dispose of all or part of such liabilities such that the transferee shall not be treated as a Senior Secured Creditor or a secured party; and (b) dispose of all (and not part) of such liabilities owed to the Senior Secured Creditors on behalf of the relevant creditors and Obligors such that the transferee be treated as a Senior Secured Creditor or a secured party.

Turnover

The Intercreditor Agreement will also provide that if any Super Priority Creditor, Senior Secured Creditor (with respect to proceeds from the enforcement of security and proceeds of certain disposals only), Structural Creditor (with respect to proceeds from the enforcement of security securing the Structural Debt only), Senior Subordinated Creditor or Subordinated Creditor receives or recovers a payment of any Senior Secured Debt, Structural Debt, Senior Subordinated Notes Debt or Subordinated Debt which is prohibited by the Intercreditor Agreement or not paid in accordance with the provisions described under ''—*Application of Proceeds*'', subject to certain exceptions, the receiving or recovering creditor will promptly notify the Security Agent and hold any amount on trust for the creditors and, upon demand by the Security Agent, pay that amount to the Security Agent or, if lower, the amount of debt owed to the relevant category of creditor, in each case less the third party costs and expenses (if any) reasonably incurred in receiving or recovering such amount, for application by the Security Agent in accordance with the order of priority described under ''—*Application of Proceeds*''. These provisions will not apply to any receipt or recovery by the Hedging Banks in relation to certain netting and set-off arrangements with Obligors, permitted refinancing or the loss sharing provisions of the Intercreditor Agreement.

Subordination on Insolvency

After the occurrence of an insolvency event in relation to any Obligor (the ''Insolvent Obligor''), the Senior Subordinated Debt owed by the Insolvent Obligor will be subordinated in right of payment to the Super Priority Debt and Senior Debt owed by such Insolvent Obligor. Moreover, the shareholder debt and (unless otherwise required by (while the Super Priority Debt remains outstanding) the Relevant Majority of Super Priority Creditors or the Instructing Group) the Intercompany Debt owed by the Insolvent Obligor will be subordinate in right of payment to the Secured Debt owed by such Insolvent Obligor.

Filing of Claims

While any Senior Secured Debt is outstanding, the Security Agent is authorised (acting on the instructions of (while any Super Priority Debt excluding Hedging Debt is outstanding) the Relevant Majority of Super Priority Creditors or the Instructing Group) to: (i) claim, enforce and prove for any debt owed by the Insolvent Obligor (ii) only with respect to shareholder debt, exercise all powers of convening meetings, voting and representations in respect of the shareholder debt owed by the Insolvent Obligor (iii) file claims and proofs, give receipts and take all such proceedings and do all such things as the Security Agent considers reasonably necessary to recover any debt owed by the Insolvent Obligor and (iv) receive all payments of or in respect of any debt owed by the Insolvent Obligor for application in accordance with the provisions set forth under ''—*Application of Proceeds*.'' Notwithstanding the foregoing, nothing shall (i) entitle any party to exercise or require any other party to exercise such power of voting or representation to waive, reduce, discharge, extend the due date for payment of or reschedule any of the Senior Subordinated Debt; or (ii) be deemed to require any Senior Subordinated Notes Creditor to hold a meeting or pass any resolution at such meeting or give any consent pursuant to the terms of any finance documents, or (iii) authorize any Super Priority Creditor or Senior Secured

Creditor to take any action against the Senior Subordinated Notes Issuer in respect of the Senior Subordinated Debt.

If the Security Agent is not entitled or does not take any of the actions referred to above the representative of Senior Subordinated Debt, the Senior Subordinated Notes Creditor and the Subordinated Creditors (i) will each do so promptly when requested by the Security Agent (acting on the instructions of (while Super Priority Debt is outstanding) the Relevant Majority of Super Priority Creditors or the Instructing Group subject, in the case of Senior Subordinated Creditors only, to either or both the Super Priority Creditors or the Senior Creditors giving an appropriate indemnity for any costs and expenses which may be reasonably incurred by the Senior Subordinated Creditors and their representative in doing or taking the actions so requested); and (ii) may each do so to the extent permitted as described under ''—*Restrictions on Enforcement*.''

Application of Proceeds

Subject to the rights of any creditor (other than a Secured Creditor or a Structural Creditor) with prior security or preferential claims, (i) all amounts from time to time received pursuant to the provisions described under ''—*Turnover*'' or otherwise recovered by the Security Agent (or any other creditors) in connection with the realization or enforcement of all or any part of the security in favour of the Senior Secured Debt or Senior Subordinated Notes Debt (other than the pledge of the shares of the Senior Notes Issuer), the sale of any asset of any Obligor pursuant to an insolvency event or, an enforcement action, judicial supervised or sanctioned reorganization or administrative work-out restructuring or otherwise and (ii) all amounts from time to time received or recovered by the Structural Creditor Security Agent in connection with the realization or enforcement of the security securing the Structural Debt, shall be held by the Security Agent or the Structural Security Agent, on trust, in each case to apply them at any time as the Security Agent or the Structural Creditor Security Agent sees fit in the following order:

- first, in payment of the following amounts in the following order of priority: (i) *pari passu* and pro rata to the Security Agent and the Structural Creditor Security Agent and thereafter to the trustees to the Senior Subordinated Notes and Senior Secured Notes of any amounts due to each such party, and (ii) *pari passu* and pro rata to each representative of Super Priority Debt, Senior Bank Debt, Senior Secured Notes Debt and Senior Subordinated Notes Debt of the fees, costs, expenses and liabilities (and all interest thereon as provided in the relevant finance documents) of each such representative and any receiver, attorney or agent appointed by such representative under the security documents, the Structural Debt Documents or the Intercreditor Agreement;
- second, in payment *pari passu* and pro rata of the balance of the costs and expenses of each Super Priority Creditor in connection with such enforcement;
- third, in payment *pari passu* and pro rata to the representative of the Super Priority Debt and the Hedging Banks for application towards the balance of the Super Priority Debt;
- fourth, in payment of the balance of the costs and expenses of each Senior Creditor in connection with such enforcement;
- fifth, in payment *pari passu* and pro rata to each representative of Senior Debt for application towards i) Senior Bank Debt and ii) Senior Secured Notes Debt;
- sixth, (only to the extent secured) in payment of the balance of the costs and expenses of each Senior Subordinated Creditor in connection with such enforcement;
- seventh, (only to the extent secured) in payment *pari passu* and pro rata to each Senior Subordinated Creditor towards the balance of the Senior Subordinated Notes Debt;
- eighth, in payment of the surplus (if any) to the Obligors or other person entitled to it.

Subject to the rights of any creditor (other than a Secured Creditor) with prior security or preferential claims, all amounts from time to time received or recovered by the Security Agent in connection with the realization or enforcement of Security created pursuant to the pledge of the shares of the Senior Notes Issuer shall be held by the Security Agent on trust to apply them at any time as the Security Agent (in its discretion) sees fit in the following order:

- first, in payment of the following amounts in the following order of priority: (i) to the Security Agent and trustee to the Notes and of any amounts due to each such party, and (ii) *pari passu* and pro rata to each representative of Senior Subordinated Notes Debt and of such other senior subordinated

debt of the fees, costs, expenses and liabilities (and all interest thereon as provided in the relevant finance documents) of each such representative and any receiver, attorney or agent appointed by such representative under the security documents or the Intercreditor Agreement;

- second, in payment *pari passu* and pro rata of the balance of the costs and expenses of each Senior Subordinated Creditor and such other senior subordinated debt creditor in connection with such enforcement;
- third, in payment *pari passu* and pro rata to the representative of the Senior Subordinated Notes Debt and of such other senior subordinated debt for application towards the balance of the Senior Subordinated Notes Debt;
- fourth, in payment of the surplus (if any) to the Obligors or other person entitles to it.

Amendment

Prior consent of each Representative (other than any Senior Subordinated Representative unless in respect of an amendment, waiver or consent under any security document evidencing Security in favour of the Senior Subordinated Creditors) is required for any waivers, consents, or amendments in relation to any security documents (including any Structural Debt Security document) if any such amendments, waivers or consents would adversely affect the nature or scope of the charged property or the nature or scope of the assets which are or expressed to be the subject of security for the Structural Debt (the ''*Structural Debt Security*'') or the manner in which the proceeds of enforcement of Security or the Structural Debt Security is distributed.

Any Senior Subordinated Notes documents may be amended in accordance with their terms i) if permitted by the Senior Secured Debt documents or with the consent of (while Super Priority Debt excluding Hedging Debt is outstanding) the representatives representing the Super Priority Creditors, the Senior Bank Creditors and (but only to the extent prohibited by the indentures governing the Senior Secured Notes) the Senior Secured Note Creditors or ii) in certain other limited circumstances.

The Intercreditor Agreement may be amended by the Obligors and the Security Agent without consent of the other parties if the amendment is to cure defects, typographical errors, resolve ambiguities or reflect changes, in each case, of a minor technical or administrative nature. Where an amendment affects the rights and obligations of one or more parties to the Intercreditor Agreement, and could not reasonably be expected to be adverse to the interests of other parties or class of parties, only the parties affected by such amendment need to agree to the amendments.

Other than in respect of certain customary amendments and waivers (which require the consent of each of the Senior Secured Creditors, the Senior Subordinated Creditors, the Super Priority Creditors, the Security Agent and the Issuers), the Intercreditor Agreement may be amended or waived or any consent may be given under it with the written agreement of the Majority Super Priority Creditors, the Majority Senior Bank Creditors, the Majority Senior Secured Notes Creditors and the Majority Senior Subordinated Creditors, the Issuers, the Security Agent and the Structural Creditor Security Agent.

License Guarantees

HOT and its subsidiaries are required to provide guarantees, often by way of a bank guarantee, to the Ministry of Communications and Broadcast Council in connection with various operating and broadcasting licenses, including provided a bank guarantee in the amount of NIS 695 million in connection with the HOT Mobile's winning a frequency allotment and receiving a cellular license in 2011. The balance of the HOT Mobile guarantee will be reduced if HOT Mobile is able to exceed certain market share-based milestones. Under the terms of the license, the remaining license fee will be reduced by one-seventh for every percent of market share gained by HOT Mobile since the date of the license. The market share of HOT Mobile will be calculated as the average of: (i) the ratio of HOT Mobile subscribers (including UMTS and iDEN) in the private sector to the total number of cellular subscribers in the private sector; (ii) the ratio of the number of outgoing cellular call minutes initiated by subscribers (including UMTS and iDEN and call minutes in the same network) of HOT Mobile in the private sector to the total number of outgoing cellular call minutes (including call minutes in the same network) by all cellular subscribers in the private sector; and (iii) the ratio of revenues from HOT Mobile subscribers (including UMTS and iDEN) to the total revenues from all cellular subscribers in the private sector. The market share will be measured in September 2013 and September 2016. Three months after the second testing date, HOT Mobile will pay the remaining license fee, which will be the lowest fee as calculated on each of the

testing dates. For more information see ''*Description of our Business—Material Agreements—Provision of certain bank guarantees to the State of Israel relating to performance of certain license terms*''.

HOT Mobile Earnout

In connection with the acquisition of HOT Mobile from Altice Securities and Migad (the ''Earnout Recipients''), HOT agreed to pay the Earnout Recipients additional consideration up to an amount of NIS 450 million, which is subject to future performance targets with respect to HOT Mobile market share and HOT consolidated EBITDA. Altice Securities has assigned its rights and entitlements to the Earnout to Cool Holding and accordingly any payments made by HOT under the earnout will remain in the Group. See ''*Certain Relationships and Related Party Transactions—HOT Mobile Earnout*''.

HOT Refinancing Note

The following contains a summary of the expected terms of the HOT Refinancing Note. It does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. The HOT Refinancing Note will not be issued until the Completion Date.

HOT Refinancing Term Note

On the Completion Date, the Senior Secured Notes Issuer will purchase an NIS 1,900.2 million intercompany term note (the ''HOT Refinancing Term Note'') issued by HOT.

Interest

The HOT Refinancing Term Note will bear interest at a rate of 6.3% per annum, which is payable semi-annually in cash in arrears on the date which is two business days prior to each June 15 and December 15, commencing on the date which is two business days prior to June 15, 2013 and shall be calculated on the basis of a three hundred and sixty (360) day year composed of twelve (12) months of thirty (30) days each. Interest will accrue from the Completion Date. The maturity date of the HOT Refinancing Term Note will be the same as the maturity date of the Senior Secured Notes.

Guarantees and Security

The HOT Refinancing Term Note will be a senior obligation of HOT and will be guaranteed on a senior basis by the HOT Refinancing Note Guarantors. Prior to receipt of regulatory approval with respect to the granting of security over License Assets, which has been applied for, the HOT Refinancing Term Note will be secured by a pledge over substantially all of the assets (other than License Assets) of HOT and the HOT Refinancing Note Guarantors (including all of the share capital of HOT Mobile) and, following receipt of such regulatory approval, will be secured by a pledge over substantially all of the assets of the HOT and the HOT Refinancing Note Guarantors (including all of the share capital of HOT Mobile) but, in each case, excluding (a) licenses issued by the Israeli Ministry of Communications, which are not assignable as a matter of law, and (b) certain end-user equipment (the ''HOT Refinancing Note Collateral''). See ''*Risk Factors—Risks Relating to the Notes and the Structure—Certain HOT Refinancing Note Collateral may not be taken as of the Completion Date*''.

Repayment

HOT may not prepay the HOT Refinancing Term Note except (i) in the event of a Change of Control, as defined in the HOT Refinancing Term Note, (ii) upon certain asset sales and (iii) if duly approved by HOT and required in order to facilitate or accommodate a repayment of the Senior Secured Notes by the Senior Secured Notes Issuer.

Change of Control

If a change of control occurs, the Senior Secured Notes Issuer will have the right to require HOT to prepay all or any part of the HOT Refinancing Term Note, together with a premium of 1% of the principal amount of the HOT Refinancing Term Note prepaid, plus accrued and unpaid interest, to the date of prepayment.

Change of control is defined as

(a) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more Permitted Holders (as defined in the HOT Refinancing Term Note) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the issued and outstanding Voting Stock of HOT, measured by voting power rather than number of shares; or

(b) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of HOT and its restricted subsidiaries taken as a whole to a Person (including any ''person'' as defined above), other than a Permitted Holder.

Covenants and Events of Default

HOT will agree, and will agree to cause each of its subsidiaries from the date the Completion Date, for the sole benefit of the Senior Secured Notes Issuer, (i) to be bound by the covenants in Article 4 (*Covenants)* and Article 5 (*Merger and Consolidation)* of the Senior Secured Notes Indenture that are applicable to HOT and its subsidiaries as Restricted Subsidiaries (as defined in the Senior Secured Notes Indenture), (ii) if duly appointed as Paying Agent under the Senior Secured Notes Indenture, to be bound by the obligations in the Senior Secured Notes Indenture relating thereto and (iii) to comply with the obligations set forth in the section to be titled ''Collateral and Security Documents'' in the Senior Secured Notes Indenture.

The HOT Refinancing Term Note will contain events of default, substantially similar to those contained in the Senior Secured Notes Indenture which, if such event of default occurs, permits the Senior Secured Notes Issuer to declare the HOT Refinancing Term Note due and payable immediately.

Limitation of Liability

For the avoidance of doubt and without in any way limiting HOT's and the HOT Refinancing Note Guarantors' obligations to the Senior Secured Notes Issuer pursuant to the HOT Refinancing Term Note, in any event, including in the event of a default by HOT and/or the HOT Refinancing Note Guarantors under the HOT Refinancing Term Note, or by the Senior Secured Notes Issuer under the Senior Secured Notes, the Revolving Credit Facility, the Cool Proceeds Note and the Acquisition Proceeds Note or any documents related to any of the foregoing, HOT and the HOT Refinancing Note Guarantors shall not be liable in any way, including by way of cross default, and shall not be required to repay any amounts outstanding, any repayment premiums and accrued and unpaid interest thereon, under the Senior Secured Notes, the Revolving Credit Facility, the Cool Proceeds Note and the Acquisition Proceeds Note or any documents related to any of the foregoing. It is further clarified that the HOT Refinancing Note Guarantors will serve as guarantors only with respect to the HOT's debt obligation under the HOT Refinancing Term Note.

Conflicts

For the avoidance of doubt, and despite HOT not being party to such agreements, other than with respect to the covenants described above, in the event that any of the other terms or provisions of this HOT Refinancing Term Note conflict with any terms or provisions of the Senior Secured Notes Indenture, Intercreditor Agreement or related agreements that are applicable to HOT and the HOT Refinancing Term Note, the Senior Secured Notes Issuer agrees and acknowledges that (as between HOT and the Senior Secured Notes Issuer only) the terms or provisions of the HOT Refinancing Term Note shall prevail.

HOT Refinancing RCF Note

On the Completion Date, the Senior Secured Notes Issuer will purchase an intercompany revolving credit facility note (the ''HOT Refinancing RCF Note'' and, together with the HOT Refinancing Term Note, the ''HOT Refinancing Note'') issued by HOT pursuant to which the Senior Secured Notes Issuer will make available to HOT amounts borrowed by the Senior Secured Notes Issuer under the Revolving Credit Facility Agreement. We expect the HOT Refinancing RCF Note to contain substantially similar

terms as the HOT Refinancing Term Note except that, in addition to the covenants contained in the HOT Refinancing Term Note, the HOT Refinancing RCF Note will contain one leverage-based maintenance covenant. The HOT Refinancing RCF Note will be guaranteed by the HOT Refinancing Note Guarantors and secured by the same HOT Refinancing Note Collateral that secures the HOT Refinancing Term Loan.

Senior Notes Proceeds Loan

On the Completion Date, the Senior Notes Issuer will make an intercompany loan (the ''Senior Notes Proceeds Loan'') pursuant to which it will loan the proceeds of the offering of the Senior Notes to the Senior Secured Notes Issuer. The terms of the Senior Notes Proceeds Loan will be customary for intercompany proceeds loans. The Senior Notes Proceeds Loan will accrue interest at a rate equal to the interest rate of the Senior Notes. The maturity date of the Senior Notes Proceeds Loan will be the same as the maturity date of the Senior Notes. Payments on the Senior Notes Proceeds Loan will be subject to the Intercreditor Agreement.

Cool Refinancing Note and Acquisition Note

On the Completion Date, the Senior Secured Notes Issuer will purchase a NIS 879.2 million ($224.2 million equivalent) intercompany note (the ''Cool Proceeds Note'') issued by Cool Holding. The actual amount may differ from the amount above based on several factors, including the exchange rate as in effect on the Completion Date. The terms of the Cool Proceeds Note will be customary for intercompany proceeds notes. The maturity date of the Cool Proceeds Note will be the same as the maturity date of the Senior Secured Notes.

On the Completion Date, the Senior Secured Notes Issuer will purchase a NIS 947.2 million ($241.5 million equivalent) intercompany proceeds note (the ''Acquisition Note'') issued by SPV1. The actual amount may differ from the amount above based on several factors, including the exchange rate as in effect on the Completion Date. The terms of the Acquisition Note will be customary for intercompany notes. The maturity date of the Acquisition Note will be the same as the maturity date of the Senior Secured Notes.

The Cool Refinancing Loan and the Acquisition Loan will bear interest at rates, determined on the Completion Date such that, after taking into account the interest rate applicable to the HOT Refinancing Term Loan, the blended weighted average interest rate of the Pledged Proceeds Notes will equal the weighted average interest rate of the Senior Secured Notes and the Senior Notes. Cool Holding and SPV1 will be entitled to capitalize the interest payable on any interest payment date under the Cool Refinancing Loan and the Acquisition Loan, as applicable, if the Senior Secured Notes Issuer has sufficient funds otherwise available to it to make its corresponding interest payments on the Senior Secured Notes and the Senior Notes Proceeds Loan on such interest payment date.

DESCRIPTION OF SENIOR SECURED NOTES

You will find definitions of certain capitalized terms used in this ''Description of Senior Secured Notes'' under the heading ''Certain Definitions''. Certain capitalized terms used in this Description of Senior Secured Notes may have different definitions that the same term used in other sections of this Offering Memorandum, including ''Description of Senior Notes''. For purposes of this ''Description of Senior Secured Notes'', references to the ''Issuer'' refers only to Altice Financing S.A.

Altice Financing S.A., a Luxembourg public limited liability company (*société anonyme*), with registered office at 37, rue d'Anvers, L-1130 Luxembourg (the ''Issuer'') will be the issuer of the Notes offered hereby. The Issuer is a wholly-owned subsidiary of Altice Finco S.A., a Luxembourg public limited liability company (*société anonyme*), with registered office at 37, rue d'Anvers, L-1130 Luxembourg (''HoldCo'').

The Issuer issued $450 million aggregate principal amount of its U.S. dollar-denominated Senior Secured Notes due 2019 (the ''Dollar Notes'') and €200 million aggregate principal amount of its Euro-denominated Senior Secured Notes due 2019 (the ''Euro Notes'' and, together with the Dollar Notes, the ''Notes'') under an indenture (the ''Indenture''), between, *inter alios*, itself, Cool Holding Ltd. (the ''Company'') Citibank, N.A., London Branch, as trustee (the ''Trustee'') and as security agent and HoldCo issued $400 million aggregate principal amount of its 9⅞% Senior Notes due 2020 (the ''Senior Notes'') under an indenture (the ''Senior Notes Indenture''), between, *inter alios*, itself, the Company, Citibank, N.A., London Branch, as trustee (the ''Senior Notes Trustee'') and as security agent, in each case, in a private transaction that is not subject to the registration requirements of the Securities Act.

The gross proceeds of the offering of the Senior Notes sold on the Issue Date will be loaned by HoldCo to the Issuer pursuant to a proceeds loan (the ''HoldCo Proceeds Loan''). The net proceeds of the offering of the Notes sold on the Issue Date (other than $86.3 million of cash overfunding which will be retained by the Issuer and used for general corporate purposes) and the net proceeds of the HoldCo Proceeds Loan will be used by the Issuer to purchase the Issuer Proceeds Loans described under the heading ''—The Issuer Proceeds Loans'' to the Company and certain of its Subsidiaries (including HOT) to enable the Company and such Subsidiaries to:

(1) repay all of the existing Indebtedness of the Company under the finance agreement dated as of November 27, 2011 between, among others, the Company, Mizrahi Tefahot Bank Ltd as agent, Mizrahi Tefahot Trust Company Ltd, as security trustee and the financial institutions party thereto (the ''Cool Credit Facility'') and to repay the Cool Interest Loan;

(2) acquire all of the remaining shares of HOT-Telecommunications Systems Ltd., a company organized and existing under the laws of Israel (''HOT'') that are not currently owned by the Company and its Affiliates (the ''Take-Private Transaction''); and

(3) repay all of the outstanding Indebtedness of HOT under the credit agreement entered into and signed on March 17, 2011 between, amongst others, HOT Communications Systems Ltd, HOT Telecom Limited Partnership and HOT Net Internet Services as the borrowers, Bank Hapoalim Ltd. and Bank Leumi of Israel as the coordinators, Bank Hapoalim Ltd. as credit agent, Bank Leumi of Israel as securities trustee and the financial institutions party thereto as lenders (the ''HOT Credit Facility''),

in each case, as described in this Offering Memorandum under ''The Transactions'' and ''Use of Proceeds''. The remaining net proceeds of the offering of the Notes and the Senior Notes will be used by the Issuer as described in this Offering Memorandum under ''Use of Proceeds''. The transactions referred to in clauses (1), (2) and (3) are herein referred to collectively as the ''Transactions''. The date on which the Transactions are consummated are herein referred to as the ''Completion Date''.

Pending consummation of the Transactions and the satisfaction of certain other conditions as described below, the initial purchasers, concurrently with the closing of the offering of the Notes on the Issue Date, deposited the gross proceeds of this offering of the Notes into segregated escrow accounts (the ''Escrow Account'') pursuant to the terms of an escrow agreement (the ''Escrow Agreement'') dated as of the Issue Date among, *inter alios*, the Issuer, the Trustee and Citibank, N.A., London Branch, or another similarly reputable escrow agent, as Escrow Agent (the ''Escrow Agent''). If the Transactions are not consummated on or prior to March 31, 2013 (the ''Escrow Longstop Date''), or upon the occurrence of certain other events, the Notes will be redeemed at a price equal to 100% of the initial issue price of the Notes plus accrued and unpaid interest and Additional Amounts, if any, from the Issue Date to the Special Mandatory Redemption Date (as defined below). See ''—*Escrow of Proceeds; Special Mandatory Redemption*''.

Upon the initial issuance of the Notes, the Notes are obligations solely of the Issuer and are not guaranteed. Although the Company and H. Hadros 2012 Ltd. (''SPV-1'') are parties to the Indenture as of the Issue Date for purposes of the covenants described below, the Company's and SPV-1's Note Guarantees will not be effective until the Completion Date (if it occurs). Assuming the Completion Date occurs on or prior to the Escrow Longstop Date and the funds are released from the Escrow Account, on the Completion Date, the Note Guarantees of the Company and SPV-1 will become effective. Prior to the Completion Date, the Issuer, the Company and SPV-1, but none of HOT and its Subsidiaries, will be subject to the covenants described in this ''Description of Senior Secured Notes''. As such, we cannot assure you that prior to the Completion Date, HOT and its Subsidiaries will not engage in activities that would otherwise have been prohibited by the Indenture had those covenants been applicable to such entities after the Issue Date and prior to the Completion Date.

Other than pursuant to the HOT Proceeds Note (as defined below), the Issuer and the Guarantors have only a shareholder's claim over the assets of HOT and its Subsidiaries, which are junior to the claims that creditors of HOT have against HOT. Holders of the Notes are only creditors of the Issuer and the Guarantors and do not have any direct claim on the cash flows or assets of HOT and its Subsidiaries, and HOT and its Subsidiaries have no obligation, contingent or otherwise, to pay amounts due under the Notes or the Note Guarantees or to make funds available to the Issuer or the Guarantors for those payments (other than their respective obligations to pay certain amounts due to the Issuer under the HOT Proceeds Note).

The Indenture is unlimited in aggregate principal amount and $700 million (equivalent) in principal amount of Notes were issued in this offering. We may issue an unlimited principal amount of additional Notes at later dates under the same Indenture (the ''Additional Notes''); *provided*, *however*, that we will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture, including the covenants restricting the Incurrence of Indebtedness (as described below under ''*—Certain Covenants—Limitation on Indebtedness*'') and the Incurrence of Liens (as described below under ''*—Certain Covenants—Limitation on Liens*''). The Notes issued in this offering and, if issued, any Additional Notes will be treated as a single class for all purposes under the Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase, except as otherwise stated in the Indenture. However, in order for any Additional Notes denominated in U.S. dollars or Euro to have the same CUSIP number and ISIN as the Dollar Notes or the Euro Notes, as applicable, such Additional Notes must be fungible with the Notes for U.S. federal income tax purposes. Unless the context otherwise requires, in this ''Description of Senior Secured Notes'', references to the ''Notes'' include the Notes and any Additional Notes that are actually issued. The terms of the Notes include those set forth in the Indenture. The Indenture does not qualify under, and does not incorporate by reference any of the provisions of, the U.S. Trust Indenture Act of 1939, as amended.

This ''Description of Senior Secured Notes'' is intended to be an overview of the material provisions of the Notes and the Indenture, and refers to the Intercreditor Agreement, the Escrow Agreement and the Security Documents (as defined below). It does not restate those agreements in their entirety. Since this description of the terms of the Notes is only a summary, you should refer to the Indenture, the form of Notes, the Intercreditor Agreement, the Escrow Agreement and the Security Documents for complete descriptions of the obligations of the Issuer and your rights because they, and not this summary, define your rights as holders of the Notes. Copies of the Indenture, the form of Notes, the Security Documents, the Escrow Agreement and the Intercreditor Agreement are available as set forth under ''Available Information''. See the section entitled ''*Description of Other Indebtedness—Intercreditor Agreement*'' for a summary of certain material terms of the Intercreditor Agreement.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

General

The Notes

The Notes:

- are general obligations of the Issuer;
- are, prior to the Completion Date, secured by a first ranking assignment over the Escrowed Property and the rights of the Issuer under the Escrow Agreement (the ''Escrow Assignment'');

- will, as of the Completion Date, benefit from the security as set forth below under ''—*Security*'';
- rank *pari passu* in right of payment with any future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes, including Indebtedness under the Revolving Credit Facility;
- rank senior in right of payment to any future Indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes;
- are effectively subordinated to any future Indebtedness of the Issuer that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness; and
- will be the only Indebtedness of the Issuer outstanding on the Completion Date other than the senior subordinated obligation of the Issuer under the HoldCo Proceeds Loan, its Guarantee of the Senior Notes and any Additional Notes (if any).

The Note Guarantees

As of the Issue Date, the Notes are not Guaranteed. Although the Company and SPV-1 are parties to the Indenture as of the Issue Date for purposes of the covenants described below, the Company's and SPV-1's Note Guarantees will not be effective until the Completion Date. Following the Completion Date, the Notes will be guaranteed by the Company and SPV-1 but not by HOT or any of its Subsidiaries.

Each Note Guarantee of the Notes will:

- be a general obligation of the relevant Guarantor;
- rank *pari passu* in right of payment with any existing and future Indebtedness of that Guarantor that is not subordinated in right of payment to such Guarantor's Note Guarantee, including such Guarantor's Guarantee of the Issuer's Indebtedness under the Revolving Credit Facility;
- rank senior in right of payment to any existing and future obligations of that Guarantor that is expressly subordinated in right of payment to such Notes Guarantee;
- benefit from the security as set forth below under ''—*Security*'';
- be effectively subordinated to any existing and future Indebtedness of that Guarantor that is secured by liens on property or assets that do not secure that Guarantor's guarantee, to the extent of the value of the property or assets securing such Indebtedness; and
- be effectively subordinated to the Indebtedness and other obligations of Subsidiaries of the Company or any other Covenant Party that do not Guarantee the Notes.

The Notes do not benefit from a direct guarantee from HOT or any of its Subsidiaries. However, as a result of the pledge of the Issuer Proceeds Loans made to HOT (the ''HOT Proceeds Note'') on the Completion Date, the Notes will indirectly benefit from the HOT Proceeds Note, the guarantees thereof (the ''HOT Proceeds Note Guarantees'') by HOT Net Internet Services Ltd., HOT Telecom Limited Partnership, Hot Vision Ltd., Hot-Idan Cable Systems Israel Ltd., Hot-Idan Cable Systems (Holdings) 1987 Ltd., Hot-Edom Ltd., Hot T.L.M Subscribers Television Ltd. and Hot-Cable System Media Haifa-Hadera Ltd. (collectively the ''HOT Proceeds Note Guarantors'').

HOT Mobile Ltd. and its subsidiaries will not guarantee the Notes or the HOT Proceeds Note.

In addition, the Existing HOT Unsecured Notes will rank *pari passu* with the HOT Proceeds Note to the extent the amount of the HOT Proceeds Note exceeds the value of the assets of HOT and the HOT Proceeds Note Guarantors and the HOT Proceeds Note Guarantees, and will rank effectively senior to the Notes and the Note Guarantees of the Guarantors. As of September 30, 2012, the total principal amount of the Existing HOT Unsecured Notes outstanding was NIS 1,468 million.

Further, the obligations of a Guarantor under its Note Guarantee is limited as necessary to prevent the relevant Note Guarantee from constituting a fraudulent conveyance under applicable law, or otherwise to reflect limitations under applicable law or capital maintenance regulations. See ''*Limitation on Validity and Enforceability of Guarantees and the Security Interests*'' and ''*Risk Factors—Risks Relating to the Notes and the Structure—Corporate benefit and financial assistance laws and other limitations on the obligations under the Guarantees and the HOT Refinancing Note Guarantees may adversely affect the validity and enforceability of the Guarantees and the HOT Refinancing Note Guarantees*''.

As of September 30, 2012, on an as-adjusted consolidated basis after giving effect to the Transactions and the issuance of the Notes and the Senior Notes and the application of the proceeds therefrom and excluding certain other liabilities, the Guarantors and HOT and its Subsidiaries would have had outstanding $1,106.6 million (equivalent) aggregate principal amount of Indebtedness. As of September 30, 2012, on an as-adjusted basis after giving effect to the Transactions and the issuance of the Notes and the Senior Notes and the application of the proceeds therefrom, the Issuer had no outstanding Indebtedness other than the Notes and the Issuer's Guarantee of the Senior Notes. As of September 30, 2012, on an as-adjusted consolidated basis after giving effect to the issuance of the Notes and the Senior Notes, the Guarantors and HOT and its Subsidiaries (other than HOT Mobile and its Subsidiary) represented more than (i) 80% of the consolidated total assets of the Group as of June 30, 2012, (ii) 90% of the consolidated EBITDA of the Group for the nine months ended September 30, 2012 and (iii) 80% of the revenue of the Group for the nine months ended September 30, 2012.

Each Guarantor that Guarantees the Notes on the Completion Date is a holding company and does not conduct any operations and is wholly dependent on payments from its respective subsidiaries to meet its obligations, including its obligations under their Note Guarantees and respective Issuer Proceeds Loans.

Additional Covenant Parties

Subject to the covenants of the Indenture (including compliance with the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*''), the Issuer may designate certain Persons that are under direct or indirect common control with the Company (including existing portfolio companies of Altice VII S.à r.l, as well as any portfolio companies Altice VII S.à r.l may acquire in the future) to become Additional Covenant Parties. Upon such designation in compliance with the Indenture (including the covenant described below under ''—*Certain Covenants—Additional Covenant Parties*''), such Person will become a member of the Group by executing a supplemental indenture to the Indenture, pursuant to which such Person will become subject to the restrictive covenants contained therein and guarantee the Notes on a senior basis. In connection with the designation of any Additional Covenant Party, all of the shares of Capital Stock of such Person are required to be pledged as Notes Collateral to secure the Notes and the Note Guarantees on a senior basis and to secure the Senior Notes on a junior basis. Such Additional Covenant Party will also accede to the Intercreditor Agreement.

In addition, the Indenture permits the Issuer to designate an Additional Covenant Party as the Permitted Parent that will operate as a holding company of the Group, which will, among other things, enable the Covenant Parties to consolidate their financial reporting under one entity and provide financial reports of such Permitted Parent in order to satisfy their financial reporting obligations under the Indenture. See ''—*Certain Covenants—Reports*''. In connection with the designation of the Permitted Parent, all of the shares of Capital Stock of the Permitted Parent are required to be pledged as Notes Collateral to secure the Notes and the Note Guarantees on a senior basis and to secure certain Indebtedness of HoldCo on a junior basis. The Permitted Parent will also accede to the Intercreditor Agreement. Upon designation of the Permitted Parent:

- each Covenant Party existing at the time of such designation will be deemed to no longer be a Covenant Party, although such Covenant Party will remain a Restricted Subsidiary of the Permitted Parent until such time as it is sold or otherwise disposed of or is designated an Unrestricted Subsidiary, in each case, in compliance with the terms of the Indenture;
- the Issuer will not be permitted to designate any other Person as an Additional Covenant Party thereafter;
- the junior priority pledges over the Capital Stock of such Covenant Party granted to secure Indebtedness of HoldCo permitted to be secured by such Capital Stock will be released; and
- all references in the Indenture to a Covenant Party will be deemed to only refer to the Permitted Parent.

Principal and Maturity

The Issuer issued $450 million of Dollar Notes and €200 million of Euro Notes on the Issue Date. The Notes will mature on December 15, 2019 at which time 100% of the principal amount of the Notes shall be payable, unless redeemed prior thereto as described herein. The Notes were issued in minimum

denominations of $200,000 and in integral multiples of $1,000 in excess thereof, and the Euro Notes were issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

Interest

Interest on the Dollar Notes will accrue at the rate of 7.875% per annum, *provided* that in the event the MOC Security Approval is not obtained on or prior to the date that is 180 days after the Issue Date, the Notes will accrue interest at a rate per annum that is 100 basis points higher than such rate. Interest on the Euro Notes will accrue at the rate of 8.000% per annum, provided that in the event the MOC Security Approval is not obtained on or prior to the date that is 180 days after the Issue Date, the Euro Notes will accrue interest at a rate per annum that is 100 basis points higher than such rate.

Interest on the Notes will:

- accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid;
- be payable in cash semi-annually in arrears on each June 15 and December 15, commencing on June 15, 2013;
- be payable to the holder of record of such Notes on June 1 and December 1 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest on overdue principal and interest, including Additional Amounts, if any, will accrue at a rate that is 1% higher than the interest rate on the Notes.

If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Methods of Receiving Payments on the Notes

Principal, interest and premium, if any, on the Global Notes (as defined below) will be payable at the specified office or agency of one or more Paying Agents; *provided* Payments on the Dollar Global Notes (as defined below) will be made to Cede & Co. as the registered holder of the Dollar Global Notes, and payments on the Euro Global Notes (as defined below) will be made to the common depositary as the registered holder of the Euro Global Notes.

Principal, interest and premium, if any, on any certificated securities (''Definitive Registered Notes'') will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes in New York and London, United Kingdom. In addition, at the option of the Issuer, interest on the Definitive Registered Notes may be paid by check mailed to the Person entitled thereto as shown on the register for the Definitive Registered Notes. See ''—*Paying Agent and Registrar for the Notes*''.

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more Paying Agents for the Notes in each of (i) London, United Kingdom (the ''Principal Paying Agent'') and (ii) New York for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market (but only if the rules of the Luxembourg Stock Exchange so require). The Issuer will also undertake to maintain a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 regarding the taxation of savings income (the ''Directive''), or any law implementing or complying with or introduced in order to conform to such Directive. The initial Paying Agents will be Citibank, N.A., London Branch in London and Citibank, N.A. in New York.

The Issuer will also maintain one or more registrars (each, a ''Registrar'') with offices in Luxembourg. The initial Registrar is Citigroup Global Markets Deutschland AG in Luxembourg. The Issuer will also maintain a transfer agent. The initial transfer agent is Citibank, N.A., London Branch. The Registrar and the transfer agent will maintain a register reflecting ownership of Definitive Registered Notes (as defined herein) outstanding from time to time, if any, and will make payments on and facilitate transfers of

Definitive Registered Notes on behalf of the Issuer. Each transfer agent shall perform the functions of a transfer agent. Each Registrar shall provide a copy of the register and any update thereof to the Issuer and the Issuer shall maintain a register of the Notes at its registered office in order to comply with Luxembourg law (the ''Duplicate Register''). In case of discrepancy between any register and the Duplicate Register, the Duplicate Register shall prevail for Luxembourg law purposes.

The Issuer may change any Paying Agents, Registrars or transfer agents for the Notes without prior notice to the Holders of such Notes. However, for so long as Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules and the regulations of the Luxembourg Stock Exchange. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the Notes.

Transfer and Exchange

The Notes were issued in the form of several registered notes in global form, without interest coupons, as follows:

- Each series of Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act is initially represented by a global note in registered form without interest coupons attached (the ''144A Global Notes'').
    - The 144A Global Notes representing the Dollar Notes (the ''Dollar 144A Global Note'') were deposited with a custodian for The Depository Trust Company (''DTC'') and registered in the name of Cede & Co., as nominee of DTC, on the Issue Date.
    - The 144A Global Notes representing the Euro Notes (the ''Euro 144A Global Note''), were deposited with and registered in the name of the common depositary for the accounts of Euroclear Bank S.A./N.V. (''Euroclear'') and Clearstream Banking, société anonyme (''Clearstream'') on the Issue Date.
- Each series of Notes sold outside the United States pursuant to Regulation S under the Securities Act are initially being represented by a global note in registered form without interest coupons attached (the ''Regulation S Global Notes,'' and together with the 144A Global Notes, the ''Global Notes'').
    - During the 40-day ''distribution compliance period'' (as such term is defined in Rule 902 of Regulation S under the Securities Act), the Regulation S Global Notes representing the Dollar Notes (the ''Dollar Regulation S Global Note,'' and together with the Dollar 144A Global Note, the ''Dollar Global Notes'') were initially credited within DTC for the accounts of Euroclear and Clearstream. After the 40-day distribution compliance period ends, investors may also hold their interests in the permanent Dollar Regulation S Global Note through organizations other than Clearstream or Euroclear that are DTC participants.
    - The Regulation S Global Notes representing the Euro Notes (the ''Euro Regulation S Global Note,'' and together with the Euro 144A Global Note, the ''Euro Global Notes'') were deposited with and registered in the name of the common depositary for the accounts of Euroclear and Clearstream on the closing date.

During the 40-day distribution compliance period, book-entry interests in the Regulation S Global Note may be (1) held only through Euroclear and Clearstream or through DTC for the account of Euroclear and Clearstream, and (2) transferred only to non-U.S. persons under Regulation S or qualified institutional buyers under Rule 144A.

Ownership of interests in the Global Notes (''Book-Entry Interests'') will be limited to persons that have accounts with Euroclear, Clearstream or DTC, as applicable, or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers hereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under ''Notice to Investors''. In addition, transfers of Book-Entry Interests between participants in Euroclear, participants in Clearstream or participants in DTC will be effected by Euroclear, Clearstream or DTC, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear, Clearstream or DTC, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global Note may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Note denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a ''qualified institutional buyer'' within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under ''Notice to Investors'' and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred.

Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of $200,000 or €100,000 principal amount, as the case may be, and integral multiples of $1,000 in excess thereof or €1,000 in excess thereof, as the case may be, upon receipt by the applicable Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear, Clearstream or DTC, as applicable, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Company to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under ''Notice to Investors''.

Subject to the restrictions on transfer referred to above, Dollar Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of $200,000 in principal amount and integral multiples of $1,000 in excess thereof and Euro Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 in principal amount and integral multiples of €1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture requires the transferring or exchanging holder to, among other things, to furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear, Clearstream or DTC, where appropriate, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

Notwithstanding the foregoing, the Issuer is not required to register the transfer or exchange of any Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Disposition Offer.

The Issuer, the Trustee, the Paying Agents and the Registrar are entitled to treat the Holder of a Note as the owner of it for all purposes.

The Note Guarantees

General

As of the Issue Date, the Notes are not Guaranteed. Although the Company and SPV-1 are parties to the Indenture on the Issue Date for purposes of the covenants described below, the Company's and SPV-1's Note Guarantee will not be effective until the Completion Date. Following the Completion Date, the Notes

will be guaranteed by the Company and SPV-1 on a senior basis for the full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all payment obligations of the Issuer under the Indenture and the Notes, whether for payment of principal of or interest on or in respect of the Notes, fees, expenses, indemnification or otherwise.

The Notes will not benefit from a direct guarantee from HOT or any of its Subsidiaries. However, as a result of the pledge of the HOT Proceeds Note on the Completion Date, the Notes will indirectly benefit from the HOT Proceeds Note and the HOT Proceeds Note Guarantees of the HOT Proceeds Note Guarantors.

HOT Mobile Ltd. (formerly known as MIRS Communications Ltd.) and its subsidiaries will not guarantee the Notes or the HOT Proceeds Note.

The obligations of each Guarantor under its Note Guarantee are contractually limited under the applicable guarantees to reflect limitations under applicable law with respect to maintenance of share capital applicable to such Guarantor and its shareholders, directors and general partners. See ''*Limitation on Validity and Enforceability of Guarantees and the Security Interests*'' and ''*Risk Factors—Risks Relating to the Notes and the Structure—Corporate benefit and financial assistance laws and other limitations on the obligations under the Guarantees and the HOT Refinancing Note Guarantees may adversely affect the validity and enforceability of the Guarantees and the HOT Refinancing Note Guarantees*''.

The Issuer is a special purpose finance vehicle formed for the purpose of serving as the issuer of the Notes and does not conduct, and is prohibited by the Indenture from engaging in, any operations. Upon completion of the Transactions, the Issuer's only assets will be Issuer Proceeds Loans made on the Completion Date with the net proceeds of this offering of Notes and the HoldCo Proceeds Loan Incurred on the Completion Date and cash in its bank accounts. As a result, the Issuer is wholly dependent on payments from the Company and its Subsidiaries, including payments made by the borrowers under the Issuer Proceeds Loans, to fund its obligations under the Notes to the extent it does not otherwise have funds available to it.

The operations of the Company are conducted through its Subsidiaries and, therefore, the Company depends on the cash flow of such Subsidiaries to meet its obligations, including its obligations under its Note Guarantee and the Issuer Proceeds Loan that will be Incurred by it on the Completion Date. See ''*Risk Factors—Risks Relating to the Notes and the Structure—Each of Cool Holding and SPV1 is a holding company and conducts no business of its own and will depend on payments from its direct and indirect subsidiaries to provide it with funds to meet its obligations under the Pledged Proceeds Notes; their subsidiaries will be subject to restrictions on making any such payments*''.

The Note Guarantees are effectively subordinated to the Existing HOT Unsecured Notes. The Existing HOT Unsecured Notes will not be subject to the Intercreditor Agreement and, as a result, in the event of an enforcement sale of the shares of the Company or HOT pursuant to the Intercreditor Agreement, the debt claims of the holders of the Existing HOT Unsecured Notes are not required to be released or otherwise transferred. In addition, the Notes and the Note Guarantees are effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Company's non-guarantor Subsidiaries (including HOT and its Subsidiaries). Any right of the Issuer or any Guarantor to receive assets of any of the Company's non-guarantor Subsidiaries upon that non-guarantor Subsidiary's liquidation or reorganisation (and the consequent right of the holders of the Notes to participate in those assets) will be effectively subordinated to the claims of that non-guarantor Subsidiary's creditors, except to the extent that the Issuer or such Guarantor is itself recognised as a creditor of the non-guarantor Subsidiary (including as a creditor of HOT and HOT Proceeds Note Guarantors pursuant to the HOT Proceeds Note), in which case the claims of the Issuer or such Guarantor, as the case may be, would still be subordinate in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Issuer or such Guarantor.

Additional Note Guarantees

In the event any Person becomes a Covenant Party after the Issue Date, such Person will simultaneously with becoming a Covenant Party execute and deliver to the Trustee a supplemental indenture in the form attached to the Indenture (and with such documentation relating thereto as the Trustee may reasonably require) pursuant to which such Covenant Party will Guarantee the Notes on a senior basis.

The Issuer may from time to time designate a Restricted Subsidiary as an additional guarantor of the Notes (together with any Person that becomes a Covenant Party after the Issue Date, the ''Additional Guarantors'') by causing it to execute and deliver to the Trustee a supplemental indenture in the form attached to the Indenture (and with such documentation relating thereto as the Trustee may reasonably require, including Opinions of Counsel as to the enforceability of such Note Guarantee), pursuant to which such Restricted Subsidiary will become a Guarantor.

Each Additional Guarantor will, jointly and severally, with the Guarantors and each other Additional Guarantor, irrevocably guarantee (each guarantee, an ''Additional Guarantee'') on a senior basis the full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all payment obligations of the Issuer under the Indenture and the Notes, whether for payment of principal of or interest on or in respect of the Notes, fees, expenses, indemnification or otherwise. The obligations of any Additional Guarantor will be contractually limited under its Additional Guarantee to reflect limitations under applicable law, including, among other things, with respect to maintenance of share capital applicable to such Additional Guarantor and its shareholders, directors and general partner. Any Additional Guarantee issued by a Restricted Subsidiary shall be issued on substantially the same terms as the Note Guarantee of the Restricted Subsidiaries that will become Guarantors on the Completion Date. Any Additional Guarantee issued by a Covenant Party shall be issued on substantially the same terms as the Note Guarantee of the Company that will become effective on the Completion Date. For purposes of the Indenture and this ''Description of Senior Secured Notes'', references to the Note Guarantees include references to any Additional Guarantees and references to the Guarantors include references to any Additional Guarantors.

Releases of the Note Guarantees

The Note Guarantee of a Covenant Party may be released:

- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''*—Defeasance*'' and ''*—Satisfaction and Discharge*'';
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;
- as described under ''*—Amendments and Waivers*'';
- with respect to any Covenant Party that is not the continuing or surviving Person in the relevant consolidation or merger, as a result of a transaction that complies with the provisions described under ''*—Merger and Consolidation—Covenant Parties*''; or
- upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes.

The Note Guarantee of a Subsidiary Guarantor will terminate:

- upon a sale or other disposition (including by way of consolidation, merger, amalgamation or combination) of the Capital Stock of the relevant Subsidiary Guarantor (whether by direct sale or sale of a holding company of such Subsidiary Guarantor) or the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor (other than to the Issuer, a Covenant Party or a Restricted Subsidiary), in each case if the sale or other disposition does not violate the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'';
- upon the designation in accordance with the Indenture of that Subsidiary Guarantor as an Unrestricted Subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''*—Defeasance*'' and ''*—Satisfaction and Discharge*'';
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;
- as described under ''*—Amendments and Waivers*'';
- as described under ''*—Certain Covenants—Additional Guarantors*'';
- with respect to any Subsidiary Guarantor that is not the continuing or surviving Person in the relevant consolidation or merger, as a result of a transaction that complies with the provisions described under ''*—Merger and Consolidation—The Subsidiary Guarantors*''; or

- upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes.

The Trustee and the Security Agent (as applicable) shall each take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications. Each of the releases set forth above shall be effective without the consent of the Holders or any action on the part of the Trustee. Neither the Trustee nor the Issuer will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Notes Security

General

On the Completion Date, the Notes will be secured on a first priority basis by:

- share pledges over all of the Capital Stock of the Issuer and the Guarantors;
- a pledge over the bank accounts and all receivables of the Issuer, including the Issuer Proceeds Notes made on the Completion Date;
- a pledge over all of the assets of each of the Guarantors, including all of the Capital Stock of HOT (other than the Minority Shareholder Call Options and certain management share options);
- a pledge over the HoldCo Proceeds Loan; and
- a pledge over the Subordinated Shareholder Loan;

(collectively, the ''Notes Collateral'')

The Notes Collateral will also secure Indebtedness under the Revolving Credit Facility and certain Hedging Obligations. The pledge agreements and the other security documents in respect of the Notes Collateral are referred to as the ''Security Documents''. Any other additional security interests that may in the future be granted to secure the obligations under the Notes, the Note Guarantees and the Indenture would also constitute Notes Collateral. Other than pursuant to the HOT Proceeds Note, the Issuer and the Company have only a shareholder's claim over the assets of HOT and its Subsidiaries, which are junior to the claims that creditors of HOT have against HOT. Holders of the Notes will only be creditors of the Issuer and the Guarantors and will not have any direct claim on the cash flows or assets of HOT and its Subsidiaries, and HOT and its Subsidiaries will have no obligation, contingent or otherwise, to pay amounts due under the Notes or the Note Guarantees or to make funds available to the Issuer or the Guarantors for those payments (other than their respective obligations to pay certain amounts due to the Issuer under the HOT Proceeds Note).

The HOT Proceeds Note will be secured on Completion Date as described below under ''*—HOT Proceeds Note Security*''.

Subject to certain conditions, including compliance with the covenants described under ''*—Certain Covenants—Limitation on Liens*'' and ''*—Certain Covenants—Impairment of Security Interests*'', the Issuer, the Covenant Parties and their Restricted Subsidiaries are permitted to incur certain additional Indebtedness in the future that may be secured on the Notes Collateral, including any Additional Notes, certain Indebtedness under Credit Facilities (including revolving credit facility Indebtedness which may be Super Priority Indebtedness) and Hedging Obligations (which in the case of Interest Rate Agreements and Currency Agreements may be Super Priority Indebtedness) and certain other Hedging Obligations (which may be Super Priority Indebtedness), in each case, permitted under the Indenture and other Indebtedness of the Issuer, the Covenant Parties and their Subsidiaries. In addition, subject to certain conditions, including compliance with the covenants described under ''*—Certain Covenants—Limitation on Liens*'' and ''*—Certain Covenants—Impairment of Security Interests*'', HOT and its Restricted Subsidiaries are permitted to incur certain additional Indebtedness in the future that may be secured on the HOT Proceeds Note Collateral.

The proceeds from the sale of the Notes Collateral remaining after sharing with other creditors entitled to share in such proceeds may not be sufficient to satisfy the obligations owed to the Holders of the Notes. No appraisals of the Notes Collateral have been made in connection with this offering of Notes. By its nature, some or all of the Notes Collateral will be illiquid and may have no readily ascertainable market

value. In addition, certain Liens over the Notes Collateral may not be enforced without the prior consent of the Israeli Minister of Communications, including the Liens over the Capital Stock of HOT and the Company. Accordingly, the Notes Collateral may not be able to be sold in a short period of time, or at all. In addition, the Intercreditor Agreement places limitations on the ability of the Security Trustee to release the security interests in some of the Notes Collateral, by reference to the interests of other creditors. These limitations may include requirements that some or all of the Notes Collateral be disposed of only pursuant to public auctions or only at a price confirmed by a valuation. See ''*Description of Other Indebtedness—The Intercreditor Agreement*'' and ''*Risk Factors—Risks Relating to the Notes and the Structure—The value of the Collateral may not be sufficient to satisfy our obligations under the Notes and such Collateral may be reduced or diluted under certain circumstances, which may be time consuming and cumbersome*''.

The creditors under the Revolving Credit Facility, the counterparties to the Hedging Obligations secured by the Notes Collateral and the Trustee have, and by accepting a Note, each holder will be deemed to have, irrevocably appointed the Security Trustee to act as its agent and security trustee under the Intercreditor Agreement and the Security Documents. The creditors under the Revolving Credit Facility, the counterparties to the Hedging Obligations secured by the Notes Collateral and the Trustee have, and by accepting a Note, each holder will be deemed to have, irrevocably authorized the Security Trustee to (i) perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement or the Security Documents, together with any other incidental rights, power and discretions; and (ii) execute each Security Document, waiver, modification, amendment, renewal or replacement expressed to be executed by the Security Trustee on its behalf.

Security Documents

Under the Escrow Assignment, the Issuer has granted a first-ranking security interest over the Escrowed Property and the rights of the Issuer under the Escrow Agreement. Under the Security Documents to be entered into on the Completion Date, the Issuer, Altice VII S.à r.l (the immediate Parent of the Company) and the Company will grant security over the Notes Collateral to secure the payment when due of the Issuer's and the Guarantors' payment obligations under the Notes, the Note Guarantees and the Indenture. The Security Documents will be entered into by the relevant security provider and the Security Agent as agent for the secured parties referred to therein. When entering into the Security Documents, the Security Agent will act in its own name, but also as a representative of the secured parties (including the Holders from time to time). Under the Intercreditor Agreement, the Security Agent will also act on behalf of the lenders under the Revolving Credit Facility, the counterparties under certain Hedging Obligations, and holders of any additional Indebtedness that is permitted to be secured by the Notes Collateral in favor of such parties, *provided* that the Notes Collateral subject to the Escrow Assignment will only secure the Notes and no other Indebtedness.

The Indenture provides that, subject to the terms thereof and of the Security Documents and the Intercreditor Agreement, the Notes and the Note Guarantees, as applicable, will be secured by the security interest in the Notes Collateral that is created by the Security Documents and secures obligations under the Notes or the Note Guarantees and the Indenture (the ''Security Interest''). Such Security Interests in the Notes Collateral will also secure the obligations under the Revolving Credit Facility, certain Hedging Obligations and certain other Indebtedness permitted by the Indenture to be Incurred in the future and secured by such Notes Collateral. However, the Security Interests may be released under certain circumstances as provided under ''*—Release of Note Collateral*'' below. See ''*Risk Factors—Risks Relating to the Notes and the Structure—There are circumstances other than repayment or discharge of the Notes under which the Collateral and the Guarantees will be released automatically, without your consent or the consent of the Trustee*''.

The Security Documents provide that the rights with respect to the Notes and the Note Guarantees must be exercised by the Security Agent. Because the Holders are not a party to the Security Documents, Holders may not, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The Holders may only act through the Security Agent.

In the event that the Issuer, a Covenant Party, a Subsidiary of a Covenant Party or other grantor of a security interest in the Notes Collateral enters into insolvency, bankruptcy or similar proceedings, the Security Interests created under the Security Documents or the rights and obligations enumerated in the Intercreditor Agreement could be subject to potential challenges. If any challenge to the validity of the Security Interests or the terms of the Intercreditor Agreement were successful, the Holders might not be

able to recover any amounts under the Security Documents. See ''*Limitation on Validity and Enforceability of the Guarantees and the Security Interests*''.

Release of Notes Collateral

The Issuer and the Guarantors will be entitled to release the Security Interests in respect of the Notes Collateral securing the Notes and the Note Guarantees under any one or more of the following circumstances:

(1) in connection with (i) exercise of the Minority Shareholder Call Option or (ii) any other sale or other disposition of the Notes Collateral (other than the pledge over all of the Capital Stock of the Issuer (the ''Issuer Share Pledge'')) to a Person that is not the Issuer, a Covenant Party or a Restricted Subsidiary (but excluding any transaction subject to ''*—Certain Covenants—Merger and Consolidation*''), if such sale or other disposition does not violate the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'', but only in respect of the Notes Collateral sold or otherwise disposed of;

(2) in connection with the release of a Guarantor from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

(3) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property, assets and Capital Stock of such Unrestricted Subsidiary;

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''*—Defeasance*'' and ''*—Satisfaction and Discharge*'';

(5) in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement (see ''*Description of Other Indebtedness—The Intercreditor Agreement—Restrictions on Enforcement*'');

(6) as described under ''*—Amendments and Waivers*'', ''*—Certain Covenants—Impairment of Security Interests*'' and the second paragraph under ''*—Certain Covenants—Limitation on Liens*'';

(7) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes

(8) to release and re-take any Lien on any Notes Collateral to the extent not otherwise prohibited by the terms of the Indenture, the Security Documents or the Intercreditor Agreement or any Additional Intercreditor Agreement; or

(9) in connection with a transaction permitted by the covenant described below under the caption ''*—Certain Covenants—Merger and Consolidation*'',

provided that, the Security Interests created by the Escrow Assignment may only be released upon release of the Escrowed Property from the Escrow Account in accordance with the terms of the Escrow Agreement.

Upon certification by the Issuer, the Trustee and the Security Trustee shall take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement, to effectuate any release in accordance with these provisions, subject to customary protections and indemnifications. The Security Agent and the Trustee (as applicable) will take all necessary action required to effectuate any release of the Notes Collateral, in accordance with the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document. Each of the releases set forth above shall be effected by the Security Agent without the consent of the Holders or any action on the part of the Trustee.

The Issuer Proceeds Loans

On the Completion Date:

(1) the Issuer will purchase a note from the Company, pursuant to an Issuer Proceeds Loan in aggregate principal amount of approximately NIS 879.2 million ($224.2 million equivalent), to enable the Company to repay all Indebtedness outstanding under the Cool Credit Facility and any premiums, or other payments (including break-costs) payable in connection therewith, to repay the Cool Interest Loan, and any remaining proceeds will be used by the Company as described under ''Use of Proceeds'' (the ''Cool Proceeds Note'');

(2) the Issuer will purchase a note from SPV-1, pursuant to an Issuer Proceeds Loan, in aggregate principal amount of approximately NIS 947.2 million ($241.5 million equivalent), to enable SPV-1 to acquire all of the remaining Capital Stock of HOT not owned by the Company and its affiliates (the ''Acquisition Proceeds Note'');

(3) the Issuer will purchase a note from HOT, pursuant to an Issuer Proceeds Loan, in aggregate principal amount of approximately NIS 1.9 billion ($484.6 million equivalent), to enable HOT to repay all amounts outstanding, and accrued and unpaid interest thereon, under the HOT Credit Facility (the ''HOT Proceeds Term Note''); and

(4) the Issuer will make a revolving note facility available to HOT in aggregate principal amount of NIS 320 million with each borrowing thereunder to be made pursuant to an Issuer Proceeds Loan to be used to finance the activities of HOT and its subsidiaries, including working capital, or for any purpose associated with HOT, its subsidiaries and their businesses (the ''HOT Proceeds RCF Note'').

The actual amounts of the Cool Proceeds Note and the HOT Proceeds Term Note may differ from the amounts set forth above as the amount outstanding under the Cool Credit Facility and the HOT Credit Facility on the Completion Date may differ from the amounts estimated above, which assume the Transactions close on December 27, 2012.

Each Issuer Proceeds Loan will be assigned as Notes Collateral to secure the Obligations of the Issuer and the Guarantors under the Notes and the Note Guarantees.

The HOT Proceeds Note will be comprised of (in separate loan agreements) (i) the HOT Proceeds Term Note and (ii) the HOT Proceeds RCF Note. The granting of Liens over the License Assets of HOT and certain of the HOT Proceeds Note Guarantors and the appointment of the Security Agent in respect of such License Assets and the direct and indirect secured parties, is subject to the prior approval of the Israeli Ministry of Communications. A substantial portion of the assets of HOT and the HOT Proceeds Note Guarantors consist of License Assets. Although we have applied for the MOC Security Approval, there is no certainty it will be granted. As a result, (i) prior to the date on which the MOC Security Approval is granted, the HOT Proceeds Note and the HOT Proceeds Note Guarantees will only be secured by Liens over the non-License Assets of HOT and of the HOT Proceeds Note Guarantors and (ii) if the MOC Security Approval is granted, the HOT Proceeds Note and the HOT Proceeds Note Guarantees will be secured by Liens over substantially all of HOT's and the HOT Proceeds Note Guarantor's assets, in each case, other than their licenses and certain end-user equipment that we are not permitted to pledge.

Upon an event of default under the Notes, HOT and its subsidiaries shall not be liable in any way, including by way of cross default, and shall not be required to repay any amounts outstanding, any repayment premiums or accrued and unpaid interest thereon, under the Notes. Further, the HOT Proceeds Note Guarantors will only guarantee HOT's obligations under the HOT Proceeds Note. The HOT Proceeds Note Guarantees will be limited to an aggregate amount equal to the outstanding HOT Proceeds Note, which may vary from time to time in accordance with the terms of the HOT Proceeds Note. Holders of the Notes will only be able to seek remedies against HOT and the HOT Proceeds Note Guarantors in the event of an event of default under the HOT Proceeds Note, in each case, indirectly as a result of the assignment of the HOT Proceeds Note and/or the ability of the holders of the Notes to direct the actions of the Issuer in connection with the HOT Proceeds Note in accordance with the terms of the Intercreditor Agreement, to the extent permitted thereby.

The HOT Proceeds Term Note will bear interest at a rate of 6.3% per annum, which will be less than the rate at which the Notes will accrue interest. The other Issuer Proceeds Loans will bear interest at a rate greater than the rate at which the Notes will accrue interest to enable the aggregate interest payments received by the Issuer under the Issuer Proceeds Loans to equal the interest payments due under the Notes. In addition, the Guarantors may be required to pay additional amounts to the Issuer (including by way of lending money to the Issuer or making payments under their Note Guarantees) to enable the Issuer to make payments under the Notes and the Indenture.

As a result of the pledge of the HOT Proceeds Note on the Completion Date, the Notes will indirectly benefit from the HOT Proceeds Note and the HOT Proceeds Note Guarantees of the HOT Proceeds Note

Guarantors. The HOT Proceeds Note and the HOT Proceeds Note Guarantees will be secured by HOT Proceeds Note Collateral and will be:

(1) senior to the Existing HOT Unsecured Notes to the extent of the lesser of (x) the value of the assets of HOT and the HOT Proceeds Note Guarantors securing the HOT Proceeds Note and the HOT Proceeds Note Guarantees and (y) the amount owing under the HOT Proceeds Note; and

(2) pari passu with the Existing HOT Unsecured Notes to the extent the amount of the HOT Proceeds Note exceeds the value of the assets of HOT and the HOT Proceeds Note Guarantors securing the HOT Proceeds Note.

The Hot Proceeds Loan will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of HOT's non-guarantor Subsidiaries (including the bank guarantee in the amount of NIS 695 million provided by HOT Mobile to the State of Israel that is secured by a pledge of all of the assets of HOT Mobile). Any right of the Issuer to receive assets of any of HOT's non-guarantor Subsidiaries upon that non-guarantor Subsidiary's liquidation or reorganisation (and the consequent indirect right of the holders of the Notes to participate in those assets) will be effectively subordinated to the claims of that non-guarantor Subsidiary's creditors, except to the extent that the Issuer is itself recognised as a creditor of the non-guarantor Subsidiary, in which case the claims of the Issuer would still be subordinate in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Issuer.

Only the security agent under the HOT Proceeds Note will be able to enforce the security interests in the HOT Proceeds Note Collateral at a time that an event of default under the HOT Proceeds Note is continuing. As a result, upon the occurrence of an Event of Default, the Trustee and the Holders of the Notes will not have the right to enforce such security interests in the HOT Proceeds Note Collateral and, subject to the Intercreditor Agreement, will only have the right to enforce the first-ranking pledge over the HOT Proceeds Note. The Holders of the Notes must then rely on the ability of the Issuer to enforce its rights under the HOT Proceeds Note upon an event of default thereunder in order to access the HOT Proceeds Note Collateral. An Event of Default will not trigger an event of default under the HOT Proceeds Note.

The HOT Proceeds Note Guarantees

General

As of the Completion Date, the HOT Proceeds Note will be guaranteed by the HOT Proceeds Note Guarantors on a senior basis for the full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise of, all payment obligations of the HOT under the HOT Proceeds Note, whether for payment of principal of or interest on or in respect of the HOT Proceeds Note, fees, expenses, indemnification or otherwise.

The obligations of each HOT Proceeds Note Guarantor under its HOT Proceeds Note Guarantee will be contractually limited under the applicable guarantees to reflect limitations under applicable law with respect to maintenance of share capital applicable to such HOT Proceeds Note Guarantor and its shareholders, directors and general partners. See ''*Limitation on Validity and Enforceability of the Guarantees and the Security Interests*''.

Additional HOT Proceeds Note Guarantees

HOT may from time to time designate a Restricted Subsidiary of HOT as an additional guarantor of the HOT Proceeds Note, and each such additional HOT Proceeds Note Guarantor will, jointly and severally, with the other HOT Proceeds Note Guarantors, irrevocably guarantee on a senior basis the full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all payment obligations of HOT under the HOT Proceeds Note, whether for payment of principal of or interest on or in respect of the HOT Proceeds Note, fees, expenses, indemnification or otherwise. The obligations of any such additional HOT Proceeds Note Guarantor will be contractually limited under its guarantee to reflect limitations under applicable law, including, among other things, with respect to maintenance of share capital applicable to such additional HOT Proceeds Note Guarantor and its shareholders, directors and general partner.

Releases of the HOT Proceeds Note Guarantees

The HOT Proceeds Note Guarantee of a HOT Proceeds Note Guarantor may be released:

- upon a sale or other disposition (including by way of consolidation, merger, amalgamation or combination) of the Capital Stock of the relevant HOT Proceeds Note Guarantor (whether by direct sale or sale of a holding company of such HOT Proceeds Note Guarantor) or the sale or disposition of all or substantially all the assets of the HOT Proceeds Note Guarantor (other than to the Issuer, a Covenant Party or a Restricted Subsidiary), in each case if the sale or other disposition does not violate the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'';
- upon the designation in accordance with the Indenture of that HOT Proceeds Note Guarantor as an Unrestricted Subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''*—Defeasance*'' and ''*—Satisfaction and Discharge*'';
- as described under ''*—Amendments and Waivers*'';
- as described under ''*—Certain Covenants—Additional Guarantees*'';
- as described under ''*—HOT Direct Obligation Event*''
- with respect to any HOT Proceeds Note Guarantor that is not the continuing or surviving Person in the relevant consolidation or merger, as a result of a transaction that complies with the provisions described under ''*—Merger and Consolidation—The Subsidiary Guarantors*''; or
- upon the full and final payment and performance of all obligations of HOT under the HOT Proceeds Note.

HOT Proceeds Note Security

General

The granting of Liens over the License Assets of HOT and certain of the HOT Proceeds Note Guarantors and the appointment of the Security Agent in respect of such License Assets and the direct and indirect secured parties, is subject to the prior approval of the Israeli Ministry of Communications. A substantial portion of the assets of HOT and the HOT Proceeds Note Guarantors consist of License Assets. Although we have applied for the MOC Security Approval, there is no certainty it will be granted. As a result (i) prior to the date on which the MOC Security Approval is granted, the HOT Proceeds Note and the HOT Proceeds Note Guarantees will only be secured by Liens over HOT's and the HOT Proceeds Note Guarantors' non-License Assets but excluding (a) the licenses issued by the Israeli Ministry of Communications, which are not assignable as a matter of law, and (b) certain end-user equipment (the ''Excluded Assets'') and (ii) if the MOC Security Approval is granted, the HOT Proceeds Note and the HOT Proceeds Note Guarantees will be secured by Liens over substantially all of HOT's and the HOT Proceeds Note Guarantor's assets but excluding the Excluded Assets. In addition, on the Completion Date, the HOT Proceeds Note and the HOT Proceeds Note Guarantees will be secured by first ranking security interests on a first priority basis over all of the Capital Stock of each HOT Proceeds Note Guarantor. The foregoing property and assets subject to such security interests are referred to herein as the ''HOT Proceeds Note Collateral''. Any other additional security interests that may in the future be granted to secure the HOT Proceeds Note and the HOT Proceeds Note Guarantees would also constitute HOT Proceeds Note Collateral.

Subject to certain conditions, including compliance with the covenants described under ''*—Certain Covenants—Limitation on Liens*'' and ''*—Certain Covenants—Impairment of Security Interests*'', HOT and its Restricted Subsidiaries are permitted to incur certain additional Indebtedness in the future that may be secured on the HOT Proceeds Note Collateral.

The proceeds from the sale of the HOT Proceeds Note Collateral remaining after sharing with other creditors entitled to share in such proceeds may not be sufficient to satisfy the obligations owed to the Issuer as a lender under the HOT Proceeds Note. No appraisals of the HOT Proceeds Note Notes Collateral have been made in connection with this offering of Notes. By its nature, some or all of the HOT Proceeds Note Collateral will be illiquid and may have no readily ascertainable market value. In addition, certain Liens over the HOT Proceeds Note Collateral may not be enforced without the prior consent of

the Israeli Ministry of Communications. Accordingly, the HOT Proceeds Note Collateral may not be able to be sold in a short period of time, or at all. In addition, the Intercreditor Agreement places limitations on the ability of the Security Agent to release the security interests in some of the HOT Proceeds Note Collateral, by reference to the interests of other creditors. These limitations may include requirements that some or all of the HOT Proceeds Note Collateral be disposed of only pursuant to public auctions or only at a price confirmed by a valuation. See ''*Description of Other Indebtedness—The Intercreditor Agreement*'' and ''*Risk Factors—Risks Relating to the Notes and the Structure—The value of the Collateral may not be sufficient to satisfy our obligations under the Notes and such Collateral may be reduced or diluted under certain circumstances, which may be time consuming and cumbersome*''.

Security Documents

Under the HOT Security Documents to be entered into on the Completion Date or thereafter upon receipt of the HOT Security Approval from the Israeli Ministry of Communications (if received), HOT and the HOT Proceeds Note Guarantors will grant security over the HOT Proceeds Note Collateral to secure the payment when due of HOT's and the HOT Proceeds Note Guarantors' payment obligations under the HOT Proceeds Note and the HOT Proceeds Note Guarantees. The HOT Security Documents will be entered into by the relevant security provider and the Security Agent as agent for the secured parties referred to therein.

The Indenture provides and the HOT Proceeds Note will provide that, subject to the terms thereof and of the HOT Security Documents and the Intercreditor Agreement, the HOT Proceeds Note and the HOT Proceeds Note Guarantees, as applicable, will be secured by the security interest in the HOT Proceeds Note Collateral that is created by the HOT Security Documents and secures obligations under the HOT Proceeds Note or the HOT Proceeds Note Guarantees (the ''HOT Proceeds Note Security Interest''). Such HOT Proceeds Note Security Interests in the HOT Proceeds Note Collateral may also secure certain other Indebtedness permitted by the Indenture and the HOT Proceeds Note to be Incurred in the future and secured by the HOT Proceeds Note Collateral. However, the HOT Proceeds Note Security Interests may be released under certain circumstances as provided under ''*—Release of HOT Proceeds Note Collateral*'' below. See ''*Risk Factors—Risks Relating to the Notes and the Structure—There are circumstances other than repayment or discharge of the Notes under which the Collateral and the Guarantees will be released automatically, without your consent or the consent of the Trustee*''.

Release of HOT Proceeds Note Collateral

HOT and the HOT Proceeds Note Guarantors will be entitled to release the HOT Proceeds Note Security Interests in respect of the HOT Proceeds Note Collateral under any one or more of the following circumstances:

(1) in connection with any sale or other disposition of the HOT Proceeds Note Collateral to a Person that is not HOT or a Restricted Subsidiary of HOT or, to the extent after such sale or other disposition such assets are pledged to secure the obligations under the Notes, the Note Guarantees and the Indenture, the Issuer, any Covenant Party or any Restricted Subsidiary of a Covenant Party (but excluding any transaction subject to ''*—Certain Covenants—Merger and Consolidation*''), if such sale or other disposition does not violate the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'', but only in respect of the HOT Proceeds Note Collateral sold or otherwise disposed of;

(2) in connection with the release of a HOT Proceeds Note Guarantor from its HOT Proceeds Note Guarantee pursuant to the terms of the HOT Proceeds Note, the release of the property and assets, and Capital Stock, of such HOT Proceeds Note Guarantor;

(3) if the Issuer designates any Restricted Subsidiary of HOT to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property, assets and Capital Stock of such Unrestricted Subsidiary;

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''*—Defeasance*'' and ''*—Satisfaction and Discharge*'';

(5) as described under ''*—Amendments and Waivers*'', ''*—Certain Covenants—Impairment of Security Interests*'' and the second paragraph under ''*—Certain Covenants—Limitation on Liens*'';

(6) upon the full and final payment and performance of all obligations of HOT under the HOT Proceeds Note;

(7) to release and re-take any Lien on any HOT Proceeds Note Collateral to the extent not otherwise prohibited by the terms of the HOT Proceeds Note and the HOT Security Documents; or

(8) in connection with a transaction permitted by the covenant described below under the caption ''—*Certain Covenants—Merger and Consolidation*''.

In addition, all of the HOT Proceeds Note Collateral may be release in connection with the HOT Direct Obligation Event, described below under ''—*HOT Direct Obligation Event*''.

HOT Direct Obligation Event

The Issuer and the Company may at any time elect to cause HOT and the HOT Proceeds Note Guarantors to become direct Guarantors of the Notes by causing each of them to execute and deliver a supplemental indenture in the form attached to the Indenture pursuant to which HOT and each HOT Proceeds Note Guarantor will provide a Note Guarantee on a senior basis in an amount equal to or greater than the HOT Proceeds Note and the Guarantees thereof as of the date of such HOT Direct Obligation Event. Concurrently with the granting of such Note Guarantee, HOT and each HOT Proceeds Note Guarantor will grant an equivalent Lien over all of its assets that constitute HOT Proceeds Note Collateral on such date. In connection therewith, the HOT Proceeds Note Guarantees and the HOT Proceeds Note Collateral will be released, *provided* that no Default or Event of Default is outstanding or would result from any of the foregoing (collectively, the ''HOT Direct Obligation Event'').

Intercreditor Agreement

To establish the relative rights of certain creditors of the Group under its financing arrangements, including, without limitation, the Notes, the Revolving Credit Facility, the Senior Notes and certain Hedging Obligations, the Issuer, the Company, the agent under the Revolving Credit Facility, certain hedging counterparties and the Security Agent entered into the Intercreditor Agreement. Please see ''*Description of Other Indebtedness—Intercreditor Agreement*''. Upon release of the proceeds of the Notes from escrow, the Trustee and the trustee under the Senior Notes will become party to the Intercreditor Agreement. Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Credit Facility and certain Hedging Obligations that are permitted to be secured on the Notes Collateral (see ''*Certain Definitions—Permitted Collateral Liens*'') will receive priority over amounts received from the sale of the Notes Collateral pursuant to an enforcement sale or other distressed disposal of such Notes Collateral pursuant to the Intercreditor Agreement. Any proceeds received upon any enforcement over any Notes Collateral, after all obligations under the Revolving Credit Facility have been repaid and such Hedging Obligations have been discharged from such recoveries, will be applied pro rata in repayment of all obligations under the Indenture and the Notes and any other Indebtedness of the Issuer and the Guarantors permitted to be incurred and secured by the Note Collateral on a senior basis pursuant to the Indenture and the Intercreditor Agreement.

Subject to the Security Interest becoming enforceable, the Holders of the Notes (together with any other holders of senior secured indebtedness of Issuer and the Guarantors that is not Super Priority Indebtedness) and the holders of Super Priority Indebtedness, in each case acting through their respective agent or trustee, are entitled to instruct the Security Agent on enforcement of the Notes Collateral. In the event either group of creditors issues conflicting enforcement instructions, subject to certain exceptions, a 30-day consultation period is required. In the event both creditor groups do not agree on the manner of enforcement after the consultation period, the Intercreditor Agreement provides that the Security Agent will act on the instructions of an ''instructing group'' consisting of a majority of the aggregate principal amount of the Notes and all other senior secured indebtedness (except Super Priority Indebtedness) of the Issuer and the Guarantors then outstanding. If all Super Priority Indebtedness is not repaid within six months after date on which either creditor group issues proposed enforcement instructions or the Security Agent has not commenced any enforcement action within three months of such date, thereafter instructions of the majority holders of Super Priority Indebtedness will prevail. See ''*Description of Other Indebtedness—The Intercreditor Agreement*''.

The Indenture also provides that each holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor

Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein).

Additional Intercreditor Agreements; Agreement to Be Bound

Similar provisions to those described above may be included in any Additional Intercreditor Agreement (as defined below) entered into in compliance with the covenant described under ''—*Certain Covenants—Additional Intercreditor Agreements*''.

The Indenture provides that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement and to have authorized the Trustee to enter into any such Intercreditor Agreement or any such Additional Intercreditor Agreement.

Restricted Subsidiaries, Unrestricted Subsidiaries and Additional Covenant Parties

Immediately after the Completion Date, all of the Company's Subsidiaries will be Restricted Subsidiaries. However, in the circumstances described below under ''—*Certain Definitions—Unrestricted Subsidiary*'', the Issuer will be permitted to designate Restricted Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. In addition, in the circumstances described below under ''—*Certain Covenants—Additional Covenant Parties*'', the Issuer will be able to designate a Person under direct or indirect common control with the Company as a Covenant Party. Covenant Parties and their Restricted Subsidiaries will be subject to the restrictive covenants in the Indenture.

Escrow of Proceeds; Special Mandatory Redemption

Concurrently with the closing of the offering of the Notes on the Issue Date, the Issuer entered into the Escrow Agreement with the Trustee and the Escrow Agent, pursuant to which the initial purchasers deposited with the Escrow Agent an amount equal to the gross proceeds of this offering of the Notes into the Escrow Account. The initial funds deposited in the Escrow Account, and all other funds, securities, interest, dividends, distributions and other property and payments credited to the Escrow Account (less any property and/or funds paid in accordance with the Escrow Agreement) are referred to, collectively, as the ''Escrowed Property.'' The Escrowed Property are controlled by, and pledged on a first ranking basis in favor of, the Trustee on behalf of the Holders of the Notes. A portion of the Escrowed Property may be released from the Escrow Account prior to the Completion Date to certain counterparties pursuant to Currency Agreements with respect to the Notes in order to convert such Escrowed Property into NIS, and such converted Escrowed Property will be deposited into an escrow account subject to the Escrow Agreement with Citibank, N.A., Tel Aviv Branch, or another similarly reputable escrow agent, after such conversion.

In order to cause the Escrow Agent to release the Escrowed Property to the Issuer (the ''Release''), the Escrow Agent and the Trustee shall have received from the Issuer, on or before the Escrow Longstop Date, an officer's certificate, in the form attached to the Escrow Agreement, to the effect that:

(1) (i) the Take-Private Transaction will be consummated, promptly upon release of the Escrowed Property, on substantially the same terms as described in this Offering Memorandum under the heading ''The Transactions'' and in accordance with the terms of the Minority Shareholder Purchase Agreement and the Merger Agreement; (ii) each of the Cool Credit Facility and the HOT Credit Facility will be repaid in full and cancelled promptly upon release of the Escrowed Property; and (iii) no provision of the Minority Shareholder Purchase Agreement or the Merger Agreement has been amended or waived in a manner or to an extent that would be materially prejudicial to the interests of Holders of the Notes, other than any amendment or waiver made with the consent of Holders of a majority of the outstanding Notes;

(2) immediately after consummation of the Take-Private Transaction, the Company will own, directly or indirectly, all of the Capital Stock of HOT (subject to the right of the Minority Shareholders to acquire shares of Capital Stock upon exercise of the Minority Shareholder Call Options);

(3) those documents, legal opinions and certificates attached as exhibits to the Escrow Agreement that are required to be delivered on the relevant date of Release have been delivered, or will be delivered promptly after such release, in accordance with the terms of the Escrow Agreement;

(4) the proceeds of the Senior Notes issued on the Issue Date will be concurrently released from the escrow account related to such Senior Notes; and

(5) as of the Completion Date, there are no events of bankruptcy, insolvency or court protection with respect to the Company, HOT or the Issuer.

The Release will occur promptly upon the satisfaction of the conditions set forth above. Upon the Release, the Escrowed Property will be paid out in accordance with the Escrow Agreement and the Escrow Account will be reduced to zero.

In the event that (a) the Completion Date does not take place on or prior to the Escrow Longstop Date, (b) at any time prior to the Escrow Longstop Date, the Permitted Holders cease to beneficially own and control a majority of the issued and outstanding Capital Stock of the Company and 100% of the issued and outstanding Capital Stock of the Issuer; (c) in the reasonable judgment of the Issuer, the Transactions will not be consummated on or prior to the Escrow Longstop Date, (d) any of the Minority Shareholder Purchase Agreement or the Merger Agreement terminates at any time on or prior to the Escrow Longstop Date or (e) there is there an event of bankruptcy, insolvency or court protection with respect to the Company, HOT or the Issuer on or prior to the Escrow Longstop Date (the date of any such event being the ''Special Termination Date''), the Issuer will redeem all of the Notes (the ''Special Mandatory Redemption'') at a price (the ''Special Mandatory Redemption Price'') equal to 100% of the initial issue price of each Note, plus accrued but unpaid interest and Additional Amounts, if any, from the Issue Date to the Special Mandatory Redemption Date (as defined below and subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Notice of the Special Mandatory Redemption will be delivered by the Issuer, no later than one Business Day following the Special Termination Date, to the Trustee and the Escrow Agent, and will provide that the Notes shall be redeemed on a date that is no later than the fifth Business Day after such notice is given by the Issuer in accordance with the terms of the Escrow Agreement (the ''Special Mandatory Redemption Date''). On or before the Special Mandatory Redemption Date, the Escrow Agent shall pay to the Principal Paying Agent for payment to each Holder the Special Mandatory Redemption Price for such Holder's Notes and, concurrently with the payment to such Holders, deliver any excess Escrowed Property (if any) to the Issuer.

On the Issue Date, Altice Altice VII S.à r.l entered into a guarantee agreement pursuant to which it guarantees the Issuer's obligations under the Senior Secured Notes in the event the Special Mandatory Redemption Price payable upon such Special Mandatory Redemption exceeds the amount of the Escrowed Property. Altice VII S.à r.l has arranged committed financing in respect of the interest that will accrue on the Notes to the Special Mandatory Redemption Date assuming the Transactions are not consummated prior to the Long-Stop Date and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it.

To secure the payment of the Special Mandatory Redemption Price, the Issuer grants to the Trustee for the benefit of the Holders of the Notes a security interest in the Escrow Account.

If at the time of such Special Mandatory Redemption, the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will notify the Luxembourg Stock Exchange that the Special Mandatory Redemption has occurred and any relevant details relating to such special mandatory redemption.

Optional Redemption

Except as described below and except as described under ''*Redemption for Changes in Withholding Taxes*'' and ''*Escrow of Proceeds; Special Mandatory Redemption*'', the Notes are not redeemable until December 15, 2015. On and after December 15, 2015 the Issuer may redeem all or, from time to time, part of the Dollar Notes and/or the Euro Notes upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and Additional Amounts (as defined below), if any, to, but not including, the applicable redemption date (subject to the right of the Holders of record on the relevant record date to receive

interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

Year	Redemption Price Dollar Notes	Redemption Price Euro Notes
2015	103.938%	104.000%
2016	101.969%	102.000%
2017 and thereafter	100.000%	100.000%

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or the portion thereof called for redemption on the applicable redemption date. Any such redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

Prior to December 15, 2015, the Issuer may on any one or more occasions redeem up to 40% of the original principal amount of the Dollar Notes and up to 40% of the original amount of the Euro Notes (including, in each case, the principal amount of any Additional Notes denominated in such currencies), upon not less than 30 nor more than 60 days' notice, with funds in an aggregate amount (the ''Redemption Amount'') not exceeding the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 107.875% of the principal amount of the Dollar Notes and 108.000% of the principal amount of the Euro Notes, plus, in each case, accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided* that:

(1) at least 60% of the original principal amount of each of the Dollar Notes (including the principal amount of any Additional Notes denominated in U.S dollars) and the Euro Notes (including the principal amount of any Additional Notes denominated in Euro) remains outstanding after each such redemption; and

(2) the redemption occurs within 180 days after the closing of such Equity Offering.

Any redemption notice given in respect of the redemption referred to in the preceding paragraph may be given prior to completion of the related Equity Offering, and any such redemption or notice may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent, including the completion of the related Equity Offering.

In addition, prior to December 15, 2015, the Issuer may redeem all or, from time to time, a part of the Dollar Notes and/or the Euro Notes upon not less than 30 nor more than 60 days' notice at a redemption price equal to 100% of the principal amount thereof plus the Applicable Premium and accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). Any such redemption and notice may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

If the Issuer effects an optional redemption of Notes, it will, for so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, inform the Luxembourg Stock Exchange of such optional redemption and confirm the aggregate principal amount of the Notes that will remain outstanding immediately after such redemption.

Sinking Fund

Except as described under ''Escrow of Proceeds; Special Mandatory Redemption'', the Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee or the Registrar will select Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, or if the Notes are not so listed or such exchange prescribes no method of selection, based on a method that most nearly approximates a *pro rata* selection as the Trustee deems fair and appropriate or by lot or such other similar method in accordance with the procedures of DTC; *provided*, *however*, that no Dollar Note of $200,000 in aggregate principal amount or less shall be redeemed in part

and only Dollar Notes in integral multiples of $1,000 will be redeemed and no Euro Note of €100,000 in aggregate principal amount or less shall be redeemed in part and only Euro Notes in integral multiples of €1,000 will be redeemed. Neither the Trustee nor the Registrar will be liable for any selections made by it in accordance with this paragraph.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange, not less than 30 nor more than 60 days prior to the redemption date, the Issuer will mail notice of redemption to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar. Such notice of redemption may also be posted on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules of the Luxembourg Stock Exchange.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. In the case of a Definitive Registered Note, a new Definitive Registered Note in principal amount equal to the unredeemed portion of any Definitive Registered Note redeemed in part will be issued in the name of the Holder thereof upon cancellation of the original Definitive Registered Note. In the case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice, Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

Redemption for Changes in Withholding Taxes

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in ''—Selection and Notice''), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a ''Tax Redemption Date'') and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer or any Guarantor is or would be required to pay Additional Amounts, and (a) the Issuer or the relevant Guarantor cannot avoid such requirement by taking reasonable measures available to it (including the designation of a different Paying Agent), (b) in the case of a Guarantor, such amounts cannot be paid by the Issuer or any other Guarantor who in turn can pay such amounts without the obligation to pay Additional Amounts and (c) the requirement arises as a result of:

(1) any amendment to, or change in, the laws (or any regulations or rulings promulgated thereunder) of a relevant Tax Jurisdiction (as defined in ''—Withholding Taxes'' below) which change or amendment is announced and becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date); or

(2) any amendment to, or change in, an official written interpretation or application of such laws, regulations or rulings (including by virtue of a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice) which amendment or change is announced and becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date).

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer or the relevant Guarantor would be obligated to make such payment or withholding if a payment in respect of the Notes was then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld)) to the effect that there has been such amendment or change which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officer's Certificate to the effect that (a) it or the relevant Guarantor cannot avoid its obligation to pay Additional Amounts by the Issuer or the relevant Guarantor taking reasonable measures available

to it and (b) in the case of a Guarantor, the amounts giving rise to such obligation cannot be paid by the Issuer or any other Guarantor without the obligation to pay Additional Amounts.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders of the Notes.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such directive will not be a change or amendment for such purposes.

The foregoing will apply *mutatis mutandis* to any jurisdiction in which any successor Person to the Issuer is incorporated or organized, engaged in business or resident for tax purposes or any jurisdiction from or through which payment is made by or on behalf of such Person on the Notes and any political subdivision thereof or therein.

Withholding Taxes

All payments made under or with respect to the Notes or any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future tax, duty, levy, assessment or other governmental charge, including any related interest, penalties or additions to tax (''Taxes'') unless the withholding or deduction of such Taxes is then required by law or by the official interpretation or administration thereof. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Issuer or any Guarantor is then incorporated or organized, engaged in business for tax purposes or resident for tax purposes or any political subdivision or governmental authority thereof or therein having power to tax or (2) any jurisdiction from or through which payment is made by or on behalf of the Issuer or any Guarantor (including, without limitation, the jurisdiction of any paying agent for the Notes) or any political subdivision thereof or therein (each, a ''Tax Jurisdiction'') will at any time be required to be made from any payments made under or with respect to the Notes or any Note Guarantee, including, without limitation, payments of principal, redemption price, interest or premium, the Issuer or the relevant Guarantor, as applicable, will pay such additional amounts (the ''Additional Amounts'') as may be necessary in order that the net amounts received in respect of such payments by each holder of the Notes after such withholding or deduction (including any such withholding or deduction from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any actual or deemed present or former connection between the holder (or between a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over the relevant holder, if the relevant holder is an estate, nominee, trust, partnership, limited liability company or corporation) or the beneficial owner of the Notes and the relevant Tax Jurisdiction (including being a resident of such jurisdiction for Tax purposes), other than connections arising from the holding of such Note or any Note Guarantee, the enforcement of rights under such Note or under a Note Guarantee or the receipt of any payments in respect of such Note or a Note Guarantee;

(2) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment (where Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(3) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(4) any Taxes withheld, deducted or imposed on a payment to an individual that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to, such directive;

(5) Taxes imposed on or with respect to a payment made to a holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;

(6) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(7) any Taxes to the extent such Taxes are imposed or withheld by reason of the failure of the holder or beneficial owner of Notes to comply with any reasonable written request of the Issuer addressed to the holder or beneficial owner and made at least 60 days before any such withholding or deduction would be payable to satisfy any certification, identification, information or other reporting requirements, whether required by statute, treaty, regulation or administrative practice of the relevant Tax Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by such Tax Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the holder or beneficial owner is legally eligible to provide such certification or documentation;

(8) all United States federal backup withholding taxes;

(9) any U.S. federal withholding Taxes imposed pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986 (as amended), as of the date of the indenture (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof; or

(10) any combination of items (1) through (9) above.

Such Additional Amounts will also not be payable where, had the beneficial owner of the Note been the holder of the Note, it would not have been entitled to payment of Additional Amounts by reason of any of clauses (1) to (10) inclusive above.

In addition to the foregoing, the Issuer and the Guarantors, as the case may be, will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary Taxes, or any other excise or property Taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto) which are levied by any Tax Jurisdiction on the execution, delivery, issuance, or registration of any of the Notes, the Indenture, any Note Guarantee or any other document or instrument referred to therein, or the receipt of any payments with respect thereto, or the enforcement of, any of the Notes or any Note Guarantee (limited, solely in the case of taxes attributable to the receipt of any payments with respect thereto, to any such taxes imposed in a Tax Jurisdiction that are not excluded under clauses (1) through (5) or (7) through (9) above).

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, each of the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 30 days prior to that payment date, in which case the Issuer or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information reasonably necessary to enable the Paying Agents to pay such Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the relevant Guarantor will furnish to the Trustee (or to a holder or beneficial owner upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity. Upon reasonable request, copies of Tax receipts or other evidence of payments, as the case may be, will be made available by the Trustee to the holders or beneficial owners of the Notes.

Whenever in the Indenture or in this ''Description of Senior Secured Notes'' there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under, or with respect to, any of the Notes or any Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture, and any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer or any Guarantor is incorporated or organized, engaged in business for tax purposes or resident for tax purposes (and any political subdivision or governmental authority thereof or therein having power to tax) and any jurisdiction from or through which payment is made by or on behalf of such Person on the Notes or any Note Guarantee and any political subdivision thereof or therein.

Change of Control

If a Change of Control occurs, subject to the terms of the covenant described under this heading ''Change of Control'', each Holder will have the right to require the Issuer to repurchase all or any part (equal to $200,000 or an integral multiple of $1,000 in excess thereof, in the case of Dollar Notes, and €100,000 principal amount and integral multiples of €1,000 in excess thereof, in the case of Euro Notes) of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided*, *however*, that the Issuer shall not be obliged to repurchase Notes as described under this heading, ''Change of Control'', in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes as described under ''*—Optional Redemption*'' or all conditions to such redemption have been satisfied or waived. No such purchase in part shall reduce the principal amount at maturity of the Dollar Notes held by any holder to below $200,000 or the Euro Notes held by any holder to below €100,000.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes as described under ''*—Optional Redemption*'' or all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Issuer will send a notice (the ''Change of Control Offer'') to each Holder of any such Notes by mail or otherwise in accordance with the procedures set forth in the Indenture, with a copy to the Trustee:

(1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Issuer to purchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the ''Change of Control Payment'');

(2) stating the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) and the record date (the ''Change of Control Payment Date'');

(3) stating that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest after the Change of Control Payment Date unless the Change of Control Payment is not paid, and that any Notes or part thereof not tendered will continue to accrue interest;

(4) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;

(5) describing the procedures determined by the Issuer, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased;

(6) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control; and

(7) certain other procedures that a holder of Notes must follow to accept a Change of Control Offer or to withdraw such acceptance.

The Issuer shall cause to be published the notice described above in a leading newspaper having a general circulation in London (which is expected to be the *Financial Times*) or through the newswire

service of Bloomberg (or if Bloomberg does not then operate, any similar agency). In addition, if and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer in a leading newspaper of general circulation in Luxembourg or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange. The ability of the Issuer to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. See ''*Risk Factors—Risks Relating to the Notes and the Structure—We may not be able to obtain enough funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control (as defined in the Indentures) as required by the Indentures*''.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portion thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes so tendered;

(3) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions of the Notes being purchased by the Issuer in the Change of Control Offer;

(4) in the case of Global Notes, deliver, or cause to be delivered, to the principal Paying Agent the Global Notes in order to reflect thereon the portion of such Notes or portions thereof that have been tendered to and purchased by the Issuer; and

(5) in the case of Definitive Registered Notes, deliver, or cause to be delivered, to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Issuer.

If any Definitive Registered Notes have been issued, the Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee will promptly instruct its authenticating agent to authenticate and mail (or cause to be transferred by book-entry) to each Holder of Definitive Registered Notes a new Definitive Registered Note equal in principal amount to the unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount that is at least $200,000 and integral multiples of $1,000 in excess thereof, in the case of Dollar Notes, and €100,000 principal amount and integral multiples of €1,000 in excess thereof, in the case of Euro Notes.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will publish a notice with respect to the results of the Change of Control Offer as soon as reasonably practicable after the Change of Control Payment Date on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire the Issuer, the Covenant Parties or their Subsidiaries in a transaction that would constitute a Change of Control.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

The provisions of the Indenture will not afford holders of the Notes the right to require the Issuer to repurchase the Notes in the event of a highly leveraged transaction, certain transactions with the Company's management or its Affiliates or certain other sale transactions, including a reorganization,

restructuring, merger or similar transaction (including, in certain circumstances, an acquisition of the Company by management or its Affiliates) involving the Issuer that may adversely affect holders of the Notes, if such transaction is not a transaction defined as a Change of Control.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of the conflict.

The Issuer's ability to repurchase Notes issued by it pursuant to a Change of Control Offer may be limited by a number of factors. Future Indebtedness of the Issuer, the Covenant Parties or the Restricted Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Notes could cause a default under, or require a repurchase of, such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay cash to the Holders upon a repurchase may be limited by the Issuer's, the Covenant Parties' and the Restricted Subsidiaries' then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. See ''*Risk Factors—Risks Relating to the Notes and the Structure—We may not be able to obtain enough funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control (as defined in the Indentures) as required by the Indentures*''.

The definition of ''Change of Control'' includes a direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the property and assets of the Covenant Parties and their Restricted Subsidiaries taken as a whole to a Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)), other than a Permitted Holder. Although there is a limited body of case law interpreting the phrase ''substantially all'', there is no precise established definition of the phrase ''substantially all'' under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of ''all or substantially all'' of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of holders of a majority in outstanding principal amount of the Notes.

Offer to Repurchase with Minority Shareholder Option Proceeds

Pursuant to the Minority Shareholder Call Options granted under the Minority Shareholder Purchase Agreements, each Minority Shareholder is entitled to re-acquire all or a portion of the shares of HOT sold by it to the Company in connection with the Take-Private Transaction at an exercise price equal to NIS 48 per share (subject to customary anti-dilution rights and purchase price adjustments) during the two-year period commencing on the first anniversary of the Completion Date. Subject to certain limitations, each Minority Shareholder Call Option may be exercised in up to three transactions. See ''*The Transaction—Minority Shareholder Agreements*''. The transfer of shares of Capital Stock of HOT upon any exercise of a Minority Shareholder Call Option will not be deemed to be an Asset Disposition under the Indenture. However, the Issuer will be required to offer to repurchase the Notes with the Net Cash Proceeds of such exercise as described below.

Any Net Cash Proceeds received by the Issuer, the Company or any Restricted Subsidiary from any Minority Shareholder Option Exercise will constitute ''Minority Shareholder Option Proceeds''. When the aggregate amount of Minority Shareholder Option Proceeds exceeds NIS 100 million (the ''Minority Shareholder Option Offer Threshold''), the Issuer will be required within ten (10) Business Days to make an offer (a ''Minority Shareholder Option Proceeds Offer'') to all holders of Notes and, to the extent the Issuer elects or the Issuer or a Guarantor is required by the terms of other outstanding Pari Passu Indebtedness, to all holders of such other outstanding Pari Passu Indebtedness to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which such Minority Shareholder Option Proceeds Offer applies that may be purchased out of the Applicable Minority

Shareholder Option Proceeds Offer Amount, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 103% of the principal amount of the Notes and 103% of the principal amount of Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof, in the case of Dollar Notes, and €100,000 principal amount and integral multiples of €1,000 in excess thereof, in the case of Euro Notes, *provided* that the Minority Shareholder Option Offer Threshold shall not apply in the event that (i) at the time of receipt of such Minority Shareholder Option Proceeds, all Minority Shareholder Call Options have been exercised in full, (ii) all unexercised Minority Shareholder Call Options have expired pursuant to the terms of the relevant Minority Shareholder Purchaser Agreements or (iii) all unexercised Minority Shareholder Call Options have been terminated.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Minority Shareholder Option Proceeds Offer is less than the Minority Shareholder Option Proceeds, the Issuer and the Covenant Parties may use any remaining Minority Shareholder Option Proceeds for general corporate purposes, to the extent not prohibited by the other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Minority Shareholder Option Proceeds Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the Minority Shareholder Option Proceeds, the Minority Shareholder Option Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the principal amount of any such Indebtedness not denominated in U.S. dollars, such Indebtedness shall be calculated by converting any such principal amounts into their Dollar Equivalent determined as of a date selected by the Issuer that is within the Asset Disposition Offer Period (as defined below).

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Issuer upon converting such portion of the Net Available Cash into such currency.

The Minority Shareholder Option Proceeds Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the ''Minority Shareholder Option Proceeds Offer Period''). No later than five (5) Business Days after the termination of the Minority Shareholder Option Proceeds Offer Period (the ''Minority Shareholder Option Proceeds Purchase Date''), the Issuer will purchase the principal amount of Notes and, to the extent it elects, Pari Passu Indebtedness required to be purchased by it pursuant to this covenant (the ''Minority Shareholder Option Offer Amount'') or, if less than the Minority Shareholder Option Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Minority Shareholder Option Proceeds Offer.

On or before the Minority Shareholder Option Proceeds Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Minority Shareholder Option Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Minority Shareholder Option Proceeds Offer, or if less than the Minority Shareholder Option Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof, in the case of Dollar Notes, and €100,000 principal amount and integral multiples of €1,000 in excess thereof, in the case of Euro Notes. The Issuer will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five (5) Business Days after termination of the Minority Shareholder Option Proceeds Offer Period) mail or deliver to each tendering Holder of Notes an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note and in the case of Definitive Registered Notes, deliver or cause to be delivered to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Issuer (or, in the case of Global Notes, cause

the Paying Agent to reduce the aggregate principal amount of the applicable Global Note), and the Trustee, upon delivery of an Officer's Certificate from the Issuer, will authenticate and mail or deliver (or cause to be transferred by book-entry) such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in a principal amount with a minimum denomination of $200,000, in the case of the Dollar Notes, and €100,000 in the case of the Euro Notes. Any Note not so accepted will be promptly mailed or delivered (or transferred by book-entry) by the Issuer to the Holder thereof.

Certain Covenants

Limitation on Indebtedness

Neither the Issuer nor any Covenant Party, and no Covenant Party will permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided*, *however*, that the Issuer may Incur Senior Secured Indebtedness if on the date on which such Senior Secured Indebtedness is Incurred, the Consolidated Senior Secured Leverage Ratio would have been no greater than 3.0 to 1.0 determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if such Senior Secured Indebtedness had been incurred at the beginning of the relevant period.

The first paragraph of this covenant will not prohibit the Incurrence of the following items of Indebtedness:

(1) Indebtedness Incurred pursuant to any Credit Facility (including in respect of letters of credit or bankers' acceptances issued or created thereunder), and any Refinancing Indebtedness in respect thereof, in a maximum aggregate principal amount at any time outstanding not to exceed the greater of $80 million and 4.0% of Total Assets; *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(2) (a) Guarantees by the Issuer, a Covenant Party or any Restricted Subsidiary of Indebtedness of the Issuer, a Covenant Party or any Restricted Subsidiary to the extent such guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided* that (i) if such Indebtedness is subordinated in right of payment to, or *pari passu* in right of payment with, the Notes or a Note Guarantee, as applicable, then the Guarantee of such Indebtedness shall be subordinated in right of payment to, or *pari passu* in right of payment with, the Notes or such Note Guarantee, as applicable, substantially to the same extent as such guaranteed Indebtedness and (ii) if such guarantee is of Indebtedness of the Issuer, a Guarantor, HOT or a HOT Proceeds Note Guarantor, such Restricted Subsidiary complies with the second or fourth paragraph (as applicable) of the covenant described under ''—*Additional Guarantors*''; or (b) without limiting the covenant described under ''—*Limitation on Liens*'', Indebtedness arising by reason of any Lien granted by or applicable to the Issuer, a Covenant Party or any Restricted Subsidiary securing Indebtedness of the Issuer, a Covenant Party or any Restricted Subsidiary so long as the Incurrence of such Indebtedness is not prohibited by the terms of the Indenture;

(3) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary, Indebtedness of a Covenant Party owing to and held by the Issuer, a Covenant Party or any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary; *provided*, *however*, that:

    (a) if the Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Guarantor, such Indebtedness must be unsecured and ((i) except in respect of the intercompany current liabilities incurred in connection with cash management positions of the Covenant Parties and the Restricted Subsidiaries and (ii) only to the extent legally permitted (the Covenant Parties and the Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors or officers of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Indebtedness)) expressly subordinated to the prior payment in full in cash of all obligations then due with respect to the Notes, in the case of the Issuer, or the Note Guarantee, in the case of a Guarantor;

(i) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Issuer, a Covenant Party or a Restricted Subsidiary; and (ii) and any sale or other transfer of any such Indebtedness to a Person other than the Issuer, a Covenant Party or a Restricted Subsidiary, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (3) by the Issuer, a Covenant Party or such Restricted Subsidiary, as the case may be;

(4) (a) Indebtedness represented by the Notes (other than any Additional Notes) issued on the Issue Date, the Note Guarantees thereof, issued on the Completion Date, (b) any Indebtedness (other than Indebtedness described in clauses (1) and (3) of this paragraph) outstanding on the Issue Date, after giving effect to the Transactions and the Issuance of the Notes and the application of the proceeds thereof (including after such proceeds are released from the Escrow Account), (c) Guarantees issued on the Completion Date of the Senior Notes issued on the Issue Date and the HoldCo Proceeds Loan Incurred on the Completion Date representing the proceeds of the Senior Notes issued on the Issue Date, (d) Refinancing Indebtedness Incurred in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any, or otherwise Incurred in respect of any, Indebtedness described in sub-clauses (a), (b), (c) or (d) of this clause (4) or clauses (5) or (6) of this paragraph or Incurred pursuant to the first paragraph of this covenant, (e) Management Advances and (f) Indebtedness represented by the Security Documents and the HOT Security Documents, including, with respect to each such Indebtedness "parallel debt" obligations created under the Intercreditor Agreement, the HOT Security Documents and the Security Documents;

(5) Indebtedness of any Person (other than any Person described in clause (6) below) outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) a Covenant Party or a Restricted Subsidiary; *provided*, *however*, that immediately following the consummation of such acquisition or other transaction, (i) if such Indebtedness is Senior Secured Indebtedness, the Issuer would have been able to Incur $1.00 of additional Indebtedness pursuant to the first paragraph of this covenant and (ii) if such Indebtedness is not Senior Secured Indebtedness, the Issuer and the Guarantors would have been able to Guarantee $1.00 of in additional Indebtedness of HoldCo pursuant to clause (15) below, each case, after giving pro forma effect to the relevant acquisition or other transaction and the Incurrence of such Indebtedness pursuant to this clause (5);

(6) Indebtedness of any Person outstanding on the date on which such Person becomes a Covenant Party determined on a consolidated basis after giving effect to the transaction or series of transactions pursuant to which such Person became a Covenant Party and the Subsidiaries of such Person became Restricted Subsidiaries (in each case, other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Covenant Party or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such transaction or series of related transactions); *provided*, *however*, with respect to this clause (6), that at the time such Person becomes a Covenant Party or a Restricted Subsidiary (i) if such Indebtedness is Senior Secured Indebtedness, the Issuer would have been able to Incur $1.00 of additional Indebtedness pursuant to the first paragraph of this covenant and (ii) if such Indebtedness is not Senior Secured Indebtedness, the Issuer and the Guarantors would have been able to Guarantee $1.00 of in additional Indebtedness of HoldCo pursuant to clause (15) below, each case, after giving pro forma effect to such Person becoming a Covenant Party or a Restricted Subsidiary, any related transactions and the Incurrence of such Indebtedness pursuant to this clause (6);

(7) (a) Indebtedness under Currency Agreements (other than Currency Agreements described in (b) below), Interest Rate Agreements and Commodity Hedging Agreements and (b) Indebtedness under Currency Agreements entered into in order to hedge any operating expenses and capital expenditures Incurred in the ordinary course of business so long as (i) such operating expenses and capital expenditures are denominated in Euro or U.S. dollars and (ii) the term of any such Currency Agreement is not more than 360 days; in each case with respect to clauses (a) and (b) hereof, entered into for *bona fide* hedging purposes of the Issuer, a Covenant Party or the Restricted Subsidiaries or (in respect of Currency Agreements and Interest Rate Agreements related to Indebtedness of HoldCo that is permitted to be Guaranteed by the Issuer and the

Guarantors under clause (15) below) HoldCo and not for speculative purposes (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(8) Indebtedness consisting of (A) Capitalized Lease Obligations, mortgage financings, Purchase Money Obligations or other financings Incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment or other assets (including Capital Stock) used or useful in a Similar Business or (B) Indebtedness otherwise Incurred to finance the purchase, lease, rental or cost of design, construction, installation or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and any Indebtedness which refinances, replaces or refunds such Indebtedness, in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (8) and then outstanding, will not exceed at any time outstanding the greater of $50 million and 2.5% of Total Assets so long as such Indebtedness exists on the date of such purchase, design, construction, installation or improvement, or is Incurred within 180 days thereafter;

(9) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by a Covenant Party or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business or in respect of any governmental requirement, including in relation to a governmental requirement to provide a guarantee or bond, (b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business, *provided*, *however*, that upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing; (c) the financing of insurance premiums in the ordinary course of business; and (d) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(10) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earnouts or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); *provided* that the maximum liability of the Covenant Parties and the Restricted Subsidiaries in respect of all such Indebtedness in connection with such disposition shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Covenant Parties and the Restricted Subsidiaries in connection with such disposition;

(11) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within 30 Business Days of Incurrence;

(12) Indebtedness under daylight borrowing facilities incurred in connection with any refinancing of Indebtedness (including by way of set-off or exchange); *provided* that such Indebtedness does not exceed the principal amount of the Indebtedness being refinanced and the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, so long as any such Indebtedness is repaid within three days of the date on which such Indebtedness is Incurred;

(13) Indebtedness Incurred by a Receivables Subsidiary in a Qualified Receivables Financing;

(14) Indebtedness Incurred by the Issuer or a Guarantor (including any Refinancing Indebtedness in respect thereof) or Disqualified Stock of the Issuer or a Covenant Party in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (14) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Issuer, the Covenant Parties and the Restricted Subsidiaries from the issuance or sale (other than to the Issuer, a Covenant Party or a Restricted Subsidiary) of its

Subordinated Shareholder Funding or Capital Stock (other than Disqualified Stock, Designated Preference Shares or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock, Designated Preference Shares, an Excluded Contribution or a Covenant Party Contribution) of a Covenant Party, in each case, subsequent to the Issue Date; *provided*, *however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6) and (10) of the third paragraph of the covenant described below under ''*—Certain Covenants—Limitation on Restricted Payments*'' to the extent the Issuer, a Covenant Party or a Restricted Subsidiary incurs Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (14) to the extent the Issuer, a Covenant Party or any Restricted Subsidiary makes a Restricted Payment under the first paragraph and clauses (1), (6) and (10) of the third paragraph of the covenant described below under ''*—Certain Covenants—Limitation on Restricted Payments*'' in reliance thereon;

(15) (A) the Guarantee by the Issuer or any Guarantor of Indebtedness of HoldCo if, on the date of the Incurrence of such Guarantee, the Consolidated Leverage Ratio would have been no greater than 4.0 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom the Incurrence of such Indebtedness), as if such Guarantee had been Incurred at the beginning of the relevant two-quarter period, *provided* such Guarantees shall be subordinated to the Notes and the Note Guarantee of such Guarantor pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement to substantially the same extent, and on substantially the same terms as is customary for debt structures of this type on the Issue Date; and (B) the Incurrence of Indebtedness by the Issuer under a HoldCo Proceeds Loan representing all or substantially all of the net proceeds of a substantially concurrent Incurrence of Indebtedness by HoldCo that is guaranteed by the Issuer and the Guarantors pursuant to clause (A), *provided* that (i) any HoldCo Proceeds Loan is subordinated to the Notes to the same extent as the Guarantees referred to in clause (A) and (ii) any HoldCo Proceeds Loan is granted as Notes Collateral and any payments under such HoldCo Proceeds Loan are subject to the Intercreditor Agreement or any Additional Intercreditor Agreement; and

(16) Indebtedness (including any Refinancing Indebtedness in respect thereof) in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (16) and then outstanding, will not exceed the greater of $75 million and 4.0% of Total Assets.

In the event the Issuer Incurs any Indebtedness pursuant to the first paragraph of this covenant or clauses (4)(d), (8), (14), (15) (upon receipt from HoldCo of the Net Cash Proceeds of such Incurrence of such Indebtedness by HoldCo) or (16) of the second paragraph of this covenant, the Issuer will substantially concurrently with the Incurrence of such Indebtedness (or in the case of any Indebtedness the proceeds of which are deposited into an escrow account or similar arrangement pending the occurrence of one or more events, concurrently with the release of such proceeds from such escrow account or similar arrangement (other than in the case that such proceeds are returned to the holders of, or lenders under, such Indebtedness pursuant to the terms of such escrow account or similar arrangement)), make one or more Issuer Proceeds Loans to one or more Guarantors or (prior to the HOT Direct Obligation Event) to HOT and any of its Subsidiaries that are HOT Proceeds Note Guarantors (so long as HOT or such Subsidiary grants a Lien over its material assets and, in the case of such Subsidiary provides a HOT Proceeds Note Guarantee, in the amount of such additional Issuer Proceeds Loan) with all or substantially all of the net proceeds of the Incurrence of such Indebtedness by the Issuer.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

(1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Issuer, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the second paragraph or the first paragraph of this covenant; *provided* that Indebtedness incurred under clauses (1) and (15) of the second paragraph of the description of this covenant cannot be reclassified;

(2) Guarantees of, or obligations in respect of letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(3) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clause (1), (8), (14) or (16) of the second paragraph above or the first paragraph above and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

(4) the principal amount of any Disqualified Stock of the Issuer, a Covenant Party or a Restricted Subsidiary, or Preferred Stock of a Covenant Party or a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(5) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness; and

(6) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant. The amount of any Indebtedness outstanding as of any date shall be (a) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (b) the principal amount, or liquidation preference thereof, in the case of any other Indebtedness.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under the covenant described under this ''*—Limitation on Indebtedness*'', the Issuer shall be in Default of this covenant).

For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the Dollar Equivalent of the principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or the date first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than U.S. dollars, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; (b) the Dollar Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (c) if any such Indebtedness that is denominated in a currency other than U.S. dollars is subject to a Currency Agreement with respect to the currency in which such Indebtedness is denominated covering principal amount and interest payable on such Indebtedness, the amount of such Indebtedness, will be the Dollar Equivalent of the principal payment required to be made under such Currency Agreement plus the Dollar Equivalent of any premium which is at such time due and payable but is not covered by such Currency Agreement.

For purposes of determining compliance with the Consolidated Senior Secured Leverage Ratio or the Consolidated Leverage Ratio on the Incurrence of Indebtedness, the NIS Equivalent of the principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or the date first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than NIS, and such refinancing would cause the applicable NIS-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of

such refinancing, such NIS-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; and (b) the NIS Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date.

In addition, for purposes of calculating the Consolidated Senior Secured Leverage Ratio or the Consolidated Leverage Ratio to test compliance with any covenant in the Indenture, in determining the amount of Indebtedness outstanding in NIS on any date of determination, with respect to any Indebtedness denominated in a currency other than NIS (the ''Foreign Currency''):

(1) subject to a currency swap arrangement or contract, the aggregate principal amount of such Foreign Currency Indebtedness on any such date of determination shall be the NIS amount of the aggregate principal amount to be paid by the Issuer or a Note Guarantor on the maturity date of such currency swap arrangement or contract pursuant to the terms thereof; or

(2) subject to a currency forward arrangement, forward accretion curve or contract, the aggregate principal amount of such Foreign Currency Indebtedness shall be converted into NIS at the exchange rate specified under the terms of such currency forward arrangement, forward accretion curve or contract as applicable to such Foreign Currency Indebtedness on such date of determination.

For the avoidance of doubt, notwithstanding a Group member entering into any such arrangement or contract hedging foreign exchange exposure of any Foreign Currency Indebtedness, for the purposes of calculating the Consolidated Senior Secured Leverage Ratio or the Consolidated Leverage Ratio, the aggregate principal amount of Indebtedness subject to any such arrangement or contract shall be attributed to the total Indebtedness of the Person that originally Incurred such Indebtedness.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer, a Covenant Party or a Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies.

Neither the Issuer nor any Guarantor will incur any Indebtedness (including any Indebtedness permitted to be Incurred pursuant to the second paragraph of this covenant) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Note Guarantee on substantially identical terms (as determined in good faith by the Issuer); *provided*, *however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Guarantor solely by virtue of being unsecured, by virtue of being secured with different collateral, by virtue of being secured on a junior priority basis or by virtue of the application of waterfall or other payment-ordering provisions affecting different tranches of Indebtedness under Credit Facilities.

Limitation on Restricted Payments

Neither the Issuer nor any Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of or in respect of the Issuer's, any Covenant Party's or any Restricted Subsidiary's Capital Stock (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer, any Covenant Party or any Restricted Subsidiary) except:

    (a) dividends or distributions payable in Capital Stock of a Covenant Party (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of a Covenant Party (other than Disqualified Stock) or in Subordinated Shareholder Funding; and

    (b) dividends or distributions payable to the Issuer, a Covenant Party or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than a Covenant Party or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value);

(2) purchase, redeem, retire or otherwise acquire for value (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any Covenant Party) any

(a) Capital Stock of the Issuer or any direct or indirect Parent of the Issuer held by Persons other than the Issuer, a Covenant Party or a Restricted Subsidiary, (b) Capital Stock of a Covenant Party or any direct or indirect Parent of a Covenant Party held by Persons other than the Issuer, a Covenant Party or a Restricted Subsidiary (other than in exchange for Capital Stock of a Covenant Party (other than Disqualified Stock)) or (c) Capital Stock of HOT (including the Minority Shareholder Call Options) held by any party to a Minority Shareholder Purchase Agreement (other than the Company);

(3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement; and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'');

(4) make any cash payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Funding; or

(5) make any Restricted Investment in any Person;

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) are referred to herein as a ''Restricted Payment''), if at the time the Issuer, a Covenant Party or a Restricted Subsidiary makes such Restricted Payment:

(a) a Default or Event of Default shall have occurred and be continuing (or would result immediately thereafter therefrom);

(b) the Issuer is not able to Incur an additional $1.00 of Indebtedness pursuant to the first paragraph of the covenant described under ''—*Limitation on Indebtedness*'' and the Issuer and the Guarantors are not able to Guarantee $1.00 of in additional Indebtedness of HoldCo pursuant to clause (15) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'', in each case, after giving effect, on a *pro forma* basis, to such Restricted Payment; or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments made by the Issuer, the Covenant Parties and the Restricted Subsidiaries subsequent to the Issue Date (including Permitted Payments permitted below by clauses (5) (without duplication of amounts paid pursuant to any other clause of the immediately succeeding paragraph), (6), (10), (17) and (18) of the immediately succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):

(i) an amount equal to 100% of the Consolidated Combined EBITDA for the period beginning on the first day of the first full fiscal quarter commencing prior to the Issue Date to the end of the Covenant Party Group's most recently ended full fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated combined financial statements of the Issuer and the Covenant Parties are available, taken as a single accounting period, less the product of 1.5 times the Consolidated Interest Expense for such period;

(ii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by a Covenant Party from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to the Issue Date or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of a Covenant Party subsequent to the Issue Date (other than (v) any Covenant Party Contribution, (w) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to the Issuer, a Covenant Party or a Restricted Subsidiary or an employee stock ownership plan or trust established by any

Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by any Covenant Party or any Restricted Subsidiary, (x) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the immediately succeeding paragraph and (y) Excluded Contributions);

(iii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by the Issuer, a Covenant Party or any Restricted Subsidiary from the issuance or sale (other than to the Issuer, a Covenant Party or a Restricted Subsidiary or an employee stock ownership plan or trust established by a Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by a Covenant Party or any Restricted Subsidiary) by the Issuer, a Covenant Party or any Restricted Subsidiary subsequent to the Issue Date of any Indebtedness that has been converted into or exchanged for Capital Stock of a Covenant Party (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by the Issuer, a Covenant Party or any Restricted Subsidiary upon such conversion or exchange) but excluding (x) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the immediately succeeding paragraph and (y) Excluded Contributions;

(iv) the amount equal to the net reduction in Restricted Investments made by the Covenant Parties or any of the Restricted Subsidiaries resulting from repurchases, redemptions or other acquisitions or retirements of any such Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Issuer, a Covenant Party or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Issuer, a Covenant Party or any Restricted Subsidiary, which amount, in each case under this clause (iv), constituted a Restricted Payment made after the Issue Date; *provided*, *however*, that no amount will be included in Consolidated Combined EBITDA for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included under this clause (iv);

(v) the amount of the cash and the fair market value (as determined in accordance with the last paragraph of this covenant) of property, assets or marketable securities received by a Covenant Party or any Restricted Subsidiary in connection with:

(A) the sale or other disposition (other than to the Issuer, a Covenant Party or a Restricted Subsidiary or an employee stock ownership plan or trust established by a Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by a Covenant Party or any Restricted Subsidiary) of Capital Stock of an Unrestricted Subsidiary of a Covenant Party; and

(B) any dividend or distribution made by an Unrestricted Subsidiary to the Issuer, a Covenant Party or a Restricted Subsidiary;

which Unrestricted Subsidiary was designated as such after the Issue Date; *provided*, *however*, that no amount will be included in Consolidated Combined EBITDA for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included under this clause (v); and

(vi) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or all of the assets of such Unrestricted Subsidiary are transferred to a Covenant Party or a Restricted Subsidiary, or the Unrestricted Subsidiary is merged or consolidated into a Covenant Party or a Restricted Subsidiary, 100% of such amount received in cash and the fair market value (as determined in accordance with the last paragraph of this covenant) of any property, assets or marketable securities received by a Covenant Party or Restricted Subsidiary in respect of such redesignation, merger, consolidation or transfer of assets, excluding any amount of any Investment in such Unrestricted Subsidiary pursuant to clause (16) of the definition of ''Permitted Investment'', in each case of this clause (vi),

which Unrestricted Subsidiary was designated as such after the Issue Date; *provided however,* that no amount will be included in Consolidated Combined Net Income for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included under this clause (vi); *provided further, however*, that such amount shall not exceed the amount included in the calculation of the amount of Restricted Payments referred to in the first sentence of this clause (c).

The foregoing provisions will not prohibit any of the following (collectively, ''Permitted Payments''):

(1) any Restricted Payment made in exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the Net Cash Proceeds of the substantially concurrent sale (other than to the Issuer, a Covenant Party or a Subsidiary of a Covenant Party) of, Capital Stock of a Covenant Party (other than Disqualified Stock or Designated Preference Shares or through an Excluded Contribution or a Covenant Party Contribution), Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution or a Covenant Party Contribution) of a Covenant Party; *provided*, *however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the preceding sentence) of property, assets or marketable securities, from such sale of Capital Stock or Subordinated Shareholder Funding or such contribution will be excluded from clause (c)(ii) of the preceding paragraph and for purposes of the ''Optional Redemption'' provisions of the Indenture;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness of the Issuer or any Guarantor made by exchange for, or out of the Net Cash Proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under ''*—Limitation on Indebtedness*'' above;

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of a Covenant Party or a Restricted Subsidiary made by exchange for or out of the Net Cash Proceeds of the substantially concurrent sale of Preferred Stock of a Covenant Party or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under ''*—Limitation on Indebtedness*'' above, and that in each case, constitutes Refinancing Indebtedness;

(4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:

    (a) (i) from Net Cash Proceeds of the Minority Shareholder Option Exercise to the extent permitted under ''*—Offer to Repurchase with Minority Shareholder Option Proceeds*'' and from Net Available Cash to the extent permitted under ''*—Limitation on Sales of Assets and Subsidiary Stock*'' below, but only if the Issuer shall have first complied with the terms described under ''*—Offer to Repurchase with Minority Shareholder Option Proceeds*'' and ''*—Limitation on Sales of Assets and Subsidiary Stock*'' and purchased all Notes tendered pursuant to any offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

    (b) to the extent required by the agreement governing such Subordinated Indebtedness, following the occurrence of a Change of Control (or other similar event described therein as a ''change of control''), but only (i) if required, if the Issuer shall have first complied with the terms described under ''Change of Control'' and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

    (c) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Covenant Party or a Restricted Subsidiary or was otherwise acquired by the Issuer, a Covenant Party or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition) and at a purchase price not greater

than 100% of the principal amount of such Acquired Indebtedness plus accrued and unpaid interest and any premium required by the terms of any Acquired Indebtedness;

(5) any dividends paid within 60 days after the date of declaration if at such date of declaration such dividend would have complied with this covenant;

(6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by a Covenant Party to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), in each case from Management Investors; *provided* that such payments, loans, advances, dividends or distributions do not exceed an amount (net of repayments of any such loans or advances) equal to (1) $10 million in any calendar year (with unused amounts in any calendar year being carried over to the succeeding calendar years; *provided* that the aggregate Restricted Payments made under this clause (6) do not exceed $20 million in any fiscal year), *plus* (2) the Net Cash Proceeds received by the Covenant Parties or the Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding to a Parent) from, or as a contribution to the equity (in each case under this clause (6), other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Covenant Parties from, the issuance or sale to Management Investors of Capital Stock (including any options, warrants or other rights in respect thereof), to the extent such Net Cash Proceeds are not included in any calculation under clause (c)(ii) of the first paragraph of this covenant;

(7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under ''—*Limitation on Indebtedness*'' above;

(8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;

(9) dividends, loans, advances or distributions to any Parent or other payments by the Issuer, a Covenant Party or any Restricted Subsidiary in amounts equal to (without duplication) the amounts required for any Parent to pay:

(a) any Parent Expenses or any Related Taxes; and

(b) amounts constituting or to be used for purposes of making payments to the extent specified in clauses (2) (with respect to fees and expenses incurred in connection with the transactions described therein) and (11) of the second paragraph under ''—*Limitation on Affiliate Transactions;*''

(10) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), the declaration and payment by a Covenant Party of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of a Covenant Party or any Parent following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the Net Cash Proceeds received by such Covenant Party from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of such Covenant Party or contributed as Subordinated Shareholder Funding to such Covenant Party and (b) following the Initial Public Offering, an amount equal to the greater of (i) 5% of the Market Capitalization and (ii) 5% of the IPO Market Capitalization; *provided* that after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Leverage Ratio shall be equal to or less than 3.25 to 1.0; *provided*, *further*, that if such Public Offering was of Capital Stock of a Parent, the net proceeds of any such dividend are used to fund a corresponding dividend in equal or greater amount on the Capital Stock of such Parent;

(11) payments by a Covenant Party, or loans, advances, dividends or distributions to any Parent to make payments, to holders of Capital Stock of such Covenant Party or any Parent in lieu of the issuance of fractional shares of such Capital Stock; *provided*, *however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(12) Restricted Payments in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments in exchange for or using as consideration Investments previously made under this clause (12);

(13) payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing;

(14) dividends or other distributions of Capital Stock, Indebtedness or other securities of Unrestricted Subsidiaries;

(15) payments under a HoldCo Proceeds Loan that was Incurred in compliance with clause (15) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'' above that are permitted to be made under the terms of the Intercreditor Agreement and any Additional Intercreditor Agreement for the purpose of making corresponding interest payments on Indebtedness of HoldCo that is Guaranteed by the Issuer and the Guarantors pursuant to clause (15) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'' above;

(16) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of a Covenant Party issued after the Issue Date; *provided*, *however*, that the amount of all dividends declared or paid by the Covenant Parties pursuant to this clause (16) shall not exceed the Net Cash Proceeds received by the Covenant Parties from the issuance or sale of such Designated Preference Shares;

(17) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), any dividend, distribution, loan or other payment to any Parent; *provided* that the Consolidated Leverage Ratio does not exceed 2.75 to 1.0 on a *pro forma* basis after giving effect to any such dividend, distribution, loan or other payment;

(18) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments in an aggregate amount outstanding at any time not to exceed $50 million; and

(19) the prepurchase or repayment of the Cool Interest Loan on the Completion Date in an amount not to exceed NIS 37 million plus any fees and expenses related thereto.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Issuer, such Covenant Party or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment or any other property, assets or securities required to be valued by this covenant shall be determined conclusively by an Officer or the Board of Directors of the Issuer or the relevant Covenant Party acting in good faith.

Limitation on Liens

Neither the Issuer nor any Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly, create, Incur or suffer to exist any Lien upon any of their property or assets (including Capital Stock of a Restricted Subsidiary), whether owned on the Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the ''Initial Lien''), except (a) in the case of any property or asset that does not constitute Notes Collateral or HOT Proceeds Note Collateral, (i) Permitted Liens or (ii) Liens on assets that are not Permitted Liens if the Notes and the Indenture (or a Note Guarantee in the case of Liens of a Guarantor) are directly secured equally and ratably with, or prior to, in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured, (b) in the case of any property or assets that constitutes Notes Collateral,

Permitted Collateral Liens and (c) in the case of any property or assets that constitutes HOT Proceeds Note Collateral, Permitted HOT Proceeds Note Collateral Liens.

Any such Lien created in favor of the Notes pursuant to clause (ii) of the preceding paragraph will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates, and (ii) otherwise as set forth under ''—*Security—Release of Notes Collateral*.''

Limitation on Restrictions on Distributions from Restricted Subsidiaries

Neither the Issuer nor any Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Covenant Party or any Restricted Subsidiary to:

(A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock to the Issuer, a Covenant Party or any Restricted Subsidiary or pay any Indebtedness or other obligations owed to the Issuer, a Covenant Party or any Restricted Subsidiary;

(B) make any loans or advances to the Issuer, a Covenant Party or any Restricted Subsidiary; or

(C) sell, lease or transfer any of its property or assets to the Issuer, a Covenant Party or any Restricted Subsidiary,

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer, a Covenant Party or any Restricted Subsidiary to other Indebtedness Incurred by the Issuer, a Covenant Party or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

(1) any encumbrance or restriction pursuant to any Credit Facility or any other agreement or instrument, in each case, in effect at or entered into on the Issue Date (other than the Minority Shareholder Purchase Agreements), and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of such agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date (as determined in good faith by the Issuer);

(2) the Minority Shareholder Purchase Agreements as in effect on the Issue Date;

(3) encumbrances or restrictions existing under or by reason of the Indenture, the Notes, the Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Escrow Agreement, the Security Documents, the HOT Proceeds Note, the HOT Security Documents and the Issuer Proceeds Loans (other than the HOT Proceeds Note);

(4) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which (i) such Person was acquired by or merged, consolidated or otherwise combined with or into a Covenant Party or any Restricted Subsidiary, (ii) such agreement or instrument is assumed by the Issuer, a Covenant Party or any Restricted Subsidiary in connection with an acquisition of assets or (iii) such Person became a Covenant Party or a Restricted Subsidiary (*provided* that its direct or indirect Parent becomes a Covenant Party on such date) (in each case, other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Covenant Party or a Restricted Subsidiary or was acquired by a Covenant Party or was merged, consolidated or otherwise combined with or into a Covenant Party or any Restricted Subsidiary) and outstanding on such date; *provided* that, for the purposes of this clause (4), if another Person is the Successor Company (as defined under ''—*Merger and Consolidation*''), any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by a Covenant Party or any Restricted Subsidiary when such Person becomes the Successor Company;

(5) any encumbrance or restriction pursuant to an agreement or instrument effecting a refunding, replacement or refinancing of Indebtedness Incurred pursuant to, or that otherwise extends, renews, refunds, refinances or replaces, an agreement or instrument referred to in clause (1), (3) or (4) of this paragraph or this clause (5) (an ''Initial Agreement'') or contained in any amendment, supplement or other modification to an agreement referred to in clause (1), (3) or (4) of this paragraph or this clause (5); *provided*, *however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favorable in any material respect to the Holders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by the Issuer);

(6) any encumbrance or restriction:

(a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;

(b) contained in mortgages, pledges or other security agreements permitted under the Indenture or securing Indebtedness of the Issuer, a Covenant Party or a Restricted Subsidiary permitted under the Indenture to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, pledges or other security agreements;

(c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Issuer, a Covenant Party or any Restricted Subsidiary; or

(d) pursuant to the terms of any license, authorization, concession or permit;

(7) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the Indenture, in each case, that impose encumbrances or restrictions on the property so acquired or any encumbrance or restriction pursuant to a joint venture agreement that imposes restrictions on the transfer of the assets of the joint venture;

(8) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;

(9) customary provisions in leases, licenses, joint venture agreements and other similar agreements and instruments entered into in the ordinary course of business;

(10) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation, governmental license or order, or required by any regulatory authority;

(11) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;

(12) any encumbrance or restriction pursuant to Currency Agreements, Interest Rate Agreements or Commodity Hedging Agreements;

(13) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under ''—*Limitation on Indebtedness*'' if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders of the Notes than (i) the encumbrances and restrictions contained in the Revolving Credit Facility on the Issue Date, together with the security documents associated therewith, if any, and the Intercreditor Agreement, in each case, as in effect on or immediately prior to the Completion Date or (ii) is customary in comparable financings (as determined in good faith by the Issuer) and where, in the case of clause (ii), the Issuer determines at the time of issuance of such Indebtedness that such encumbrances or restrictions (x) will not adversely affect, in any material respect, the Issuer's ability to make principal or interest payments on the Notes as and when they become due or (y) such encumbrances and restrictions apply only if a default occurs in respect of a payment or financial covenant relating to such Indebtedness;

(14) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination of an Officer or the Board of Directors of the Issuer, are necessary or advisable to effect such Qualified Receivables Financing; or

(15) any encumbrance or restriction existing by reason of any Lien permitted under ''—*Limitation on Liens*''.

Limitation on Sales of Assets and Subsidiary Stock

The Issuer will not make any Issuer Asset Sale.

No Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(1) a Covenant Party or such Restricted Subsidiary, as the case may be, receives consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) at least equal to the fair market value (such fair market value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good faith by an Officer or the Board of Directors of the Issuer, of the shares and assets subject to such Asset Disposition (including, for the avoidance of doubt, if such Asset Disposition is a Permitted Asset Swap); and

(2) in any such Asset Disposition, or series of related Asset Dispositions (except to the extent the Asset Disposition is a Permitted Asset Swap), at least 75% of the consideration from such Asset Disposition or such series of related Asset Dispositions (excluding any consideration by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise, other than Indebtedness) received by such Covenant Party or such Restricted Subsidiary, as the case may be, is in the form of cash or Cash Equivalents.

After the receipt of Net Available Cash from an Asset Disposition, the Issuer, a Covenant Party or a Restricted Subsidiary, as the case may be, may apply such Net Available Cash directly or indirectly (at the option of the Issuer, such Covenant Party or such Restricted Subsidiary):

(a) (i) to prepay, repay, purchase or redeem any Indebtedness incurred under clause (1) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'' within 365 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided*, *however*, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (a)(i), the Issuer, such Covenant Party or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid, purchased or redeemed; (ii) unless included in clause (a)(i), to prepay, repay, purchase or redeem the Existing HOT Unsecured Notes or any Pari Passu Indebtedness of the Issuer that is secured in whole or in part by a Lien on the Notes Collateral, which Lien ranks *pari passu* with the Liens securing the Notes, at a price of no more than 100% of the principal amount of such Pari Passu Indebtedness plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption; *provided* that the Issuer, such Covenant Party or such Restricted Subsidiary shall prepay, redeem, repay or repurchase Pari Passu Indebtedness that is Public Debt pursuant to this clause (ii) only if the Issuer, such Covenant Party or such Restricted Subsidiary makes an offer to the holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Asset Disposition Offer for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the total aggregate principal amount of Notes outstanding plus the total aggregate principal amount outstanding of such Pari Passu Indebtedness; (iii) to prepay, repay, purchase or redeem any Indebtedness of a Restricted Subsidiary that is not a Guarantor or any Indebtedness that is secured on assets which do not constitute Notes Collateral (in each case, other than Subordinated Indebtedness of the Issuer or a Guarantor or Indebtedness owed to the Issuer, any Covenant Party or any Restricted Subsidiary); or (iv) to purchase the Notes pursuant to an offer to all holders of Notes at a purchase price in cash equal to at least 100% of the principal amount of the Notes, plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date);

(b) to the extent the Issuer, such Covenant Party or such Restricted Subsidiary elects, to invest in or purchase or commit to invest in or purchase Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Issuer, a Covenant Party or another Restricted Subsidiary) within 365 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided*, *however*, that any such reinvestment in Additional Assets made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors of the Issuer that is executed or approved within such time will satisfy this requirement, so long as such investment or commitment to invest is consummated within 180 days of such 365th day;

(c) to make a capital expenditure within 365 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided*, *however*, that any such capital expenditure made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors of the Issuer that is executed or approved within such time will satisfy this requirement, so long as such investment is consummated within 180 days of such 365th day; or

(d) any combination of the foregoing,

provided that, pending the final application of any such Net Available Cash in accordance with clause (a), (b), (c) or (d) above, the Issuer, the Covenant Parties and their Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the Indenture.

Any Net Available Cash from Asset Dispositions that is not applied or invested or committed to be applied or invested as provided in the preceding paragraph will be deemed to constitute ''Excess Proceeds''. On the 366th day (or the 546th day, in the case of any Net Available Cash committed to be used pursuant to a definitive binding agreement or commitment approved by the Board of Directors of the Issuer pursuant to clauses (b) or (c) of the second paragraph of this covenant) after the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash, if the aggregate amount of Excess Proceeds exceeds $30 million, the Issuer will be required within ten (10) Business Days thereof to make an offer (''Asset Disposition Offer'') to all holders of Notes and, to the extent the Issuer elects or the Issuer or a Guarantor is required by the terms of other outstanding Pari Passu Indebtedness, to all holders of such other outstanding Pari Passu Indebtedness to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof, in the case of Dollar Notes, and €100,000 principal amount and integral multiples of €1,000 in excess thereof, in the case of Euro Notes.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer and the Covenant Parties may use any remaining Excess Proceeds for general corporate purposes, to the extent not prohibited by the other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the principal amount of any such Indebtedness not denominated in U.S. dollars, such Indebtedness shall be calculated by converting any such principal amounts into their Dollar Equivalent determined as of a date selected by the Issuer that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Issuer upon converting such portion of the Net Available Cash into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the ''Asset Disposition Offer Period''). No later than five (5) Business Days after the termination of the Asset Disposition Offer Period (the ''Asset Disposition Purchase Date''), the Issuer will purchase the principal amount of Notes and, to the extent it elects, Pari Passu Indebtedness required to be purchased by it pursuant to this covenant (the ''Asset Disposition Offer Amount'') or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof, in the case of Dollar Notes, and €100,000 principal amount and integral multiples of €1,000 in excess thereof, in the case of Euro Notes. The Issuer will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five (5) Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder of Notes an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note (or amend the applicable Global Note), and the Trustee, upon delivery of an Officer's Certificate from the Issuer, will authenticate and mail or deliver (or cause to be transferred by book-entry) such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in a principal amount with a minimum denomination of $200,000, in the case of the Dollar Notes, and €100,000, in the case of the Euro Notes. Any Note not so accepted will be promptly mailed or delivered (or transferred by book-entry) by the Issuer to the Holder thereof.

For the purposes of clause (2) of the first paragraph of this covenant, the following will be deemed to be cash:

(1) the assumption by the transferee of Indebtedness of the Issuer, any Covenant Party or any Restricted Subsidiary (other than Subordinated Indebtedness of the Issuer or a Guarantor) and the release of the Issuer, such Covenant Party or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition;

(2) securities, notes or other obligations received by the Issuer, a Covenant Party or any Restricted Subsidiary from the transferee that are converted by the Issuer, such Covenant Party or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition, to the extent of the cash received;

(3) Indebtedness of a Covenant Party or any Restricted Subsidiary that is no longer a Covenant Party or a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Issuer, each other Covenant Party and each other Restricted Subsidiary (as applicable) are released from any Guarantee of payment of such Indebtedness in connection with such Asset Disposition;

(4) consideration consisting of Indebtedness of the Issuer or a Guarantor (other than Subordinated Indebtedness) received after the Issue Date from Persons who are not the Issuer, a Covenant Party or any Restricted Subsidiary; and

(5) any Designated Non-Cash Consideration received by the Issuer, a Covenant Party or any Restricted Subsidiary in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed the greater of $25 million and 1.5% of Total Assets (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the Indenture. To the extent that the provisions of any securities laws or regulations conflict with

provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of any conflict.

Limitation on Affiliate Transactions

Neither the Issuer nor any Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Issuer or any Covenant Party (any such transaction or series of related transactions being ''Affiliate Transactions'') involving aggregate value in excess of $5 million unless:

(1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Issuer, such Covenant Party or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's-length dealings with a Person who is not such an Affiliate; and

(2) in the event such Affiliate Transaction involves an aggregate value in excess of $30 million, the terms of such transaction or series of related transactions have been approved by a resolution of the majority of the members of the Board of Directors of the Issuer resolving that such transaction complies with clause (1) above; *provided* that an Affiliate Transaction shall be deemed to have satisfied the requirements set forth in this clause (2) of this paragraph if such Affiliate Transaction is approved by a majority of the Disinterested Directors.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under ''—*Limitation on Restricted Payments*'', any Permitted Payments (other than pursuant to clause (9)(b) of the third paragraph of the covenant described under ''—*Limitation on Restricted Payments*'') or any Permitted Investment (other than Permitted Investments as defined in paragraphs (1)(b), (2) and (17) of the definition thereof);

(2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of any Covenant Party, any Restricted Subsidiary or any Parent, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Issuer, in each case in the ordinary course of business;

(3) any Management Advances and any waiver or transaction with respect thereto;

(4) any transaction between or among the Issuer, any Covenant Party and any Restricted Subsidiary (or entity that becomes a Covenant Party or a Restricted Subsidiary as a result of such transaction), or between or among Covenant Parties, Restricted Subsidiaries or any Receivables Subsidiary;

(5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Issuer, any Covenant Party, any Restricted Subsidiary or any Parent (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

(6) the Transactions and the entry into and performance of obligations of the Issuer, the Company or any of its Restricted Subsidiaries under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed or refinanced from time to time (including, without limitation, to add additional Persons in connection with any such Person becoming a Covenant Party) in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any

material respect and the entry into and performance of any registration rights or other listing agreement in connection with any Public Offering;

(7) execution, delivery and performance of any Tax Sharing Agreement or the formation and maintenance of any consolidated group for tax or accounting purposes in the ordinary course of business;

(8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services and Associates, in each case in the ordinary course of business (including, without limitation, pursuant to joint venture arrangements), which are fair to the Issuer, the relevant Covenant Party or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer, the relevant Covenant Party or the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;

(9) any transaction in the ordinary course of business between or among the Issuer, a Covenant Party or any Restricted Subsidiary and any Affiliate of the Issuer or an Associate or similar entity (in each case, other than an Unrestricted Subsidiary) that would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary or any Affiliate of the Issuer, a Covenant Party or a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;

(10) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Issuer or a Covenant Party or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors of the Issuer in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the other provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement, as applicable;

(11) without duplication in respect of payments made pursuant to the definition of Parent Expenses, (a) payments by the Issuer, a Covenant Party or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent) of annual management, consulting, monitoring or advisory fees and related expenses in an aggregate amount not to exceed an amount equal to $5 million per year; (b) customary payments by the Issuer, a Covenant Party or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent) for financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments in respect of this clause (b) are approved by a majority of the Board of Directors of the Issuer in good faith; and (c) payments of all fees and expenses related to the Transactions; and

(12) any transaction effected as part of a Qualified Receivables Financing.

Maintenance of Listing

The Issuer will use its commercially reasonable efforts to maintain the listing of the Notes on the Official List of the Luxembourg Stock Exchange and the admission to trading on its Euro MTF Market for so long as such Notes are outstanding; *provided* that if at any time the Issuer determines that it will not maintain such listing, it will obtain prior to the delisting of the Notes from the Euro MTF Market of the Luxembourg Stock Exchange, and thereafter use its best efforts to maintain, a listing of such Notes on another recognized stock exchange.

Reports

For so long as any Notes are outstanding, the Company will provide to the Trustee the following reports:

(1) within 120 days after the end of the Company's fiscal year beginning with the first fiscal year ending after the Issue Date, annual reports containing, to the extent applicable, and in a level of detail that is comparable in all material respects to this Offering Memorandum, the following information presented on a basis that combines the Company and the other Covenant Parties, if any: audited consolidated combined balance sheets of the Company and the other Covenant Parties as of the end of the two most recent fiscal years and audited consolidated combined income statements and

statements of cash flow of the Company and the other Covenant Parties for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; unaudited *pro forma* combined income statement information and balance sheet information of the Company and the other Covenant Parties (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for (i) any acquisition or disposition by a Covenant Party or a Restricted Subsidiary that, individually or in the aggregate when considered with all other acquisitions or dispositions that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates, represent greater than 20% of the consolidated revenues, EBITDA, or assets of the Covenant Parties on a *pro forma* consolidated combined basis or (ii) recapitalizations by the Company, any other Covenant Party or a Restricted Subsidiary, in each case, that have occurred since the beginning of the most recently completed fiscal year (unless such *pro forma* information has been provided in a prior report pursuant to clause (2) or (3) below); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Company, the other Covenant Parties, and a discussion of material commitments and contingencies and critical accounting policies; (d) description of the business, management and shareholders of the Company and the other Covenant Parties, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments; and (e) a description of material risk factors and material recent developments (to the extent not previously reported pursuant to clause (2) or (3) below); for avoidance of doubt the review and descriptions in clauses (c), (d) and (e) above shall contain discussion relating to each other Covenant Party, if any, that contains a level of detail with respect to such Covenant Party and its Subsidiaries that is comparable in all material respects to the level of detail with respect to the Company and its Subsidiaries contained in this Offering Memorandum;

(2) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Company beginning with the quarter ending March 31, 2013 all quarterly reports of the Company containing the following information presented on a basis that combines the Company and the other Covenant Parties, if any: (a) an unaudited condensed consolidated combined balance sheet as of the end of such quarter and unaudited condensed consolidated combined statements of income and cash flow for the most recent quarter year-to-date period ending on the date of the unaudited condensed combined balance sheet, and the comparable prior year periods, together with condensed footnote disclosure; (b) unaudited *pro forma* income statement information and balance sheet information (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any acquisition or disposition by a Covenant Party or a Restricted Subsidiary that, individually or in the aggregate when considered with all other acquisitions or dispositions that have occurred since the beginning of the relevant quarter, represent greater than 20% of the consolidated revenues, EBITDA, or assets of the Covenant Parties on a *pro forma* consolidated combined basis (unless such *pro forma* information has been provided in a prior report pursuant to clause (3) below); (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, EBITDA and material changes in liquidity and capital resources, and a discussion of material changes not in the ordinary course of business in commitments and contingencies since the most recent report; and (d) material recent developments (to the extent not previously reported pursuant to clause (3) below); for avoidance of doubt the review and descriptions in clauses (c) and (d) above shall contain discussion relating to each other Covenant Party, if any, that contains a level of detail with respect to such Covenant Party and its Subsidiaries that is comparable in all material respects to the level of detail with respect to the Company and its Subsidiaries contained in the quarterly information contained in this Offering Memorandum; *provided* that if financial statement information of a Person that becomes a Covenant Party (the ''Additional Covenant Party'') was prepared in accordance with an accounting standard other than IFRS prior to such Additional Covenant Party becoming a Covenant Party, the obligations under this clause (2) for the first fiscal quarter ending after the date such Person becomes an Additional Covenant Party (the ''Relevant Date'') may be satisfied by providing (i) the information required by this clause (2) with respect to the Company and the other Covenant Parties prepared in accordance with IFRS; (ii) the information required by this clause (2) with respect to the Additional Covenant Party prepared in accordance with the accounting principles applicable to the financial statements of the Additional Covenant Party for the fiscal quarter immediately prior to the Relevant

Date; and (iii) a reconciliation of EBITDA of the Additional Covenant Party as presented in the financial statements described in clause (ii) to EBITDA of the Additional Covenant Party had the financial statements described in clause (ii) been prepared in accordance with IFRS; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring, merger or similar transaction, or any change in a senior executive officer or the Board of Directors of a Covenant Party or change in auditors of the Company, or any other material event that the Company, a Covenant Party or any Restricted Subsidiary announces publicly, a report containing a description of such event.

All financial statement information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented; *provided*, *however*, that the reports set forth in clauses (1), (2) and (3) above may in the event of a change in IFRS, present earlier periods on a basis that applied to such periods. Except as provided for above, no report need include separate financial statements for the Covenant Parties or Subsidiaries of the Covenant Parties or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum and in no event shall U.S. GAAP information or reconciliation to U.S. GAAP be required.

In the event that the Permitted Parent becomes a Covenant Party, the Indenture will permit the Covenant Parties, at the Company's option, to satisfy the obligations of this covenant with respect to financial information relating to the Covenant Parties by furnishing financial information relating to the Permitted Parent.

At any time any Subsidiary of a Covenant Party is an Unrestricted Subsidiary and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary, then the quarterly and annual financial information required by the first paragraph of this covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

So long as any Notes are outstanding, the Issuer will furnish to the Trustee within 120 days following the end of each fiscal year, beginning with the fiscal year ending December 31, 2012, (a) an audited balance sheet of the Issuer as of the end of the most recent fiscal year, and comparative information as of the end of the prior fiscal year, and audited consolidated income statement and statement of cash flow of the Issuer for the most recent fiscal year, including footnotes to such financial statements and the report of the independent auditors on the financial statements; and (b) so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will make available copies of all reports referred to in clause (a) at the Issuer's registered offices in Luxembourg or, to the extent and in the manner permitted by such rules, post such reports on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Substantially concurrently with the issuance to the Trustee of the reports specified in (1), (2) and (3) of the first paragraph of this covenant, the Issuer shall also (a) use its commercially reasonable efforts (i) to post copies of such reports on such website as may be then maintained by the Issuer, Company and its Subsidiaries or (ii) otherwise to provide substantially comparable public availability of such reports (as determined by the Issuer in good faith) or (b) to the extent the Issuer determines in good faith that such reports cannot be made available in the manner described in the preceding clause (a) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports to the Holders and, upon their request, prospective purchasers of the Notes. The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, at the Issuer's registered office in Luxembourg or, to the extent and in the manner permitted by such rules, post such reports on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

In addition, so long as the Notes remain outstanding and during any period during which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Issuer shall furnish to the Holders and holders of beneficial interests in the Notes and, upon their request, prospective purchasers of the Notes or prospective and purchasers of beneficial interests in the Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Merger and Consolidation

The Issuer

The Issuer will not directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation), or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer taken as a whole in one or more related transactions, to another Person.

The Covenant Parties

No Covenant Party will consolidate with or merge with or into, or assign, convey, transfer, lease or otherwise dispose all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions to, any Person, unless after the Completion Date:

(1) the resulting, surviving or transferee Person (the ''Successor Company'') (if not such Covenant Party) will be a Person organized and existing under the laws of any member state of the European Union, the State of Israel or the United States of America, any State of the United States or the District of Columbia and the Successor Company (if not such Covenant Party) will expressly assume, (a) by supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all the obligations of such Covenant Party under the Notes and the Indenture and (b) all obligations of such Covenant Party under the Intercreditor Agreement and the Security Documents, as applicable;

(2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving *pro forma* effect to such transaction and any related financing transactions, as if such transactions had occurred at the beginning of applicable four-quarter period, either (a) the Successor Company would be able to Incur at least an additional $1.00 of Indebtedness pursuant to the first paragraph of the covenant described under ''*—Limitation on Indebtedness*'' and the Issuer and the Guarantors would have been able to Guarantee $1.00 of in additional Indebtedness of HoldCo pursuant to clause (15) of the second paragraph of the covenant described under ''*—Limitation on Indebtedness*''; or (b) each of the Consolidated Leverage Ratio and the Consolidated Senior Secured Leverage Ratio would not be greater than it was immediately prior to giving effect to such transaction; and

(4) the Issuer shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture and an Opinion of Counsel to the effect that such supplemental indenture (if any) has been duly authorized, executed and delivered and is a legal, valid and binding agreement enforceable against the Successor Company (in each case, in form and substance reasonably satisfactory to the Trustee); *provided* that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of a Covenant Party, which properties and assets, if held by such Covenant Party instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of such Covenant Party on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of such Covenant Party.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, such Covenant Party under the Indenture but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under the Indenture or the Notes.

Notwithstanding the preceding clauses (2) and (3) (which do not apply to transactions referred to in this sentence) and clause (4) of the second paragraph of this covenant (which does not apply to transactions referred to in this sentence in which a Covenant Party is the Successor Company), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any Covenant Party (so long as such Covenant Party is a Guarantor); (b) any Covenant Party may consolidate or otherwise combine with, merge into or transfer all or part of its properties and

assets to any other Covenant Party (so long as such Covenant Party is a Guarantor); and (c) any Restricted Subsidiary that is not a Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Restricted Subsidiary or a Covenant Party. Notwithstanding the preceding clause (3) (which does not apply to the transactions referred to in this sentence) of the second paragraph of this covenant, any Covenant Party may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of such Covenant Party, reincorporating such Covenant Party in another jurisdiction or changing the legal form of such Covenant Party.

There is no precise established definition of the phrase ''substantially all'' under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve ''all or substantially all'' of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2) of the second paragraph of this ''Merger and Consolidation'' covenant) shall not apply to the creation of a new Subsidiary as a Restricted Subsidiary.

The Subsidiary Guarantors

None of the Subsidiary Guarantors (other than a Guarantor whose Note Guarantee is to be released in accordance with the terms of the Indenture or the Intercreditor Agreement) may:

(1) consolidate with or merge with or into any Person (whether or not such Guarantor is the surviving Person);

(2) sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person; or

(3) permit any Person to merge with or into it;

unless:

(A) the other Person is a Covenant Party or Restricted Subsidiary that is a Guarantor or becomes a Guarantor as a result of such transaction; or

(B) (1) either (x) a Guarantor is the surviving Person or (y) the resulting, surviving or transferee Person expressly assumes all of the obligations of the Guarantor under its Note Guarantee and the Indenture (pursuant to a supplemental indenture executed and delivered in a form reasonably satisfactory to the Trustee) and all obligations of the Guarantor under the Intercreditor Agreement and Security Documents, as applicable; and

(2) immediately after giving effect to the transaction, no Default or Event of Default shall have occurred and is continuing; or

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of a Guarantor or the sale or disposition of all or substantially all the assets of a Guarantor (in each case other than to a Covenant Party or a Restricted Subsidiary) otherwise permitted by the Indenture and the proceeds therefrom are applied as required by the Indenture.

Notwithstanding the preceding clause (B)(2) (which does not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary and any Covenant Party may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to a Guarantor and (b) any Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Guarantor. Notwithstanding the preceding clause (B)(2) (which does not apply to the transactions referred to in this sentence), a Guarantor may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Guarantor reincorporating the Guarantor in another jurisdiction, or changing the legal form of the Guarantor.

HOT

HOT will not consolidate with or merge with or into, or assign, convey, transfer, lease or otherwise dispose all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions to, any Person, unless after the Completion Date:

(1) the Successor Company (if not HOT) will be a Person organized and existing under the laws of any member state of the European Union, the State of Israel or the United States of America, any State of the United States or the District of Columbia and the Successor Company (if not HOT) will expressly assume, (a) by an accession agreement (the ''HOT Accession Agreement''), executed and delivered to the security agent for the HOT Proceeds Note (with copy to the Trustee), in form reasonably satisfactory to such security agent and the Trustee, all the obligations of Hot under the HOT Proceeds Note and (b) all obligations of HOT under the HOT Proceeds Note Security Documents, as applicable;

(2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving *pro forma* effect to such transaction and any related financing transactions, as if such transactions had occurred at the beginning of applicable four-quarter period, either (a) the Issuer would be able to Incur at least an additional $1.00 of Indebtedness pursuant to the first paragraph of the covenant described under ''*—Limitation on Indebtedness*'' and the Issuer and the Guarantors would have been able to Guarantee $1.00 of in additional Indebtedness of HoldCo pursuant to clause (15) of the second paragraph of the covenant described under ''*—Limitation on Indebtedness*''; or (b) each of the Consolidated Leverage Ratio and the Consolidated Senior Secured Leverage Ratio would not be greater than it was immediately prior to giving effect to such transaction; and

(4) HOT shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such HOT Accession Agreement comply with the Indenture and an Opinion of Counsel to the effect that the HOT Accession Agreement has been duly authorized, executed and delivered and is a legal, valid and binding agreement enforceable against the Successor Company (in each case, in form and substance reasonably satisfactory to the Trustee); *provided* that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of HOT, which properties and assets, if held by HOT instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of HOT on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of HOT.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, HOT under the HOT Proceeds Note but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under the HOT Proceeds Note.

Notwithstanding the preceding clauses (2) and (3) (which do not apply to transactions referred to in this sentence) and clause (4) of the third preceding paragraph (which does not apply to transactions referred to in this sentence in which HOT is the Successor Company), (a) any Restricted Subsidiary of HOT may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to HOT; (b) HOT may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other HOT Proceeds Note Guarantor; and (c) any Restricted Subsidiary of HOT that is not a HOT Proceeds Note Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Restricted Subsidiary of HOT or HOT. Notwithstanding the preceding clause (3) (which does not apply to the transactions referred to in this sentence) of the third preceding paragraph of this covenant, HOT may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of HOT, reincorporating HOT in another jurisdiction or changing the legal form of HOT.

The HOT Proceeds Note Guarantors

Prior to the HOT Direct Obligation Event, none of the HOT Proceeds Note Guarantors (other than a HOT Proceeds Note Guarantor whose HOT Proceeds Note Guarantee is to be released in accordance with the terms of the Indenture and the HOT Proceeds Note) may:

(1) consolidate with or merge with or into any Person (whether or not such HOT Proceeds Note Guarantor is the surviving Person);

(2) sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person; or

(3) permit any Person to merge with or into it;

unless:

(A) the other Person is HOT, a Covenant Party, a Restricted Subsidiary that is a Guarantor or becomes a Guarantor as a result of such transaction or a Restricted Subsidiary that is a HOT Proceeds Note Guarantor or becomes a HOT Proceeds Note Guarantor as a result of such transaction; or

(B) (1) either (x) a HOT Proceeds Note Guarantor is the surviving Person or (y) the resulting, surviving or transferee Person expressly assumes all of the obligations of the HOT Proceeds Note Guarantor under its HOT Proceeds Note Guarantee and the HOT Proceeds Note and all obligations of the HOT Proceeds Note Guarantor under the HOT Security Documents, as applicable; and

(2) immediately after giving effect to the transaction, no Default or Event of Default shall have occurred and is continuing and default or event of default under the HOT Proceeds Note or the Indenture shall have occurred and is continuing; or

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of a HOT Proceeds Note Guarantor or the sale or disposition of all or substantially all the assets of a HOT Proceeds Note Guarantor (in each case other than to a Covenant Party or a Restricted Subsidiary) otherwise permitted by the Indenture and the proceeds therefrom are applied as required by the Indenture.

Notwithstanding the preceding clause (B)(2) (which does not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary and any Covenant Party may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to a HOT Proceeds Note Guarantor and (b) any HOT Proceeds Note Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other HOT Proceeds Note Guarantor. Notwithstanding the preceding clause (B)(2) (which does not apply to the transactions referred to in this sentence), a HOT Proceeds Note Guarantor may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Guarantor reincorporating the Guarantor in another jurisdiction, or changing the legal form of the HOT Proceeds Note Guarantor.

There is no precise established definition of the phrase ''substantially all'' under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve ''all or substantially all'' of the property or assets of a Person.

Limitation on Issuer Activities

Notwithstanding anything contained in the Indenture:

(1) The Issuer will not engage in any business activity or undertake any other activity, except any such activity:

(a) reasonably relating to the offering, sale, issuance, Incurrence, servicing, purchase, redemption, amendment, exchange, refinancing or retirement of or Investment in the Notes, any Additional Notes or other Indebtedness (including any Refinancing Indebtedness in respect of any of the foregoing) permitted to be Incurred by the terms of the Indenture (including the lending, directly or indirectly, of the proceeds of such sale of the Notes, any Additional Notes or other Indebtedness permitted by the terms of the Indenture pursuant to

Issuer Proceeds Loans or borrowing, directly or indirectly, from any Covenant Party or any Restricted Subsidiary);

(b) undertaken with the purpose of, directly or indirectly, fulfilling its obligations or exercising its rights under the Notes, any Additional Notes, any Issuer Proceeds Loan, any Additional Notes or other Indebtedness, Hedging Obligations or any other obligations (including any Refinancing Indebtedness in respect of any of the foregoing), in each case, permitted to be Incurred by the terms of the Indenture, any Security Document to which it is a party, the Intercreditor Agreement (or any Additional Intercreditor Agreement entered into pursuant to the terms of the Intercreditor Agreement or the Indenture) or the Escrow Agreement;

(c) directly related or reasonably incidental to the establishment and/or maintenance of the Issuer's corporate existence, the acquisition, holding or disposition of assets permitted to be held by it under the Indenture;

(d) directly related to investing amounts received by the Issuer (other than amounts not corresponding to required payments under the Notes) in such manner not otherwise prohibited by the Indenture;

(e) making Permitted Issuer Investments and Incurring Permitted Issuer Liens;

(f) related to cash management activities on behalf of the Issuer, the Covenant Parties and the Restricted Subsidiaries; or

(g) other activities not specifically enumerated above that are immaterial in nature.

(2) The Issuer shall not:

(a) issue any Capital Stock (other than to HoldCo);

(b) take any action which would cause it to no longer satisfy the requirements of an available exemption from the provisions of the U.S. Investment Company Act of 1940, as amended;

(c) commence or take any action or facilitate a winding-up, liquidation, dissolution or other analogous proceeding;

(d) amend its constitutive documents in any manner which would adversely affect the rights of Holders in any material respect;

(e) transfer or assign any Issuer Proceeds Loan (or rights thereunder) except pursuant to the Notes Security Documents; or

(f) amend any provision of, or waive any default or event of default under, any Issuer Proceeds Loan except in accordance with "—*Amendments and Waivers*".

(3) Except as otherwise provided in the Indenture, the Issuer will take all actions necessary and within its power to prohibit the transfer of the issued ordinary shares and management share in the Issuer by HoldCo, other than pursuant to the Issuer Share Pledge or the enforcement of such Issuer Share Pledge.

(4) Whenever the Issuer receives a payment or prepayment under any Issuer Proceeds Loan, it shall use the funds received to satisfy its obligations (to the extent of the amount owing in respect of such obligations) under the Indenture (including any premium paid to holders of the Notes) or any other Indebtedness of the Issuer; *provided* that to the extent the Issuer receives cash payment in respect of interest on an Issuer Proceeds Loan previously paid in-kind and the amount of such cash payment exceeds the obligations then due and payable (or due and payable within five Business Days of such receipt) under the Notes or any other Indebtedness of the Issuer, the Issuer may use such excess amount for any purpose not prohibited by the Indenture.

No Covenant Party will permit HoldCo or the Issuer to become a direct or indirect subsidiary of any Covenant Party.

Limitation on Holding Company Activities

Notwithstanding anything contained in the Indenture, no Covenant Party will, and SPV1 will not, engage in any business activity or undertake any other activity, except:

(1) Investments of its direct Subsidiaries (or in the case of SPV1, HOT);

(2) the provision of administrative, management, legal and accounting services to its Subsidiaries of a type customarily provided by a holding company to its Subsidiaries and the ownership of assets necessary to provide such services;

(3) the incurrence of any Indebtedness permitted by the terms of the Indenture to be Incurred by such Covenant Party or SPV1 (as the case may be) or the performance of the terms and conditions of such Indebtedness, to the extent such activities are otherwise permissible under the Indenture and the granting of Liens permitted pursuant to the covenant described above under the caption ''—*Liens*;''

(4) rights and obligations arising under the Indenture, the Senior Notes Indenture, the Intercreditor Agreement, the Security Documents, the Revolving Credit Facility or documents governing Indebtedness specified in clause (3) hereof;

(5) the ownership of cash and Cash Equivalents;

(6) making Investments in the Notes, the Senior Notes and any Indebtedness specified in clause (3) hereof;

(7) making Restricted Payments (other than Restricted Investments) and Permitted Payments not prohibited under the covenant described under ''—*Limitation on Restricted Payments*'';

(8) directly related or reasonably incidental to the establishment and/or maintenance of its or its Subsidiaries corporate existence; or

(9) other activities not specifically enumerated above that are immaterial in nature.

Lines of Business

Neither the Issuer nor any Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, engage in any business other than a Similar Business, except to such extent as would not be material to the Covenant Parties and the Restricted Subsidiaries, taken as a whole.

Additional Guarantors

Each Covenant Party shall ensure that within 120 days after the end of each of the Company's (or after the Permitted Parent Designation, the Permitted Parent's) fiscal years beginning with the first fiscal year ending after the Issue Date:

(1) the combined EBITDA (calculated on a basis consistent with the definition of Combined Consolidated EBITDA but determined on an unconsolidated stand-alone basis and without double counting (for the avoidance of doubt, all intra group items and Investments in Subsidiaries of a Covenant Party or of a Restricted Subsidiary held by any Covenant Party or any Restricted Subsidiary shall be excluded)) of the Issuer, the Guarantors and, prior to the HOT Direct Obligation Event, HOT and the HOT Proceeds Note Guarantors for the most recently ended four fiscal quarters of the Company (or after the Permitted Parent Designation, the Permitted Parent) shall equal or exceed 75.0% of the Consolidated Combined EBITDA for such four fiscal quarters (or after the Permitted Parent Designation, the Permitted Parent); and

(2) the combined gross assets (determined separately, without double counting (for the avoidance of doubt, all intra group items and Investments in Subsidiaries of a Covenant Party or of a Restricted Subsidiary held by any Covenant Party or any Restricted Subsidiary shall be excluded)) of the Issuer, the Guarantors and, prior to the HOT Direct Obligation Event, HOT and the HOT Proceeds Note Guarantors, as of the last day of the most recently ended four fiscal quarters of the Company (or after the Permitted Parent Designation, the Permitted Parent) shall equal or exceed 75.0% of the Pro forma Consolidated Gross Assets of the Company (or after the Permitted Parent Designation, the Permitted Parent) as of such date,

by causing one or more of its Restricted Subsidiaries that are not Guarantors or, prior to the HOT Direct Obligation Event, HOT Proceeds Note Guarantors to:

(a) become a Guarantor by executing and delivering to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Note Guarantee on senior basis; or

(b) prior to the HOT Direct Obligation Event, accede to the HOT Proceeds Note and become a HOT Proceeds Note Guarantor and guarantee the obligations of HOT under the HOT Proceeds Note,

to the extent necessary to ensure the foregoing thresholds are met. The Company shall notify the Trustee promptly of each new Guarantor or HOT Proceeds Note Guarantor. Notwitstanding the foregoing, until the HOT Mobile License Guarantee has been released and discharged, the EBITDA and the gross assets of HOT Mobile and its Restricted Subsidiaries shall be excluded from the calculation of Consolidated Combined EBITDA and Pro Forma Consolidated Gross Assets of the Company in the first paragraph of this covenant.

No Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries (other than a Guarantor) to, Guarantee any Indebtedness of the Issuer or any Guarantor (other than Indebtedness Incurred under clause (8) of the second paragraph of the covenant described under ''*—Limitation on Indebtedness*'', except Indebtedness Incurred under Credit Facilities or Public Debt pursuant to such clause (8)) unless such Covenant Party or such Restricted Subsidiary is or becomes a Guarantor on the date on which the Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Covenant Party or such Restricted Subsidiary will provide a Note Guarantee, which Guarantee will be senior to or pari passu with such Covenant Party's or such Restricted Subsidiary's Guarantee of such other Indebtedness.

No Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries (other than a Guarantor) to, Guarantee any Indebtedness of any Restricted Subsidiary that is not a Guarantor (other than another Restricted Subsidiary of the same Covenant Party) unless such Restricted Subsidiary is or becomes a Guarantor on the date on which the Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Note Guarantee, which Guarantee will be senior to or pari passu with such Restricted Subsidiary's Guarantee of such other Indebtedness.

HOT will not, and will not permit any of its Restricted Subsidiaries (other than a HOT Proceeds Note Guarantor) to, Guarantee any Indebtedness of HOT or any HOT Proceeds Note Guarantor (other than Indebtedness Incurred under clause (8) of the second paragraph of the covenant described under ''*—Limitation on Indebtedness*'', except Indebtedness Incurred under Credit Facilities or Public Debt pursuant to such clause (8)) unless HOT or such Restricted Subsidiary is or becomes a HOT Proceeds Note Guarantor on the date on which the Guarantee is Incurred and, if applicable, accedes to each HOT Proceeds Note and become a HOT Proceeds Note Guarantor and guarantees the obligations of HOT under the HOT Proceeds Note, which Guarantee will be senior to or pari passu with HOT's or such Restricted Subsidiary's Guarantee of such other Indebtedness.

Note Guarantees and HOT Proceeds Note Guarantees granted after the Issue Date pursuant to this covenant shall be released as set forth under ''*—Releases of the Note Guarantees*'' and ''*—Releases of the HOT Proceeds Note Guarantees*''. Note Guarantees and HOT Proceeds Note Guarantees (as applicable) granted after the Issue Date pursuant to the second, third and fourth paragraphs of this covenant may be released at the option of the Issuer or HOT, as the case may be, if, at the date of such release, (i) the Indebtedness which required such Note Guarantee or HOT Proceeds Note Guarantee, as the case may be, has been released or discharged in full, (ii) no Event of Default would arise as a result of such release, and (iii) there is no other Indebtedness of such Guarantor or HOT Proceeds Note Guarantor, as the case may be, outstanding that was Incurred after the Issue Date and that could not have been Incurred in compliance with the Indenture as of the date Incurred if such Guarantor or HOT Proceeds Note Guarantor were not a Guarantor or a HOT Proceeds Note Guarantor, as the case may be, as at that date. The Trustee and the Security Agent shall each take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

Concurrently with the provision of any additional Note Guarantee as described above, subject to the Intercreditor Agreement and any Additional Intercreditor Agreement (if such security is being granted in respect of the other Indebtedness), and subject to the Agreed Security Principles, any such Guarantor will grant a Lien over its material assets to secure its Note Guarantee on a senior basis consistent with the Notes Collateral. Concurrently with the provision of any additional HOT Proceeds Note Guarantee as described above, subject to the Agreed Security Principles, any such HOT Proceeds Note Guarantor will

grant a Lien over its material assets to secure its HOT Proceeds Note Guarantee on a senior basis consistent with the HOT Proceeds Note Collateral.

Each additional Note Guarantee and HOT Proceeds Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, thin capitalization, distributable reserves, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Covenant Party shall not be obligated to cause any Restricted Subsidiary and HOT will not be required to cause any of its Restricted Subsidiaries to the extent and for so long as the Incurrence of such Guarantee could reasonably be expected to give rise to or result in: (1) any violation of applicable law or regulation; (2) any liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (1) of this paragraph undertaken in connection with, such Guarantee, which in any case under any of clauses (1), (2) and (3) of this paragraph cannot be avoided through measures reasonably available to any Covenant Party, HOT or such Restricted Subsidiary.

Additional Covenant Parties

The Issuer may designate any Person (other than HoldCo, the Issuer, the Company or any of its Subsidiaries) that is under direct or indirect common control with the Company as an ''Additional Covenant Party''; *provided* that (i) no Default or Event of Default has occurred and is continuing or would occur as a consequence such designation, (ii) such Additional Covenant Party shall have delivered to the Trustee a supplemental indenture pursuant to which such Additional Covenant Party agrees to comply with the covenants and the other terms and conditions applicable to a Covenant Party set forth in the Indenture, the Notes and the Intercreditor Agreement and to Guarantee the Notes on a senior basis, (iii) such Person has acceded to the Intercreditor Agreement, (iv) all of the shares of Capital Stock of such Additional Covenant Party are pledged as Notes Collateral to secure the Notes and the Note Guarantees on a senior basis, and (v) subject to the Agreed Security Principles, such Additional Covenant Party has granted a Lien over its material assets to secure its Note Guarantee on a senior basis consistent with the Notes Collateral.

Any such designation by the Board of Directors of such Covenant Party shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of such Covenant Party giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions. The Issuer shall file with the Trustee an Officer's Certificate in the event any Additional Covenant Party ceases to be a Covenant Party in accordance with the definition of ''Additional Covenant Party'' under ''—*Certain Definitions—Additional Covenant Party*''.

Designation of Permitted Parent

The Issuer may designate any Additional Covenant Party as the Permitted Parent on the date such Person becomes a Covenant Party in accordance with the terms of the Indenture (including the covenant described above under ''—*Additional Covenant Parties*''), provided that:

(1) upon such designation, all Covenant Parties and each of their Restricted Subsidiaries, in each case, existing immediately prior to such designation are Restricted Subsidiaries of the Permitted Parent immediately upon such designation; and

(2) such Person has acceded to the Intercreditor Agreement as the Permitted Parent.

Upon the designation of such Person as the Permitted Parent,

(1) each Covenant Party existing at the time of such designation will be deemed to no longer be a Covenant Party; provided that each such Covenant Party will be a Restricted Subsidiary of the Permitted Parent immediately after such designation;

(2) the Issuer will not be permitted to designate any other Person as an Additional Covenant Party pursuant to the covenant described above under ''—*Additional Covenant Parties*'' after such designation;

(3) the junior priority pledges over the Capital Stock of such Covenant Party granted to secure the Indebtedness of HoldCo permitted to be secured by such Capital Stock will be released; and

(4) all references in the Indenture to a Covenant Party will be deemed to only refer to the Permitted Parent.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a ''Suspension Event''), then, the Issuer shall notify the Trustee of these events and beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (the ''Reversion Date''), the provisions of the Indenture summarized under the following captions will not apply to the Notes: ''—*Limitation on Indebtedness*'', ''—*Limitation on Restricted Payments*'', ''—*Limitation on Restrictions on Distributions from Restricted Subsidiaries*'', ''—*Limitation on Sales of Assets and Subsidiary Stock*'', ''—*Limitation on Affiliate Transactions*'' and ''—*Impairment of Security Interests*'', the provisions of clause (3) of the covenant described under ''—*Merger and Consolidation—The Covenant Parties*'', clause (3) of the paragraph of the covenant described under ''—*Merger and Consolidation—HOT*'' and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Issuer, the Covenant Parties and the Restricted Subsidiaries. Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Issuer properly taken during the continuance of the Suspension Event, and the ''—*Limitation on Restricted Payments*'' covenant will be interpreted as if it has been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. On the Reversion Date, all Indebtedness Incurred during the continuance of the Suspension Event will be classified, at the Issuer's option, as having been Incurred pursuant to the first paragraph of the covenant described under ''—*Limitation on Indebtedness*'' or one of the clauses set forth in the second paragraph of such covenant (to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to Indebtedness Incurred prior to the Suspension Event and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred under the first two paragraphs of the covenant described under ''—*Limitation on Indebtedness*'', such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (4)(b) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*''.

Impairment of Security Interests

The Issuer shall not, the Covenant Parties shall not and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the security interest with respect to the Notes Collateral (it being understood that the Incurrence of Permitted Collateral Liens, subject to the proviso in the second sentence of the next succeeding paragraph, shall under no circumstances be deemed to materially impair the security interest with respect to the Notes Collateral) for the benefit of the Trustee and the Holders, and the Issuer shall not, the Covenant Parties shall not and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent (or its delegate), for the benefit of the Trustee and the Holders and the other beneficiaries described in the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement, any Lien over any of the Notes Collateral; *provided*, that, subject to the proviso in the second sentence of the next succeeding paragraph, the Issuer, the Covenant Parties and the Restricted Subsidiaries may Incur Permitted Collateral Liens, (x) the Notes Collateral may be discharged, amended, extended, renewed, restated, supplemented, released, modified or replaced in accordance with the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the applicable Security Documents and (y) the Covenant Parties and their Restricted Subsidiaries may consummate any other transaction permitted under ''—*Merger and Consolidation*''.

Notwithstanding the above, nothing in this covenant shall restrict the discharge and release of any Security Interest in accordance with the Indenture, the Intercreditor Agreement or any Additional

Intercreditor Agreement. Subject to the foregoing, the Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) make any change reasonably necessary in the good faith determination of the Issuer in order to implement transactions permitted under ''—*Merger and Consolidation*;'' (iv) add to the Notes Collateral; or (v) make any other change thereto that does not adversely affect the Holders in any material respect; provided, however, that, contemporaneously with any such action in clauses (ii), (iii), (iv) and (v), the Issuer delivers to the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an independent financial advisor or appraiser or investment bank of international standing which confirms the solvency of the Covenant Parties and their Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, (2) a certificate from the chief financial officer or the Board of Directors of the relevant Person which confirms the solvency of the Person granting Security Interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, or (3) an opinion of counsel (subject to any qualifications customary for this type of opinion of counsel), in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the Lien or Liens created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

The Issuer shall not, the Covenant Parties shall not and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the security interest with respect to the HOT Proceeds Note Collateral (it being understood that the Incurrence of Permitted HOT Proceeds Note Collateral Liens, subject to the proviso in the second sentence of the next succeeding paragraph, shall under no circumstances be deemed to materially impair the security interest with respect to the HOT Proceeds Note Collateral) for the benefit of the lenders under the HOT Proceeds Note, and the Issuer shall not, the Covenant Parties shall not and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent (or its delegate) any Lien over any of the HOT Proceeds Note Collateral; *provided*, that, subject to the proviso in the second sentence of the next succeeding paragraph, the Issuer, the Covenant Parties and the Restricted Subsidiaries may Incur Permitted HOT Proceeds Note Collateral Liens, (x) the HOT Proceeds Note Collateral may be discharged, amended, extended, renewed, restated, supplemented, released, modified or replaced in accordance with the HOT Proceeds Note or the applicable HOT Security Documents and (y) the Covenant Parties and their Restricted Subsidiaries may consummate any other transaction permitted under ''—*Merger and Consolidation*'' and (z) the Issuer, the Company and its Restricted Subsidiaries may consummate the HOT Direct Obligation Event.

Notwithstanding the above, nothing in this covenant shall restrict the discharge and release of any HOT Proceeds Note Security Interest in accordance with the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement. Subject to the foregoing, the HOT Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for HOT Proceeds Note Permitted Collateral Liens; (iii) make any change reasonably necessary in the good faith determination of the Issuer in order to implement transactions permitted under ''—*Merger and Consolidation*;'' (iv) add to the HOT Proceeds Note Collateral; (v) consummate the HOT Direct Obligation Event or (vi) make any other change thereto that does not adversely affect the Holders or the Issuer in any material respect; *provided, however*, that, contemporaneously with any such action in clauses (ii), (iii), (iv), (v) and (vi), the Issuer delivers to the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an independent financial advisor or appraiser or investment bank of international standing which confirms the solvency of HOT and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, (2) a certificate from the chief financial officer or the Board of Directors of the relevant Person which confirms the solvency of the Person granting HOT Proceeds Note Security Interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, or (3) an opinion of counsel (subject to any

qualifications customary for this type of opinion of counsel), in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the Lien or Liens created under the HOT Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

In the event that the Issuer, the Covenant Parties and the Restricted Subsidiaries comply with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendments without the need for instructions from the Holders.

Payments for Consents

The Issuer will not and no Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of this Indenture or the Notes unless such consideration is offered to be paid and is paid to all holders of Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Issuer, the Covenant Parties and the Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of this Indenture, to exclude holders of Notes in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an exchange offer or an offer to purchase for cash, or (ii) the payment of the consideration therefor would require the Issuer, any Covenant Party or any Restricted Subsidiary to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states or the State of Israel), which the Issuer in its sole discretion determine (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction) or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Additional Intercreditor Agreements

The Indenture provides that, at the request of the Issuer, in connection with the Incurrence by the Issuer, a Covenant Party or a Restricted Subsidiary of any Indebtedness that is permitted to share the Notes Collateral pursuant to the definition of Permitted Collateral Liens, the Issuer, the relevant Covenant Party or Restricted Subsidiary, the Trustee and the Security Agent shall enter into with the holders of such Indebtedness (or their duly authorized Representatives) an intercreditor agreement (an ''Additional Intercreditor Agreement'') or a restatement, amendment or other modification of the existing Intercreditor Agreement on substantially the same terms as the Intercreditor Agreement (or terms not materially less favorable to the Holders), including containing substantially the same terms with respect to release of Note Guarantees and priority and release of the Security Interests; *provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, as applicable, adversely affect the rights, duties, liabilities or immunities of the Trustee or Security Agent under the Indenture or the Intercreditor Agreement. For the avoidance of doubt, subject to the foregoing and the succeeding paragraph, any such Additional Intercreditor Agreement may provide for *pari passu* or subordinated security interests in respect of any such Indebtedness (to the extent such Indebtedness is permitted to share the Notes Collateral pursuant to the definition of Permitted Collateral Lien).

The Indenture also provides that, at the direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to any Intercreditor Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of any such agreement, (2) increase the amount or types of Indebtedness covered by any such agreement that may be Incurred by the Issuer or a Guarantor that is subject to any such agreement (including with respect to any Intercreditor Agreement or Additional Intercreditor Agreement, the addition of provisions relating to

new Indebtedness ranking junior in right of payment to the Notes), (3) add Covenant Parties or Restricted Subsidiaries to the Intercreditor Agreement or an Additional Intercreditor Agreement, (4) further secure the Notes (including Additional Notes), (5) make provision for equal and ratable pledges of the Notes Collateral to secure Additional Notes, (6) implement any Permitted Collateral Liens, (7) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof; (8) make any change reasonably necessary, in the good faith determination of the Issuer in order to implement any transaction that is subject to the covenants described under the caption ''—*Merger and Consolidation*''; or (9) implement any transaction in connection with the renewal extension, refinancing, replacement or increase of the Credit Facilities that is not prohibited by the Indenture or make any other change to any such agreement that does not adversely affect the Holders in any material respect; *provided* that no such changes shall be permitted to the extent they affect the ranking of any Note or Note Guarantee, enforcement of Liens over the Notes Collateral, the application of proceeds from the enforcement of Notes Collateral or the release of any Note Guarantees or Security in a manner than would adversely affect the rights of the holders of the Notes in any material respect except as otherwise permitted by the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement immediately prior to such change. The Issuer shall not otherwise direct the Trustee or the Security Agent to enter into any amendment to any Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under ''Amendments and Waivers'', and the Issuer may only direct the Trustee and the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Indenture also provides that, in relation to any Intercreditor Agreement or Additional Intercreditor Agreement, the Trustee (and Security Agent, if applicable) shall consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided*, *however*, that such transaction would comply with the covenant described under ''—*Limitation on Restricted Payments*''.

The Indenture also provides that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein), and to have directed the Trustee and the Security Agent to enter into any such Additional Intercreditor Agreement.

Post-Closing Guarantees and Security

On the Completion Date:

(1) the Company will issue, and the Issuer will acquire, the Cool Proceeds Note;

(2) SPV-1 will issue, and the Issuer will acquire, the Acquisition Proceeds Note;

(3) Each of the Issuer, the Company and SPV-1 will execute and deliver to the Security Agent the Security Documents attached to the Escrow Agreement to which it is intended to be a party and grant first-ranking Liens over the property and assets described above under ''*Notes Security*'';

(4) the Issuer will, and the Company will procure that HOT and the HOT Guarantors will, execute the HOT Proceeds Term Note, and the Company will procure that HOT issues, and the Issuer will acquire, the HOT Proceeds Term Note;

(5) the Company will procure that each of HOT and each HOT Guarantor executes and delivers to the Security Agent the HOT Security Documents attached to the Escrow Agreement to which it is intended to be a party and grant first-ranking Liens over the property and assets described above under ''HOT Proceeds Note Collateral'' (other than the Excluded Assets and, in the event the MOC Security Approval has not been obtained by the Completion Date, the License Assets of HOT and the HOT Guarantors); and

(6) the Company will procure that each of Altice VII S.à r.l and HoldCo executes and delivers to the Security Agent the Security Documents to which it is intended to be a party that are attached to the Escrow Agreement.

MOC Security Approval

The Issuer and the Company will, and the Company will procure that its Restricted Subsidiaries will, use their commercially reasonable efforts to obtain the MOC Security Approval within 180 days of the Issue Date, provided that the failure to obtain the MOC Security Approval will not be a Default or Event of Default under the Notes or the Indenture.

Events of Default

Each of the following is an ''Event of Default'' under the Indenture:

(1) default in any payment of interest or Additional Amounts, if any, on any Note issued under the Indenture when due and payable, continued for 30 days;

(2) default in the payment of the principal amount of or premium, if any, on any Note issued under the Indenture when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure by the Issuer, any Covenant Party or any Restricted Subsidiary to comply for 30 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes with any of its obligations under the covenants described under ''Change of Control'' above, under the covenants described under ''*—Certain Covenants*'' above (in each case, other than (i) a failure to purchase Notes, which will constitute an Event of Default under clause (2) above), (ii) a failure to comply with the covenant described under ''*—Certain Covenants—Post-Closing Guarantees and Security*'', which shall be governed by clause (10) below and (iii) a failure to comply with the covenant described under ''*—Certain Covenants—MOC Security Approval*'' or under the Escrow Agreement;

(4) failure by the Issuer, any Covenant Party, any Restricted Subsidiary or any other grantor of a Lien over the Notes Collateral to comply for 60 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes with its other agreements contained in the Indenture (other than the covenant described under ''*—Certain Covenants—MOC Security Approval*''), the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer, a Covenant Party or any Restricted Subsidiary (or the payment of which is Guaranteed by the Issuer, a Covenant Party or any Restricted Subsidiary) other than Indebtedness owed to the Issuer, a Covenant Party or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default:

    (a) is caused by the failure to pay principal of, or interest or premium, if any, on, such Indebtedness at the Stated Maturity thereof prior to the expiration of the grace period provided in such Indebtedness on the date of such default (''payment default''); or

    (b) results in the acceleration of such Indebtedness prior to its maturity (the ''cross-acceleration provision''),

    and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates $20 million or more;

(6) certain events of bankruptcy, insolvency or court protection of the Issuer, a Covenant Party or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary (the ''bankruptcy provisions'');

(7) failure by Issuer, a Covenant Party or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary to pay final judgments aggregating in excess of (i) $20 million or (ii) with respect to a judgment relating to the AGICOA litigation described under ''*Description of Our Business—Legal Proceedings—AGICOA Litigation Relating to Copyright Infringement*'', $30 million (in each case, exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final (the ''judgment default provision'');

(8) any security interest under the Security Documents shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Indenture) with respect to Notes Collateral having a Fair Market Value in excess of $10 million for any reason other than the satisfaction in full of all obligations under the Indenture or the release of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents or any such security interest created thereunder shall be declared invalid or unenforceable and the Issuer shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days (the ''security default provisions'');

(9) any Guarantee of the Notes of a Covenant Party or a Subsidiary Guarantor that is a Significant Subsidiary or any group of Subsidiary Guarantors that taken together would constitute a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee or the Indenture) or is declared invalid or unenforceable in a judicial proceeding or any Guarantor denies or disaffirms in writing its obligations under its Note Guarantee and any such Default continues for 10 days after the notice specified in the Indenture (the ''guarantee provisions'');

(10) failure by the Issuer, the Company, any Restricted Subsidiary, HoldCo or Altice VII S.à r.l to comply for 30 days with any of the provisions of the covenant described under—*Certain Covenants—Post-Closing Guarantees and Security*; and

(11) failure by the Issuer to consummate the Special Mandatory Redemption as described under the caption ''—Escrow of Proceeds; Special Mandatory Redemption.''

However, a default under clauses (3), (4), (5), (7) or (10) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the default and, with respect to clauses (3), (4), (5), (7) and (10) the Issuer does not cure such default within the time specified in clauses (3), (4), (5), or (7) or (10), as applicable, of this paragraph after receipt of such notice.

If an Event of Default described in clause (6) or (11) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders; *provided* that, in the case of an Event of Default specified in clause (11), the amount due and payable shall be equal to the aggregate gross proceeds of the offering of the Notes, plus accrued and unpaid interest and additional amounts, if any. If any other Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the then outstanding Notes may and, if directed by holders of at least 25% in aggregate principal amount of the then outstanding Notes, the Trustee shall, declare all the Notes to be due and payable immediately.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and may not enforce the Security Documents except as provided in such Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Holders of a majority in principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium, interest or Additional Amounts, if any) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee, and the Trustee has received, indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee, and the Trustee has received, security and/or indemnity reasonably satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security and/or indemnity; and

(5) the Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee.

The Indenture will provide that, in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action. The Indenture will provide that if a Default occurs and is continuing and the Trustee is informed of such occurrence by the Issuer, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Issuer. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of trust officers of the Trustee in good faith determines that withholding notice is in the interests of the Holders. The Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Issuer is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

The Notes provide for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Amendments and Waivers

Subject to certain exceptions, the Notes Documents may be amended, supplemented or otherwise modified with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes); *provided*, *however* that if any amendment, waiver or other modification will only affect the Dollar Notes or Euro Notes only the consent of the holders of at least a majority in principal amount of the then outstanding the Dollar Notes or Euro Notes (and not the consent of at least a majority of all Notes then outstanding), as the case may be, shall be required. However, without the consent of Holders holding not less than 90% of the then outstanding principal amount of Notes affected (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) (*provided*, *however* that if any amendment, waiver or other modification will only affect the Dollar Notes or the Euro Notes only the consent of the holders of at least 90% of the aggregate principal amount of the then outstanding the Dollar Notes or the Euro Notes, as the case may be (and not the consent of at least 90% of the aggregate principal amount of all Notes then outstanding)), an amendment or waiver may not, with respect to any Notes held by a non-consenting Holder:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, waiver or modification;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note (other than, for the avoidance of doubt, any payment pursuant to a Change of Control Offer or pursuant to the

provisions of the covenant described under the caption ''—*Limitation on Sales of Assets and Subsidiary Stock*'');

(3) reduce the principal of, or extend the Stated Maturity of, any Note;

(4) reduce the premium payable upon the redemption of any Note or change the time at which any Note may be redeemed, in each case as described above under ''—*Optional Redemption*'' (other than, for the avoidance of doubt, any payment pursuant to a Change of Control Offer or pursuant to the provisions of the covenant described under the caption ''—*Limitation on Sales of Assets and Subsidiary Stock*'');

(5) make any Note payable in money other than that stated in the Note (except to the extent the currency stated in the Notes has been succeeded or replaced pursuant to applicable law);

(6) impair the right of any Holder to receive payment of principal of and interest or Additional Amounts, if any, on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any such payment on or with respect to such Holder's Notes (it being understood that this clause (6) will not apply to provisions under the caption ''*Change of Control*'' and ''*Limitation on Sales of Assets and Subsidiary Stock*'' except to the extent payments thereunder are at such time due and payable);

(7) make any change in the provision of the Indenture described under ''Withholding Taxes'' that adversely affects the right of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the payor agrees to pay Additional Amounts, if any, in respect thereof;

(8) release any of the security interests granted for the benefit of the Holders in the Notes Collateral (to the extent any Notes Collateral so released in any transactions or series of transactions has a fair market value in excess of $30 million) other than in accordance with the terms of the Security Documents, the Intercreditor Agreement, any applicable Additional Intercreditor Agreement and the Indenture;

(9) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Intercreditor Agreement;

(10) waive a Default or Event of Default with respect to the nonpayment of principal, premium or interest or Additional Amounts, if any, on the Notes (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration); or

(11) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Trustee, the Security Agent and the other parties thereto, as applicable, may amend or supplement any Notes Documents to:

(1) cure any ambiguity, omission, defect, error or inconsistency;

(2) provide for the assumption by a successor Person of the obligations of the Issuer or any Guarantor under any Notes Document;

(3) provide for the assumption of a successor Person of the obligations of HOT or any HOT Proceeds Note Guarantor under any HOT Proceeds Note Document;

(4) add to the covenants or provide for a Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Issuer, a Covenant Party or any Restricted Subsidiary;

(5) add to the covenants or provide for a HOT Proceeds Note Guarantee for the benefit of the Issuer or surrender any right or power conferred upon HOT, a HOT Proceeds Note Guarantor or any Restricted Subsidiary of HOT;

(6) make any change that would provide additional rights or benefits to the Trustee or the Holders or does not adversely affect the rights or benefits to the Trustee or any of the Holders in any material respect under the Notes Documents;

(7) make any change that would provide additional rights or benefits to the Issuer or does not adversely affect the rights or benefits to the Issuer in any material respect, in each case, under the HOT Proceeds Note Documents or any other Issuer Proceeds Loan;

(8) make such provisions as necessary (as determined in good faith by the Issuer) for the issuance of Additional Notes Incurred in accordance with the terms of the Indenture;

(9) to provide for any Covenant Party or Restricted Subsidiary to provide a Note Guarantee in accordance with the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'', to add Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to effectuate or confirm and evidence the release, termination, discharge or retaking of any Note Guarantee or Lien (including the Notes Collateral and the Security Documents) or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is provided for under the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement;

(10) to provide for to add Guarantees with respect to the HOT Proceeds Note, to add security to or for the benefit of the HOT Proceeds Note, or to effectuate or confirm and evidence the release, termination, discharge or retaking of any HOT Proceeds Note Guarantee or Lien (including the HOT Proceeds Note Collateral and the HOT Security Documents) or any amendment in respect thereof with respect to or securing the HOT Proceeds Note when such release, termination, discharge or retaking or amendment is provided for under the Indenture, the HOT Security Documents or any intercreditor agreement relating to the HOT Proceeds Note;

(11) to conform the text of the Indenture, the Note Guarantees, the Security Documents, the Notes, the HOT Proceeds Note Guarantees, the HOT Proceeds Note Documents or the HOT Proceeds Note to any provision of this ''Description of Senior Secured Notes'' to the extent that such provision in this ''Description of Senior Secured Notes'' was intended to be a verbatim recitation of a provision of the Indenture, a Note Guarantee, the Security Documents, the Notes, the HOT Proceeds Note Guarantees, the HOT Proceeds Note Documents or the HOT Proceeds Note;

(12) to evidence and provide for the acceptance and appointment under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement of a successor Trustee or Security Agent pursuant to the requirements thereof or to provide for the accession by the Trustee or Security Agent to any Notes Document;

(13) as provided in ''*—Certain Covenants—Additional Intercreditor Agreements*''; or

(14) after a HOT Direct Obligation Event, amend, extend, renew, restate, supplement or otherwise modify or release the HOT Proceeds Note and the HOT Security Documents to give effect to a repayment or reduction in the aggregate principal amount of the HOT Proceeds Note.

In formulating its decision on such matters, the Trustee shall be entitled to require and rely absolutely on such evidence as it deems necessary, including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

For the purpose of calculating the aggregate principal amount of Notes that have consented to or voted in favor of any amendment, supplement or waiver, the Dollar Equivalent of the principal amount of any Euro Notes shall be as of the Issue Date.

For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg act dated 10 August 1915 on commercial companies, as amended, shall not apply in respect of the Notes.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will publish notice of any amendment, supplement and waiver in Luxembourg in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Such notice of any amendment, supplement and waiver may also be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules of the Luxembourg Stock Exchange.

Acts by Holders

In determining whether the Holders of the required principal amount of the Notes have concurred in any direction, waiver or consent, the Notes owned by the Issuer or a Covenant Party or by any Person directly or indirectly controlling, or controlled by, or under direct or indirect common control with the Issuer or a Covenant Party will be disregarded and deemed not to be outstanding.

Defeasance

The Issuer at any time may terminate all obligations of the Issuer under the Notes and the Indenture (''legal defeasance'') and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the right to receive payment, defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Issuer exercises its legal defeasance option, the Security Documents and the rights of the Trustee and the Holders under the Intercreditor Agreement or any Additional Intercreditor Agreement in effect at such time will terminate (other than with respect to the defeasance trust).

The Issuer at any time may terminate its obligations under certain covenants described under ''—*Certain Covenants*'' and ''*Change of Control*'' and the default provisions relating to such covenants described under ''*Events of Default*'' above, the operation of the cross-default upon a payment default, the cross-acceleration provisions, the bankruptcy provisions with respect to the Covenant Parties and Significant Subsidiaries, the judgment default provision, the guarantee provision and the security default provision described under ''*Events of Default*'' above (''covenant defeasance'').

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to such Notes. If the Issuer exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3) (other than with respect to the first paragraph and clauses (1) and (2) of the second paragraph of the covenant described under ''—*Certain Covenants—Merger and Consolidation*''), (4), (5), (6) (with respect only to the Covenant Parties and Significant Subsidiaries), (7), (8) or (9) under ''*Events of Default*'' above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the ''defeasance trust'') with the Trustee (or an entity designated by it for this purpose) cash in U.S. dollars or U.S. dollar-denominated U.S. Government Obligations or a combination thereof (in the case of the Dollar Notes) and cash in Euro or Euro-denominated European Government Obligations or a combination thereof (in the case of the Euro Notes) for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

(1) an Opinion of Counsel (subject to customary exceptions and exclusions) from United States counsel to the effect that Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel from United States counsel must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law);

(2) an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer;

(3) an Officer's Certificate stating that that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with; and

(4) an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940, as amended.

Satisfaction and Discharge

The Indenture, and the rights of the Trustee and the Holders under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when (1) either (a) all the Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes, and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Trustee for cancellation; or (b) all Notes not previously delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee (or an entity designated by it for this purpose), cash in U.S. dollars or U.S. dollar-denominated U.S. Government Obligations, or a combination thereof, (in the case of the Dollar Notes), and cash in Euro or Euro-denominated European Government Obligations or a combination thereof (in the case of the Euro Notes), in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not previously delivered to the Trustee for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the Indenture; and (4) the Issuer has delivered to the Trustee an Officer's Certificate to the effect that all conditions precedent under the ''Satisfaction and Discharge'' section of the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Issuer, any Covenant Party or any of their respective Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Issuer under the Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

Listing and general information

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market. There can be no assurance that the application to list the Notes on the Euro MTF Market of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market will be approved as of the Issue Date or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on its Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Company's annual audited consolidated combined financial statements, the Company's unaudited consolidated combined interim quarterly financial statements and this Offering Memorandum may be obtained, free of charge, during normal business hours at the registered office of the Issuer.

Available Information

Anyone who receives this Offering Memorandum, any Holder of the Notes or holder of a beneficial interest in the Notes, following the Issue Date, may obtain a copy of the Indenture, the form of Notes, the Security Documents, the Escrow Agreement and the Intercreditor Agreement without charge by writing to the Issuer, 37, rue d'Anvers, L-1130 Luxembourg, Attention: Chief Financial Officer.

Concerning the Trustee and Certain Agents

Citibank, N.A., London Branch is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are set forth specifically in the Indenture. The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of

conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. During the existence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty.

The Issuer shall deliver written notice to the Trustee with thirty (30) days of becoming aware of the occurrence of a Default or Event of Default. The Indenture will impose certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture will contain provisions for the indemnification and/or security of the Trustee by the Issuer and the Guarantors for any loss, liability, taxes or expenses incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture.

Notices

All notices to Holders of the Notes will be validly given if mailed to them at their respective addresses in the register of the Holders of such Notes, if any, maintained by the Registrar. In addition, for so long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on its Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, notices with respect to the Notes will be published on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules and the regulations of the Luxembourg Stock Exchange.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

For Notes which are represented by global certificates held on behalf of DTC, Euroclear or Clearstream, notices may be given by delivery of the relevant notices to DTC, Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing.

Prescription

Claims against the Issuer or any Guarantor for the payment of principal, or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

Currency Indemnity

The sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with the Dollar Notes is U.S. dollars and the Euro Notes is Euro, as the case may be, including damages. Any amount received or recovered in a currency other than U.S. dollars or Euro, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the U.S. dollar or Euro amount, as the case may be, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that U.S. dollar or Euro amount is less than the U.S. dollar or Euro amount, as the case may be, expressed to be due to the recipient or the Trustee under any Note, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the Trustee on a joint or several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, any Note Guarantee or to the Trustee.

Enforceability of Judgments

Since substantially all the assets of the Issuer, the Company and the other Guarantors are located outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor, including judgments with respect to the payment of principal, premium, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes or the Note Guarantees, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture, the Notes and the Note Guarantees, the Issuer and each Guarantor will, in the Indenture, appoint CT Corporation System as its agent for service of process and irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States.

Governing Law

The Indenture, the Notes and the Note Guarantees, and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of the State of New York. The application of the provisions set out in Articles 86 to 94-8 of the Luxembourg law dated August 10, 1915 on commercial companies, as amended, is excluded. The Intercreditor Agreement and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of England. The Security Documents and the HOT Security Documents shall be governed by and construed in accordance with the laws of the State of Israel and the Grand Duchy of Luxembourg, as applicable. The HOT Proceeds Note shall be governed by and construed in accordance with the laws of England.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

''*Acquired Indebtedness*'' means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Covenant Party or a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Covenant Party or a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with a Covenant Party or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Covenant Party or a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

''*Additional Assets*'' means:

(1) any property or assets (other than Indebtedness and Capital Stock) not classified as current assets under IFRS used or to be used by a Covenant Party or a Restricted Subsidiary or otherwise useful in a Similar Business (it being understood that capital expenditures on property or assets already used in a Similar Business or to replace any property or assets that are the subject of an Asset Disposition shall be deemed an investment in Additional Assets);

(2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by a Covenant Party or a Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary.

''*Additional Covenant Party*'' means any Person (other than HoldCo, the Issuer, the Company or any of its Subsidiaries) that is under direct or indirect common control with the Company that is designated as an ''Additional Covenant Party'' pursuant to the covenant described under ''*—Certain Covenants—Additional Covenant Parties*''; *provided* that to the extent that a Covenant Party becomes and for so long as it continues to be a direct or indirect Restricted Subsidiary of another Covenant Party, such Person shall cease to be a Covenant Party.

''*Affiliate*'' of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, ''control'' when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms ''controlling'' and ''controlled'' have meanings correlative to the foregoing.

''*Agreed Security Principles*'' means principles set forth in Schedule 15 to the Revolving Credit Facility, which shall be attached as a schedule to the Indenture.

''*Applicable Premium*'' means:

(A) with respect to any Dollar Note the greater of:

  (i) 1% of the principal amount of such Dollar Note; and

  (ii) the excess (to the extent positive) of:

    (1) the present value at such redemption date of (i) the redemption price of such Dollar Note at December 15, 2015 (such redemption price (expressed in percentage of principal amount) being set forth in the table above under the first paragraph of this section (excluding accrued and unpaid interest)), plus (ii) all required interest payments due on such Dollar Note to and including December 15, 2015 (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points; over

    (2) the outstanding principal amount of such Dollar Note,

(B) with respect to any Euro Note the greater of:

  (i) 1% of the principal amount of such Euro Note; and

  (ii) the excess (to the extent positive) of:

    (1) the present value at such redemption date of (i) the redemption price of such Euro Note at December 15, 2015 (such redemption price (expressed in percentage of principal amount) being set forth in the table above under the first paragraph of this section (excluding accrued and unpaid interest)), plus (ii) all required interest payments due on such Euro Note to and including December 15, 2015 (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points; over

    (2) the outstanding principal amount of such Euro Note,

in each case, as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of the Applicable Premium shall not be an obligation or duty of the Trustee or Paying Agents.

''*Asset Disposition*'' means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a ''disposition'') by a Covenant Party or any of the Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction; *provided* that the sale, lease, transfer, issuance or other disposition of all or substantially all of the assets of the Covenant Parties and the Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption ''Change of Control'' and/or the provisions described above under the caption ''*—Certain Covenants—Merger and Consolidation*'' and not by the provisions described under the caption ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

(1) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, by a Restricted Subsidiary to a Covenant Party or by a Covenant Party or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of cash, Cash Equivalents or Temporary Cash Investments;

(3) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of inventory, consumer equipment, trading stock, communications capacity or other assets in the ordinary course of business;

(4) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of obsolete, surplus or worn out equipment or other assets or equipment or other similar assets that are no longer useful in the conduct of the business of a Covenant Party and its Restricted Subsidiaries;

(5) transactions permitted under ''*—Certain Covenants—Merger and Consolidation*'' (other than as permitted under clause (C) of the first paragraph under ''*—Certain Covenants—Merger and Consolidation—The Subsidiary Guarantors*'' and clause (C) of the first paragraph under ''*—Certain Covenants—Merger and Consolidation—The HOT Proceeds Note Guarantors*''), or a transaction that constitutes a Change of Control;

(6) an issuance of Capital Stock by a Restricted Subsidiary to a Covenant Party or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors of the Issuer;

(7) (a) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by the Issuer) of not greater than $20 million or (b) a transfer of Capital Stock of HOT pursuant to the exercise of a Minority Shareholder Call Option as in effect on the Issue Date;

(8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under ''*—Certain Covenants—Limitation on Restricted Payments*'', any transaction specifically excluded from the definition of Restricted Payment and the making of any Permitted Payment or Permitted Investment;

(9) the granting of Liens not prohibited by the covenant described above under the caption ''*—Certain Covenants—Limitation on Liens*'';

(10) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the licensing or sublicensing of intellectual property or other general intangibles and licenses, sublicenses, leases, subleases of other property, in each case, in the ordinary course of business;

(12) foreclosure, condemnation or any similar action with respect to any property or other assets;

(13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;

(14) sales, transfers or dispositions of receivables in connection with any Qualified Receivables Financing or any factoring transaction or in the ordinary course of business;

(15) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(16) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than a Covenant Party or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(17) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(18) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by a Covenant Party or any Restricted Subsidiary to such Person; *provided, however,* that the Board of Directors of the Issuer shall certify that in the opinion of the Board of Directors, the outsourcing transaction will be economically beneficial to the Covenant Parties and the Restricted Subsidiaries (considered as a whole); *provided further,* that the fair market value of the assets disposed of, when taken together with all other dispositions made pursuant to this clause (18), does not exceed the greater of 1.0% of Total Assets and $20 million; and

(19) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, with respect to property built, owned or otherwise acquired by a Covenant Party or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitizations and other similar financings permitted by the Indenture; *provided* that network assets of any Covenant Party or any Restricted Subsidiary shall be excluded from this clause (19) unless the Net Cash Proceeds of such sale and leaseback transaction are applied in accordance with the second paragraph of the covenant described under ''*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''.

''*Associate*'' means (i) any Person engaged in a Similar Business of which a Covenant Party or a Restricted Subsidiary are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture engaged in a Similar Business entered into by a Covenant Party or any Restricted Subsidiary.

''*Beneficial Owner*'' has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Exchange Act, except that in calculating the beneficial ownership of any particular ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act), such ''person'' will be deemed to have beneficial ownership of all securities that such ''person'' has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms ''Beneficially Owns'' and ''Beneficially Owned'' have a corresponding meaning.

''*Board of Directors*'' means (1) with respect to the Issuer or any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof; and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision of this Indenture requires any action or determination to be made by, or any approval of, a

Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

''*Bund Rate*'' means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such redemption date, where:

(1) ''Comparable German Bund Issue'' means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to December 15, 2015 and that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Euro Notes and of a maturity most nearly equal to December 15, 2015; provided, however, that, if the period from such redemption dated to December 15, 2015 is not equal to the fixed maturity of the German Bundesanleihe security selected by such Reference German Bund Dealer, the Bund Rate shall be determined by linear interpolation (calculated to the nearest one-twelfth of a year) from the yields of German Bundesanleihe securities for which such yields are given, except that if the period from such redemption date to December 15, 2015, is less than one year, a fixed maturity of one year shall be used;

(2) ''Comparable German Bund Price'' means, with respect to any redemption date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) ''Reference German Bund Dealer'' means any dealer of German Bundesanleihe securities appointed by the Issuer in good faith; and

(4) ''Reference German Bund Dealer Quotations'' means, with respect to each Reference German Bund Dealer and any redemption date, the average as determined by the Issuer in good faith of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany, time on the third Business Day preceding the redemption date.

''*Business Day*'' means each day that is not a Saturday, Sunday or other day on which banking institutions in London, United Kingdom, the Grand Duchy of Luxembourg or New York, New York, United States are authorized or required by law to close.

''*Capital Stock*'' of any Person means any and all shares of, interests, rights to purchase, warrants or options for, participation or other equivalents of, or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

''*Capitalized Lease Obligations*'' means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes on the basis of IFRS. The amount of Indebtedness will be, at the time any determination is to be made, the amount of such obligation required to be capitalized on a balance sheet (excluding any notes thereto) prepared in accordance with IFRS, and the stated maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty. For the avoidance of doubt, operating leases will not be deemed Capitalized Lease Obligations.

''*Cash Equivalents*'' means:

(1) securities issued or directly and fully Guaranteed or insured by the United States Government, the State of Israel, the United Kingdom, Switzerland or any member state of the European Union (other than Greece or Portugal), in each case, any agency or instrumentality of thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;

(2) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by (i) any of Israel Discount Bank Ltd, Mizrahi Tefahot Bank Ltd, Bank Leumi of Israel or Bank Hapoalim Ltd or (ii) a bank or trust company (a) whose commercial paper is rated at least ''A-1 ''or the equivalent thereof by S&P or at least ''P-1 ''or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that such bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €500 million;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least ''A-2'' or the equivalent thereof by S&P or ''P-2'' or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;

(5) readily marketable direct obligations issued by any state of the United States of America, any member of the European Union (other than Greece or Portugal) or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;

(6) bills of exchange issued in the United States, a member state of the European Union (other than Greece or Portugal), eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent); and

(7) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (6) above.

''*Change of Control*'' means:

(1) (a) prior to the Permitted Parent Designation, the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more Permitted Holders becomes the Beneficial Owner, directly or indirectly, of more than 50% of the issued and outstanding Voting Stock of the Company or any Covenant Party in a Covenant Party Control Group, in each case, measured by voting power rather than number of shares; and (b) on and after the Permitted Parent Designation, the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more Permitted Holders becomes the Beneficial Owner, directly or indirectly, of more than 50% of the issued and outstanding Voting Stock of the Company or the Permitted Parent, in each case, measured by voting power rather than number of shares;

(2) following the first Public Offering by the IPO Entity, during any period of two consecutive years, individuals who at the beginning of such period constituted the majority of the directors (excluding any employee representatives, if any) on the Board of Directors of the IPO Entity (together with any new directors whose election by the majority of such directors on such Board of Directors of the IPO Entity or whose nomination for election by shareholders of the IPO Entity, as applicable, was approved by a vote of the majority of such directors on the Board of Directors of the IPO Entity then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) ceased for any reason to constitute the majority of the directors (excluding any employee representatives, if any) on the Board of Directors of the IPO Entity, then in office;

(3) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of:

   (a) prior to the Permitted Parent Designation, the Company and its Restricted Subsidiaries, taken as a whole, or the Covenant Parties and the Restricted Subsidiaries, taken as a whole; and

   (b) on and after the Permitted Parent Designation, the Company and its Restricted Subsidiaries, taken as a whole, or the Permitted Parent and the Restricted Subsidiaries, taken as a whole,

   in each case, to a Person (including any ''person'' as defined above), other than a Permitted Holder; or

(4) the first day on which HoldCo fails to own, directly or indirectly, 100% of the Capital Stock of the Issuer or the Permitted Holders fail to own, directly or indirectly, 100% of the Capital Stock of HoldCo.

''*Commodity Hedging Agreements*'' means, in respect of a Person, any commodity purchase contract, commodity futures or forward contract, commodities option contract or other similar contract (including commodities derivative agreements or arrangements), to which such Person is a party or a beneficiary.

''*Company*'' means Cool Holding Ltd.

''*Completion Date*'' means the date of the consummation of the Transactions.

''*Consolidated Combined EBITDA*'' for any period means, without duplication, the Consolidated Combined Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Combined Net Income:

(1) Consolidated Interest Expense and Receivables Fees;

(2) Consolidated Income Taxes;

(3) consolidated combined depreciation expense;

(4) consolidated combined amortization expense;

(5) any expenses, charges or other costs related to any Equity Offering, Investment, acquisition (including amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business; *provided* that such payments are made at the time of such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), disposition, recapitalization or the Incurrence of any Indebtedness permitted by the Indenture (whether or not successful) (including any such fees, expenses or charges related to the Transactions), in each case, as determined in good faith by the Issuer;

(6) any minority interest expense (whether paid or not) consisting of income attributable to minority equity interests of third parties in such period or any prior period or any net earnings, income or share of profit of any Associates, associated company or undertaking;

(7) any non-cash management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders (whether directly or indirectly, including through any Parent) in an aggregate principal amount not to exceed $10 million; and

(8) other non-cash charges, write-downs or items reducing Consolidated Combined Net Income (excluding any such non-cash charge, write-down or item to the extent it represents an accrual of or reserve for cash charges in any future period) or other non-cash items classified by the Company as special items less other non-cash items of income increasing Consolidated Combined Net Income (other than any non-cash items increasing such Consolidated Combined Net Income pursuant to clauses (1) through (13) of the definition of Consolidated Combined Net Income and excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period).

''*Consolidated Combined Net Income*'' means, for any period, the net income (loss) of the Issuer, the Covenant Parties and the Restricted Subsidiaries determined on a consolidated combined basis on the

basis of IFRS; *provided*, *however*, that there will not be included in such Consolidated Combined Net Income:

(1) subject to the limitations contained in clause (3) below, any net income (loss) of any Person if such Person is not a Covenant Party or a Restricted Subsidiary, except that a Covenant Party's equity in the net income of any such Person for such period will be included in such Consolidated Combined Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to such Covenant Party or a Restricted Subsidiary as a dividend or other distribution or return on investment (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below);

(2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under ''—*Certain Covenants—Limitation on Restricted Payments*'', any net income (loss) of any Restricted Subsidiary that is not a Guarantor if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to a Covenant Party by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes, the Indenture, the Senior Notes, the Senior Indenture or the HOT Proceeds Note, (c) contractual or legal restrictions in effect on the Issue Date with respect to a Restricted Subsidiary (including pursuant to the Notes, the Intercreditor Agreement and the Existing Hot Unsecured Notes), and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the Holders than such restrictions in effect on the Issue Date, and (d) restrictions as in effect on the Issue Date specified in clause (12) of the second paragraph of the covenant described under ''—*Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries*'') except that the Covenant Party's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Combined Net Income up to the aggregate amount of cash or Cash Equivalents or non-cash distributions to the extent converted into cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to a Covenant Party or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(3) any net gain (or loss) realized upon the sale, abandonment or other disposition of any asset or disposed operations of a Covenant Party or any Restricted Subsidiary (including pursuant to any sale/ leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer of the Issuer);

(4) any extraordinary, exceptional, unusual or nonrecurring gain, loss, charge or expense or any charges, expenses or reserves in respect of any restructuring, redundancy or severance or any expenses, charges, reserves, gains or other costs related to the Transactions;

(5) the cumulative effect of a change in accounting principles;

(6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness;

(8) any unrealized gains or losses in respect of Hedging Obligations or other derivative instruments or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations or other derivative instruments;

(9) any unrealized foreign currency translation gains or losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;

(10) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of a Covenant Party or any Restricted Subsidiary owing to the Issuer, a Covenant Party or any Restricted Subsidiary;

(11) any one-time non-cash charges or any increases in amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of another Person or business or resulting from any reorganization or restructuring involving a Covenant Party or its Subsidiaries;

(12) any goodwill or other intangible asset impairment charge or write-off; and

(13) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding.

''*Consolidated Income Taxes*'' means taxes or other payments, including deferred Taxes, based on income, profits or capital of the Issuer, any of the Covenant Parties and the Restricted Subsidiaries whether or not paid, estimated, accrued or required to be remitted to any governmental authority.

''*Consolidated Interest Expense*'' means, for any period (in each case, determined on the basis of IFRS), the consolidated combined net interest income/expense of the Issuer, the Covenant Parties and the Restricted Subsidiaries, whether paid or accrued, plus or including (without duplication) any interest, costs and charges consisting of:

(1) interest expense attributable to Capitalized Lease Obligations;

(2) amortization of debt discount, but excluding amortization of debt issuance costs, fees and expenses and the expensing of any bridge or other financing fees;

(3) non-cash interest expense;

(4) dividends on other distributions in respect of all Disqualified Stock of the Issuer and Covenant Parties and all Preferred Stock of any Restricted Subsidiary, to the extent held by Persons other than a Covenant Party or a Subsidiary of a Covenant Party;

(5) the consolidated interest expense that was capitalized during such period;

(6) net payments and receipts (if any) pursuant to Hedging Obligations (other than Currency Agreements) (excluding unrealized mark-to-market gains and losses attributable to Hedging Obligations (other than Currency Agreements)); and

(7) any interest on Indebtedness of another Person that is guaranteed by the Issuer, any Covenant Party or any Restricted Subsidiary or secured by a Lien on assets of the Issuer, any Covenant Party or any of Restricted Subsidiary.

Notwithstanding any of the foregoing, Consolidated Interest Expense shall not include (i) any interest accrued, capitalized or paid in respect of Subordinated Shareholder Funding, (ii) any commissions, discounts, yield and other fees and charges related to Qualified Receivables Financing, (iii) any payments on any operating leases, including without limitation any payments on any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date, (iv) net payments and receipts (if any) pursuant to Currency Agreements (excluding unrealized mark-to-market gains and losses attributable to Hedging Obligations) and (v) any interest expense related to a Guarantee of Indebtedness of HoldCo Incurred in compliance with the Indenture, *provided* that the interest expense of any HoldCo Proceeds Loan(s) related thereto is included in the calculation of Consolidated Interest Expense in an equal or greater amount.

''*Consolidated Leverage*'' means the sum, without duplication, of the aggregate outstanding Indebtedness of the Issuer and the Covenant Party Group (excluding (i) Hedging Obligations and (ii) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary, Indebtedness of a Covenant Party owing to and held by the Issuer, any Covenant Party or any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary); *provided* that any Guarantees by the Issuer and the Guarantors of Indebtedness of HoldCo permitted to be Incurred under clause (15) of the second paragraph of the covenant entitled ''*—Certain Covenants—Limitation on Indebtedness*'' will be excluded from this definition of Consolidated Leverage to the extent an equal or greater aggregate amount of Indebtedness in respect of HoldCo Proceeds Loans outstanding on the relevant date of determination is included in this definition of Consolidated Leverage.

''*Consolidated Leverage Ratio*'' means, as of any date of determination, the ratio of (x) Consolidated Leverage at such date to (y) the aggregate amount of Consolidated Combined EBITDA for the period of the most recent two consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated combined financial statements of the Issuer and the Covenant Party Group are available multiplied by 2.0; *provided*, *however*, that the *pro forma* calculation of the Consolidated Leverage Ratio shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*'' or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*''; *provided*, *further*, *however*, that for the purposes of calculating Consolidated Combined EBITDA for such period, if, as of such date of determination:

(1) since the beginning of such period a Covenant Party or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business or otherwise ceases to be a Restricted Subsidiary (and is not a Restricted Subsidiary at the end of such period) (any such disposition, a ''Sale'') or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated Combined EBITDA for such period will be reduced by an amount equal to the Consolidated Combined EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated Combined EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes ''discontinued operations'' in accordance with IFRS, Consolidated Combined Net Income shall be reduced by an amount equal to the Consolidated Combined Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Combined Net Income (if negative) attributable thereto for such period;

(2) since the beginning of such period, a Parent, a Covenant Party or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary or a Covenant Party, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business or a Person otherwise becomes a Restricted Subsidiary or a Covenant Party (and remains a Restricted Subsidiary or a Covenant Party at the end of such period) (any such Investment, acquisition or designation, a ''Purchase''), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto (as determined in good faith by a responsible accounting or financial officer of the Company), including in respect of anticipated expense and cost reductions and synergies (other than revenue synergies), as if such Purchase occurred on the first day of such period; and

(3) since the beginning of such period, any Person that became a Covenant Party, a Restricted Subsidiary or was merged or otherwise combined with or into a Covenant Party or any Restricted Subsidiary since the beginning of such period will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by a Covenant Party or a Restricted Subsidiary since the beginning of such period, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

For the purposes of this definition and the definitions of Consolidated Combined EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Combined Net Income, (a) calculations will be as determined in good faith by a responsible financial or accounting officer of the Company or an Officer of the Issuer (including in respect of anticipated expense and cost reductions and synergies (other than revenue synergies)), (b) in determining the amount of Indebtedness outstanding on any date of determination, *pro forma* effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness as if such transaction had occurred on the first day of the relevant period and (c) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Hedging Obligations applicable to such Indebtedness if such Hedging Obligation has a remaining term in excess of 12 months).

''*Consolidated Senior Secured Leverage*'' means the sum of the aggregate outstanding Senior Secured Indebtedness of the Issuer and the Covenant Party Group (excluding Hedging Obligations).

''*Consolidated Senior Secured Leverage Ratio*'' means, as of any date of determination, the ratio of (x) Consolidated Senior Secured Leverage at such date to (y) the aggregate amount of Consolidated Combined EBITDA for the period of the most recent two consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated combined financial statements of the Issuer and the Covenant Party Group are available multiplied by 2.0; *provided*, *however*, that the *pro forma* calculation of the Consolidated Senior Secured Leverage Ratio shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*'' or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*''; *provided*, *further*, *however*, that for the purposes of calculating Consolidated Combined EBITDA for such period, if, as of such date of determination:

(1) since the beginning of such period a Covenant Party or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business or otherwise ceases to be a Restricted Subsidiary (and is not a Restricted Subsidiary at the end of such period) (any such disposition, a ''Sale'') or if the transaction giving rise to the need to calculate the Consolidated Senior Secured Leverage Ratio is such a Sale, Consolidated Combined EBITDA for such period will be reduced by an amount equal to the Consolidated Combined EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated Combined EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes ''discontinued operations'' in accordance with IFRS, Consolidated Combined Net Income shall be reduced by an amount equal to the Consolidated Combined Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Combined Net Income (if negative) attributable thereto for such period;

(2) since the beginning of such period, a Parent, a Covenant Party or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Covenant Party or a Restricted Subsidiary, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business or a Person otherwise becomes a Covenant Party or a Restricted Subsidiary (and remains a Covenant Party or a Restricted Subsidiary at the end of such period) (any such Investment, acquisition or designation, a ''Purchase''), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period; and

(3) since the beginning of such period, any Person (that became a Covenant Party, a Restricted Subsidiary or was merged or otherwise combined with or into a Covenant Party or any Restricted Subsidiary since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by a Covenant Party or a Restricted Subsidiary since the beginning of such period, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

For the purposes of this definition and the definitions of Consolidated Combined EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Combined Net Income, (a) calculations will be as determined in good faith by a responsible financial or accounting officer of the Company or an Officer of the Issuer (including in respect of anticipated expense and cost reductions and synergies (other than revenue synergies)), (b) in determining the amount of Indebtedness outstanding on any date of determination, *pro forma* effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness as if such transaction had occurred on the first day of the relevant period and (c) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Hedging Obligations applicable to such Indebtedness if such Hedging Obligation has a remaining term in excess of 12 months).

''*Contingent Obligations*'' means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other

obligation that does not constitute Indebtedness (''primary obligations'') of any other Person (the ''primary obligor''), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

  (a) for the purchase or payment of any such primary obligation; or

  (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

''*Cool Interest Loan*'' means the shareholder loan from Altice VII S.à r.l to the Company in an amount equal to NIS 37 million.

''*Covenant Party*'' means the Company and each Additional Covenant Party.

''*Covenant Party Contribution*'' means the Issuance of any Capital Stock (other than Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) or Subordinated Shareholder Funding of any Covenant Party in exchange for, or any contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of a Covenant Party or any Restricted Subsidiary of, all or a portion of the Capital Stock of another Covenant Party (or any other Person that is under common control with the Company) or the Capital Stock of any other entity that owns Capital Stock of a Covenant Party (or any other Person that is under common control with the Company) or any Net Cash Proceeds from the sale of the foregoing.

''*Covenant Party Control Group*'' means a Covenant Party and its Restricted Subsidiaries or a combination of two or more Covenant Parties and their Restricted Subsidiaries that together make up more than 50% of Total Assets or more than 50% of Consolidated Combined EBITDA as reflected in the most recent consolidated combined financial statements of the Covenant Parties delivered to the Trustee.

''*Covenant Party Group*'' means the Covenant Parties and the Restricted Subsidiaries.

''*Credit Facility*'' means, with respect to the Issuer, the Covenant Parties or any of their Subsidiaries, one or more debt facilities, arrangements, instruments, trust deeds, note purchase agreements or indentures or commercial paper facilities and overdraft facilities (including the Revolving Credit Facility) with banks, institutions, funds or investors providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), notes, bonds, debentures letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks, institutions or investors and whether provided under one or more credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term ''Credit Facility'' shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of a Covenant Party as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

''*Currency Agreement*'' means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, cap, floor, ceiling, collar, currency derivative or other similar agreement to which such Person is a party or beneficiary.

''*Default*'' means any event which is, or after giving notice or with the passage of time or both would be, an Event of Default.

''*Designated Non-Cash Consideration*'' means the fair market value (as determined in good faith by the Issuer) of non-cash consideration received by a Covenant Party or a Restricted Subsidiary in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''.

''*Designated Preference Shares*'' means, with respect to a Covenant Party, Preferred Stock (other than Disqualified Stock) (a) that is issued for cash (other than to a Covenant Party or a Subsidiary of a Covenant Party or an employee stock ownership plan or trust established by a Covenant Party or any such Subsidiary for the benefit of their employees to the extent funded by such Covenant Party or such Subsidiary) and (b) that is designated as ''Designated Preference Shares'' pursuant to an Officer's Certificate of the Issuer at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of the first paragraph of the covenant described under ''*—Certain Covenants—Limitation on Restricted Payments*''.

''*Disinterested Director*'' means, with respect to any Affiliate Transaction, a member of the Board of Directors of the Issuer having no material direct or indirect financial interest in or with respect to such Affiliate Transaction. A member of the Board of Directors of the Issuer shall be deemed not to have such a financial interest by reason of such member's holding Capital Stock of a Covenant Party or any Parent or any options, warrants or other rights in respect of such Capital Stock.

''*Disqualified Stock*'' means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of a Covenant Party or a Restricted Subsidiary); or

(3) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or repurchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part,

in each case, on or prior to the earlier of (a) the Stated Maturity of the Notes or (b) the date on which there are no Notes outstanding; *provided*, *however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require a Covenant Party to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under ''*—Certain Covenants—Limitation on Restricted Payments*''.

''*Dollar Equivalent*'' means, with respect to any monetary amount in a currency other than U.S. dollar (''*Other Currency*''), at any time of determination thereof by the Issuer or the Trustee, the amount of U.S. dollars obtained by converting such Other Currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the Other Currency as published in *The Financial Times* in the ''Currency Rates'' section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Issuer) on the date of such determination.

''*Equity Offering*'' means a public or private sale of (x) Capital Stock of a Covenant Party or (y) Capital Stock or other securities, the proceeds of which are contributed as Subordinated Shareholder Funding or to the equity of a Covenant Party or any of its Restricted Subsidiaries, in each case other than:

(1) Disqualified Stock;

(2) Designated Preference Shares;

(3) offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions;

(4) any such sale to an Affiliate of a Covenant Party, including the Issuer, a Covenant Party or a Restricted Subsidiary; and

(5) any such sale that constitutes an Excluded Contribution or a Covenant Party Contribution.

''*Escrowed Proceeds*'' means the proceeds from the offering of any debt securities or other Indebtedness paid into an escrow account with an independent escrow agent on the date of the applicable offering or Incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow account upon satisfaction of certain conditions or the occurrence of certain events. The term ''Escrowed Proceeds'' shall include any interest earned on the amounts held in escrow.

''*Euro*'' or ''€'' means the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

''*European Government Obligations*'' means direct obligations of, or obligations guaranteed by, a member state of the European Monetary Union as of the date of the Indenture, and the payment for which such member state of the European Monetary Union pledges its full faith and credit; provided that such member state has a long-term government debt rating of ''A1'' or higher by Moody's or A+ or higher by S&P or the equivalent rating category of another internationally recognized rating agency.

''*Exchange Act*'' means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

''*Excluded Contribution*'' means Net Cash Proceeds or property or assets received by a Covenant Party as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through a Covenant Party Contribution) of such Covenant Party after the Issue Date or from the issuance or sale (other than to the Issuer, a Covenant Party, a Restricted Subsidiary or an employee stock ownership plan or trust established by a Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by the Issuer, a Covenant Party or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preference Shares or through a Covenant Party Contribution) or Subordinated Shareholder Funding of a Covenant Party, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of the Issuer.

''*Existing HOT Unsecured Notes*'' refers to the NIS 825 million notes (Series A) and the NIS 675 million notes (Series B) of HOT, offered to the Israeli investors pursuant to an Israeli shelf offering report dated March 29, 2011 under an Israeli shelf prospectus dated February 28, 2011, as amended on March 29, 2011, and as shall be amended from time to time.

''*fair market value*'' wherever such term is used in this ''Description of Senior Secured Notes'' or the Indenture (except in relation to an enforcement action pursuant to the Intercreditor Agreement and except as otherwise specifically provided in this ''Description of Senior Secured Notes'' or the Indenture), may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of the Issuer setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

''*Guarantee*'' means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, *however*, that the term ''Guarantee'' will not include endorsements for collection or deposit in the ordinary course of business or any guarantee of performance. The term ''Guarantee'' used as a verb has a corresponding meaning.

''*Guarantor*'' means (i) as of the Completion Date, the Company and SPV-1 and (ii) each Person that executes a Note Guarantee in accordance with the provisions of the Indenture in its capacity as a guarantor of the Notes and its respective successors and assigns, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

''*Hedging Obligations*'' of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement.

''*HoldCo*'' means Altice Finco S.A., a Luxembourg public limited liability company (*société anonyme*).

''*HoldCo Proceeds Loan*'' means any loan agreement entered into between HoldCo and the Issuer pursuant to which HoldCo lends to the Issuer all or substantially all of the net proceeds of any Incurrence of Indebtedness by HoldCo; *provided* that (i) the principal amount of, and interest rate on, such HoldCo Proceeds Loan will not be greater than the principal amount of, and interest rate on, the Indebtedness of HoldCo that funded such HoldCo Proceeds Loan (except to the extent a reasonable margin is required by law), (ii) a Lien over such HoldCo Proceeds Loan is granted at the time of its Incurrence on a senior basis to secure the Notes and the Note Guarantees, (iii) any Lien over such HoldCo that secures the Indebtedness of HoldCo will be junior to the Lien over such HoldCo Proceeds Loan granted to secure the Notes and the Note Guarantees and (ii) such HoldCo Proceeds Loan shall be subject to the Intercreditor Agreement and any Additional Intercreditor Agreement.

''*Holder*'' means each Person in whose name the Notes are registered.

''*HOT Credit Facility*'' means the credit agreement entered into and signed on 17 March 2011 between, amongst others, HOT Communications Systems Ltd, HOT Telecom Limited Partnership and HOT Net Internet Services as the borrowers, Bank Hapoalim Ltd. and Bank Leumi of Israel as the coordinators, Bank Hapoalim Ltd. as credit agent, Bank Leumi of Israel as securities trustee and the financial institutions party thereto as lenders (as amended prior to the Completion Date).

''*HOT Mobile License Guarantee*'' means the NIS 695 million bank guarantee to the Ministry of Communications and Broadcast Council Incurred in connection HOT's acquisition of a frequency allotment and a cellular license in 2011.

''*HOT Proceeds Note Documents*'' means the HOT Proceeds Note and the HOT Security Documents.

''*HOT Security Documents*'' means the security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the HOT Proceeds Note or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating the security interests in the HOT Proceeds Note Collateral as contemplated by the Indenture and the HOT Proceeds Note.

''*IFRS*'' means International Financial Reporting Standards as issued by the International Accounting Standards Board or any successor board or agency as endorsed by the State of Israel and in effect on the date hereof, or, with respect to the covenant described under the caption ''Reports'' as in effect from time to time.

''*Incur*'' means issue, create, assume, enter into any Guarantee of, incur, extend or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Covenant Party or a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Covenant Party or such Restricted Subsidiary at the time it becomes a Covenant Party or a Restricted Subsidiary and the terms ''*Incurred*'' and ''*Incurrence*'' have meanings correlative to the foregoing and any Indebtedness pursuant to any revolving credit or similar facility shall only be ''Incurred'' at the time any funds are borrowed thereunder.

''*Indebtedness*'' means, with respect to any Person on any date of determination (without duplication):

(1) the principal of indebtedness of such Person for borrowed money;

(2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have not been reimbursed) (except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of Incurrence);

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of assets acquired or services supplied (except trade payables), which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto;

(5) Capitalized Lease Obligations (excluding network and duct leases in existence on the Issue Date) of such Person;

(6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided*, *however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination (as determined in good faith by the Issuer) and (b) the amount of such Indebtedness of such other Persons;

(8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Currency Agreements, Commodity Hedging Agreements and Interest Rate Agreements (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The term ''Indebtedness'' shall not include (i) Subordinated Shareholder Funding, (ii) any lease (including for avoidance of doubt, any network lease), concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date, (iii) prepayments of deposits received from clients or customers in the ordinary course of business, (iv) any pension obligations, (v) Contingent Obligations Incurred in the ordinary course of business, (vi) obligations under or in respect of Qualified Receivables Financing, (vii) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Issue Date or in the ordinary course of business, (viii) non-interest bearing installment obligations and accrued liabilities incurred in the ordinary course of business that are not more than 120 days past due, (ix) Indebtedness in respect of the incurrence by a Covenant Party or any Restricted Subsidiary of Indebtedness in respect of standby letters of credit, performance bonds or surety bonds provided by a Covenant Party or any Restricted Subsidiary in the ordinary course of business to the extent such letters of credit or bonds are not drawn upon or, if and to the extent drawn upon are honored in accordance with their terms and if, to be reimbursed, are reimbursed no later than the fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit or bond, (x) Indebtedness incurred by a Covenant Party or a Restricted Subsidiary in connection with a transaction where (A) such Indebtedness is borrowed from a bank or trust company, having a combined capital and surplus and undivided profits of not less than €250 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by S&P and A2 or the equivalent thereof by Moody's and (B) a substantially concurrent Investment is made by a Covenant Party or a Restricted Subsidiary in the form of cash deposited with the lender of such Indebtedness, or a Subsidiary or Affiliate thereof, in amount equal to such Indebtedness. For the avoidance of doubt and notwithstanding the above, the term ''Indebtedness'' excludes any accrued expenses and trade payables, any obligations under the guarantee by HOT issued to the Ministry of Communications and Broadcast Council in connection with various operating and broadcasting licenses, including the bank guarantee in connection with the HOT Mobile's winning a frequency allotment and receiving a cellular license, and any obligations of HOT Systems towards the State of

Israel under an agreement dated July 10, 2001, between HOT Systems and other cable companies and between the State of Israel, in each case, as in effect on the Issue Date.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the Indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (7), (8) or (9) above) shall equal the amount thereof that would appear on a balance sheet of such Person (excluding any notes thereto) prepared on the basis of IFRS.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(i) in connection with the purchase by a Covenant Party or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;

(ii) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes; or

(iii) parallel debt obligations, to the extent such obligations mirror other Indebtedness.

''*Independent Financial Advisor*'' means an investment banking or accounting firm of international standing or any third party appraiser of international standing; *provided*, *however*, that such firm or appraiser is not an Affiliate of the Issuer.

''*Initial Public Offering*'' means an Equity Offering of common stock or other common equity interests of a Covenant Party or any Parent or any successor of a Covenant Party or any Parent (the ''IPO Entity'') following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

''*Intercreditor Agreement*'' means the intercreditor agreement dated on the Issue Date and made between (among others) the Issuer, HoldCo, the Guarantors, the Security Agent, the Facility Agent, the Mandated Lead Arrangers (as defined therein), certain financial institutions party thereto, the Hedging Banks (as defined therein) and the Trustee.

''*Interest Rate Agreement*'' means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

''*Investment*'' means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet (excluding any notes thereto) prepared on the basis of IFRS; *provided*, *however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If a Covenant Party or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by a Covenant Party or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption ''*—Certain Covenants—Limitation on Restricted Payments*''.

For purposes of ''—*Certain Covenants—Limitation on Restricted Payments*'':

(1) ''Investment'' will include the portion (proportionate to a Covenant Party's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, such Covenant Party will be deemed to continue to have a permanent ''Investment'' in an Unrestricted Subsidiary in an amount (if positive) equal to (a) such Covenant Party's ''Investment'' in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to such Covenant Party's equity interest in such Subsidiary) of the fair market value of the net assets (as conclusively determined by an Officer or the Board of Directors of the Issuer in good faith) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer (or if earlier at the time of entering into an agreement to sell such property), in each case as determined in good faith by an Officer or the Board of Directors of the Issuer.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

''*Investment Grade Status*'' shall occur when the Notes receive both of the following:

(1) a rating of ''BBB—'' or higher from S&P; and

(2) a rating of ''Baa3'' or higher from Moody's,

or the equivalent of such rating by either such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

''*Investor*'' means the controlling shareholder of Altice Group on the Issue Date.

''*Investor Affiliate*'' means (i) the Investor or any of his immediate family members, and any such persons' respective Affiliates and direct and indirect Subsidiaries, (ii) any sponsor, limited partnerships or entities managed or controlled by the Investor or any of his immediate family, or any of such persons' respective Affiliates and direct or indirect Subsidiaries, (iii) any trust of the Investor or any of his immediate family, or any of such persons' respective Affiliates and direct or indirect Subsidiaries or any trust in respect of which any such persons is a trustee, (iv) any partnership of which the Investor or any of his immediate family, or any of such persons' respective Affiliates or direct or indirect Subsidiaries is a partner that is managed or controlled by the Investor, any of his immediate family or any of such persons' respective Affiliates or direct or indirect Subsidiaries, and (v) any trust, fund or other entity which is managed by, or is under the control of, the Investor or any of his immediate family, or any of such persons' respective Affiliates or direct or indirect Subsidiaries, but excluding HoldCo, the Issuer, any Covenant Party or any of their Subsidiaries.

''*IPO Market Capitalization*'' means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

''*Issue Date*'' means December 12, 2012.

''*Issuer*'' means Altice Financing S.A., a Luxembourg public limited liability company (*société anonyme*).

''*Issuer Asset Sale*'' means the sale, lease, conveyance or other disposition of any rights, property or assets by the Issuer. Notwithstanding the preceding, none of the following items will be deemed to be an Issuer Asset Sale:

(1) the granting of a Permitted Issuer Lien;

(2) any Permitted Issuer Investment; and

(3) the sale or other disposition of cash or Cash Equivalents.

"*Issuer Proceeds Loan*" means any loan agreement (including in the form of a note) entered into between the Issuer and any Guarantor pursuant to which Issuer lends to the Issuer all or a portion of the net proceeds of any Incurrence of Indebtedness by the Issuer; *provided* that a Lien over such Issuer Proceeds Loan is granted at the time of its Incurrence on a senior basis to secure the Notes and the Guarantees.

"*License Assets*" means a "License Asset", as defined under the Israeli Communications Law (Telecommunications and Broadcasting) of 1982 ("Communications Law"), which includes all assets necessary for the provision by the relevant company of services under its license.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Management Advances*" means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, a Covenant Party or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such Person's purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Issuer, a Covenant Party, its Restricted Subsidiaries or any Parent not to exceed an amount (net of repayments of any such loans or advances) equal to $10 million in any calendar year (with unused amounts in any calendar year being carried over to the succeeding calendar years; *provided* that the aggregate Management Advances made under this sub-clause (b) do not exceed $20 million in any fiscal year);

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) (in the case of this clause (3)) not exceeding $5 million in the aggregate outstanding at any time.

"*Management Investors*" means the current or former officers, directors, employees and other members of the management of or consultants to any Parent, a Covenant Party or any of their respective Subsidiaries, or spouses, family members or relatives thereof, or any trust, partnership or other entity for the benefit of or the beneficial owner of which (directly or indirectly) is any of the foregoing, or any of their heirs, executors, successors and legal representatives, who at any date beneficially own or have the right to acquire, directly or indirectly, Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent.

"*Market Capitalization*" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"*Merger Agreement*" means the merger agreement entered into between Subsidiaries of the Company and HOT in connection with the Take-Private Transaction.

"*Minority Shareholder*" means each of Yedioth Communications Ltd., Fishman Family Properties Ltd., Fishman Family Properties Management (1988) Ltd. and Monitin Itonut Holdings (1985) Ltd.

"*Minority Shareholder Option Exercise*" means the exercise by a Minority Shareholder of the Minority Shareholder Call Option on the terms provided in the applicable Minority Shareholder Purchase Agreement.

"*Minority Shareholder Purchase Agreements*" means each of (a) the Agreement, dated as of November 5, 2012 entered into by and between Yedioth Communications Ltd., a company incorporated in Israel with a registered address of 2 Mozes Street, Tel Aviv, Israel and the Company and (b) the Agreement dated as of November 5, 2012 entered into by and among Fishman Family Properties Ltd. and Fishman Family Properties Management (1988) Ltd., each a company incorporated in Israel with a registered address of 20 Lincoln Street, Tel Aviv, Israel, and Monitin Itonut Holdings (1985) Ltd., a company incorporated in Israel with a registered address of 53 Etzel Street, Rishon Lezion 75706, Israel and the Company, in each case providing for waiver of certain consent rights relating to the Transactions and granting of the Minority Shareholder Call Option as consideration therefor, in each case as in effect on the Issue Date, except for amendments that are not materially adverse to the interests of the Holders of the Notes.

''*Minority Shareholder Call Option*'' means the right to purchase shares of Capital Stock of HOT pursuant to the applicable Minority Shareholder Purchase Agreement.

''*MOC Security Approval*'' means the approval or consent of the Israeli Ministry of Communications for (i) Citibank N.A., London Branch (or a bank international standing or an Israeli bank of national standing reasonably acceptable to the Trustee) to act as security agent under the Security Documents related the License Assets and to hold the security interests in the HOT Proceeds Note Collateral that constitutes License Assets for the direct and indirect beneficiaries thereof and (ii) the granting of security interests over the License Assets to secure the HOT Proceeds Note and the HOT Proceeds Note Guarantees on substantially the terms described under ''*—HOT Proceeds Note Security*''.

''*Moody's*'' means Moody's Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

''*Nationally Recognized Statistical Rating Organization*'' shall have the same meaning as used in Section 3(a)(62) of the Exchange Act.

''*Net Available Cash*'' from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders (other than any Parent, the Issuer, a Covenant Party or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against (a) any liabilities associated with the assets disposed in such Asset Disposition and retained by a Covenant Party or any Restricted Subsidiary after such Asset Disposition; or (b) any purchase price adjustment or earn-out in connection with such Asset Disposition.

''*Net Cash Proceeds*'', with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, any Incurrence of any Indebtedness or any sale of any asset means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

''*NIS*'' means New Israeli Shekels, the lawful currency of the State of Israel.

''*NIS Equivalent*'' means, with respect to any monetary amount in a currency other than NIS (''*Other Currency*''), at any time of determination thereof by the Issuer or the Trustee, the amount of NIS obtained by converting such Other Currency involved in such computation into NIS at the spot rate for the purchase of NIS with the Other Currency as published in *The Financial Times* in the ''Currency Rates'' section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Issuer) on the date of such determination.

''*Notes Documents*'' means the Notes (including Additional Notes), the Indenture, the Security Documents, the Escrow Agreement, the Intercreditor Agreement, any Additional Intercreditor Agreements, the Issuer Proceeds Loan and the Hot Security Documents.

''*Note Guarantee*'' means the Guarantee by each Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

''*Offering Memorandum*'' means the offering memorandum in relation to the Notes to be issued on the Issue Date.

''*Officer*'' means, with respect to any Person, (1) any member of the Board of Directors, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an ''Officer'' for the purposes of the Indenture by the Board of Directors of such Person.

''*Officer's Certificate*'' means, with respect to any Person, a certificate signed by one Officer of such Person.

''*Opinion of Counsel*'' means a written opinion from legal counsel reasonably satisfactory to the Trustee, which opinion may contain customary assumptions and qualifications. The counsel may be an employee of or counsel to any Parent, the Issuer, a Covenant Party or any of their Subsidiaries.

''*Parent*'' means any Person of which the Issuer or a Covenant Party at any time is or becomes a Subsidiary and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent.

''*Parent Expenses*'' means:

(1) costs (including all professional fees and expenses) Incurred by any Parent in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to Indebtedness of a Parent, the Issuer, a Covenant Party or any Restricted Subsidiary, including in respect of any reports filed with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;

(2) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to a Parent, the Issuer, a Covenant Party or their respective Subsidiaries;

(3) obligations of any Parent in respect of director and officer insurance (including premiums therefor) to the extent relating to a Parent, the Issuer, a Covenant Party or their respective Subsidiaries and reasonable fees and reimbursement of expenses to, and customary indemnities and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Issuer, any Covenant Party, any Restricted Subsidiary or any Parent (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees)

(4) fees and expenses payable by any Parent in connection with the Transactions;

(5) general corporate overhead expenses, including (a) professional fees and expenses and other operational expenses of any Parent related to the ownership or operation of the business of the Issuer, the Covenant Parties or any of the Restricted Subsidiariesincluding acquisitions by a Covenant Party or a Subsidiary permitted hereunder (whether or not successful), in each case, to the extent such costs, obligations and/or expenses are not paid by another Subsidiary of such or (b) costs and expenses with respect to any litigation or other dispute relating to the Transactions or the ownership, directly or indirectly, by any Parent;

(6) any fees and expenses required to maintain any Parent's corporate existence and to provide for other ordinary course operating costs, including customary salary, bonus and other benefits payable to officers and employees of such Parent;

(7) to reimburse out-of-pocket expenses of the Board of Directors of any Parent and payment of all reasonable out-of-pocket expenses Incurred by any Permitted Holder in connection with its direct or indirect investment in the Issuer, the Covenant Parties and their Subsidiaries;

(8) other fees, expenses and costs relating directly or indirectly to activities of the Issuer, the Covenant Parties and their Subsidiaries or any Parent or any other Person established for purposes of or in connection with the Acquisition or the Transaction or which holds directly or indirectly any Capital Stock or Subordinated Shareholder Funding of the Issuer or a Covenant Party, in an amount not to exceed $3 million in any fiscal year;

(9) any Public Offering Expenses; and

(10) payments pursuant to any Tax Sharing Agreement in the ordinary course of business or as a result of the formation and maintenance of any consolidated group for tax or accounting purposes in the ordinary course of business.

''*Pari Passu Indebtedness*'' means (1) with respect to the Issuer, any Indebtedness that ranks *pari passu* in right of payment to the Notes; and (2) with respect to the Guarantors, any Indebtedness that ranks *pari passu* in right of payment to such Guarantor's Guarantee of the Notes.

''*Paying Agent*'' means any Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Note on behalf of the Issuer.

''*Permitted Asset Swap*'' means the concurrent purchase and sale or exchange of assets used or useful in a Similar Business or a combination of such assets and cash, Cash Equivalents or Temporary Cash Investments between the Issuer, a Covenant Party or any of the Restricted Subsidiaries and another Person; *provided* that any cash or Cash Equivalents received in excess of the value of any cash or Cash Equivalents sold or exchanged must be applied in accordance with the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''.

''*Permitted Collateral Liens*'' means:

(1) Liens on the Notes Collateral that are described in one or more of clauses (2), (3), (4), (5), (6), (8), (9), (11), (12), (13), (18), (20), (23), (24) and (28) of the definition of ''Permitted Liens'';

(2) Liens on the Notes Collateral (other than any Notes Collateral subject to the Escrow Assignment) to secure (a) Indebtedness that is permitted to be Incurred under the first paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'', (b) Indebtedness that is permitted to be Incurred under clauses (1) (which may be Super Priority Indebtedness), (2)(a) (in the case of (2)(a), to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured on the Notes Collateral and specified in this definition of Permitted Collateral Liens), (4)(a), (7)(a) (to the extent relating to Currency Agreements or Interest Rate Agreements related to Indebtedness (including Indebtedness of HoldCo to the extent such Indebtedness is Guaranteed by the Issuer and the Guarantors pursuant to clause (15) of the second paragraph of the covenant described under ''''*—Certain Covenants—Limitation on Indebtedness*'') and which, in each case, may be Super Priority Indebtedness), (7)(b) (which may be Super Priority Indebtedness), (14) (so long as, in the case of clause (14), on the date of Incurrence of Indebtedness pursuant to such clause (14) and after giving effect thereto on a pro forma basis, the Issuer could have incurred $1.00 of Senior Secured Indebtedness pursuant to the first paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'') and clause (16) under the second paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'' and (c) any Refinancing Indebtedness in respect of Indebtedness referred to in the foregoing clause (a) or (b), *provided*, *however*, that (i) such Lien shall rank *pari passu* or junior to the Liens securing the Notes and the Note Guarantees; (ii) in each case, all property and assets (including, without limitation, the Notes Collateral) securing such Indebtedness also secure the Notes or the Note Guarantees on a senior or *pari passu* basis; and (iii) each of the parties thereto will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement; and

(3) (i) prior to the Permitted Parent Designation, Liens on the Capital Stock of each Covenant Party and the Issuer and Liens on the HoldCo Proceeds Loans and the Subordinated Shareholder Debt of a Covenant Party and (ii) on and after the Permitted Parent Designation, Liens on the Capital Stock of the Permitted Parent and the Issuer and Liens on the HoldCo Proceeds Loans and the Subordinated Shareholder Debt of a Covenant Party, in each case, that secures Indebtedness of HoldCo (and Guarantees thereof) that is Guaranteed by the Issuer and the Guarantors pursuant to clause (4)(c) and clause (15) of the second paragraph of the covenant described under ''''*—Certain Covenants—Limitation on Indebtedness*''); *provided* that, in the case of this clause (3), (x) such Lien shall rank junior to the Liens securing the Notes and the Note Guarantees and (y) the holders of such

Indebtedness (or their representative) accede to the Intercreditor Agreement or an Additional Intercreditor Agreement.

''*Permitted Holders*'' means, collectively, (1) the Investor, (2) Investor Affiliates and (3) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Parent or any Covenant Party, acting in such capacity. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

''*Permitted HOT Proceeds Note Collateral Liens*'' means:

(1) Liens on HOT Proceeds Note Collateral that are described in one or more of clauses (2), (3), (4), (5), (6), (8), (9), (11), (12), (13), (18), (20), (23), (24) and (28) of the definition of ''Permitted Liens''; and

(2) Liens on the HOT Proceeds Note Collateral to secure (a) Indebtedness that is permitted to be Incurred under clauses (1) (which may be Super Priority Indebtedness), (2)(a) (in the case of (2)(a), to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this clause (2) of this definition of Permitted HOT Proceeds Note Collateral Liens) and clause (16) under the second paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*''), (b) any Refinancing Indebtedness in respect of Indebtedness referred to in this clause (2) and (c) any Issuer Proceeds Loans Incurred in accordance with the third paragraph under the heading ''*—Certain Covenants—Limitation on Indebtedness*'' under which HOT is the borrower or issuer (and the HOT Proceeds Note Guarantees in respect thereof), *provided*, *however*, that (i) such Lien shall rank *pari passu* or junior to the Liens securing the HOT Proceeds Note; (ii) in each case, all property and assets (including, without limitation, the HOT Proceeds Note Collateral) securing such Indebtedness also secure the HOT Proceeds Note or the Guarantees of the HOT Proceeds Note on a senior or *pari passu* basis; and (iii) each of the parties thereto and the Issuer as lender under the HOT Proceeds Note will have entered into an intercreditor agreement containing terms not materially less favorable to such lender than the terms of the Intercreditor Agreement with respect to the Holders of the Notes.

''*Permitted Investment*'' means (in each case, by the Issuer, a Covenant Party or any of the Restricted Subsidiaries):

(1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary), the Issuer or a Covenant Party (other than any Investment in a Minority Shareholder Call Option or Minority Shareholder Purchase Agreement) or (b) any Person (including the Capital Stock of any such Person) that is engaged in any Similar Business and such Person will, upon the making of such Investment, become a Restricted Subsidiary;

(2) Investments in another Person if such Person is engaged in any Similar Business and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, a Covenant Party or a Restricted Subsidiary;

(3) Investments in cash, Cash Equivalents or Temporary Cash Investments;

(4) Investments in receivables owing to the Issuer, a Covenant Party or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided*, *however*, that such trade terms may include such concessionary trade terms as the Issuer, such Covenant Party or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) Management Advances;

(7) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer, a Covenant Party or any Restricted Subsidiary (including obligations of trade creditors and customers), or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor or in compromise or resolution of any litigation, arbitration or other dispute;

(8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition, in each case, that was made in compliance with ''—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'' and other Investments resulting from the disposition of assets in transactions excluded from the definition of ''Asset Disposition'' pursuant to the exclusions from such definition;

(9) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date;

(10) Currency Agreements, Interest Rate Agreements, Commodity Hedging Agreements and related Hedging Obligations, which transactions or obligations are Incurred pursuant to clause (7) of the second paragraph of the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'';

(11) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of ''Permitted Liens'' or made in connection with Liens permitted under the covenant described under ''—*Certain Covenants—Limitation on Liens*'';

(12) any Investment to the extent made using Capital Stock of a Covenant Party (other than Disqualified Stock or Designated Preference Shares), Subordinated Shareholder Funding or Capital Stock of any Parent as consideration;

(13) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under ''—*Certain Covenants—Limitation on Affiliate Transactions*'' (except those described in clauses (1), (3), (6), (8), (9) and (12) of that paragraph);

(14) Guarantees not prohibited by the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'' and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(15) Investments in the Notes and any Additional Notes;

(16) (a) Investments acquired after the Issue Date as a result of the acquisition by a Covenant Party or any Restricted Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into a Covenant Party or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described under ''—*Certain Covenants—Merger or Consolidation*'' to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and (b) Investments of a Covenant Party or a Restricted Subsidiary of such Covenant Party existing on the date such Person becomes a Covenant Party or a Restricted Subsidiary to the extent that such Investments were not made in contemplation of such Person becoming a Covenant Party or a Restricted Subsidiary;

(17) Investments, taken together with all other Investments made pursuant to this clause (17) and at any time outstanding, in an aggregate amount at the time of such Investment not to exceed the greater of 3% of Total Assets and $80 million; *provided*, that, if an Investment is made pursuant to this clause in a Person that is not a Covenant Party or a Restricted Subsidiary and such Person subsequently becomes a Covenant Party or a Restricted Subsidiary or is subsequently designated a Covenant Party or a Restricted Subsidiary pursuant to the Indenture, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of ''Permitted Investments'' and not this clause; and

(18) Investments as a result of contribution of Tower Assets to a Towers Joint Venture within 365 days from the Issue Date; *provided*, *however*, that if a definitive binding agreement or a commitment to enter into a Towers Joint Venture is approved by the Board of Directors of the Issuer within such time, such Investment is shall be permitted by this clause (18) so long as such Investment is consummated within 180 days from the date of such approval.

''*Permitted Issuer Investments*'' means Investments in:

(1) cash and Cash Equivalents;

(2) the Notes;

(3) any other Indebtedness of the Issuer permitted to be Incurred under the Indenture; and

(4) any Issuer Proceeds Loan and other intra-group loans.

''*Permitted Issuer Liens*'' means:

(1) Permitted Collateral Liens; and

(2) Liens described in one or more of clauses (4), (5), (9), (11), (12), (13), (22), (27) (only in respect of Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness) and (28) of the definition of Permitted Liens.

''*Permitted Liens*'' means, with respect to any Person:

(1) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of such Restricted Subsidiary of a Covenant Party or another Restricted Subsidiary that is not a Guarantor of the same Covenant Party;

(2) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements and including Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmen's and repairmen's or other like Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;

(4) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(5) (a) Liens in favor of issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of the Issuer, a Covenant Party or any Restricted Subsidiary in the ordinary course of its business and (b) Liens in connection with cash management programs established in the ordinary course of business;

(6) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Issuer, the Covenant Parties and the Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Issuer, the Covenant Parties and the Restricted Subsidiaries;

(7) Liens on assets or property of the Issuer, a Covenant Party or any Restricted Subsidiary securing Hedging Obligations permitted under the Indenture;

(8) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(9) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default and notices of *lis pendens* and associated rights so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order, award or notice have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens on assets or property of the Issuer, a Covenant Party or any Restricted Subsidiary (including Capital Stock) for the purpose of securing Capitalized Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement or construction of,

assets or property acquired or constructed in the ordinary course of business; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under the Indenture (excluding Indebtedness Incurred pursuant to the first paragraph of the covenant described under ''Limitation on Indebtedness'') and (b) any such Lien may not extend to any assets or property of the Issuer, a Covenant Party or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property;

(11) Liens arising by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary or financial institution;

(12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Issuer, the Covenant Parties and the Restricted Subsidiaries in the ordinary course of business;

(13) (a) with respect to the Issuer and the Company, Liens existing on or provided for or required to be granted under written agreements existing on the Issue Date after giving effect to the Transactions and the Issuance of the Notes and the application of the proceeds thereof (including after such proceeds are release from the Escrow Account); and (b) with respect to HOT and its Subsidiaries, Liens existing on, or provided for or required to be granted under written agreements existing on, the Completion Date after giving effect to the Transactions, including, for avoidance of doubt, the second lien floating charge to secure certain payment obligations of HOT to the State of Israel pursuant to a royalty agreement as in effect on the Issue Date;

(14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Covenant Party or a Restricted Subsidiary (or at the time the Issuer, a Covenant Party or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Issuer, a Covenant Party or any Restricted Subsidiary); *provided*, *however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Covenant Party or a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided*, *further*, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;

(15) Liens on assets or property of a Covenant Party or any Restricted Subsidiary securing Indebtedness or other obligations of such Covenant Party or such Restricted Subsidiary owing to the Issuer, another Covenant Party or another Restricted Subsidiary, or Liens in favor of the Issuer, a Covenant Party or any Restricted Subsidiary;

(16) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture; *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(18) (a) mortgages, liens, security interest, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Issuer, a Covenant Party or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;

(19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of, or assets owned by, any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(20) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(21) Liens on Receivables Assets Incurred in connection with a Qualified Receivables Financing;

(22) Liens on Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the Incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose;

(23) bankers' Liens, Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business of such Person to facilitate the purchase, shipment or storage of such inventory or other goods and Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(24) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business, and pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of business or operations as Liens only for Indebtedness to a bank or financial institution directly relating to the goods or documents on or over which the pledge exists;

(25) Permitted Collateral Liens and Permitted HOT Proceeds Note Collateral Liens;

(26) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(27) any security granted over Cash Equivalents in connection with the disposal thereof to a third party and Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(28) (a) Liens created for the benefit of or to secure, directly or indirectly, the Notes, (b) Liens pursuant to the Intercreditor Agreement and (c) Liens in respect of property and assets securing Indebtedness if the recovery in respect of such Liens is subject to loss-sharing or similar provisions as among the Holders of the Notes and the creditors of such Indebtedness pursuant to the Intercreditor Agreement or an Additional Intercreditor Agreement;

(29) Liens created on any asset of a Covenant Party or a Restricted Subsidiary established to hold assets of any stock option plan or any other management or employee benefit or incentive plan or unit trust of a Covenant Party or a Restricted Subsidiary securing any loan to finance the acquisition of such assets; and

(30) Liens; *provided* that the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this clause (30) does not exceed the greater of $30 million and 1% of Total Assets.

''*Permitted Parent''* means any Parent that operates as a holding company of the Covenant Parties and the Restricted Subsidiaries following a Permitted Parent Designation.

''*Permitted Parent Designation*'' means the designation of a Person by the Board of Directors of the Issuer as a Permitted Parent as evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation in accordance with the covenant described under ''*Certain Covenants—Designation of the Permitted Parent*''.

''*Person*'' means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

''*Preferred Stock*'', as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

''*Pro Forma Consolidated Gross Assets*'' means, with respect to any specified Person as of any date, the total assets of such Person and its Restricted Subsidiaries, calculated on a consolidated basis in accordance with IFRS, excluding all intra group items and investments in any Subsidiaries of such Person of or by such Person or any of its Restricted Subsidiaries, giving pro forma effect to any

acquisitions (including through mergers or consolidations) and dispositions that have occurred subsequent to such period.

''*Public Debt*'' means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

''*Public Market*'' means any time after:

(1) an Equity Offering has been consummated; and

(2) shares of common stock or other common equity interests of the IPO Entity having a market value in excess of $100 million on the date of such Equity Offering have been distributed pursuant to such Equity Offering.

''*Public Offering*'' means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A and/or Regulation S under the Securities Act to professional market investors or similar persons).

''*Public Offering Expenses*'' means expenses Incurred by any Parent in connection with any Public Offering or any offering of Public Debt (whether or not successful):

(1) where the net proceeds of such offering are intended to be received by or contributed or loaned to the Issuer, a Covenant Party or a Restricted Subsidiary;

(2) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received, contributed or loaned; or

(3) otherwise on an interim basis prior to completion of such offering so long as any Parent shall cause the amount of such expenses to be repaid to the Issuer, the relevant Covenant Party or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed, in each case, to the extent such expenses are not paid by another Subsidiary of such Parent.

''*Purchase Money Obligations*'' means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

''*Qualified Receivables Financing*'' means any Receivables Financing of a Receivables Subsidiary that meets the following conditions: (1) an Officer or the Board of Directors of the applicable Covenant Party shall have determined in good faith that such Qualified Receivables Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to such Covenant Party and the Receivables Subsidiary, (2) all sales of accounts receivable and related assets to the Receivables Subsidiary are made at fair market value (as determined in good faith by such Covenant Party), and (3) the financing terms, covenants, termination events and other provisions thereof shall be on market terms (as determined in good faith by such Covenant Party) and may include Standard Securitization Undertakings.

The grant of a security interest in any accounts receivable of a Covenant Party or any Restricted Subsidiary (other than a Receivables Subsidiary) to secure Indebtedness under a Credit Facility or Indebtedness in respect of the Notes shall not be deemed a Qualified Receivables Financing.

''*Rating Agencies*'' means Moody's and S&P or, in the event Moody's or S&P no longer assigns a rating to the Notes, any other Nationally Recognized Statistical Rating Organization who assigns a rating to the Notes in lieu of the ratings by Moody's or S&P.

''*Receivable*'' means a right to receive payment arising from a sale or lease of goods or services by a Person pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay for goods or services under terms that permit the purchase of such goods and services on credit, as determined on the basis of IFRS.

''*Receivables Assets*'' means any assets that are or will be the subject of a Qualified Receivables Financing.

''*Receivables Fees*'' means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Receivables Financing.

''*Receivables Financing*'' means any transaction or series of transactions that may be entered into by a Covenant Party or any of its Subsidiaries pursuant to which such Covenant Party or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by such Covenant Party or any of its Subsidiaries), or (b) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of such Covenant Party or any of its Subsidiaries, and any assets related thereto, including all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interest are customarily granted in connection with asset securitization transactions involving accounts receivable and any Hedging Obligations entered into by any Covenant Party or any such Subsidiary in connection with such accounts receivable.

''*Receivables Repurchase Obligation*'' means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

''*Receivables Subsidiary*'' means a Wholly Owned Subsidiary of a Covenant Party (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with a Covenant Party in which a Covenant Party or any Subsidiary of a Covenant Party makes an Investment and to which a Covenant Party or any Subsidiary of a Covenant Party transfers accounts receivable and related assets) which engages in no activities other than in connection with the financing of accounts receivable of a Covenant Party and its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of such Covenant Party (as provided below) as a Receivables Subsidiary and:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer, a Covenant Party or any other Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is subject to terms that are substantially equivalent in effect to a guarantee of any losses on securitized or sold receivables by the Issuer, a Covenant Party or any other Restricted Subsidiary, (iii) is recourse to or obligates the Issuer, a Covenant Party or any other Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (iv) subjects any property or asset of the Issuer, any Covenant Party or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) with which neither the Issuer, any Covenant Party nor any other Restricted Subsidiary has any material contract, agreement, arrangement or understanding other than on terms which the Issuer reasonably believes to be no less favorable to the Issuer, such Covenant Party or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer; and

(3) to which neither the Issuer, any Covenant Party nor any other Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

''*Refinance*'' means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms ''*refinances*'', ''*refinanced*'' and ''*refinancing*'' as used for any purpose in the Indenture shall have a correlative meaning.

''*Refinancing Indebtedness*'' means Indebtedness of the Issuer, the Company or any Restricted Subsidiary to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the Indenture or Incurred in compliance with the Indenture including Indebtedness that refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final stated maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final stated maturity of the Indebtedness being refinanced or, if shorter, the Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith);

(3) if the Indebtedness being refinanced is expressly subordinated to the Notes or any Note Guarantee, such Refinancing Indebtedness is subordinated to the Notes or such Note Guarantee, as applicable, on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced; and

(4) (i) subject to clause (ii) of this clause (4), if the Issuer or any Guarantor was the obligor on the Indebtedness being refinanced, such Indebtedness is incurred either by the Issuer or by a Guarantor, and (ii) if the Indebtedness being refinanced was originally Incurred pursuant to the first paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'' or clauses (4)(a), (4)(b) (in respect of the Existing HOT Unsecured Notes), (5) or (6) of second paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'', such Indebtedness is incurred by the Issuer,

provided, *however*, that Refinancing Indebtedness shall not include (i) Indebtedness of the Issuer or HoldCo that refinances Indebtedness of an Unrestricted Subsidiary, (ii) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary, Indebtedness of a Covenant Party owing to and held by the Issuer or any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary or (iii) any Issuer Proceeds Loan or any HoldCo Proceeds Loan.

''*Related Person*'' with respect to any Permitted Holder, means:

(1) any controlling equity holder or majority (or more) owned Subsidiary of such Person; or

(2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof; or

(3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(4) any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

''*Related Taxes*'' means, without duplication (including, for the avoidance of doubt, without duplication of any amounts paid pursuant to any Tax Sharing Agreement):

(1) any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding taxes), required to be paid (*provided* such Taxes are in fact paid) by any Parent by virtue of its:

    (a) being incorporated or otherwise being established or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than,

directly or indirectly, HoldCo, the Issuer, a Covenant Party or any Subsidiary of a Covenant Party);

(b) issuing or holding Subordinated Shareholder Funding;

(c) being a holding company parent, directly or indirectly, of HoldCo, the Issuer, a Covenant Party or any Subsidiary of a Covenant Party;

(d) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Issuer, a Covenant Party or any Subsidiary of a Covenant Party; or

(e) having made any payment in respect to any of the items for which the Issuer or a Covenant Party is permitted to make payments to any Parent pursuant to ''*—Certain Covenants—Limitation on Restricted Payments*''; or

(2) if and for so long as the Issuer or a Covenant Party is a member of a group filing a consolidated or combined tax return with any Parent, any Taxes measured by income for which such Parent is liable up to an amount not to exceed with respect to such Taxes the amount of any such Taxes that the Issuer, the Covenant Parties and Subsidiaries of the Covenant Parties would have been required to pay on a separate company basis or on a consolidated basis if the Issuer, the Covenant Parties and the Subsidiaries of the Covenant Parties had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Issuer, the Covenant Parties and the Subsidiaries of the Covenant Parties.

''*Representative*'' means any trustee, agent or representative (if any) for an issue of Indebtedness or the provider of Indebtedness (if provided on a bilateral basis), as the case may be.

''*Restricted Investment*'' means any Investment other than a Permitted Investment.

''*Restricted Subsidiary*'' means a Subsidiary of a Covenant Party other than an Unrestricted Subsidiary.

''*Revolving Credit Facility*'' means that certain agreement dated November 27, 2012 between, *inter alia*, the Issuer, the Company, certain financial institutions party thereto, Citibank International plc as as facility agent and security agent, as amended.

''*S&P*'' means Standard & Poor's Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

''*SEC*'' means the U.S. Securities and Exchange Commission.

''*Securities Act*'' means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

''*Security Agent*'' means Citibank, N.A., London Branch acting as security agent pursuant to the Intercreditor Agreement or such successor Security Agent or any delegate thereof as may be appointed thereunder or any such security agent, delegate or successor thereof pursuant to an Additional Intercreditor Agreement.

''*Security Documents*'' means the security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the Indenture or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating the security interests in the Notes Collateral as contemplated by the Indenture.

''*Senior Secured Indebtedness*'' means, with respect to any Person as of any date of determination, any Indebtedness for borrowed money that is Incurred under the first paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'' or clauses (1), (4)(a) and (b), (5), (6), (7), (14) or (16) of the second paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'' and any Refinancing Indebtedness in respect of the foregoing; *provided* that, if such Indebtedness is Incurred by the Issuer or any Guarantor, such Indebtedness (other than Indebtedness Incurred pursuant to clause (4)(b) of the second paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'') is in each case secured by a Lien.

''*Significant Subsidiary*'' means any Restricted Subsidiary that meets any of the following conditions:

(3) the Covenant Parties' and the Restricted Subsidiaries' investments in and advances to the Restricted Subsidiary exceed 10% of the total assets of the Covenant Parties and the Restricted

Subsidiaries on a consolidated combined basis as of the end of the most recently completed fiscal year;

(4) the Covenant Parties' and the Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 10% of the total assets of the Covenant Parties and the Restricted Subsidiaries on a consolidated combined basis as of the end of the most recently completed fiscal year; or

(5) the Covenant Parties' and the Restricted Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the Restricted Subsidiary exceeds 10% of such income of the Covenant Parties and the Restricted Subsidiaries on a consolidated combined basis for the most recently completed fiscal year.

''*Similar Business*'' means (a) any businesses, services or activities (including marketing) engaged in by the Company or any of its Subsidiaries on the Issue Date, (b) broadcast television, broadband and fixed and mobile telephony businesses, including the distribution, sale and for provision of mobile voice and data, fixed-line voice and internet services, transit voice traffic services and other services and equipment in relation thereto and (c) any businesses, services and activities (including marketing) engaged in by the Company or any of its Subsidiaries that are (i) related, complementary, incidental, ancillary or similar to any of the foregoing or (ii) are reasonable extensions or developments of any thereof.

''*Standard Securitization Undertakings*'' means representations, warranties, covenants, indemnities and guarantees of performance entered into by a Covenant Party or any Subsidiary of a Covenant Party which the Issuer has determined in good faith to be customary in a Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

''*Stated Maturity*'' means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

''*Subordinated Indebtedness*'' means, in the case of the Issuer, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated or junior in right of payment to the Notes or pursuant to a written agreement and, in the case of a Guarantor, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated or junior in right of payment to the Note Guarantee of such Guarantor.

''*Subordinated Shareholder Funding*'' means, collectively, any funds provided to the Issuer or a Covenant Party by any Parent, any Affiliate of any Parent or any Permitted Holder or any Affiliate thereof, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by any of the foregoing Persons, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided*, *however*, that such Subordinated Shareholder Funding:

(1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Issuer or a Covenant Party or any funding meeting the requirements of this definition) or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement;

(2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

(3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash

payment, in each case, prior to the date that is six months following the Stated Maturity of the Notes or the payment of any amount as a result of any such action or provision or the exercise of any rights or enforcement action, in each case, prior to the date that is six months following the Stated Maturity of the Notes, is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

(4) does not provide for or require any security interest or encumbrance over any asset of the Issuer, the Covenant Parties or any of the Restricted Subsidiaries; and

(5) pursuant to its terms or to the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement, is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding or are no less favorable in any material respect to Holders than those contained in the Intercreditor Agreement as in effect on the Issue Date.

''*Subordinated Shareholder Note*'' means the interest free loan from Altice VII S.a.r.l. to the Company as amended.

''*Subsidiary*'' means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

    (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

    (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

''*Subsidiary Guarantor''* means any Restricted Subsidiary that Guarantees the Notes.

''*Super Priority Indebtedness*'' means any Indebtedness incurred under a Credit Facility or Hedging Obligations that is or will be secured by the same Notes Collateral that secures the Notes but has priority over amounts received from the sale of the Notes Collateral pursuant to an enforcement sale or other distressed disposal of such Notes Collateral pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement.

''*Taxes*'' has the meaning given to such term under ''*Withholding Taxes''*.

''*Tax Sharing Agreement*'' means any tax sharing or profit and loss pooling or similar agreement with customary or arm's-length terms entered into with any Parent or Unrestricted Subsidiary, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof and of the Indenture.

''*Temporary Cash Investments*'' means any of the following:

(1) any investment in

    (a) direct obligations of, or obligations Guaranteed by, (i) the United States of America, (ii) any European Union member state (other than Greece or Portugal), (iii) the State of Israel, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by a Covenant Party or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state, or

    (b) direct obligations of any country recognized by the United States of America rated at least ''A'' by S&P or ''A-1 ''by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:

   (a) any institution authorized to operate as a bank in any of the countries or member states referred to in subclause (1)(a) above, or

   (b) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof,

   in each case, having capital and surplus aggregating in excess of €250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least ''A'' by S&P or ''A-2'' by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Issuer, the Covenant Parties or any of their Subsidiaries), with a rating at the time as of which any Investment therein is made of ''P-2'' (or higher) according to Moody's or ''A-2'' (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, any European Union member state (other than Greece or Portugal) or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least ''BBB—'' by S&P or ''Baa3'' by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in the United States of America or a member state of the European Union (other than Greece or Portugal) eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least ''A'' by S&P or ''A-2'' by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment and/or distribution); and

(9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

''*Total Assets*'' means the consolidated total assets of the Covenant Parties and the Restricted Subsidiaries as shown on most recent the consolidated combined balance sheet prepared on the basis of IFRS prior to the relevant date of determination.

''*Towers Assets*'' communication masts/towers owned by HOT Mobile as part of its mobile telephony infrastructure.

''*Towers Joint Venture*'' means the joint venture formed by the contribution of the Towers Assets by HOT Mobile, contribution of towers assets by another Israeli mobile telephony service provider and contribution of financing and operational expertise by an operator that results in nationwide coverage for HOT Mobile mobile telephony services network.

"*Treasury Rate*" means, as of the applicable redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519) that has become publicly available at least two (2) Business Days prior to such redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to December 15, 2015; *provided* that if the period from such redemption date to December 15, 2015 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"*U.S. GAAP*" means generally accepted accounting principles in the United States of America as in effect from time to time.

"*U.S. Government Obligations*" means securities that are (a) direct obligations (or certificates

representing an ownership interest in such obligations) of the United States of America, for the timely payment of which its full faith and credit is pledged or (b) obligations (or certificates representing an ownership interest in such obligations) of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, rated at least "*A-1*" by S&P or "*P-1*" by Moody's, and which are not callable or redeemable at the option of the issuer thereof.

"*Uniform Commercial Code*" means the New York Uniform Commercial Code.

"*Unrestricted Subsidiary*" means:

(1) any Subsidiary of a Covenant Party that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Issuer in the manner provided below); and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of a Covenant Party may designate any Subsidiary of such Covenant Party (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Issuer, any Covenant Party or any other Subsidiary of a Covenant Party which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and

(2) such designation and the Investment of such Covenant Party and the Restricted Subsidiaries in such Subsidiary complies with "*—Certain Covenants—Limitation on Restricted Payments*".

Any such designation by the Board of Directors of such Covenant Party shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of such Covenant Party giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of a Covenant Party may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that immediately after giving effect to such designation (1) no Default or Event of Default would result therefrom and (2) (x) the Company could Incur at least $1.00 of additional Indebtedness under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" or (y) the Consolidated Leverage Ratio would be no higher than it was immediately prior to giving effect to such designation, in each case, on a *pro forma* basis taking into account such designation. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation or an Officer's Certificate certifying that such designation complied with the foregoing provisions.

"*Voting Stock*" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

"*Wholly Owned Subsidiary*" means a Restricted Subsidiary of a Person, all of the Capital Stock of which (other than directors' qualifying shares or shares required by any applicable law or regulation to be held by a Person other than such Person or another Wholly Owned Subsidiary of such Person) is owned by such Person or another Wholly Owned Subsidiary of such Person.

DESCRIPTION OF SENIOR NOTES

You will find definitions of certain capitalized terms used in this Description of Senior Notes under the heading ''Certain Definitions''. Certain capitalized terms used in this Description of Senior Notes may have different definitions that the same term used in other sections of this Offering Memorandum, including ''Description of Senior Secured Notes''. For purposes of this Description of Senior Notes, references to the ''Issuer'' refers only to Altice Finco S.A.

Altice Finco S.A., a Luxembourg public limited liability company (*société anonyme*), with registered office at 37, rue d'Anvers, L-1130 Luxembourg (the ''Issuer'') will be the issuer of the Notes offered hereby. The Issuer is a wholly-owned subsidiary of Altice VII S.à r.l. a private limited company (*société a responsabilité limitée*) incorporated under the laws of Luxembourg, registered with the Luxembourg Register of Commerce and Companies under number B143.725.

The Issuer issued $400 million aggregate principal amount of its Senior Notes due 2020 (the ''Notes'') under an indenture (the ''Indenture''), between, *inter alios*, itself, Citibank, N.A., London Branch, as trustee (the ''Trustee'') and as security agent, in a private transaction that is not subject to the registration requirements of the Securities Act.

The gross proceeds of the offering of the Notes sold on the Issue Date will be loaned by the Issuer to Altice Financing S.A., a Luxembourg public limited liability company (*société anonyme*), with registered office at 37, rue d'Anvers, L-1130 Luxembourg (the ''Senior Secured Notes Issuer''). The Senior Secured Notes Issuer issued Senior Secured Notes due 2019 (the ''Senior Secured Notes'') under an indenture (the ''Senior Secured Notes Indenture''), between, *inter alios*, itself, Citibank, N.A., London Branch, as trustee (the ''Senior Secured Notes Trustee'') and as security agent, concurrently with the issuance of the Notes. The gross proceeds of the offering of the Notes sold on the Issue Date and loaned to the Senior Secured Notes Issuer, together with the net proceeds, after deducting fees and expenses related to the offering of the Notes and the Senior Secured Notes and transactions set forth below, of the offering of the Senior Secured Notes sold by the Senior Secured Notes Issuer on the Issue Date (other than $86.3 million of cash overfunding which will be retained by the Senior Secured Notes Issuer and used for general corporate purposes), will be loaned by the Senior Secured Notes Issuer pursuant to proceeds loans (the ''Finco Proceeds Loans'') to Cool Holding Ltd. (the ''Company'') and certain of its Subsidiaries (including HOT-Telecommunications Systems Ltd. (''HOT'') and H. Hadaros 2012, Ltd. (''SPV-1'')) to enable the Company and such Subsidiaries to:

(1) repay all of the existing Indebtedness of the Company under the finance agreement dated as of November 27, 2011 between, among others, the Company, Mizrahi Tefahot Bank Ltd as agent, Mizrahi Tefahot Trust Company Ltd, as security trustee and the financial institutions party thereto (the ''Cool Credit Facility'') and to repay the Cool Interest Loan;

(2) acquire all of the remaining shares of HOT that are not currently owned by the Company and its Affiliates and make cash payments to certain option holders in lieu of issuing shares as a result of exercise of options to purchase shares of HOT by such option holders (the ''Take-Private Transaction''); and

(3) repay all of the outstanding Indebtedness of HOT under the credit agreement entered into and signed on March 17, 2011 between, amongst others, HOT Communications Systems Ltd, HOT Telecom Limited Partnership and HOT Net Internet Services as the borrowers, Bank Hapoalim Ltd. and Bank Leumi of Israel as the coordinators, Bank Hapoalim Ltd. as credit agent, Bank Leumi of Israel as securities trustee and the financial institutions party thereto as lenders (the ''HOT Credit Facility''),

in each case, as described in this Offering Memorandum under ''The Transactions'' and ''Use of Proceeds''. The remaining net proceeds of the offering of the Notes and the Senior Secured Notes will be used by the Senior Secured Notes Issuer as described in this Offering Memorandum under ''Use of Proceeds''. The transactions referred to in clauses (1), (2) and (3) are herein referred to collectively as the ''Transactions''. The date on which the Transactions are consummated are herein referred to as the ''Completion Date''.

Pending consummation of the Transactions and the satisfaction of certain other conditions as described below, the initial purchasers, concurrently with the closing of the offering of the Notes on the Issue Date, deposited the gross proceeds of this offering of the Notes into an escrow account (the ''Escrow Account'') pursuant to the terms of an escrow agreement (the ''Escrow Agreement'') dated as of the

Issue Date among, *inter alios*, the Issuer, the Trustee and Citibank, N.A., London Branch, or another similarly reputable escrow agent, as Escrow Agent (the ''Escrow Agent''). If the Transactions are not consummated on or prior to March 31, 2013 (the ''Escrow Longstop Date''), or upon the occurrence of certain other events, the Notes will be redeemed at a price equal to 100% of the initial issue price of the Notes plus accrued and unpaid interest and Additional Amounts, if any, from the Issue Date to the Special Mandatory Redemption Date (as defined below). See ''*—Escrow of Proceeds; Special Mandatory Redemption*''.

Upon the initial issuance of the Notes, the Notes are obligations solely of the Issuer and are not guaranteed. Although the Company, SPV-1 and the Senior Secured Notes Issuer are parties to the Indenture as of the Issue Date for purposes of the covenants described below, the Company's, SPV-1's and the Senior Secured Notes Issuer's Note Guarantees will not be effective until the Completion Date (if it occurs). Assuming the Completion Date occurs on or prior to the Escrow Longstop Date and the funds are released from the Escrow Account, on the Completion Date, the Note Guarantees of the Company, SPV-1 and the Senior Secured Notes Issuer will become effective. Prior to the Completion Date, the Issuer, the Senior Secured Notes Issuer, SPV-1 and the Company, but none of HOT and its Subsidiaries, will be subject to the covenants described in this ''Description of Senior Notes''. As such, we cannot assure you that prior to the Completion Date, HOT and its Subsidiaries will not engage in activities that would otherwise have been prohibited by the Indenture had those covenants been applicable to such entities after the Issue Date and prior to the Completion Date.

The Indenture is unlimited in aggregate principal amount and $400 million in principal amount of Notes were issued in this offering. We may issue an unlimited principal amount of additional Notes at later dates under the same Indenture (the ''Additional Notes''); *provided*, *however*, that we will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture, including the covenants restricting the Incurrence of Indebtedness (as described below under ''*—Certain Covenants—Limitation on Indebtedness*'') and the Incurrence of Liens (as described below under ''*—Certain Covenants—Limitation on Liens*''). The Notes issued in this offering and, if issued, any Additional Notes will be treated as a single class for all purposes under the Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase. However, in order for any Additional Notes to have the same CUSIP number and ISIN as the Notes, such Additional Notes must be fungible with the Notes for U.S. federal income tax purposes. Unless the context otherwise requires, in this ''Description of Senior Notes'', references to the ''Notes'' include the Notes and any Additional Notes that are actually issued. The terms of the Notes include those set forth in the Indenture. The Indenture is not qualified under, and does not incorporate by reference any of the provisions of, the U.S. Trust Indenture Act of 1939, as amended.

This ''Description of Senior Notes'' is intended to be an overview of the material provisions of the Notes and the Indenture, and refers to the Intercreditor Agreement, the Escrow Agreement and the Security Documents (as defined below). It does not restate those agreements in their entirety. Since this description of the terms of the Notes is only a summary, you should refer to the Indenture, the form of Notes, the Intercreditor Agreement, the Escrow Agreement and the Security Documents for complete descriptions of the obligations of the Issuer and your rights because they, and not this summary, define your rights as holders of the Notes. Copies of the Indenture, the form of Notes, the Security Documents, the Escrow Agreement and the Intercreditor Agreement are available as set forth under ''Available Information''. See the section entitled ''*Description of Other Indebtedness—Intercreditor Agreement*'' for a summary of certain material terms of the Intercreditor Agreement.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

General

The Notes

The Notes:

- are general obligations of the Issuer;
- are, prior to the Completion Date, secured by a first ranking assignment over the Escrowed Property and the rights of the Issuer under the Escrow Agreement (the ''Escrow Assignment'');
- will, as of the Completion Date, benefit from the security as set forth below under ''*—Security*'';

- rank *pari passu* in right of payment with any future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes;
- rank senior in right of payment to any future Indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes;
- will be effectively subordinated to any future Indebtedness of the Issuer that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness; and
- will, together with any Additional Notes (if any), be the only Indebtedness of the Issuer outstanding on the Completion Date.

The Note Guarantees

As of the Issue Date, the Notes are not Guaranteed. Although the Company, SPV-1 and the Senior Secured Notes Issuer are parties to the Indenture as of the Issue Date for purposes of the covenants described below, the Company's, SPV-1's and the Senior Secured Notes Issuer's Note Guarantees will not be effective until the Completion Date. Following the Completion Date, the Notes will be Guaranteed on a senior subordinated basis by the Company, the Senior Secured Notes Issuer and SPV-1 but not by HOT or any of its Subsidiaries.

Each Note Guarantee of the Notes will:

- be a senior subordinated obligation of the relevant Guarantor;
- be subordinated in right of payment to all existing and future Senior Indebtedness of each Guarantor (including that Guarantors' obligations under the Senior Secured Notes, the Revolving Credit Facility and certain Hedging Obligations); and
- rank pari passu in right of payment with any existing and future Indebtedness of that Guarantor that is not subordinated in right of payment to such Guarantor's Note Guarantee;
- rank senior in right of payment to any existing and future obligations of that Guarantor that is expressly subordinated in right of payment to such Notes Guarantee;
- benefit from the security as set forth below under ''—Security'';
- be effectively subordinated to any existing and future secured Indebtedness of that Guarantor and its Subsidiaries that are secured by Liens ranking ahead of the Liens securing the Notes or Note Guarantees or secured by property and assets that do not secure the Notes or Note Guarantees, to the extent of the value of the property and assets securing such Indebtedness (including the Senior Secured Notes, any borrowings under the Revolving Credit Facility and any Hedging Obligations); and
- be effectively subordinated to the Indebtedness and other obligations of Subsidiaries of the Company or any other Covenant Party that do not Guarantee the Notes.

The Notes will not benefit from a direct guarantee from HOT or any of its Subsidiaries.

Payment under the Guarantees will be expressly subordinated in right of payment to the payment when due of all Senior Indebtedness of the Guarantors (including Indebtedness Incurred under the Revolving Credit Facility, the Senior Secured Notes and certain Hedging Obligations), the holders of which (or their representatives) are party to the Intercreditor Agreement or any Additional Intercreditor Agreement. As a result of this subordination, holders of such Senior Indebtedness of any Guarantor will be entitled to receive full payment on all obligations owed to them before any payment can be made to Holders of the Notes in respect of the Guarantees.

Subordination of the Notes Guarantees on the Basis of the Intercreditor Agreement

Each of the Notes Guarantees is a senior subordinated Guarantee, which means that, pursuant to the terms of the Intercreditor Agreement, each such Notes Guarantee ranks behind, and is expressly subordinated to, all the existing and future Senior Indebtedness of the relevant Guarantor, the holders of which (or their representatives) are party to the Intercreditor Agreement or any Additional Intercreditor Agreement, including any obligations owed by the relevant Guarantor under the Revolving Credit Facility, the Senior Secured Notes and certain Hedging Obligations. The ability to take enforcement

action against the Guarantors under their Notes Guarantees is subject to significant restrictions imposed by the Intercreditor Agreement and the terms of the Notes Guarantees, and potentially any Additional Intercreditor Agreements entered into after the Issue Date. For a description of the restrictions imposed by the Intercreditor Agreement, see ''*Description of Other Indebtedness—Intercreditor Agreement*.''

Because of the foregoing subordination provisions, it is likely that holders of Senior Indebtedness and other creditors (including trade creditors) of a Guarantor would recover disproportionately more than the holders of the Notes recover in any insolvency or similar proceeding relating to such Guarantor. In any such case, there may be insufficient assets, or no assets, remaining to pay the principal of or interest on the Notes.

Further, the obligations of a Guarantor under its Note Guarantee will be limited as necessary to prevent the relevant Note Guarantee from constituting a fraudulent conveyance under applicable law, or otherwise to reflect limitations under applicable law or capital maintenance regulations. See ''*Risk Factors—Risks Relating to the Notes and the Structure—Corporate benefit and financial assistance laws and other limitations on the obligations under the Guarantees and the HOT Refinancing Note Guarantees may adversely affect the validity and enforceability of the Guarantees and the HOT Refinancing Note Guarantees*'' and ''*Limitation on Validity and Enforceability of the Guarantees and the Security Interests*''.

As of September 30, 2012, on an as-adjusted consolidated basis after giving effect to the Transactions and the issuance of the Notes and the Senior Secured Notes and the application of the proceeds therefrom and excluding certain other liabilities, the Guarantors and HOT and its Subsidiaries would have had outstanding $1,106.6 million (equivalent) aggregate principal amount of Indebtedness (excluding the Note Guarantees). As of September 30, 2012, on an as-adjusted basis after giving effect to the Transactions and the issuance of the Notes and the Senior Secured Notes and the application of the proceeds therefrom, the Issuer had no outstanding Indebtedness other than the Notes. As of September 30, 2012, on an as-adjusted consolidated basis after giving effect to the issuance of the Notes and the Senior Secured Notes, the Guarantors and HOT and its Subsidiaries (other than HOT Mobile and its Subsidiary) represented more than (i) 80% of the consolidated total assets of the Group as of September 30, 2012, (ii) 90% of the consolidated EBITDA of the Group for the nine months ended September 30, 2012 and (iii) 80% of the revenue of the Group for the nine months ended September 30, 2012.

Each Guarantor that Guarantees the Notes on the Completion Date is a holding company and does not conduct any operations and is wholly dependent on payments from its respective subsidiaries to meet its obligations, including the Senior Secured Notes Issuer's obligations under the Proceeds Loan and the Guarantors' obligations under their Notes Guarantees and their respective Finco Proceeds Loans.

Additional Covenant Parties

Subject to the covenants of the Indenture (including compliance with the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*''), the Issuer may designate certain Persons that are under direct or indirect common control with the Company (including existing portfolio companies of Altice VII S.à r.l, as well as any portfolio companies Altice VII S.à r.l may acquire in the future) to become Additional Covenant Parties. Upon such designation in compliance with the Indenture (including the covenant described below under ''*—Certain Covenants—Additional Covenant Parties*''), such Person will become a member of the Group by executing a supplemental indenture to the Indenture, pursuant to which such Person will become subject to the restrictive covenants contained therein and guarantee the Notes on a senior subordinated basis. In connection with the designation of any Additional Covenant Party, all of the shares of Capital Stock of such Person are required to be pledged as Notes Collateral to secure the Notes and the Note Guarantees on a senior subordinated basis and to secure the Senior Secured Notes on a senior basis. Such Additional Covenant Party also accede to the Intercreditor Agreement.

In addition, the Indenture permits the Issuer to designate an Additional Covenant Party as the Permitted Parent that will operate as a holding company of the Group, which, among other things, will enable the Covenant Parties to consolidate their financial reporting under one entity and provide financial reports of such Permitted Parent in order to satisfy their financial reporting obligations under the Indenture. See ''*—Certain Covenants—Reports*''. In connection with the designation of the Permitted Parent, all of the shares of Capital Stock of the Permitted Parent are required to be pledged as Notes Collateral to secure the Notes and the Note Guarantees on a senior subordinated basis and to secure the Senior Secured

Notes on a senior basis. The Permitted Parent will also accede to the Intercreditor Agreement. Upon designation of the Permitted Parent:

- each Covenant Party existing at the time of such designation will be deemed to no longer be a Covenant Party, although such Covenant Party will remain a Restricted Subsidiary of the Permitted Parent until such time as it is sold or otherwise disposed of or is designated an Unrestricted Subsidiary, in each case, in compliance with the terms of the Indenture;
- the Issuer will not be permitted to designate any other Person as an Additional Covenant Party thereafter;
- the junior pledges over the Capital Stock of such Covenant Party granted to secure the Notes and the Note Guarantees, provided that upon such designation all of the Capital Stock of the Permitted Parent is pledged to secure the Notes and the Note Guarantees on a junior basis; and
- all references in the Indenture to a Covenant Party will be deemed to only refer to the Permitted Parent.

Principal and Maturity

The Issuer issued $400 million aggregate principal amount of Notes on the Issue Date. Notes will mature on December 15, 2020 at which time 100% of the principal amount of the Notes shall be payable, unless redeemed prior thereto as described herein. The Notes were issued in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof.

Interest

Interest on the Notes will accrue at the rate of 9.875% per annum, *provided* that in the event the MOC Security Approval is not obtained on or prior to the date that is 180 days after the Issue Date, the Notes will accrue interest at a rate per annum that is 100 basis points higher than such rate. Interest on the Notes:

- accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid;
- be payable in cash semi-annually in arrears on each June 15 and December 15, commencing on June 15, 2013;
- be payable to the holder of record of such Notes on June 1 and December 1 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest on overdue principal and interest, including Additional Amounts, if any, will accrue at a rate that is 1% higher than the interest rate on the Notes.

If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Methods of Receiving Payments on the Notes

Principal, interest and premium, if any, on the Global Notes (as defined below) will be payable at the specified office or agency of one or more Paying Agents; *provided* that all such payments with respect to Notes represented by one or more Global Notes registered in the name of or held by The Depository Trust Company (''DTC'') or its nominee will be made by wire transfer of immediately available funds to the account specified by the Holder or Holders thereof.

Principal, interest and premium, if any, on any certificated securities (''Definitive Registered Notes'') will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes in New York and London, United Kingdom. In addition, at the option of the Issuer, interest on the Definitive Registered Notes may be paid by check mailed to the Person entitled thereto as shown on the register for the Definitive Registered Notes. See ''—*Paying Agent and Registrar for the Notes*''.

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more Paying Agents for the Notes in each of (i) London, United Kingdom (the ''Principal Paying Agent'') and (ii) New York for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market (but only if the rules of the Luxembourg Stock Exchange so require). The Issuer will also undertake to maintain a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 regarding the taxation of savings income (the ''Directive''), or any law implementing or complying with or introduced in order to conform to such Directive. The initial Paying Agents will be Citibank, N.A., London Branch in London and Citibank, N.A. in New York.

The Issuer will also maintain one or more registrars (each, a ''Registrar'') with offices in Luxembourg. The initial Registrar is Citigroup Global Markets Deutschland AG in Luxembourg. The Issuer will also maintain a transfer agent. The initial transfer agent is Citibank, N.A., London Branch. The Registrar and the transfer agent will maintain a register reflecting ownership of Definitive Registered Notes (as defined herein) outstanding from time to time, if any, and will make payments on and facilitate transfers of Definitive Registered Notes on behalf of the Issuer. Each transfer agent shall perform the functions of a transfer agent. Each Registrar shall provide a copy of the register and any update thereof to the Issuer and the Issuer shall maintain a register of the Notes at its registered office in order to comply with Luxembourg law (the ''Duplicate Register''). In case of discrepancy between any register and the Duplicate Register, the Duplicate Register shall prevail for Luxembourg law purposes.

The Issuer may change any Paying Agents, Registrars or transfer agents for the Notes without prior notice to the Holders of such Notes. However, for so long as Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules and the regulations of the Luxembourg Stock Exchange. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the Notes.

Transfer and Exchange

The Notes were issued in the form of one or more registered notes in global form without interest coupons attached, as follows:

- Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act is initially represented by one or more global notes in registered form without interest coupons attached (the ''144A Global Notes''). The 144A Global Notes were deposited with the Trustee as a custodian for DTC, as depositary, and registered in the name of a nominee of such depositary on the Issue Date.
- Notes sold outside the United States pursuant to Regulation S under the Securities Act were initially represented by one or more global notes in registered form without interest coupons attached (the ''Regulation S Global Notes'' and, together with the 144A Global Notes, the ''Global Notes''). The Regulation S Global Notes were deposited with the Trustee as a custodian for DTC, as depositary, and registered in the name of a nominee of such depositary on the Issue Date.

Ownership of interests in the Global Notes (''Book-Entry Interests'') will be limited to Persons that have accounts with DTC, as depositary (''participants''), and ownership of beneficial interests in the Global Notes will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to interest of participants) and the records of participants (with respect to interests of persons other than participants).

Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under ''Notice to Investors''.

Book-Entry Interests in the 144A Global Notes (the ''144A Book-Entry Interests'') may be transferred to a Person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes (the ''Regulation S Book-Entry Interests'') only upon delivery by the transferor of a written certification (in the

form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Prior to 40 days after the date of initial issuance of the Notes, ownership of Regulation S Book-Entry Interests will be limited to Persons that have accounts with DTC or its nominee or Persons who hold interests through DTC or its nominee, and any sale or transfer of such interest to US persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A under the Securities Act. Subject to the foregoing, Regulation S Book-Entry Interests may be transferred to a Person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a Person who the transferor reasonably believes is a ''qualified institutional buyer'' within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under ''Notice to Investors'' and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of $200,000 principal amount and integral multiples of $1,000 in excess thereof, upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under ''Notice to Investors''.

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of $200,000 in principal amount and integral multiples of $1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture requires the transferring or exchanging holder to, among other things, to furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at DTC or its nominee, where appropriate, to furnish certain certificates and opinions, and to pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer.

Notwithstanding the foregoing, the Issuer is not required to register the transfer or exchange of any Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Disposition Offer.

The Issuer, the Trustee, the Paying Agents and the Registrar will be entitled to treat the Holder of a Note as the owner of it for all purposes.

The Note Guarantees

General

As of the Issue Date, the Notes are not Guaranteed. Although the Company, SPV-1 and the Senior Secured Notes Issuer are parties to the Indenture on the Issue Date for purposes of the covenants described below, the Company's, SPV-1's and the Senior Secured Notes Issuer's Note Guarantees will not be effective until the Completion Date. Following the Completion Date, the Notes will be guaranteed by the Company, the Senior Secured Notes Issuer and SPV-1 on a senior subordinated basis for the full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all

payment obligations of the Issuer under the Indenture and the Notes, whether for payment of principal of or interest on or in respect of the Notes, fees, expenses, indemnification or otherwise.

The Notes will not benefit from a direct guarantee from HOT or any of its Subsidiaries.

The obligations of each Guarantor under its Note Guarantee are contractually limited under the applicable guarantees to reflect limitations under applicable law with respect to maintenance of share capital applicable to such Guarantor and its shareholders, directors and general partners. See ''*Limitation on Validity and Enforceability of the Guarantees and the Security Interests*''.

The Issuer is a special purpose finance vehicle formed for the purpose of serving as the issuer of the Notes and does not conduct, and will be prohibited by the Indenture from engaging in, any operations. Upon completion of the Transactions, the Issuer's only assets will be the Proceeds Loan made on the Completion Date with the net proceeds of this offering of Notes and the shares it holds in the Senior Secured Notes Issuer. As a result, the Issuer is wholly dependent on payments from the Senior Secured Notes Issuer, including payments made by the Senior Secured Notes Issuer under the Proceeds Loan, to fund its obligations under the Notes.

The Senior Secured Notes Issuer is a special purpose finance vehicle formed for the purpose of serving as the issuer of the Senior Secured Notes and does not conduct, and will be prohibited by the Indenture and the indenture governing the Senior Secured Notes from engaging in, any operations. Upon completion of the Transactions, the Senior Secured Notes Issuer's only assets will be Finco Loans made on the Completion Date with the net proceeds of this offering of Senior Secured Notes, the Proceeds Loan Incurred on the Completion Date and cash in its bank accounts. As a result, the Senior Secured Notes Issuer is wholly dependent on payments from the Company and its Subsidiaries, including payments made by the borrowers under the Finco Loans, to fund its obligations under the Notes to the extent it does not otherwise have funds available to it.

The operations of the Company are conducted through its Subsidiaries and, therefore, the Company depends on the cash flow of such Subsidiaries to meet its obligations, including its obligations under its Note Guarantee and the proceeds loan that will be Incurred by it on the Completion Date. See ''*Risk Factors—Risks Relating to the Notes and the Structure—Each of Cool Holding and SPV1 is a holding company and conducts no business of its own and will depend on payments from its direct and indirect subsidiaries to provide it with funds to meet its obligations under the Pledged Proceeds Notes; their subsidiaries will be subject to restrictions on making any such payments*''.

Additional Note Guarantees

In the event any Person becomes a Covenant Party after the Issue Date, such Person will simultaneously with becoming a Covenant Party execute and deliver to the Trustee a supplemental indenture in the form attached to the Indenture (and with such documentation relating thereto as the Trustee may reasonably require) pursuant to which such Covenant Party will Guarantee the Notes on a senior subordinated basis.

The Issuer may from time to time designate a Restricted Subsidiary as an additional guarantor of the Notes (together with any Person that becomes a Covenant Party after the Issue Date, the ''Additional Guarantors'') by causing it to execute and deliver to the Trustee a supplemental indenture in the form attached to the Indenture (and with such documentation relating thereto as the Trustee may reasonably require, including Opinions of Counsel as to the enforceability of such Note Guarantee), pursuant to which such Restricted Subsidiary will become a Guarantor.

Each Additional Guarantor will, jointly and severally, with the Guarantors and each other Additional Guarantor, irrevocably guarantee (each guarantee, an ''Additional Guarantee'') on a senior subordinated basis the full and punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all payment obligations of the Issuer under the Indenture and the Notes, whether for payment of principal of or interest on or in respect of the Notes, fees, expenses, indemnification or otherwise. The obligations of any Additional Guarantor will be contractually limited under its Additional Guarantee to reflect limitations under applicable law, including, among other things, with respect to maintenance of share capital applicable to such Additional Guarantor and its shareholders, directors and general partner. Any Additional Guarantee issued by a Restricted Subsidiary shall be issued on substantially the same terms as the Note Guarantee of the Restricted Subsidiaries that will become Guarantors on the Completion Date. Any Additional Guarantee issued by a Covenant Party shall be issued on substantially the same terms as the Note Guarantee of the Company that will become effective

on the Completion Date. For purposes of the Indenture and this ''Description of Senior Notes'', references to the Note Guarantees include references to any Additional Guarantees and references to the Guarantors include references to any Additional Guarantors.

Releases of the Note Guarantees

The Note Guarantee of a Covenant Party may be released:

- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''—*Defeasance*'' and ''—*Satisfaction and Discharge*'';
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;
- as described under ''—*Amendments and Waivers*'';
- with respect to any Covenant Party that is not the continuing or surviving Person in the relevant consolidation or merger, as a result of a transaction that complies with the provisions described under ''—*Merger and Consolidation—Covenant Parties*''; or
- upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes.

The Note Guarantee of a Subsidiary Guarantor will terminate:

- upon a sale or other disposition (including by way of consolidation, merger, amalgamation or combination) of the Capital Stock of the relevant Subsidiary Guarantor (whether by direct sale or sale of a holding company of such Subsidiary Guarantor) or the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor (other than to the Issuer, a Covenant Party or a Restricted Subsidiary), in each case if the sale or other disposition does not violate the covenant described under ''—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'';
- upon the designation in accordance with the Indenture of that Subsidiary Guarantor as an Unrestricted Subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''—*Defeasance*'' and ''—*Satisfaction and Discharge*'';
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;
- as described under ''—*Amendments and Waivers*'';
- as described under ''—*Certain Covenants—Additional Guarantors*'';
- with respect to any Subsidiary Guarantor that is not the continuing or surviving Person in the relevant consolidation or merger, as a result of a transaction that complies with the provisions described under ''—*Merger and Consolidation—The Subsidiary Guarantors*''; or
- upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes.

The Trustee and the Security Agent (as applicable) shall each take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications. Each of the releases set forth above shall be effective without the consent of the Holders or any action on the part of the Trustee. Neither the Trustee nor the Issuer will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Notes Security

General

On the Completion Date, the Notes will be secured by:

- security interests granted on a first-priority basis over all of the Capital Stock of the Issuer (the ''Issuer Share Pledge);
- a second-priority security interest over the Proceeds Loan;

- a second-priority security interest over all of the Capital Stock of the Senior Secured Notes Issuer and the Company; and
- a second-priority security interest in the Subordinated Shareholder Loan, (the ''Notes Collateral'').

The Notes Collateral (other than the Issuer Share Pledge) will also secure Indebtedness under the Revolving Credit Facility and certain Hedging Obligations. The pledge agreements and the other security documents in respect of the Notes Collateral are referred to as the ''Security Documents''. Any other additional security interests that may in the future be granted to secure the obligations under the Notes, the Note Guarantees and the Indenture would also constitute Notes Collateral.

Subject to certain conditions, including compliance with the covenants described under ''*—Certain Covenants—Limitation on Liens*'' and ''*—Certain Covenants—Impairment of Security Interests*'', the Issuer, the Senior Secured Notes Issuer, the Covenant Parties and their Restricted Subsidiaries are permitted to incur certain additional Indebtedness in the future that may be secured on the Notes Collateral, including any Additional Notes, additional Senior Secured Notes, certain Indebtedness under Credit Facilities and Hedging Obligations and certain other Hedging Obligations, in each case, permitted under the Indenture and other Indebtedness of the Issuer, the Senior Secured Notes Issuer, the Covenant Parties and their Subsidiaries.

The proceeds from the sale of the Notes Collateral remaining after sharing with other creditors entitled to share in such proceeds may not be sufficient to satisfy the obligations owed to the Holders of the Notes. No appraisals of the Notes Collateral have been made in connection with this offering of Notes. By its nature, some or all of the Notes Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Notes Collateral may not be able to be sold in a short period of time, or at all. In addition, the Holders of the Notes will be subject to certain standstill provisions on enforcement of the Notes Collateral (other than the Issuer Share Pledge) pursuant to the Intercreditor Agreement. Furthermore, the Intercreditor Agreement places limitations on the ability of the Security Trustee to release the security interests in some of the Notes Collateral, by reference to the interests of other creditors. These limitations may include requirements that some or all of the Notes Collateral be disposed of only pursuant to public auctions or only at a price confirmed by a valuation. See ''*Description of Other Indebtedness—The Intercreditor Agreement*'' and ''*Risk Factors—Risks Relating to the Notes and the Structure—The value of the Collateral may not be sufficient to satisfy our obligations under the Notes and such Collateral may be reduced or diluted under certain circumstances which may be time consuming and cumbersome*''.

The creditors under the Senior Secured Notes, the Revolving Credit Facility, the counterparties to the Hedging Obligations secured by the Notes Collateral and the Trustee have, and by accepting a Note, each holder will be deemed to have, irrevocably appointed the Security Trustee to act as its agent and security trustee under the Intercreditor Agreement and the Security Documents. The creditors under the Senior Secured Notes, the Revolving Credit Facility, the counterparties to the Hedging Obligations secured by the Notes Collateral and the Trustee have, and by accepting a Note, each holder will be deemed to have, irrevocably authorized the Security Trustee to (i) perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement or the Security Documents, together with any other incidental rights, power and discretions; and (ii) execute each Security Document, waiver, modification, amendment, renewal or replacement expressed to be executed by the Security Trustee on its behalf.

Security Documents

Under the Escrow Assignment, the Issuer has franked a first-ranking security interest over the Escrowed Property and the rights of the Issuer under the Escrow Agreement. Under the Security Documents to be entered into on the Completion Date, the Issuer and Altice VII S.à r.l (the immediate Parent of the Company and the Issuer) will grant security over the Notes Collateral to secure the payment when due of the Issuer's and the Guarantors' payment obligations under the Notes, the Note Guarantees and the Indenture. The Security Documents will be entered into by the relevant security provider and the Security Agent as agent for the secured parties referred to therein. When entering into the Security Documents, the Security Agent will act in its own name, but also as a representative of the secured parties (including the Holders from time to time). Under the Intercreditor Agreement, the Security Agent will also act on behalf of the lenders under the Senior Secured Notes, the Revolving Credit Facility, the counterparties under certain Hedging Obligations, and holders of any additional Indebtedness that is permitted to be

secured by the Notes Collateral in favor of such parties, *provided* that the Notes Collateral subject to the Escrow Assignment will only secure the Notes and no other Indebtedness.

The Indenture provides that, subject to the terms thereof and of the Security Documents and the Intercreditor Agreement, the Notes and the Note Guarantees, as applicable, will be secured by the security interest in the Notes Collateral that is created by the Security Documents and secures obligations under the Notes or the Note Guarantees and the Indenture (the ''Security Interest''). Such Security Interests in the Notes Collateral (other than the Issuer Share Pledge) will also secure the obligations under the Senior Secured Notes, the Revolving Credit Facility, certain Hedging Obligations and certain other Indebtedness permitted by the Indenture to be Incurred in the future and secured by such Notes Collateral. The Issuer Share Pledge will also secure certain other Indebtedness permitted by the Indenture to be Incurred in the future and secured by the Issuer Share Pledge. However, the Security Interests may be released under certain circumstances as provided under ''*—Release of Note Collateral*'' below. See ''*Risk Factors—Risks Related to Notes and the Structure—There are circumstances other than repayment or discharge of the Notes under which the Collateral and the Guarantees will be released automatically, without your consent or the consent of the Trustee*''.

The Security Documents provide that the rights with respect to the Notes and the Note Guarantees must be exercised by the Security Agent. Because the Holders are not a party to the Security Documents, Holders may not, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The Holders may only act through the Security Agent.

In the event that the Issuer or other grantor of a security interest in the Notes Collateral enters into insolvency, bankruptcy or similar proceedings, the Security Interests created under the Security Documents or the rights and obligations enumerated in the Intercreditor Agreement could be subject to potential challenges. If any challenge to the validity of the Security Interests or the terms of the Intercreditor Agreement were successful, the Holders might not be able to recover any amounts under the Security Documents. See ''*Risk Factors—Risks Relating to the Notes and the Structure—Corporate benefit and financial assistance laws and other limitations on the obligations under the Guarantees and the HOT Refinancing Note Guarantees may adversely affect the validity and enforceability of the Guarantees and the HOT Refinancing Note Guarantees*'' and ''*Limitation on Validity and Enforceability of the Guarantees and the Security Interests*''.

Release of Notes Collateral

The Issuer and the Guarantors will be entitled to release the Security Interests in respect of the Notes Collateral securing the Notes and the Note Guarantees under any one or more of the following circumstances:

(1) in connection with any sale or other disposition of the Notes Collateral (other than the Issuer Share Pledge) to a Person that is not the Issuer, a Covenant Party or a Restricted Subsidiary (but excluding any transaction subject to ''*—Certain Covenants—Merger and Consolidation*''), if such sale or other disposition does not violate the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'', but only in respect of the Notes Collateral sold or otherwise disposed of;

(2) in connection with the release of a Guarantor from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

(3) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property, assets and Capital Stock of such Unrestricted Subsidiary;

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in ''*—Defeasance*'' and ''*—Satisfaction and Discharge*'';

(5) in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement (see ''*Description of Other Indebtedness—The Intercreditor Agreement—Restrictions on Enforcement*'');

(6) as described under ''*—Amendments and Waivers*'', ''*—Certain Covenants—Impairment of Security Interests*'' and the second paragraph under ''*—Certain Covenants—Limitation on Liens*'';

(7) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(8) to release and re-take any Lien on any Notes Collateral to the extent not otherwise prohibited by the terms of the Indenture, the Security Documents or the Intercreditor Agreement or any Additional Intercreditor Agreement; or

(9) in connection with a transaction permitted by the covenant described below under the caption ''—*Certain Covenants—Merger and Consolidation*'',

provided that, the Security Interests created by the Escrow Assignment may only be released upon release of the Escrowed Property from the Escrow Account in accordance with the terms of the Escrow Agreement.

Upon certification by the Issuer, the Trustee and the Security Trustee shall take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement, to effectuate any release in accordance with these provisions, subject to customary protections and indemnifications. The Security Agent and the Trustee (as applicable) will take all necessary action required to effectuate any release of the Notes Collateral, in accordance with the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document. Each of the releases set forth above shall be effected by the Security Agent without the consent of the Holders or any action on the part of the Trustee.

The Proceeds Loan

On the Completion Date, the Issuer will make a loan to the Senior Secured Notes Issuer, pursuant to a proceeds loan in aggregate principal amount of $400 million (the ''Proceeds Loan''). The Proceeds Loan will be subordinated to the Obligations of the Issuer under the Senior Secured Notes, the Revolving Credit Facility and its Hedging Obligations.

The Proceeds Loan will be assigned as Notes Collateral to secure the Obligations of the Issuer and the Guarantors under the Notes and the Note Guarantees on a junior basis and to secure the Obligations of the Senior Secured Notes Issuer under the Senior Secured Notes, the Revolving Credit Facility and its Hedging Obligations on a senior basis.

Intercreditor Agreement

The relative priority among (a) the lenders under the Revolving Credit Facility, (b) the counterparties under certain Hedging Obligations secured on the Notes Collateral, (c) the holders of the Senior Secured Notes and (d) the Trustee and the Holders of the Notes under the Indenture with respect to the Security Interests in the Notes Collateral is established by the terms of the Intercreditor Agreement, the Indenture, the Security Documents, and the security documents relating to the Revolving Credit Facility, such Hedging Obligations and the Senior Secured Notes, which provide, among other things, that:

(i) the obligations under the Senior Secured Notes, the Revolving Credit Facility and certain Hedging Obligations are secured equally and ratably by a first-priority interest in the Notes Collateral; *provided* that any liabilities in respect of obligations under the Revolving Credit Facility and such Hedging Obligations will receive priority with respect to any proceeds received from any enforcement of the security over any Notes Collateral and certain distressed disposals of the Notes Collateral; and

(ii) the obligations under the Notes and the Note Guarantees will be secured by second-priority interests in the Notes Collateral (other than the Issuer Share Pledge).

The Issuer Share Pledge will only secure the obligations under the Notes, the Note Guarantees and certain other Pari Passu Indebtedness that is permitted to be secured thereby.

The Indenture and the Intercreditor Agreement restrict the ability of the Holders of the Notes or the Trustee to instruct the Security Trustee to enforce the security interests over the Notes Collateral (other than the Issuer Share Pledge) and provide for the release of the Security Interests in certain circumstances upon enforcement by the lenders under the Revolving Credit Facility or the holders of our other senior secured debt, including the Senior Secured Notes. In general, the rights of the security trustee under the Intercreditor Agreement (acting on its own behalf or on behalf of the Holders) to take enforcement action under the Security Documents (other than the Issuer Share Pledge) with respect to the Notes Collateral are subject to certain standstill provisions similar to those that apply to the Note Guarantees and other limitations on enforcement.

Please see the section entitled ''*Description of Other Indebtedness—The Intercreditor Agreement*''. In addition, in connection with the Incurrence of certain Indebtedness that is permitted by the Indenture to be secured on the Collateral, the Issuer will enter into Additional Intercreditor Agreements in compliance with the Indenture on substantially the same terms as the Intercreditor Agreement. See ''*—Certain Covenants—Impairment of Security Interest*'' and ''*—Additional Intercreditor Agreements; Agreement to Be Bound*''.

The Indenture also provides that each holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein).

Additional Intercreditor Agreements; Agreement to Be Bound

Similar provisions to those described above may be included in any Additional Intercreditor Agreement (as defined below) entered into in compliance with the covenant described under ''*—Certain Covenants—Additional Intercreditor Agreements*''.

The Indenture provides that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement and to have authorized the Trustee to enter into any such Intercreditor Agreement or any such Additional Intercreditor Agreement.

Restricted Subsidiaries, Unrestricted Subsidiaries and Additional Covenant Parties

Immediately after the Completion Date, the Senior Secured Notes Issuer and all of the Company's Subsidiaries will be Restricted Subsidiaries. However, in the circumstances described below under ''*—Certain Definitions—Unrestricted Subsidiary*'', the Issuer will be permitted to designate Restricted Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. In addition, in the circumstances described below under ''*—Certain Covenants—Additional Covenant Parties*'', the Issuer will be able to designate a Person under direct or indirect common control with the Company as a Covenant Party. Covenant Parties and their Restricted Subsidiaries will be subject to the restrictive covenants in the Indenture.

Escrow of Proceeds; Special Mandatory Redemption

Concurrently with the closing of the offering of the Notes on the Issue Date, the Issuer entered into the Escrow Agreement with the Trustee and the Escrow Agent, pursuant to which the initial purchasers deposited with the Escrow Agent an amount equal to the gross proceeds of this offering of the Notes less certain fees and expenses related to the offering of the Notes into the Escrow Account. The initial funds deposited in the Escrow Account, and all other funds, securities, interest, dividends, distributions and other property and payments credited to the Escrow Account (less any property and/or funds paid in accordance with the Escrow Agreement) are referred to, collectively, as the ''Escrowed Property.'' The Escrowed Property will be controlled by, and pledged on a first ranking basis in favor of, the Trustee on behalf of the Holders of the Notes. A portion of the Escrowed Property may be released from the Escrow Account prior to the Completion Date to certain counterparties pursuant to Currency Agreements with respect to the Notes in order to convert such Escrowed Property into NIS, and such converted Escrowed Property will be deposited into an escrow account subject to the Escrow Agreement with Citibank, N.A., Tel Aviv Branch, or another similarly reputable escrow agent, after such conversion.

In order to cause the Escrow Agent to release the Escrowed Property to the Issuer (the ''Release''), the Escrow Agent and the Trustee shall have received from the Issuer, on or before the Escrow Longstop Date, an officer's certificate, in the form attached to the Escrow Agreement, to the effect that:

(1) (i) the Take-Private Transaction will be consummated, promptly upon release of the Escrowed Property, on substantially the same terms as described in this Offering Memorandum under the heading ''The Transactions'' and in accordance with the terms of the Minority Shareholder Purchase Agreement and the Merger Agreement; (ii) each of the Cool Credit Facility and the HOT Credit Facility will be repaid in full and cancelled promptly upon release of the Escrowed Property; and (iii) no provision of the Minority Shareholder Purchase Agreement or the Merger Agreement has been amended or waived in a manner or to an extent that would be materially prejudicial to the

interests of Holders of the Notes, other than any amendment or waiver made with the consent of Holders of a majority of the outstanding Notes;

(2) immediately after consummation of the Take-Private Transaction, the Company will own, directly or indirectly, all of the Capital Stock of HOT (subject to the right of the Minority Shareholders to acquire shares of Capital Stock upon exercise of the Minority Shareholder Call Options);

(3) those documents, legal opinions and certificates attached as exhibits to the Escrow Agreement that are required to be delivered on the relevant date of Release have been delivered, or will be delivered promptly after such release, in accordance with the terms of the Escrow Agreement;

(4) the proceeds of the Senior Secured Notes issued on the Issue Date will be concurrently released from the escrow account related to such Senior Secured Notes; and

(5) as of the Completion Date, there are no events of bankruptcy, insolvency or court protection with respect to the Company, HOT, the Senior Secured Notes Issuer or the Issuer.

The Release will occur promptly upon the satisfaction of the conditions set forth above. Upon the Release, the Escrowed Property will be paid out in accordance with the Escrow Agreement and the Escrow Account will be reduced to zero.

In the event that (a) the Completion Date does not take place on or prior to the Escrow Longstop Date, (b) at any time prior to the Escrow Longstop Date, the Permitted Holders cease to beneficially own and control a majority of the issued and outstanding Capital Stock of the Company, 100% of the issued and outstanding Capital Stock of the Senior Secured Notes Issuer and 100% of the issued and outstanding Capital Stock of the Issuer; (c) in the reasonable judgment of the Issuer, the Transactions will not be consummated on or prior to the Escrow Longstop Date, (d) any of the Minority Shareholder Purchase Agreement or the Merger Agreement terminates at any time on or prior to the Escrow Longstop Date or (e) there is there an event of bankruptcy, insolvency or court protection with respect to the Company, HOT, the Senior Secured Notes Issuer or the Issuer on or prior to the Escrow Longstop Date (the date of any such event being the ''Special Termination Date''), the Issuer will redeem all of the Notes (the ''Special Mandatory Redemption'') at a price (the ''Special Mandatory Redemption Price'') equal to 100% of the initial issue price of each Note, plus accrued but unpaid interest and Additional Amounts, if any, from the Issue Date to the Special Mandatory Redemption Date (as defined below and subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Notice of the Special Mandatory Redemption will be delivered by the Issuer, no later than one Business Day following the Special Termination Date, to the Trustee and the Escrow Agent, and will provide that the Notes shall be redeemed on a date that is no later than the fifth Business Day after such notice is given by the Issuer in accordance with the terms of the Escrow Agreement (the ''Special Mandatory Redemption Date''). On or before the Special Mandatory Redemption Date, the Escrow Agent shall pay to the Principal Paying Agent for payment to each Holder the Special Mandatory Redemption Price for such Holder's Notes and, concurrently with the payment to such Holders, deliver any excess Escrowed Property (if any) to the Issuer.

On the Issue Date, Altice VII S.à r.l entered into a guarantee agreement pursuant to which it guarantees the Issuer's obligations under the Notes in the event the Special Mandatory Redemption Price payable upon such Special Mandatory Redemption exceeds the amount of the Escrowed Property. Altice VII S.à r.l has arranged committed financing in respect of the interest that will accrue on the Notes to the Special Mandatory Redemption Date assuming the Transactions are not consummated prior to the Long-Stop Date and will also deposit available cash, other than in certain limited circumstances, in a blocked account to provide any funds necessary to fund any such shortfall, which may reduce the amount of committed financing available to it.

To secure the payment of the Special Mandatory Redemption Price, the Issuer grants to the Trustee for the benefit of the Holders of the Notes a security interest in the Escrow Account.

If at the time of such Special Mandatory Redemption, the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will notify the Luxembourg Stock Exchange that the Special Mandatory Redemption has occurred and any relevant details relating to such special mandatory redemption.

Optional Redemption

Except as described below and except as described under ''*Redemption for Changes in Withholding Taxes*'' and ''*Escrow of Proceeds; Special Mandatory Redemption*'', the Notes are not redeemable until December 15, 2016. On and after December 15, 2016 the Issuer may redeem all or, from time to time, part of the Notes upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and Additional Amounts (as defined below), if any, to, but not including, the applicable redemption date (subject to the right of the Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

Year	Redemption Price
2016	104.938%
2017	102.469%
2018 and thereafter	100.000%

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or the portion thereof called for redemption on the applicable redemption date. Any such redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

Prior to December 15, 2015, the Issuer may on any one or more occasions redeem up to 40% of the original principal amount of the Notes (including the principal amount of any Additional Notes), upon not less than 30 nor more than 60 days' notice, with funds in an aggregate amount (the ''Redemption Amount'') not exceeding the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 109.875% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided* that:

(1) at least 60% of the original principal amount of the Notes (including the principal amount of any Additional Notes) remains outstanding after each such redemption; and

(2) the redemption occurs within 180 days after the closing of such Equity Offering.

Any redemption notice given in respect of the redemption referred to in the preceding paragraph may be given prior to completion of the related Equity Offering, and any such redemption or notice may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent, including the completion of the related Equity Offering.

In addition, prior to December 15, 2016, the Issuer may redeem all or, from time to time, a part of the Notes upon not less than 30 nor more than 60 days' notice at a redemption price equal to 100% of the principal amount thereof plus the Applicable Premium and accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). Any such redemption and notice may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent.

If the Issuer effects an optional redemption of Notes, it will, for so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, inform the Luxembourg Stock Exchange of such optional redemption and confirm the aggregate principal amount of the Notes that will remain outstanding immediately after such redemption.

Sinking Fund

Except as described under ''*Escrow of Proceeds; Special Mandatory Redemption*'', the Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee or the Registrar will select Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which

the Notes are listed, or if the Notes are not so listed or such exchange prescribes no method of selection, based on a method that most nearly approximates a *pro rata* selection as the Trustee deems fair and appropriate or by lot or such other similar method in accordance with the procedures of DTC; *provided*, *however*, that no Note of $200,000 in aggregate principal amount or less shall be redeemed in part and only Notes in integral multiples of $1,000 will be redeemed. Neither the Trustee nor the Registrar will be liable for any selections made by it in accordance with this paragraph.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange, not less than 30 nor more than 60 days prior to the redemption date, the Issuer will mail notice of redemption to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar. Such notice of redemption may also be posted on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules of the Luxembourg Stock Exchange.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. In the case of a Definitive Registered Note, a new Definitive Registered Note in principal amount equal to the unredeemed portion of any Definitive Registered Note redeemed in part will be issued in the name of the Holder thereof upon cancellation of the original Definitive Registered Note. In the case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice, Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

Redemption for Changes in Withholding Taxes

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in ''—Selection and Notice''), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a ''Tax Redemption Date'') and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer or any Guarantor is or would be required to pay Additional Amounts, and (a) the Issuer or the relevant Guarantor cannot avoid such requirement by taking reasonable measures available to it (including the designation of a different Paying Agent), (b) in the case of a Guarantor, such amounts cannot be paid by the Issuer or any other Guarantor who in turn can pay such amounts without the obligation to pay Additional Amounts and (c) the requirement arises as a result of:

(1) any amendment to, or change in, the laws (or any regulations or rulings promulgated thereunder) of a relevant Tax Jurisdiction (as defined in ''—Withholding Taxes'' below) which change or amendment is announced and becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date); or

(2) any amendment to, or change in, an official written interpretation or application of such laws, regulations or rulings (including by virtue of a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice) which amendment or change is announced and becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date).

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer or the relevant Guarantor would be obligated to make such payment or withholding if a payment in respect of the Notes was then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld)) to the effect that there has been such amendment or change which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officer's Certificate to the effect that (a) it or the relevant Guarantor cannot avoid its obligation

to pay Additional Amounts by the Issuer or the relevant Guarantor taking reasonable measures available to it and (b) in the case of a Guarantor, the amounts giving rise to such obligation cannot be paid by the Issuer or any other Guarantor without the obligation to pay Additional Amounts.

The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders of the Notes.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such directive will not be a change or amendment for such purposes.

The foregoing will apply *mutatis mutandis* to any jurisdiction in which any successor Person to the Issuer is incorporated or organized, engaged in business or resident for tax purposes or any jurisdiction from or through which payment is made by or on behalf of such Person on the Notes and any political subdivision thereof or therein.

Withholding Taxes

All payments made under or with respect to the Notes or any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future tax, duty, levy, assessment or other governmental charge, including any related interest, penalties or additions to tax (''Taxes'') unless the withholding or deduction of such Taxes is then required by law or by the official interpretation or administration thereof. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Issuer or any Guarantor is then incorporated or organized, engaged in business for tax purposes or resident for tax purposes or any political subdivision or governmental authority thereof or therein having power to tax or (2) any jurisdiction from or through which payment is made by or on behalf of the Issuer or any Guarantor (including, without limitation, the jurisdiction of any paying agent for the Notes) or any political subdivision thereof or therein (each, a ''Tax Jurisdiction'') will at any time be required to be made from any payments made under or with respect to the Notes or any Note Guarantee, including, without limitation, payments of principal, redemption price, interest or premium, the Issuer or the relevant Guarantor, as applicable, will pay such additional amounts (the ''Additional Amounts'') as may be necessary in order that the net amounts received in respect of such payments by each holder of the Notes after such withholding or deduction (including any such withholding or deduction from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any actual or deemed present or former connection between the holder (or between a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over the relevant holder, if the relevant holder is an estate, nominee, trust, partnership, limited liability company or corporation) or the beneficial owner of the Notes and the relevant Tax Jurisdiction (including being a resident of such jurisdiction for Tax purposes), other than connections arising from the holding of such Note or any Note Guarantee, the enforcement of rights under such Note or under a Note Guarantee or the receipt of any payments in respect of such Note or a Note Guarantee;

(2) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment (where Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(3) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(4) any Taxes withheld, deducted or imposed on a payment to an individual that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to, such directive;

(5) Taxes imposed on or with respect to a payment made to a holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;

(6) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(7) any Taxes to the extent such Taxes are imposed or withheld by reason of the failure of the holder or beneficial owner of Notes, to comply with any reasonable written request of the Issuer addressed to the holder or beneficial owner and made at least 60 days before any such withholding or deduction would be payable to satisfy any certification, identification, information or other reporting requirements, whether required by statute, treaty, regulation or administrative practice of the relevant Tax Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by such Tax Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the holder or beneficial owner is legally eligible to provide such certification or documentation;

(8) all United States federal backup withholding taxes;

(9) any U.S. federal withholding Taxes imposed pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986 (as amended), as of the date of the indenture (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof; or

(10) any combination of items (1) through (9) above.

Such Additional Amounts will also not be payable where, had the beneficial owner of the Note been the holder of the Note, it would not have been entitled to payment of Additional Amounts by reason of any of clauses (1) to (10) inclusive above.

In addition to the foregoing, the Issuer and the Guarantors, as the case may be, will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary Taxes, or any other excise or property Taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto) which are levied by any Tax Jurisdiction on the execution, delivery, issuance, or registration of any of the Notes, the Indenture, any Note Guarantee or any other document or instrument referred to therein, or the receipt of any payments with respect thereto, or the enforcement of, any of the Notes or any Note Guarantee (limited, solely in the case of taxes attributable to the receipt of any payments with respect thereto, to any such taxes imposed in a Tax Jurisdiction that are not excluded under clauses (1) through (5) or (7) through (9) above).

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, each of the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 30 days prior to that payment date, in which case the Issuer or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information reasonably necessary to enable the Paying Agents to pay such Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the relevant Guarantor will furnish to the Trustee (or to a holder or beneficial owner upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity. Upon reasonable request, copies of Tax receipts or other evidence of payments, as the case may be, will be made available by the Trustee to the holders or beneficial owners of the Notes.

Whenever in the Indenture or in this ''Description of Senior Notes'' there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under, or with respect to, any of the Notes or any Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture, and any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer or any Guarantor is incorporated or organized, engaged in business for tax purposes or resident for tax purposes (and any political subdivision or governmental authority thereof or therein having power to tax) and any jurisdiction from or through which payment is made by or on behalf of such Person on the Notes or any Note Guarantee and any political subdivision thereof or therein.

Change of Control

If a Change of Control occurs, subject to the terms of the covenant described under this heading ''Change of Control'', each Holder will have the right to require the Issuer to repurchase all or any part (equal to $200,000 or an integral multiple of $1,000 in excess thereof) of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided*, *however*, that the Issuer shall not be obliged to repurchase Notes as described under this heading, ''Change of Control'', in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes as described under ''—*Optional Redemption*'' or all conditions to such redemption have been satisfied or waived. No such purchase in part shall reduce the principal amount at maturity of the Notes held by any holder to below $200,000.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes as described under ''—*Optional Redemption*'' or all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Issuer will send a notice (the ''Change of Control Offer'') to each Holder of any such Notes by mail or otherwise in accordance with the procedures set forth in the Indenture, with a copy to the Trustee:

(1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Issuer to purchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the ''Change of Control Payment'');

(2) stating the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) and the record date (the ''Change of Control Payment Date'');

(3) stating that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest after the Change of Control Payment Date unless the Change of Control Payment is not paid, and that any Notes or part thereof not tendered will continue to accrue interest;

(4) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;

(5) describing the procedures determined by the Issuer, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased;

(6) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control; and

(7) certain other procedures that a holder of Notes must follow to accept a Change of Control Offer or to withdraw such acceptance.

The Issuer shall cause to be published the notice described above in a leading newspaper having a general circulation in London (which is expected to be the *Financial Times*) or through the newswire service of Bloomberg (or if Bloomberg does not then operate, any similar agency). In addition, if and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for

trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer in a leading newspaper of general circulation in Luxembourg or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange. The ability of the Issuer to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. See ''*Risk Factors—Risks Relating to the Notes and the Structure—We may not be able to obtain enough funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control (as defined in the Indentures) as required by the Indentures*''.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portion thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes so tendered;

(3) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions of the Notes being purchased by the Issuer in the Change of Control Offer;

(4) in the case of Global Notes, deliver, or cause to be delivered, to the principal Paying Agent the Global Notes in order to reflect thereon the portion of such Notes or portions thereof that have been tendered to and purchased by the Issuer; and

(5) in the case of Definitive Registered Notes, deliver, or cause to be delivered, to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Issuer.

If any Definitive Registered Notes have been issued, the Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee will promptly instruct its authenticating agent to authenticate and mail (or cause to be transferred by book-entry) to each Holder of Definitive Registered Notes a new Definitive Registered Note equal in principal amount to the unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount that is at least $200,000 and integral multiples of $1,000 in excess thereof.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will publish a notice with respect to the results of the Change of Control Offer as soon as reasonably practicable after the Change of Control Payment Date on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire the Issuer, the Covenant Parties or their Subsidiaries in a transaction that would constitute a Change of Control.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

The provisions of the Indenture will not afford holders of the Notes the right to require the Issuer to repurchase the Notes in the event of a highly leveraged transaction, certain transactions with the Company's management or its Affiliates or certain other sale transactions, including a reorganization, restructuring, merger or similar transaction (including, in certain circumstances, an acquisition of the Company by management or its Affiliates) involving the Issuer that may adversely affect holders of the Notes, if such transaction is not a transaction defined as a Change of Control.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of the conflict.

The Issuer's ability to repurchase Notes issued by it pursuant to a Change of Control Offer may be limited by a number of factors. Future Indebtedness of the Issuer, the Covenant Parties or the Restricted Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Notes could cause a default under, or require a repurchase of, such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay cash to the Holders upon a repurchase may be limited by the Issuer's, the Covenant Parties' and the Restricted Subsidiaries' then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. See ''*Risk Factors—Risks Related to the Notes and the Structure—We may not be able to obtain enough funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control (as defined in the Indentures) as required by the Indentures*''.

The definition of ''Change of Control'' includes a direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the property and assets of the Covenant Parties and their Restricted Subsidiaries taken as a whole to a Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)), other than a Permitted Holder. Although there is a limited body of case law interpreting the phrase ''substantially all'', there is no precise established definition of the phrase ''substantially all'' under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of ''all or substantially all'' of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of holders of a majority in outstanding principal amount of the Notes.

Offer to Repurchase with Minority Shareholder Option Proceeds

Pursuant to the Minority Shareholder Call Options granted under the Minority Shareholder Purchase Agreements, each Minority Shareholder is entitled to re-acquire all or a portion of the shares of HOT sold by it to the Company in connection with the Take-Private Transaction at an exercise price equal to NIS 48 per share (subject to customary anti-dilution rights and purchase price adjustments) during the two-year period commencing on the first anniversary of the Completion Date. Subject to certain limitations, each Minority Shareholder Call Option may be exercised in up to three transactions. See ''*The Transaction—Minority Shareholder Agreements*''. The transfer of shares of Capital Stock of HOT upon any exercise of a Minority Shareholder Call Option will not be deemed to be an Asset Disposition under the Indenture. However, to the extent such proceeds are not used by the Senior Secured Notes Issuer to redeem the Senior Secured Notes, the Issuer will be required to offer to repurchase the Notes with the Net Cash Proceeds of such exercise as described below.

Any Net Cash Proceeds received by the Issuer, the Company or any Restricted Subsidiary from any Minority Shareholder Option Exercise and not otherwise applied to repurchase the Senior Secured Notes pursuant to the ''Redemption with Minority Shareholder Option Proceeds'' covenant in the indenture governing the Senior Secured Notes will constitute ''Minority Shareholder Option Proceeds''. When the aggregate amount of Minority Shareholder Option Proceeds exceeds NIS 100 million (the ''Minority Shareholder Option Offer Threshold''), the Issuer will be required within 35 Business Days to make an offer (a ''Minority Shareholder Option Proceeds Offer'') to all holders of Notes and, to the extent the Issuer elects or the Issuer or a Guarantor is required by the terms of other outstanding Pari Passu Indebtedness, to all holders of such other outstanding Pari Passu Indebtedness to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which such Minority Shareholder Option Proceeds Offer applies that may be purchased out of the Applicable Minority

Shareholder Option Proceeds Offer Amount, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 103% of the principal amount of the Notes and 103% of the principal amount of Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof, *provided* that the Minority Shareholder Option Offer Threshold shall not apply in the event that (i) at the time of receipt of such Minority Shareholder Option Proceeds, all Minority Shareholder Call Options have been exercised in full, (ii) all unexercised Minority Shareholder Call Options have expired pursuant to the terms of the relevant Minority Shareholder Purchaser Agreements or (iii) all unexercised Minority Shareholder Call Options have been terminated.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Minority Shareholder Option Proceeds Offer is less than the Minority Shareholder Option Proceeds, the Issuer and the Covenant Parties may use any remaining Minority Shareholder Option Proceeds for general corporate purposes, to the extent not prohibited by the other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Minority Shareholder Option Proceeds Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the Minority Shareholder Option Proceeds, the Minority Shareholder Option Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the principal amount of any such Indebtedness not denominated in U.S. dollars, such Indebtedness shall be calculated by converting any such principal amounts into their Dollar Equivalent determined as of a date selected by the Issuer that is within the Asset Disposition Offer Period (as defined below).

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Issuer upon converting such portion of the Net Available Cash into such currency.

The Minority Shareholder Option Proceeds Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the ''Minority Shareholder Option Proceeds Offer Period''). No later than five (5) Business Days after the termination of the Minority Shareholder Option Proceeds Offer Period (the ''Minority Shareholder Option Proceeds Purchase Date''), the Issuer will purchase the principal amount of Notes and, to the extent it elects, Pari Passu Indebtedness required to be purchased by it pursuant to this covenant (the ''Minority Shareholder Option Offer Amount'') or, if less than the Minority Shareholder Option Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Minority Shareholder Option Proceeds Offer.

On or before the Minority Shareholder Option Proceeds Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Minority Shareholder Option Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Minority Shareholder Option Proceeds Offer, or if less than the Minority Shareholder Option Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof. The Issuer will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five (5) Business Days after termination of the Minority Shareholder Option Proceeds Offer Period) mail or deliver to each tendering Holder of Notes an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note (or amend the applicable Global Note), and the Trustee, upon delivery of an Officer's Certificate from the Issuer, will authenticate and mail or deliver (or cause to be transferred by book-entry) such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in a principal amount with a minimum denomination of $200,000. Any Note not so accepted will be promptly mailed or delivered (or transferred by book-entry) by the Issuer to the Holder thereof.

Certain Covenants

Limitation on Indebtedness

Neither the Issuer nor any Covenant Party will, and neither the Issuer nor any Covenant Party will permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided*, *however*, that:

(1) the Senior Secured Notes Issuer may Incur Senior Secured Indebtedness if on the date on which such Senior Secured Indebtedness is Incurred, the Consolidated Senior Secured Leverage Ratio would have been no greater than 3.0 to 1.0 determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if such Senior Secured Indebtedness had been incurred at the beginning of the relevant period; and

(2) the Issuer may Incur Pari Passu Indebtedness if on the date of such Incurrence and after giving effect thereto on a pro forma basis the Consolidated Leverage Ratio would not exceed 4.0 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if such Pari Passu Indebtedness had been incurred at the beginning of the relevant period.

The first paragraph of this covenant will not prohibit the Incurrence of the following items of Indebtedness:

(1) Indebtedness Incurred pursuant to any Credit Facility (including in respect of letters of credit or bankers' acceptances issued or created thereunder), and any Refinancing Indebtedness in respect thereof, in a maximum aggregate principal amount at any time outstanding not to exceed the greater of $80 million and 4.0% of Total Assets; *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(2) (a) Guarantees by the Issuer, a Covenant Party or any Restricted Subsidiary of Indebtedness of the Issuer, a Covenant Party or any Restricted Subsidiary to the extent such guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided* that (i) if such Indebtedness is subordinated in right of payment to, or *pari passu* in right of payment with, the Notes or a Note Guarantee, as applicable, then the Guarantee of such Indebtedness shall be subordinated in right of payment to, or *pari passu* in right of payment with, the Notes or such Note Guarantee, as applicable, substantially to the same extent as such guaranteed Indebtedness and (ii) if such guarantee is of Indebtedness of the Issuer or a Guarantor, such Restricted Subsidiary complies with the second paragraph of the covenant described under ''*—Additional Guarantors*''; or (b) without limiting the covenant described under ''*—Limitation on Liens*'', Indebtedness arising by reason of any Lien granted by or applicable to the Issuer, a Covenant Party or any Restricted Subsidiary securing Indebtedness of the Issuer, a Covenant Party or any Restricted Subsidiary so long as the Incurrence of such Indebtedness is not prohibited by the terms of the Indenture;

(3) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary, Indebtedness of a Covenant Party owing to and held by the Issuer, any Covenant Party or any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary; *provided*, *however*, that:

    (a) if the Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Guarantor, such Indebtedness must be unsecured and ((i) except in respect of the intercompany current liabilities incurred in connection with cash management positions of the Covenant Parties and the Restricted Subsidiaries and (ii) only to the extent legally permitted (the Covenant Parties and the Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors or officers of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Indebtedness)) expressly subordinated to the prior payment in full in cash of all obligations then due with respect to the Notes, in the case of the Issuer, or the Note Guarantee, in the case of a Guarantor;

    (i) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Issuer, a Covenant Party or a Restricted Subsidiary; and (ii) and any sale or other transfer of any such Indebtedness to a Person other than the Issuer, a Covenant Party or a Restricted

Subsidiary, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (3) by the Issuer, a Covenant Party or such Restricted Subsidiary, as the case may be;

(4) (a) Indebtedness represented by the Notes (other than any Additional Notes) issued on the Issue Date and the Note Guarantees thereof, issued on the Completion Date, (b) Indebtedness represented by the Senior Secured Notes issued on the Issue Date and the Guarantees thereof, issued on the Completion Date, (c) any Indebtedness (other than Indebtedness described in clauses (1) and (3) of this paragraph) outstanding on the Issue Date, after giving effect to the Transactions and the Issuance of the Notes and the application of the proceeds thereof (including after such proceeds are released from the Escrow Account), (d) Refinancing Indebtedness Incurred in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any, or otherwise Incurred in respect of any, Indebtedness described in sub-clauses (a), (b), (c) or (d) of this clause (4) or clauses (5) or (6) of this paragraph or Incurred pursuant to the first paragraph of this covenant, (e) Management Advances and (f) Indebtedness represented by the Security Documents and the HOT Security Documents, including, with respect to each such Indebtedness ''parallel debt'' obligations created under the Intercreditor Agreement, the Security Documents and the HOT Security Documents;

(5) Indebtedness of any Person (other than any Person described in clause (6) below) outstanding on the date on which such Person becomes a Restricted Subsidiary of a Covenant Party or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) a Covenant Party or a Restricted Subsidiary of a Covenant Party; *provided*, *however*, that immediately following the consummation of such acquisition or other transaction, (i) if such Indebtedness is Senior Secured Indebtedness, the Senior Secured Notes Issuer would have been able to Incur $1.00 of additional Indebtedness pursuant to the first paragraph of this covenant and (ii) if such Indebtedness is not Senior Secured Indebtedness, the Issuer would have been able to Incur $1.00 of in additional Indebtedness pursuant to the first paragraph of this covenant, each case, after giving pro forma effect to the relevant acquisition or other transaction and the Incurrence of such Indebtedness pursuant to this clause (5);

(6) Indebtedness of any Person outstanding on the date on which such Person becomes a Covenant Party determined on a consolidated basis after giving effect to the transaction or series of transactions pursuant to which such Person became a Covenant Party and the Subsidiaries of such Person became Restricted Subsidiaries (in each case, other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Covenant Party or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such transaction or series of related transactions); *provided*, *however*, with respect to this clause (6), that at the time such Person becomes a Covenant Party or a Restricted Subsidiary (i) if such Indebtedness is Senior Secured Indebtedness, the Senior Secured Notes Issuer would have been able to Incur $1.00 of additional Indebtedness pursuant to the first paragraph of this covenant and (ii) if such Indebtedness is not Senior Secured Indebtedness, the Issuer would have been able to Incur $1.00 of in additional Indebtedness pursuant to the first paragraph of this covenant, each case, after giving pro forma effect to the relevant acquisition or other transaction and the Incurrence of such Indebtedness pursuant to this clause (6);

(7) (a) Indebtedness under Currency Agreements (other than Currency Agreements described in (b) below), Interest Rate Agreements and Commodity Hedging Agreements and (b) Indebtedness under Currency Agreements entered into in order to hedge any operating expenses and capital expenditures Incurred in the ordinary course of business so long as (i) such operating expenses and capital expenditures are denominated in Euro or U.S. dollars and (ii) the term of any such Currency Agreement is not more than 360 days; in each case with respect to clauses (a) and (b) hereof, entered into for *bona fide* hedging purposes of the Issuer, a Covenant Party or the Restricted Subsidiaries and not for speculative purposes (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(8) Indebtedness consisting of (A) Capitalized Lease Obligations, mortgage financings, Purchase Money Obligations or other financings Incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or

equipment or other assets (including Capital Stock) used or useful in a Similar Business or (B) Indebtedness otherwise Incurred to finance the purchase, lease, rental or cost of design, construction, installation or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and any Indebtedness which refinances, replaces or refunds such Indebtedness, in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (8) and then outstanding, will not exceed at any time outstanding the greater of $50 million and 2.5% of Total Assets so long as such Indebtedness exists on the date of such purchase, design, construction, installation or improvement, or is Incurred within 180 days thereafter;

(9) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by a Covenant Party or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business or in respect of any governmental requirement, including in relation to a governmental requirement to provide a guarantee or bond, (b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business, *provided*, *however*, that upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing; (c) the financing of insurance premiums in the ordinary course of business; and (d) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(10) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earnouts or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); *provided* that the maximum liability of the Covenant Parties and the Restricted Subsidiaries in respect of all such Indebtedness in connection with such disposition shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Covenant Parties and the Restricted Subsidiaries in connection with such disposition;

(11) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within 30 Business Days of Incurrence;

(12) Indebtedness under daylight borrowing facilities incurred in connection with any refinancing of Indebtedness (including by way of set-off or exchange); *provided* that such Indebtedness does not exceed the principal amount of the Indebtedness being refinanced and the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, so long as any such Indebtedness is repaid within three days of the date on which such Indebtedness is Incurred;

(13) Indebtedness Incurred by a Receivables Subsidiary in a Qualified Receivables Financing;

(14) Indebtedness Incurred by the Issuer or a Guarantor (including any Refinancing Indebtedness in respect thereof) or Disqualified Stock of the Issuer or a Covenant Party in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (14) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Issuer, the Covenant Parties and the Restricted Subsidiaries from the issuance or sale (other than to the Issuer, a Covenant Party or a Restricted Subsidiary) of its Subordinated Shareholder Funding or Capital Stock (other than Disqualified Stock, Designated Preference Shares or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock, Designated Preference Shares, an Excluded Contribution or a Covenant Party Contribution) of a Covenant Party, in each case, subsequent to the Issue Date; *provided*, *however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first

paragraph and clauses (1), (6) and (10) of the third paragraph of the covenant described below under ''—*Certain Covenants—Limitation on Restricted Payments*'' to the extent the Issuer, a Covenant Party or a Restricted Subsidiary incurs Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (14) to the extent the Issuer, a Covenant Party or any Restricted Subsidiary makes a Restricted Payment under the first paragraph and clauses (1), (6) and (10) of the third paragraph of the covenant described below under ''—*Certain Covenants—Limitation on Restricted Payments*'' in reliance thereon;

(15) Indebtedness (including any Refinancing Indebtedness in respect thereof) in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (15) and then outstanding, will not exceed the greater of $75 million and 4.0% of Total Assets.

In the event the Issuer Incurs any Indebtedness pursuant to the first paragraph of this covenant or clauses (4)(d), (8), (14) or (15) of the second paragraph of this covenant, the Issuer will substantially concurrently with the Incurrence of such Indebtedness (or in the case of any Indebtedness the proceeds of which are deposited into an escrow account or similar arrangement pending the occurrence of one or more events, concurrently with the release of such proceeds from such escrow account or similar arrangement (other than in the case that such proceeds are returned to the holders of, or lenders under, such Indebtedness pursuant to the terms of such escrow account or similar arrangement)), make one or more Proceeds Loans to one or more Guarantors with all or substantially all of the net proceeds of the Incurrence of such Indebtedness by the Issuer.

In the event the Senior Secured Notes Issuer Incurs any Indebtedness pursuant to the first paragraph of this covenant or clauses (4)(c), (8), (14) or (15) of the second paragraph of this covenant, the Senior Secured Notes Issuer will substantially concurrently with the Incurrence of such Indebtedness (or in the case of any Indebtedness the proceeds of which are deposited into an escrow account or similar arrangement pending the occurrence of one or more events, concurrently with the release of such proceeds from such escrow account or similar arrangement (other than in the case that such proceeds are returned to the holders of, or lenders under, such Indebtedness pursuant to the terms of such escrow account or similar arrangement)), make one or more Finco Proceeds Loans to one or more Guarantors or (prior to the HOT Direct Obligation Event) to HOT and any of its Subsidiaries that are HOT Proceeds Note Guarantors (so long as HOT or such Subsidiary grants a Lien over its material assets and, in the case of such Subsidiary provides a HOT Proceeds Note Guarantee, in the amount of such additional Proceeds Loan) with all or substantially all of the net proceeds of the Incurrence of such Indebtedness by the Senior Secured Notes Issuer.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

(1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Issuer, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the second paragraph or the first paragraph of this covenant; *provided* that Indebtedness incurred under clauses (1) and (15) of the second paragraph of the description of this covenant cannot be reclassified;

(2) Guarantees of, or obligations in respect of letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(3) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clause (1), (8), (14) or (15) of the second paragraph above or the first paragraph above and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

(4) the principal amount of any Disqualified Stock of the Issuer, a Covenant Party or a Restricted Subsidiary, or Preferred Stock of a Covenant Party or a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(5) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness; and

(6) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant. The amount of any Indebtedness outstanding as of any date shall be (a) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (b) the principal amount, or liquidation preference thereof, in the case of any other Indebtedness.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under the covenant described under this ''*—Limitation on Indebtedness*'', the Issuer shall be in Default of this covenant).

For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the Dollar Equivalent of the principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or the date first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than U.S. dollars, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; (b) the Dollar Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (c) if any such Indebtedness that is denominated in a currency other than U.S. dollars is subject to a Currency Agreement with respect to the currency in which such Indebtedness is denominated covering principal amount and interest payable on such Indebtedness, the amount of such Indebtedness, will be the Dollar Equivalent of the principal payment required to be made under such Currency Agreement plus the Dollar Equivalent of any premium which is at such time due and payable but is not covered by such Currency Agreement.

For purposes of determining compliance with the Consolidated Senior Secured Leverage Ratio or the Consolidated Leverage Ratio on the Incurrence of Indebtedness, the NIS Equivalent of the principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or the date first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than NIS, and such refinancing would cause the applicable NIS-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such NIS-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; and (b) the NIS Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date.

In addition, for purposes of calculating the Consolidated Senior Secured Leverage Ratio or the Consolidated Leverage Ratio to test compliance with any covenant in the Indenture, in determining the amount of Indebtedness outstanding in NIS on any date of determination, with respect to any Indebtedness denominated in a currency other than NIS (the ''Foreign Currency''):

(1) subject to a currency swap arrangement or contract, the aggregate principal amount of such Foreign Currency Indebtedness on any such date of determination shall be the NIS amount of the

aggregate principal amount to be paid by the Issuer or a Note Guarantor on the maturity date of such currency swap arrangement or contract pursuant to the terms thereof; or

(2) subject to a currency forward arrangement, forward accretion curve or contract, the aggregate principal amount of such Foreign Currency Indebtedness shall be converted into NIS at the exchange rate specified under the terms of such currency forward arrangement, forward accretion curve or contract as applicable to such Foreign Currency Indebtedness on such date of determination.

For the avoidance of doubt, notwithstanding a Group member entering into any such arrangement or contract hedging foreign exchange exposure of any Foreign Currency Indebtedness, for the purposes of calculating the Consolidated Senior Secured Leverage Ratio or the Consolidated Leverage Ratio, the aggregate principal amount of Indebtedness subject to any such arrangement or contract shall be attributed to the total Indebtedness of the Person that originally Incurred such Indebtedness.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer, a Covenant Party or a Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies.

Limitation on Restricted Payments

Neither the Issuer nor any Covenant Party will, and neither the Issuer nor any Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of or in respect of the Issuer's, any Covenant Party's or any Restricted Subsidiary's Capital Stock (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer, any Covenant Party or any Restricted Subsidiary) except:

    (a) dividends or distributions payable in Capital Stock of a Covenant Party (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of a Covenant Party (other than Disqualified Stock) or in Subordinated Shareholder Funding; and

    (b) dividends or distributions payable to the Issuer, a Covenant Party or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than a Covenant Party or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value);

(2) purchase, redeem, retire or otherwise acquire for value (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any Covenant Party) any (a) Capital Stock of the Issuer or any direct or indirect Parent of the Issuer held by Persons other than the Issuer, a Covenant Party or a Restricted Subsidiary, (b) Capital Stock of a Covenant Party or any direct or indirect Parent of a Covenant Party held by Persons other than the Issuer, a Covenant Party or a Restricted Subsidiary (other than in exchange for Capital Stock of a Covenant Party (other than Disqualified Stock)) or (c) Capital Stock of HOT (including the Minority Shareholder Call Options) held by any party to a Minority Shareholder Purchase Agreement (other than the Company);

(3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement; and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'');

(4) make any cash payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Funding; or

(5) make any Restricted Investment in any Person;

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) are referred to

herein as a "Restricted Payment"), if at the time the Issuer, a Covenant Party or a Restricted Subsidiary makes such Restricted Payment:

(a) a Default or Event of Default shall have occurred and be continuing (or would result immediately thereafter therefrom);

(b) the Issuer is not able to Incur an additional $1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" after giving effect, on a *pro forma* basis, to such Restricted Payment; or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments made by the Issuer, the Covenant Parties and the Restricted Subsidiaries subsequent to the Issue Date (including Permitted Payments permitted below by clauses (5) (without duplication of amounts paid pursuant to any other clause of the immediately succeeding paragraph), (6), (10), (16) and (17) of the immediately succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):

    (i) an amount equal to 100% of the Consolidated Combined EBITDA for the period beginning on the first day of the first full fiscal quarter commencing prior to the Issue Date to the end of the Covenant Party Group's most recently ended full fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated combined financial statements of the Issuer and the Covenant Parties are available, taken as a single accounting period, less the product of 1.5 times the Consolidated Interest Expense for such period;

    (ii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by a Covenant Party from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to the Issue Date or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of a Covenant Party subsequent to the Issue Date (other than (v) any Covenant Party Contribution, (w) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to the Issuer, a Covenant Party or a Restricted Subsidiary or an employee stock ownership plan or trust established by any Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by any Covenant Party or any Restricted Subsidiary, (x) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the immediately succeeding paragraph and (y) Excluded Contributions);

    (iii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by the Issuer, a Covenant Party or any Restricted Subsidiary from the issuance or sale (other than to the Issuer, a Covenant Party or a Restricted Subsidiary or an employee stock ownership plan or trust established by a Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by a Covenant Party or any Restricted Subsidiary) by the Issuer, a Covenant Party or any Restricted Subsidiary subsequent to the Issue Date of any Indebtedness that has been converted into or exchanged for Capital Stock of a Covenant Party (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by the Issuer, a Covenant Party or any Restricted Subsidiary upon such conversion or exchange) but excluding (x) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the immediately succeeding paragraph and (y) Excluded Contributions;

    (iv) the amount equal to the net reduction in Restricted Investments made by the Covenant Parties or any of the Restricted Subsidiaries resulting from repurchases, redemptions or other acquisitions or retirements of any such Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Issuer, a Covenant Party or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of

capital) to the Issuer, a Covenant Party or any Restricted Subsidiary, which amount, in each case under this clause (iv), constituted a Restricted Payment made after the Issue Date; *provided*, *however*, that no amount will be included in Consolidated Combined EBITDA for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included under this clause (iv);

(v) the amount of the cash and the fair market value (as determined in accordance with the last paragraph of this covenant) of property, assets or marketable securities received by a Covenant Party or any Restricted Subsidiary in connection with:

(A) the sale or other disposition (other than to the Issuer, a Covenant Party or a Restricted Subsidiary or an employee stock ownership plan or trust established by a Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by a Covenant Party or any Restricted Subsidiary) of Capital Stock of an Unrestricted Subsidiary of a Covenant Party; and

(B) any dividend or distribution made by an Unrestricted Subsidiary to the Issuer, a Covenant Party or a Restricted Subsidiary;

which Unrestricted Subsidiary was designated as such after the Issue Date; *provided*, *however*, that no amount will be included in Consolidated Combined EBITDA for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included under this clause (v); and

(vi) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or all of the assets of such Unrestricted Subsidiary are transferred to a Covenant Party or a Restricted Subsidiary, or the Unrestricted Subsidiary is merged or consolidated into a Covenant Party or a Restricted Subsidiary, 100% of such amount received in cash and the fair market value (as determined in accordance with the last paragraph of this covenant) of any property, assets or marketable securities received by a Covenant Party or Restricted Subsidiary in respect of such redesignation, merger, consolidation or transfer of assets, excluding any amount of any Investment in such Unrestricted Subsidiary pursuant to clause (16) of the definition of ''Permitted Investment'', in each case of this clause (vi), which Unrestricted Subsidiary was designated as such after the Issue Date; *provided however,* that no amount will be included in Consolidated Combined Net Income for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included under this clause (vi); *provided further, however*, that such amount shall not exceed the amount included in the calculation of the amount of Restricted Payments referred to in the first sentence of this clause (c).

The foregoing provisions will not prohibit any of the following (collectively, ''Permitted Payments''):

(1) any Restricted Payment made in exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the Net Cash Proceeds of the substantially concurrent sale (other than to the Issuer, the Senior Secured Notes Issuer, a Covenant Party or a Subsidiary of a Covenant Party) of, Capital Stock of a Covenant Party (other than Disqualified Stock or Designated Preference Shares or through an Excluded Contribution or a Covenant Party Contribution), Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution or a Covenant Party Contribution) of a Covenant Party; *provided*, *however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the preceding sentence) of property, assets or marketable securities, from such sale of Capital Stock or Subordinated Shareholder Funding or such contribution will be excluded from clause (c)(ii) of the preceding paragraph and for purposes of the ''Optional Redemption'' provisions of the Indenture;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness of the Issuer or any Guarantor made by exchange for, or out of the Net Cash Proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under ''—*Limitation on Indebtedness*'' above;

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of a Covenant Party or a Restricted Subsidiary made by exchange for or out of the Net Cash

Proceeds of the substantially concurrent sale of Preferred Stock of a Covenant Party or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under ''—*Limitation on Indebtedness*'' above, and that in each case, constitutes Refinancing Indebtedness;

(4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:

(a) (i) from Net Cash Proceeds of the Minority Shareholder Option Exercises permitted under ''—*Offer to Repurchase with Minority Shareholder Option Proceeds*'' above and from Net Available Cash to the extent permitted under ''—*Limitation on Sales of Assets and Subsidiary Stock*'' below, but only if the Issuer shall have first complied with the terms described under ''—*Offer to Repurchase with Minority Shareholder Option Proceeds*'' above and ''—*Limitation on Sales of Assets and Subsidiary Stock*'' and purchased all Notes tendered pursuant to any offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

(b) to the extent required by the agreement governing such Subordinated Indebtedness, following the occurrence of a Change of Control (or other similar event described therein as a ''change of control''), but only (i) if required, if the Issuer shall have first complied with the terms described under ''Change of Control'' and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

(c) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Covenant Party or a Restricted Subsidiary or was otherwise acquired by the Issuer, a Covenant Party or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition) and at a purchase price not greater than 100% of the principal amount of such Acquired Indebtedness plus accrued and unpaid interest and any premium required by the terms of any Acquired Indebtedness;

(5) any dividends paid within 60 days after the date of declaration if at such date of declaration such dividend would have complied with this covenant;

(6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by a Covenant Party to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), in each case from Management Investors; *provided* that such payments, loans, advances, dividends or distributions do not exceed an amount (net of repayments of any such loans or advances) equal to (1) $10 million in any calendar year (with unused amounts in any calendar year being carried over to the succeeding calendar years; *provided* that the aggregate Restricted Payments made under this clause (6) do not exceed $20 million in any fiscal year), *plus* (2) the Net Cash Proceeds received by the Covenant Parties or the Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding to a Parent) from, or as a contribution to the equity (in each case under this clause (6), other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Covenant Parties from, the issuance or sale to Management Investors of Capital Stock (including any options, warrants or other rights in respect thereof), to the extent such Net Cash Proceeds are not included in any calculation under clause (c)(ii) of the first paragraph of this covenant;

(7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under ''—*Limitation on Indebtedness*'' above;

(8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;

(9) dividends, loans, advances or distributions to any Parent or other payments by the Issuer, a Covenant Party or any Restricted Subsidiary in amounts equal to (without duplication) the amounts required for any Parent to pay:

  (a) any Parent Expenses or any Related Taxes; and

  (b) amounts constituting or to be used for purposes of making payments to the extent specified in clauses (2) (with respect to fees and expenses incurred in connection with the transactions described therein) and (11) of the second paragraph under ''—*Limitation on Affiliate Transactions;*''

(10) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), the declaration and payment by a Covenant Party of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of a Covenant Party or any Parent following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the Net Cash Proceeds received by such Covenant Party from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of such Covenant Party or contributed as Subordinated Shareholder Funding to such Covenant Party and (b) following the Initial Public Offering, an amount equal to the greater of (i) 5% of the Market Capitalization and (ii) 5% of the IPO Market Capitalization; *provided* that after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Leverage Ratio shall be equal to or less than 3.25 to 1.0; *provided*, *further*, that if such Public Offering was of Capital Stock of a Parent, the net proceeds of any such dividend are used to fund a corresponding dividend in equal or greater amount on the Capital Stock of such Parent;

(11) payments by a Covenant Party, or loans, advances, dividends or distributions to any Parent to make payments, to holders of Capital Stock of such Covenant Party or any Parent in lieu of the issuance of fractional shares of such Capital Stock; *provided*, *however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(12) Restricted Payments in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments in exchange for or using as consideration Investments previously made under this clause (12);

(13) payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing;

(14) dividends or other distributions of Capital Stock, Indebtedness or other securities of Unrestricted Subsidiaries;

(15) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of a Covenant Party issued after the Issue Date; *provided*, *however*, that the amount of all dividends declared or paid by the Covenant Parties pursuant to this clause (15) shall not exceed the Net Cash Proceeds received by the Covenant Parties from the issuance or sale of such Designated Preference Shares;

(16) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), any dividend, distribution, loan or other payment to any Parent; *provided* that the Consolidated Leverage Ratio does not exceed 2.75 to 1.0 on a *pro forma* basis after giving effect to any such dividend, distribution, loan or other payment;

(17) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments in an aggregate amount outstanding at any time not to exceed $50 million; and

(18) the repurchase or repayment of the Cool Interest Loan on the Completion Date in an amount not to exceed NIS 37 million plus any fees and expenses related thereto.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Issuer, such Covenant Party or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment or any other property, assets or securities required to be valued by this covenant shall be determined conclusively by an Officer or the Board of Directors of the Issuer or the relevant Covenant Party acting in good faith.

Limitation on Liens

Neither the Issuer nor any Covenant Party will, and neither the Issuer nor any Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly, create, Incur or suffer to exist any Lien upon any of their property or assets (including Capital Stock of a Restricted Subsidiary), whether owned on the Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the ''Initial Lien''), except (a) in the case of any property or asset that does not constitute Notes Collateral, (i) Permitted Liens or (ii) Liens on assets that are not Permitted Liens if the Notes and the Indenture (or a Note Guarantee in the case of Liens of a Guarantor) are directly secured equally and ratably with, or prior to, in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured and (b) in the case of any property or assets that constitutes Notes Collateral, Permitted Collateral Liens.

Any such Lien created in favor of the Notes pursuant to clause (ii) of the preceding paragraph will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates, and (ii) otherwise as set forth under ''*—Security—Release of Note Collateral*.''

No Layering of Debt

The Issuer will not Incur any Indebtedness (including any Indebtedness permitted to be Incurred pursuant to the second paragraph of the covenant described under ''—Limitation on Indebtedness'') that is contractually subordinated in right of payment to any other Indebtedness of the Issuer unless such Indebtedness is also contractually subordinated in right of payment to the Notes on substantially identical terms (as determined in good faith by the Issuer); *provided*, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer solely by virtue of being unsecured, by virtue of being secured with different collateral or by virtue of being secured on a junior priority basis.

No Guarantor will Incur any Indebtedness (including any Indebtedness permitted to be Incurred pursuant to the second paragraph of the covenant described under ''—Limitation on Indebtedness'') that is contractually subordinated in right of payment to any Senior Indebtedness of such Guarantor and senior in right of payment to such Guarantor's Note Guarantee; provided, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any Senior Indebtedness of any Guarantor solely by virtue of being unsecured, by virtue of being secured with different collateral, by virtue of being secured on a junior priority basis or by virtue of the application of waterfall or other payment-ordering provisions affecting different tranches of Indebtedness under Credit Facilities.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

Neither the Issuer nor any Covenant Party will, and neither the Issuer nor any Covenant Party will permit any of its Restricted Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Covenant Party or any Restricted Subsidiary to:

(A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock to the Issuer, a Covenant Party or any Restricted Subsidiary or pay any Indebtedness or other obligations owed to the Issuer, a Covenant Party or any Restricted Subsidiary;

(B) make any loans or advances to the Issuer, a Covenant Party or any Restricted Subsidiary; or

(C) sell, lease or transfer any of its property or assets to the Issuer, a Covenant Party or any Restricted Subsidiary,

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer, a Covenant Party or any Restricted Subsidiary to other Indebtedness Incurred by the Issuer, a Covenant Party or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

(1) any encumbrance or restriction pursuant to any Credit Facility or any other agreement or instrument, in each case, in effect at or entered into on the Issue Date (other than the Minority Shareholder Purchase Agreements), and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of such agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date (as determined in good faith by the Issuer);

(2) the Minority Shareholder Purchase Agreements as in effect on the Issue Date;

(3) encumbrances or restrictions existing under or by reason of the Indenture, the Notes, the Note Guarantees, the Senior Secured Notes Indenture, the Senior Secured Notes and the Guarantees thereof, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Escrow Agreement, the Security Documents, the Senior Secured Notes Security Documents, the HOT Proceeds Note, the HOT Security Documents, the Finco Loans (other than the HOT Proceeds Note) and the Proceeds Loan.

(4) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which (i) such Person was acquired by or merged, consolidated or otherwise combined with or into a Covenant Party or any Restricted Subsidiary, (ii) such agreement or instrument is assumed by the Issuer, a Covenant Party or any Restricted Subsidiary in connection with an acquisition of assets or (iii) such Person became a Covenant Party or a Restricted Subsidiary (*provided* that its direct or indirect Parent becomes a Covenant Party on such date) (in each case, other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Covenant Party or a Restricted Subsidiary or was acquired by a Covenant Party or was merged, consolidated or otherwise combined with or into a Covenant Party or any Restricted Subsidiary) and outstanding on such date; *provided* that, for the purposes of this clause (4), if another Person is the Successor Company (as defined under ''—*Merger and Consolidation*''), any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by a Covenant Party or any Restricted Subsidiary when such Person becomes the Successor Company;

(5) any encumbrance or restriction pursuant to an agreement or instrument effecting a refunding, replacement or refinancing of Indebtedness Incurred pursuant to, or that otherwise extends, renews, refunds, refinances or replaces, an agreement or instrument referred to in clause (1), (3) or (4) of this paragraph or this clause (5) (an ''Initial Agreement'') or contained in any amendment, supplement or other modification to an agreement referred to in clause (1), (3) or (4) of this paragraph or this clause (5); *provided*, *however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favorable in any material respect to the Holders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by the Issuer);

(6) any encumbrance or restriction:

    (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;

(b) contained in mortgages, pledges or other security agreements permitted under the Indenture or securing Indebtedness of the Issuer, a Covenant Party or a Restricted Subsidiary permitted under the Indenture to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, pledges or other security agreements;

(c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Issuer, a Covenant Party or any Restricted Subsidiary; or

(d) pursuant to the terms of any license, authorization, concession or permit;

(7) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the Indenture, in each case, that impose encumbrances or restrictions on the property so acquired or any encumbrance or restriction pursuant to a joint venture agreement that imposes restrictions on the transfer of the assets of the joint venture;

(8) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;

(9) customary provisions in leases, licenses, joint venture agreements and other similar agreements and instruments entered into in the ordinary course of business;

(10) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation, governmental license or order, or required by any regulatory authority;

(11) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;

(12) any encumbrance or restriction pursuant to Currency Agreements, Interest Rate Agreements or Commodity Hedging Agreements;

(13) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under ''—*Limitation on Indebtedness*'' if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders of the Notes than (i) the encumbrances and restrictions contained in the Revolving Credit Facility on the Issue Date, together with the security documents associated therewith, if any, and the Intercreditor Agreement as in effect on or immediately prior to the Completion Date or (ii) is customary in comparable financings (as determined in good faith by the Issuer) and where, in the case of clause (ii), the Issuer determines at the time of issuance of such Indebtedness that such encumbrances or restrictions (x) will not adversely affect, in any material respect, the Issuer's ability to make principal or interest payments on the Notes as and when they become due or (y) such encumbrances and restrictions apply only if a default occurs in respect of a payment or financial covenant relating to such Indebtedness;

(14) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination of an Officer or the Board of Directors of the Issuer, are necessary or advisable to effect such Qualified Receivables Financing; or

(15) any encumbrance or restriction existing by reason of any Lien permitted under ''—*Limitation on Liens*''.

Limitation on Sales of Assets and Subsidiary Stock

The Issuer will not and will not permit the Senior Secured Notes Issuer to make any Finco Asset Sale.

No Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(1) a Covenant Party or such Restricted Subsidiary, as the case may be, receives consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) at least equal to the fair market value (such fair market value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good

faith by an Officer or the Board of Directors of the Issuer, of the shares and assets subject to such Asset Disposition (including, for the avoidance of doubt, if such Asset Disposition is a Permitted Asset Swap); and

(2) in any such Asset Disposition, or series of related Asset Dispositions (except to the extent the Asset Disposition is a Permitted Asset Swap), at least 75% of the consideration from such Asset Disposition or such series of related Asset Dispositions (excluding any consideration by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise, other than Indebtedness) received by such Covenant Party or such Restricted Subsidiary, as the case may be, is in the form of cash or Cash Equivalents.

After the receipt of Net Available Cash from an Asset Disposition, the Issuer, a Covenant Party or a Restricted Subsidiary, as the case may be, may apply such Net Available Cash directly or indirectly (at the option of the Issuer, such Covenant Party or such Restricted Subsidiary):

(a) (i) to prepay, repay, purchase or redeem any Senior Indebtedness within 395 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided*, *however*, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (a)(i), the Issuer, such Covenant Party or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid, purchased or redeemed; (ii) to prepay, repay, purchase or redeem any Pari Passu Indebtedness of the Issuer that is secured in whole or in part by a Lien on the Notes Collateral, which Lien ranks *pari passu* with the Liens securing the Notes, at a price of no more than 100% of the principal amount of such Pari Passu Indebtedness plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption; *provided* that the Issuer shall prepay, redeem, repay or repurchase Pari Passu Indebtedness pursuant to this clause (ii) only if the Issuer makes an offer to the holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Asset Disposition Offer for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the total aggregate principal amount of Notes outstanding plus the total aggregate principal amount outstanding of such Pari Passu Indebtedness; (iii) to prepay, repay, purchase or redeem any Indebtedness of a Restricted Subsidiary that is not a Guarantor or (iv) to purchase the Notes pursuant to an offer to all holders of Notes at a purchase price in cash equal to at least 100% of the principal amount of the Notes, plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date);

(b) to the extent the Issuer, such Covenant Party or such Restricted Subsidiary elects, to invest in or purchase or commit to invest in or purchase Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Issuer, a Covenant Party or another Restricted Subsidiary) within 395 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided*, *however*, that any such reinvestment in Additional Assets made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors of the Issuer that is executed or approved within such time will satisfy this requirement, so long as such investment or commitment to invest is consummated within 180 days of such 395th day;

(c) to make a capital expenditure within 395 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided*, *however*, that any such capital expenditure made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors of the Issuer that is executed or approved within such time will satisfy this requirement, so long as such investment is consummated within 180 days of such 395th day; or

(d) any combination of the foregoing,

provided that, pending the final application of any such Net Available Cash in accordance with clause (a), (b), (c) or (d) above, the Issuer, the Covenant Parties and their Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the Indenture.

Any Net Available Cash from Asset Dispositions that is not applied or invested or committed to be applied or invested as provided in the preceding paragraph will be deemed to constitute ''Excess

Proceeds''. On the 396th day (or the 576th day, in the case of any Net Available Cash committed to be used pursuant to a definitive binding agreement or commitment approved by the Board of Directors of the Issuer pursuant to clauses (b) or (c) of the second paragraph of this covenant) after the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash, if the aggregate amount of Excess Proceeds exceeds $30 million, the Issuer will be required within ten (10) Business Days thereof to make an offer (''Asset Disposition Offer'') to all holders of Notes and, to the extent the Issuer elects or the Issuer or a Guarantor is required by the terms of other outstanding Pari Passu Indebtedness, to all holders of such other outstanding Pari Passu Indebtedness to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer, the Senior Secured Notes Issuer and the Covenant Parties may use any remaining Excess Proceeds for general corporate purposes, to the extent not prohibited by the other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the principal amount of any such Indebtedness not denominated in U.S. dollars, such Indebtedness shall be calculated by converting any such principal amounts into their Dollar Equivalent determined as of a date selected by the Issuer that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Issuer upon converting such portion of the Net Available Cash into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the ''Asset Disposition Offer Period''). No later than five (5) Business Days after the termination of the Asset Disposition Offer Period (the ''Asset Disposition Purchase Date''), the Issuer will purchase the principal amount of Notes and, to the extent it elects, Pari Passu Indebtedness required to be purchased by it pursuant to this covenant (the ''Asset Disposition Offer Amount'') or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof. The Issuer will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five (5) Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder of Notes an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note (or amend the applicable Global Note), and the Trustee, upon delivery of an Officer's Certificate from the Issuer, will authenticate and mail or deliver (or cause to be transferred by book-entry) such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in a principal

amount with a minimum denomination of $200,000. Any Note not so accepted will be promptly mailed or delivered (or transferred by book-entry) by the Issuer to the Holder thereof.

For the purposes of clause (2) of the first paragraph of this covenant, the following will be deemed to be cash:

(1) the assumption by the transferee of Indebtedness of the Issuer, any Covenant Party or any Restricted Subsidiary (other than Subordinated Indebtedness of the Issuer or a Guarantor) and the release of the Issuer, such Covenant Party or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition;

(2) securities, notes or other obligations received by the Issuer, a Covenant Party or any Restricted Subsidiary from the transferee that are converted by the Issuer, such Covenant Party or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition, to the extent of the cash received;

(3) Indebtedness of a Covenant Party or any Restricted Subsidiary that is no longer a Covenant Party or a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Issuer, each other Covenant Party and each other Restricted Subsidiary (as applicable) are released from any Guarantee of payment of such Indebtedness in connection with such Asset Disposition;

(4) consideration consisting of Indebtedness of the Issuer or a Guarantor (other than Subordinated Indebtedness) received after the Issue Date from Persons who are not the Issuer, a Covenant Party or any Restricted Subsidiary; and

(5) any Designated Non-Cash Consideration received by the Issuer, a Covenant Party or any Restricted Subsidiary in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed the greater of $25 million and 1.5% of Total Assets (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the Indenture. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of any conflict.

Limitation on Affiliate Transactions

Neither the Issuer nor any Covenant Party will, and neither the Issuer nor any Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Issuer or any Covenant Party (any such transaction or series of related transactions being ''Affiliate Transactions'') involving aggregate value in excess of $5 million unless:

(1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Issuer, such Covenant Party or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's-length dealings with a Person who is not such an Affiliate; and

(2) in the event such Affiliate Transaction involves an aggregate value in excess of $30 million, the terms of such transaction or series of related transactions have been approved by a resolution of the majority of the members of the Board of Directors of the Issuer resolving that such transaction complies with clause (1) above; *provided* that an Affiliate Transaction shall be deemed to have satisfied the requirements set forth in this clause (2) of this paragraph if such Affiliate Transaction is approved by a majority of the Disinterested Directors.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under ''*—Limitation on Restricted Payments*'', any Permitted Payments (other than pursuant to clause (9)(b) of the third paragraph of the covenant described under ''*—Limitation on Restricted*

Payments'') or any Permitted Investment (other than Permitted Investments as defined in paragraphs (1)(b), (2) and (17) of the definition thereof);

(2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of any Covenant Party, any Restricted Subsidiary or any Parent, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Issuer, in each case in the ordinary course of business;

(3) any Management Advances and any waiver or transaction with respect thereto;

(4) any transaction between or among the Issuer, any Covenant Party and any Restricted Subsidiary (or entity that becomes a Covenant Party or a Restricted Subsidiary as a result of such transaction), or between or among Covenant Parties, Restricted Subsidiaries or any Receivables Subsidiary;

(5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Issuer, any Covenant Party, any Restricted Subsidiary or any Parent (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

(6) the Transactions and the entry into and performance of obligations of the Issuer, the Company or any of its Restricted Subsidiaries under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed or refinanced from time to time (including, without limitation, to add additional Persons in connection with any such Person becoming a Covenant Party) in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect and the entry into and performance of any registration rights or other listing agreement in connection with any Public Offering;

(7) execution, delivery and performance of any Tax Sharing Agreement or the formation and maintenance of any consolidated group for tax or accounting purposes in the ordinary course of business;

(8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services and Associates, in each case in the ordinary course of business (including, without limitation, pursuant to joint venture arrangements), which are fair to the Issuer, the relevant Covenant Party or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer, the relevant Covenant Party or the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;

(9) any transaction in the ordinary course of business between or among the Issuer, a Covenant Party or any Restricted Subsidiary and any Affiliate of the Issuer or an Associate or similar entity (in each case, other than an Unrestricted Subsidiary) that would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary or any Affiliate of the Issuer, a Covenant Party or a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;

(10) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Issuer or a Covenant Party or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors of the Issuer in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the

other provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement, as applicable;

(11) without duplication in respect of payments made pursuant to the definition of Parent Expenses, (a) payments by the Issuer, a Covenant Party or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent) of annual management, consulting, monitoring or advisory fees and related expenses in an aggregate amount not to exceed an amount equal to $5 million per year; (b) customary payments by the Issuer, a Covenant Party or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent) for financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments in respect of this clause (b) are approved by a majority of the Board of Directors of the Issuer in good faith; and (c) payments of all fees and expenses related to the Transactions; and

(12) any transaction effected as part of a Qualified Receivables Financing.

Maintenance of Listing

The Issuer will use its commercially reasonable efforts to maintain the listing of the Notes on the Official List of the Luxembourg Stock Exchange and the admission to trading on its Euro MTF Market for so long as such Notes are outstanding; *provided* that if at any time the Issuer determines that it will not maintain such listing, it will obtain prior to the delisting of the Notes from the Euro MTF Market of the Luxembourg Stock Exchange, and thereafter use its best efforts to maintain, a listing of such Notes on another recognized stock exchange.

Reports

For so long as any Notes are outstanding, the Company will provide to the Trustee the following reports:

(1) within 120 days after the end of the Company's fiscal year beginning with the first fiscal year ending after the Issue Date, annual reports containing, to the extent applicable, and in a level of detail that is comparable in all material respects to this Offering Memorandum, the following information presented on a basis that combines the Company and the other Covenant Parties, if any: audited consolidated combined balance sheets of the Company and the other Covenant Parties as of the end of the two most recent fiscal years and audited consolidated combined income statements and statements of cash flow of the Company and the other Covenant Parties for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; unaudited *pro forma* combined income statement information and balance sheet information of the Company and the other Covenant Parties (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for (i) any acquisition or disposition by a Covenant Party or a Restricted Subsidiary that, individually or in the aggregate when considered with all other acquisitions or dispositions that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates, represent greater than 20% of the consolidated revenues, EBITDA, or assets of the Covenant Parties on a *pro forma* consolidated combined basis or (ii) recapitalizations by the Company, any other Covenant Party or a Restricted Subsidiary, in each case, that have occurred since the beginning of the most recently completed fiscal year (unless such *pro forma* information has been provided in a prior report pursuant to clause (2) or (3) below); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Company, the other Covenant Parties, and a discussion of material commitments and contingencies and critical accounting policies; (d) description of the business, management and shareholders of the Company and the other Covenant Parties, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments; and (e) a description of material risk factors and material recent developments (to the extent not previously reported pursuant to clause (2) or (3) below); for avoidance of doubt the review and descriptions in clauses (c), (d) and (e) above shall contain discussion relating to each other Covenant Party, if any, that contains a level of detail with respect to such Covenant Party and its Subsidiaries that is comparable in all material respects to the level of detail with respect to the Company and its Subsidiaries contained in this Offering Memorandum;

(2) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Company beginning with the quarter ending March 31, 2013 all quarterly reports of the Company containing the following information presented on a basis that combines the Company and the other Covenant Parties, if any: (a) an unaudited condensed consolidated combined balance sheet as of the end of such quarter and unaudited condensed consolidated combined statements of income and cash flow for the most recent quarter year-to-date period ending on the date of the unaudited condensed combined balance sheet, and the comparable prior year periods, together with condensed footnote disclosure; (b) unaudited *pro forma* income statement information and balance sheet information (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any acquisition or disposition by a Covenant Party or a Restricted Subsidiary that, individually or in the aggregate when considered with all other acquisitions or dispositions that have occurred since the beginning of the relevant quarter, represent greater than 20% of the consolidated revenues, EBITDA, or assets of the Covenant Parties on a *pro forma* consolidated combined basis (unless such *pro forma* information has been provided in a prior report pursuant to clause (3) below); (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, EBITDA and material changes in liquidity and capital resources, and a discussion of material changes not in the ordinary course of business in commitments and contingencies since the most recent report; and (d) material recent developments (to the extent not previously reported pursuant to clause (3) below); for avoidance of doubt the review and descriptions in clauses (c) and (d) above shall contain discussion relating to each other Covenant Party, if any, that contains a level of detail with respect to such Covenant Party and its Subsidiaries that is comparable in all material respects to the level of detail with respect to the Company and its Subsidiaries contained in the quarterly information contained in this Offering Memorandum; *provided* that if financial statement information of a Person that becomes a Covenant Party (the ''Additional Covenant Party'') was prepared in accordance with an accounting standard other than IFRS prior to such Additional Covenant Party becoming a Covenant Party, the obligations under this clause (2) for the first fiscal quarter ending after the date such Person becomes an Additional Covenant Party (the ''Relevant Date'') may be satisfied by providing (i) the information required by this clause (2) with respect to the Company and the other Covenant Parties prepared in accordance with IFRS; (ii) the information required by this clause (2) with respect to the Additional Covenant Party prepared in accordance with the accounting principles applicable to the financial statements of the Additional Covenant Party for the fiscal quarter immediately prior to the Relevant Date; and (iii) a reconciliation of EBITDA of the Additional Covenant Party as presented in the financial statements described in clause (ii) to EBITDA of the Additional Covenant Party had the financial statements described in clause (ii) been prepared in accordance with IFRS; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring, merger or similar transaction, or any change in a senior executive officer or the Board of Directors of a Covenant Party or change in auditors of the Company, or any other material event that the Company, a Covenant Party or any Restricted Subsidiary announces publicly, a report containing a description of such event.

All financial statement information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented; *provided*, *however*, that the reports set forth in clauses (1), (2) and (3) above may in the event of a change in IFRS, present earlier periods on a basis that applied to such periods. Except as provided for above, no report need include separate financial statements for the Covenant Parties or Subsidiaries of the Covenant Parties or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum and in no event shall U.S. GAAP information or reconciliation to U.S. GAAP be required.

In the event that the Permitted Parent becomes a Covenant Party, the Indenture will permit the Covenant Parties, at the Company's option, to satisfy the obligations of this covenant with respect to financial information relating to the Covenant Parties by furnishing financial information relating to the Permitted Parent.

At any time any Subsidiary of a Covenant Party is an Unrestricted Subsidiary and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary, then the quarterly and annual financial information required by the first paragraph of this covenant will include a reasonably detailed presentation, either on the face of the financial

statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

So long as any Notes are outstanding, the Issuer will furnish to the Trustee within 120 days following the end of each fiscal year, beginning with the fiscal year ending December 31, 2012, (a) an audited balance sheet of the Issuer as of the end of the most recent fiscal year, and comparative information as of the end of the prior fiscal year, and audited consolidated income statement and statement of cash flow of the Issuer for the most recent fiscal year, including footnotes to such financial statements and the report of the independent auditors on the financial statements; and (b) so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will make available copies of all reports referred to in clause (a) at the Issuer's registered office in Luxembourg or, to the extent and in the manner permitted by such rules, post such reports on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Substantially concurrently with the issuance to the Trustee of the reports specified in (1), (2) and (3) of the first paragraph of this covenant, the Issuer shall also (a) use its commercially reasonable efforts (i) to post copies of such reports on such website as may be then maintained by the Issuer, the Company and its Subsidiaries or (ii) otherwise to provide substantially comparable public availability of such reports (as determined by the Issuer in good faith) or (b) to the extent the Issuer determines in good faith that such reports cannot be made available in the manner described in the preceding clause (a) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports to the Holders and, upon their request, prospective purchasers of the Notes. The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, at the Issuer's registered office in Luxembourg or, to the extent and in the manner permitted by such rules, post such reports on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

In addition, so long as the Notes remain outstanding and during any period during which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Issuer shall furnish to the Holders and holders of beneficial interests in the Notes and, upon their request, prospective purchasers of the Notes or prospective and purchasers of beneficial interests in the Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Merger and Consolidation

The Issuer

The Issuer will not directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation) or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer taken as a whole in one or more related transactions, to another Person.

Senior Secured Notes Issuer

The Senior Secured Notes Issuer will not directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Senior Secured Notes Issuer is the surviving corporation) or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Senior Secured Notes Issuer taken as a whole in one or more related transactions, to another Person.

The Covenant Parties

No Covenant Party will consolidate with or merge with or into, or assign, convey, transfer, lease or otherwise dispose all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions to, any Person, unless after the Completion Date:

(1) the resulting, surviving or transferee Person (the ''Successor Company'') (if not such Covenant Party) will be a Person organized and existing under the laws of any member state of the European Union, the State of Israel or the United States of America, any State of the United States or the District of Columbia and the Successor Company (if not such Covenant Party) will expressly assume, (a) by supplemental indenture, executed and delivered to the Trustee, in form reasonably

satisfactory to the Trustee, all the obligations of such Covenant Party under the Notes and the Indenture and (b) all obligations of such Covenant Party under the Intercreditor Agreement and the Security Documents, as applicable;

(2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving *pro forma* effect to such transaction and any related financing transactions, as if such transactions had occurred at the beginning of applicable four-quarter period, either (a) the Successor Company would be able to Incur at least an additional $1.00 of Indebtedness pursuant to the first paragraph of the covenant described under ''*—Limitation on Indebtedness*'' or (b) the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving effect to such transaction; and

(4) the Issuer shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture and an Opinion of Counsel to the effect that such supplemental indenture (if any) has been duly authorized, executed and delivered and is a legal, valid and binding agreement enforceable against the Successor Company (in each case, in form and substance reasonably satisfactory to the Trustee); *provided* that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of a Covenant Party, which properties and assets, if held by such Covenant Party instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of such Covenant Party on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of such Covenant Party.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, such Covenant Party under the Indenture but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under the Indenture or the Notes.

Notwithstanding the preceding clauses (2) and (3) (which do not apply to transactions referred to in this sentence) and clause (4) of the second paragraph of this covenant (which does not apply to transactions referred to in this sentence in which a Covenant Party is the Successor Company), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any Covenant Party (so long as such Covenant Party is a Guarantor); (b) any Covenant Party may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Covenant Party (so long as such Covenant Party is a Guarantor); and (c) any Restricted Subsidiary that is not a Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Restricted Subsidiary or a Covenant Party. Notwithstanding the preceding clause (3) (which does not apply to the transactions referred to in this sentence) of the second paragraph of this covenant, any Covenant Party may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of such Covenant Party, reincorporating such Covenant Party in another jurisdiction or changing the legal form of such Covenant Party.

There is no precise established definition of the phrase ''substantially all'' under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve ''all or substantially all'' of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2) of the second paragraph of this ''Merger and Consolidation'' covenant) shall not apply to the creation of a new Subsidiary as a Restricted Subsidiary.

The Subsidiary Guarantors

None of the Subsidiary Guarantors (other than the Senior Secured Notes Issuer and a Guarantor whose Note Guarantee is to be released in accordance with the terms of the Indenture or the Intercreditor Agreement) may:

(1) consolidate with or merge with or into any Person (whether or not such Guarantor is the surviving Person);

(2) sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person; or

(3) permit any Person to merge with or into it;

unless:

(A) the other Person is a Covenant Party or Restricted Subsidiary that is a Guarantor or becomes a Guarantor as a result of such transaction; or

(B) (1) either (x) a Guarantor is the surviving Person or (y) the resulting, surviving or transferee Person expressly assumes all of the obligations of the Guarantor under its Note Guarantee and the Indenture (pursuant to a supplemental indenture executed and delivered in a form reasonably satisfactory to the Trustee) and all obligations of the Guarantor under the Intercreditor Agreement and Security Documents, as applicable; and

(2) immediately after giving effect to the transaction, no Default or Event of Default shall have occurred and is continuing; or

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of a Guarantor or the sale or disposition of all or substantially all the assets of a Guarantor (in each case other than to a Covenant Party or a Restricted Subsidiary) otherwise permitted by the Indenture and the proceeds therefrom are applied as required by the Indenture.

Notwithstanding the preceding clause (B)(2) (which does not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary and any Covenant Party may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to a Guarantor and (b) any Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Guarantor. Notwithstanding the preceding clause (B)(2) (which does not apply to the transactions referred to in this sentence), a Guarantor may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Guarantor reincorporating the Guarantor in another jurisdiction, or changing the legal form of the Guarantor.

There is no precise established definition of the phrase ''substantially all'' under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve ''all or substantially all'' of the property or assets of a Person.

Limitation on Issuer and Senior Secured Notes Issuer Activities

Notwithstanding anything contained in the Indenture:

(1) The Issuer will not, and will not permit the Senior Secured Notes Issuer to, engage in any business activity or undertake any other activity, except any such activity:

(a) reasonably relating to the offering, sale, issuance, Incurrence, servicing, purchase, redemption, amendment, exchange, refinancing or retirement of or Investment in the Notes, the Senior Secured Notes, any Additional Notes or other Indebtedness (including any Refinancing Indebtedness in respect of any of the foregoing) permitted to be Incurred by the terms of the Indenture or the Senior Secured Notes Indenture (including the lending, directly or indirectly, of the proceeds of such sale of the Notes, the Senior Secured Notes any Additional Notes or other Indebtedness permitted by the terms of the Indenture or the Senior Secured Notes Indenture pursuant to the Finco Proceeds Loans and the Proceeds Loan or borrowing directly or indirectly from any Covenant Party or any Restricted Subsidiary);

(b) undertaken with the purpose of, directly or indirectly, fulfilling its obligations or exercising its rights under the Notes, the Senior Secured Notes, any Additional Notes, the Finco Proceeds Loans, the Proceeds Loan, any Additional Notes or other Indebtedness, Hedging Obligations or any other obligations (including any Refinancing Indebtedness in respect of any of the foregoing), in each case, permitted to be Incurred by the terms of the Indenture, the Senior Secured Indenture, any Security Document or Senior Secured Notes Secured Document to which it is a party, the Intercreditor Agreement (or any Additional Intercreditor Agreement entered into pursuant to the terms of the Intercreditor Agreement or the Indenture) or the Escrow Agreement;

(c) directly related or reasonably incidental to the establishment and/or maintenance of the Issuer's and Senior Secured Notes Issuer's corporate existence, the acquisition, holding or disposition of assets permitted to be held by it under the Indenture or the Senior Secured Notes Indenture, as the case may be;

(d) directly related to investing amounts received by the Issuer (other than amounts not corresponding to required payments under the Notes) or the Senior Secured Notes Issuer (other than amounts not corresponding to required payments under the Senior Secured Notes) in such manner not otherwise prohibited by the Indenture or the Senior Secured Notes Indenture, as the case may be;

(e) in the case of the Issuer, making Permitted Issuer Investments and Incurring Permitted Issuer Liens and, in the case of the Senior Secured Notes Issuer, making Permitted Senior Secured Notes Issuer Investments and Incurring Permitted Senior Secured Notes Issuer Liens;

(f) in the case of the Senior Secured Notes Issuer, related to cash management activities on behalf of the Issuer, the Covenant Parties and the Restricted Subsidiaries; or

(g) other activities not specifically enumerated above that are immaterial in nature.

(2) The Issuer shall not:

(a) issue any Capital Stock (other than to Altice VII S.à r.l.);

(b) take any action which would cause it to no longer satisfy the requirements of an available exemption from the provisions of the U.S. Investment Company Act of 1940, as amended;

(c) commence or take any action or facilitate a winding-up, liquidation, dissolution or other analogous proceeding;

(d) amend its constitutive documents in any manner which would adversely affect the rights of Holders in any material respect;

(e) transfer or assign the Proceeds Loan (or rights thereunder) except pursuant to the Security Documents; or

(f) amend any provision of, or waive any default or event of default under, any Proceeds Loan except in accordance with ''—*Amendments and Waivers*''.

(3) The Senior Secured Notes Issuer shall not:

(a) issue any Capital Stock (other than to HoldCo);

(b) take any action which would cause it to no longer satisfy the requirements of an available exemption from the provisions of the U.S. Investment Company Act of 1940, as amended;

(c) commence or take any action or facilitate a winding-up, liquidation, dissolution or other analogous proceeding;

(d) amend its constitutive documents in any manner which would adversely affect the rights of Holders in any material respect;

(e) transfer or assign any Finco Proceeds Loan (or rights thereunder) except pursuant to the Security Documents; or

(f) amend any Finco Proceeds Loan except in accordance with ''—Amendments and Waivers'' provisions of the Senior Secured Notes Indenture;

(4) Except as otherwise provided in the Indenture, the Issuer will take all actions necessary and within its power to prohibit the transfer of the issued ordinary shares and management share in the Issuer by Altice VII S.à r.l., other than pursuant to the Issuer Share Pledge or the enforcement of such Issuer Share Pledge.

(5) Whenever the Issuer receives a payment or prepayment under any Proceeds Loan, it shall use the funds received solely to satisfy its obligations (to the extent of the amount owing in respect of such obligations) under the Indenture (including any premium paid to holders of the Notes) or any other Indebtedness of the Issuer.

(6) Whenever the Senior Secured Notes Issuer receives a payment or prepayment under a Finco Proceeds Loan, it shall use the funds received solely to satisfy its obligations (to the extent of the amount owing in respect of such obligations) under the Senior Secured Notes Indenture (including any premium paid to holders of the Senior Secured Notes) or any other Indebtedness of the Senior Secured Notes Issuer (including Indebtedness under any Proceeds Loans); *provided* that to the extent the Senior Secured Notes Issuer receives cash payment in respect of interest on a Finco Proceeds Loan previously paid in-kind and the amount of such cash payment exceeds the obligations of the Senior Secured Notes Issuer then due and payable (or due and payable within five Business Days of such receipt) under the Senior Secured Notes, the Proceeds Loan or any other Indebtedness of the Senior Secured Notes Issuer, the Senior Secured Notes Issuer may use such excess amount for any purpose not prohibited by the Indenture.

No Covenant Party will permit the Issuer or the Senior Secured Notes Issuer to become a direct or indirect subsidiary of any Covenant Party.

Lines of Business

Neither the Issuer nor any Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, engage in any business other than a Similar Business, except to such extent as would not be material to the Covenant Parties and the Restricted Subsidiaries, taken as a whole.

Additional Guarantors

Each Covenant Party shall ensure that within 120 days after the end of each of the Company's (or after the Permitted Parent Designation, the Permitted Parent's) fiscal years beginning with the first fiscal year ending after the Issue Date:

(1) the combined EBITDA (calculated on a basis consistent with the definition of Combined Consolidated EBITDA but determined on an unconsolidated stand-alone basis and without double counting (for the avoidance of doubt, all intra group items and Investments in Subsidiaries of a Covenant Party or of a Restricted Subsidiary held by any Covenant Party or any Restricted Subsidiary shall be excluded)) of the Issuer, the Guarantors and, prior to the HOT Direct Obligation Event, HOT and the HOT Proceeds Note Guarantors for the most recently ended four fiscal quarters of the Company (or after the Permitted Parent Designation, the Permitted Parent) shall equal or exceed 75.0% of the Consolidated Combined EBITDA for such four fiscal quarters (or after the Permitted Parent Designation, the Permitted Parent); and

(2) the combined gross assets (determined separately, without double counting (for the avoidance of doubt, all intra group items and Investments in Subsidiaries of a Covenant Party or of a Restricted Subsidiary held by any Covenant Party or any Restricted Subsidiary shall be excluded)) of the Issuer, the Guarantors and, prior to the HOT Direct Obligation Event, HOT and the HOT Proceeds Note Guarantors, as of the last day of the most recently ended four fiscal quarters of the Company (or after the Permitted Parent Designation, the Permitted Parent) shall equal or exceed 75.0% of the Pro forma Consolidated Gross Assets of the Company (or after the Permitted Parent Designation, the Permitted Parent) as of such date,

by causing one or more of its Restricted Subsidiaries that are not Guarantors or, prior to the HOT Direct Obligation Event, HOT Proceeds Note Guarantors to:

(a) become a Guarantor by executing and delivering to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Note Guarantee on senior subordinated basis; or

(b) prior to the HOT Direct Obligation Event, accede to the HOT Proceeds Note and become a HOT Proceeds Note Guarantor and guarantee the obligations of HOT under the HOT Proceeds Note,

to the extent necessary to ensure the foregoing thresholds are met. The Company shall notify the Trustee promptly of each new Guarantor or HOT Proceeds Note Guarantor. Notwithstanding the foregoing, until the HOT Mobile License Guarantee has been released and discharged, the EBITDA and the gross assets of HOT Mobile and its Restricted Subsidiaries shall be excluded from the calculation of Consolidated Combined EBITDA and Pro Forma Consolidated Gross Assets of the Company in the first paragraph of this covenant.

No Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries (other than a Guarantor) to, Guarantee any Indebtedness of the Issuer or any Guarantor (other than Indebtedness Incurred under clause (8) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*'', except Indebtedness Incurred under Credit Facilities or Public Debt pursuant to such clause (8)) unless such Covenant Party or such Restricted Subsidiary is or becomes a Guarantor on the date on which the Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Covenant Party or such Restricted Subsidiary will provide a Note Guarantee, which Guarantee will be subordinated to Senior Indebtedness of such Covenant Party or such Restricted Subsidiary and senior to or pari passu with such Covenant Party's or such Restricted Subsidiary's Guarantee of such other Indebtedness.

No Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries (other than a Guarantor) to, Guarantee any Indebtedness of any Restricted Subsidiary that is not a Guarantor (other than another Restricted Subsidiary of the same Covenant Party) unless such Restricted Subsidiary is or becomes a Guarantor on the date on which the Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Note Guarantee, which Guarantee will be subordinated to the Guarantee by such Covenant Party or such Restricted Subsidiary of Senior Indebtedness and senior to or pari passu with such Covenant Party's or such Restricted Subsidiary's Guarantee of such other Indebtedness.

Note Guarantees granted after the Issue Date pursuant to this covenant shall be released as set forth under ''—*Releases of the Note Guarantees*''. Note Guarantees granted after the Issue Date pursuant to the second and third paragraphs of this covenant may be released at the option of the Issuer if, at the date of such release, (i) the Indebtedness which required such Note Guarantee has been released or discharged in full, (ii) no Event of Default would arise as a result of such release, and (iii) there is no other Indebtedness of such Guarantor outstanding that was Incurred after the Issue Date and that could not have been Incurred in compliance with the Indenture as of the date Incurred if such Guarantor were not a Guarantor as at that date. The Trustee and the Security Agent shall each take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

Each additional Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, thin capitalization, distributable reserves, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Covenant Party shall not be obligated to cause such Restricted Subsidiary to become a Guarantor to the extent and for so long as the Incurrence of such Guarantee could reasonably be expected to give rise to or result in: (1) any violation of applicable law or regulation; (2) any liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (1) of this paragraph undertaken in connection with, such Guarantee, which in any case under any of clauses (1), (2) and (3) of this paragraph cannot be avoided through measures reasonably available to any Covenant Party or such Restricted Subsidiary.

Additional Covenant Parties

The Issuer may designate any Person (other than the Issuer, the Senior Secured Notes Issuer, the Company or any of its Subsidiaries) that is under direct or indirect common control with the Company as an ''Additional Covenant Party''; *provided* that (i) no Default or Event of Default has occurred and is continuing or would occur as a consequence such designation, (ii) such Additional Covenant Party shall have delivered to the Trustee a supplemental indenture pursuant to which such Additional Covenant Party agrees to comply with the covenants and the other terms and conditions applicable to a Covenant Party set forth in the Indenture, the Notes and the Intercreditor Agreement and to Guarantee the Notes, which Guarantee will be subordinated to the Guarantee by such Covenant Party's Senior Indebtedness, (iii) such Person has acceded to the Intercreditor Agreement, (iv) all of the shares of Capital Stock of such Additional Covenant Party are pledged as Notes Collateral to secure the Notes and the Note Guarantees on a junior basis.

Any such designation by the Board of Directors of such Covenant Party shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of such Covenant Party giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions. The Issuer shall file with the Trustee an Officer's Certificate in the event any Additional Covenant Party ceases to be a Covenant Party in accordance with the definition of ''Additional Covenant Party'' under ''*—Certain Definitions—Additional Covenant Party*''.

Designation of Permitted Parent

The Issuer may designate any Additional Covenant Party as the Permitted Parent on the date such Person becomes a Covenant Party in accordance with the terms of the Indenture (including the covenant described above under ''*—Additional Covenant Parties*''), provided that:

(1) upon such designation, all Covenant Parties and each of their Restricted Subsidiaries, in each case, existing immediately prior to such designation are Restricted Subsidiaries of the Permitted Parent immediately upon such designation; and

(2) such Person has acceded to the Intercreditor Agreement as the Permitted Parent.

Upon the designation of such Person as the Permitted Parent,

(1) each Covenant Party existing at the time of such designation will be deemed to no longer be a Covenant Party; provided that each such Covenant Party will be a Restricted Subsidiary of the Permitted Parent immediately after such designation;

(2) the Issuer will not be permitted to designate any other Person as an Additional Covenant Party pursuant to the covenant described above under ''*—Additional Covenant Parties*'') after such designation;

(3) the pledges over the Capital Stock of such Covenant Party granted to secure the Notes and the Note Guarantee of such Covenant Party will be released; *provided* that (i) all other pledges on such Capital Stock securing Indebtedness of the Issuer and the Guarantors on a junior basis are also released and (ii) upon such designation all of the Capital Stock of the Permitted Parent is pledged to secure the Notes and the Note Guarantees on a junior basis; and

(4) all references in the Indenture to a Covenant Party will be deemed to only refer to the Permitted Parent.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a ''Suspension Event''), then, the Issuer shall notify the Trustee of these events and beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (the ''Reversion Date''), the provisions of the Indenture summarized under the following captions will not apply to the Notes: ''*—Limitation on Indebtedness*'', ''*—Limitation on Restricted Payments*'', ''*—Limitation on Restrictions on Distributions from Restricted Subsidiaries*'', ''*—Limitation on Sales of Assets and Subsidiary Stock*'', ''*—Limitation on Affiliate Transactions*'' and ''*—Impairment of Security Interests*'', the provisions of clause (3) of the paragraph of the covenant described under ''*—Merger and Consolidation—The Covenant Parties*'' and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the

Issuer, the Covenant Parties and the Restricted Subsidiaries. Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Issuer properly taken during the continuance of the Suspension Event, and the ''—*Limitation on Restricted Payments*'' covenant will be interpreted as if it has been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. On the Reversion Date, all Indebtedness Incurred during the continuance of the Suspension Event will be classified, at the Issuer's option, as having been Incurred pursuant to the first paragraph of the covenant described under ''—*Limitation on Indebtedness*'' or one of the clauses set forth in the second paragraph of such covenant (to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to Indebtedness Incurred prior to the Suspension Event and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred under the first two paragraphs of the covenant described under ''—*Limitation on Indebtedness*'', such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (4)(c) of the second paragraph of the covenant described under ''—*Limitation on Indebtedness*''.

Impairment of Security Interests

The Issuer shall not, the Covenant Parties shall not and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the security interest with respect to the Notes Collateral (it being understood that the Incurrence of Permitted Collateral Liens, subject to the proviso in the second sentence of the next succeeding paragraph, shall under no circumstances be deemed to materially impair the security interest with respect to the Notes Collateral) for the benefit of the Trustee and the Holders, and the Issuer shall not, the Covenant Parties shall not and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent (or its delegate), for the benefit of the Trustee and the Holders and the other beneficiaries described in the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement, any Lien over any of the Notes Collateral; *provided*, that, subject to the proviso in the second sentence of the next succeeding paragraph, the Issuer, the Covenant Parties and the Restricted Subsidiaries may Incur Permitted Collateral Liens, (x) the Notes Collateral may be discharged, amended, extended, renewed, restated, supplemented, released, modified or replaced in accordance with the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the applicable Security Documents and (y) and the Covenant Parties and their Restricted Subsidiaries may consummate any other transaction permitted under ''—*Merger and Consolidation*''.

Notwithstanding the above, nothing in this covenant shall restrict the discharge and release of any Security Interest in accordance with the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement. Subject to the foregoing, the Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) make any change reasonably necessary in the good faith determination of the Issuer in order to implement transactions permitted under ''—*Merger and Consolidation*;'' (iv) add to the Notes Collateral; or (v) make any other change thereto that does not adversely affect the Holders in any material respect; provided, however, that, contemporaneously with any such action in clauses (ii), (iii), (iv) and (v), the Issuer delivers to the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an independent financial advisor or appraiser or investment bank of international standing which confirms the solvency of the Covenant Parties and their Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, (2) a certificate from the chief financial officer or the Board of Directors of the relevant Person which confirms the solvency of the Person granting Security Interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, or (3) an opinion of counsel (subject to any qualifications customary for this type of opinion of counsel), in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the Lien or Liens created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such

Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

In the event that the Issuer, the Covenant Parties and the Restricted Subsidiaries comply with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendments without the need for instructions from the Holders.

Payments for Consents

The Issuer will not and no Covenant Party will, and no Covenant Party will permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of this Indenture or the Notes unless such consideration is offered to be paid and is paid to all holders of Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, the Issuer, the Covenant Parties and the Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of this Indenture, to exclude holders of Notes in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an exchange offer or an offer to purchase for cash, or (ii) the payment of the consideration therefor would require the Issuer, any Covenant Party or any Restricted Subsidiary to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states or the State of Israel), which the Issuer in its sole discretion determine (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction) or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Additional Intercreditor Agreements

The Indenture provides that, at the request of the Issuer, in connection with the Incurrence by the Issuer, a Covenant Party or a Restricted Subsidiary of any Indebtedness that is permitted to share the Notes Collateral pursuant to the definition of Permitted Collateral Liens, the Issuer, the relevant Covenant Party or Restricted Subsidiary, the Trustee and the Security Agent shall enter into with the holders of such Indebtedness (or their duly authorized Representatives) an intercreditor agreement (an ''Additional Intercreditor Agreement'') or a restatement, amendment or other modification of the existing Intercreditor Agreement on substantially the same terms as the Intercreditor Agreement (or terms not materially less favorable to the Holders), including containing substantially the same terms with respect to release of Note Guarantees and priority and release of the Security Interests; *provided* that only one payment blockage notice (a ''Stop Notice'') can be given by Designated Senior Indebtedness in any 360-day period or in respect of the same event or circumstances regardless of the number of Credit Facilities or other instruments constituting ''Designated Senior Indebtedness'' of a Guarantor or the number of intercreditor agreements; *provided further* that except in the event of a payment default in respect of Senior Indebtedness is outstanding, in no event may the total number of days for which a Stop Notice is in effect exceed 179 days in respect of any Stop Notice in the aggregate during any consecutive 365-day period; *provided further however provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, as applicable, adversely affect the rights, duties, liabilities or immunities of the Trustee or Security Agent under the Indenture or the Intercreditor Agreement; *provided further* that only Designated Senior Indebtedness shall be entitled to instruct the Security Agent to enforce Collateral (other than the Issuer Share Pledge) or initiate a payment blockage. For the avoidance of doubt, subject to the foregoing and the succeeding paragraph, any such Additional Intercreditor Agreement may provide for senior, *pari passu* or subordinated security interests in respect of any such Indebtedness (to the extent such Indebtedness is permitted to share the Notes Collateral pursuant to the definition of Permitted Collateral Lien).

The Indenture also provides that, at the direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to any Intercreditor Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of any such

agreement, (2) increase the amount or types of Indebtedness covered by any such agreement that may be Incurred by the Issuer or a Guarantor that is subject to any such agreement (including with respect to any Intercreditor Agreement or Additional Intercreditor Agreement, the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes), (3) add Covenant Parties or Restricted Subsidiaries to the Intercreditor Agreement or an Additional Intercreditor Agreement, (4) further secure the Notes (including Additional Notes), (5) make provision for equal and ratable pledges of the Notes Collateral to secure Additional Notes, (6) implement any Permitted Collateral Liens, (7) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof; (8) make any change reasonably necessary, in the good faith determination of the Issuer in order to implement any transaction that is subject to the covenants described under the caption ''—*Merger and Consolidation*''; or (9) implement any transaction in connection with the renewal extension, refinancing, replacement or increase of the Credit Facilities that is not prohibited by the Indenture or make any other change to any such agreement that does not adversely affect the Holders in any material respect; *provided* that no such changes shall be permitted to the extent they affect the ranking of any Note or Note Guarantee, enforcement of Liens over the Notes Collateral, the application of proceeds from the enforcement of Notes Collateral or the release of any Note Guarantees or Security in a manner than would adversely affect the rights of the holders of the Notes in any material respect except as otherwise permitted by the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement immediately prior to such change. The Issuer shall not otherwise direct the Trustee or the Security Agent to enter into any amendment to any Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under ''—*Amendments and Waivers*'', and the Issuer may only direct the Trustee and the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Indenture also provides that, in relation to any Intercreditor Agreement or Additional Intercreditor Agreement, the Trustee (and Security Agent, if applicable) shall consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided*, *however*, that such transaction would comply with the covenant described under ''—*Limitation on Restricted Payments*''.

The Indenture also provides that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein), and to have directed the Trustee and the Security Agent to enter into any such Additional Intercreditor Agreement.

Post-Closing Guarantees and Security

On the Completion Date:

(1) the Issuer will make the Proceeds Loan with the proceeds of the offering of the Note on the Issue Date to the Senior Secured Notes Issuer and the Issuer will execute the Security Document attached to the Escrow Agreement to which it is intended to be a party and grant second-ranking Lien over such Proceeds Loan for the benefit of the holders of the Notes;

(2) the Company will comply, and the Company and the Issuer will procure that, the Restricted Subsidiaries will comply with their obligations under clauses (1), (2) and (3) of the covenant in the Senior Secured Notes Indenture described under ''*Description of Senior Secured Notes—Certain Covenants—Post-Closing Guarantees and Security*'';

(3) Each of the Issuer, the Company and the Senior Secured Notes Issuer will execute and deliver to the Security Agent the Security Documents attached to the Escrow Agreement to which it is intended to be a party and grant first-ranking or second-ranking Liens, as applicable, over the property and asset described above under ''*Note Security*''; and

(4) the Company will procure that Altice VII S.à r.l executes and delivers to the Security Agent the Security Documents to which it is intended to be a party and to secure the Notes that are attached to the Escrow Agreement.

MOC Security Approval

The Issuer and the Company will, and will procure that their respective Restricted Subsidiaries will, use their commercially reasonable efforts to obtain the MOC Security Approval within 180 days of the Issue Date, *provided* that the failure to obtain the MOC Security Approval will not be a Default or Event of Default under the Notes or the Indenture.

Events of Default

Each of the following is an ''Event of Default'' under the Indenture:

(1) default in any payment of interest or Additional Amounts, if any, on any Note issued under the Indenture when due and payable, continued for 30 days;

(2) default in the payment of the principal amount of or premium, if any, on any Note issued under the Indenture when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure by the Issuer, any Covenant Party or any Restricted Subsidiary to comply for 30 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes with any of its obligations under the covenants described under ''Change of Control'' above, under the covenants described under ''—*Certain Covenants*'' above (in each case, other than (i) a failure to purchase Notes, which will constitute an Event of Default under clause (2) above (ii) a failure to comply with the covenant described under ''—*Certain Covenants—Post-Closing Guarantees and Security*'', which shall be governed by clause (10) below and (iii) a failure to comply with the covenant described under ''—*Certain Covenants—MOC Security Approval*'') or under the Escrow Agreement;

(4) failure by the Issuer, any Covenant Party, any Restricted Subsidiary or any other grantor of a Lien over the Notes Collateral to comply for 60 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes with its other agreements contained in the Indenture (other than the covenant described under ''—*Certain Covenants—MOC Security Approval*''), the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer, a Covenant Party or any Restricted Subsidiary (or the payment of which is Guaranteed by the Issuer, a Covenant Party or any Restricted Subsidiary) other than Indebtedness owed to the Issuer, a Covenant Party or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default:

    (a) is caused by the failure to pay principal of, or interest or premium, if any, on, such Indebtedness at the Stated Maturity thereof prior to the expiration of the grace period provided in such Indebtedness on the date of such default (''payment default''); or

    (b) results in the acceleration of such Indebtedness prior to its maturity (the ''cross-acceleration provision''),

    and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates $20 million or more;

(6) certain events of bankruptcy, insolvency or court protection of the Issuer, a Covenant Party or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary (the ''bankruptcy provisions'');

(7) failure by Issuer, a Covenant Party or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary to pay final judgments aggregating in excess of (i) $20 million or (ii) with respect to a judgment relating to the AGICOA litigation described under ''*Description of Our Business—Legal Proceedings—AGICOA Litigation Relating to Copyright Infringement*'', $30 million (in each case, exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final (the ''judgment default provision'');

(8) any security interest under the Security Documents shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Indenture) with respect to Notes Collateral having a Fair Market Value in excess of $10 million for any reason other than the satisfaction in full of all obligations under the Indenture or the release of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents or any such security interest created thereunder shall be declared invalid or unenforceable and the Issuer shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days (the ''security default provisions'');

(9) any Guarantee of the Notes of a Covenant Party or a Subsidiary Guarantor that is a Significant Subsidiary or any group of Subsidiary Guarantors that taken together would constitute a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee or the Indenture) or is declared invalid or unenforceable in a judicial proceeding or any Guarantor denies or disaffirms in writing its obligations under its Note Guarantee and any such Default continues for 10 days after the notice specified in the Indenture (the ''guarantee provisions'');

(10) failure by the Issuer, the Company, any Restricted Subsidiary or Altice VII S.à r.l. to comply for 30 days with any of the provisions of the covenant described under ''*—Certain Covenants—Post-Closing Guarantees and Security*''; and

(11) failure by the Issuer to consummate the Special Mandatory Redemption as described under the caption ''*—Escrow of Proceeds; Special Mandatory Redemption*.''

However, a default under clauses (3), (4), (5), (7) or (10) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the default and, with respect to clauses (3), (4), (5), (7) and (10) the Issuer does not cure such default within the time specified in clauses (3), (4), (5), (7) or (10), as applicable, of this paragraph after receipt of such notice.

If an Event of Default described in clause (6) or (11) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders; *provided* that, in the case of an Event of Default specified in clause (11), the amount due and payable shall be equal to the aggregate gross proceeds of the offering of the Notes, plus accrued and unpaid interest and additional amounts, if any. If any other Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the then outstanding Notes may and, if directed by holders of at least 25% in aggregate principal amount of the then outstanding Notes, the Trustee shall, declare all the Notes to be due and payable immediately.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and may not enforce the Security Documents except as provided in such Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Holders of a majority in principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium, interest or Additional Amounts, if any) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee, and the Trustee has received, indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee, and the Trustee has received, security and/or indemnity reasonably satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security and/or indemnity; and

(5) the Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee.

The Indenture will provide that, in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action. The Indenture will provide that if a Default occurs and is continuing and the Trustee is informed of such occurrence by the Issuer, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Issuer. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of trust officers of the Trustee in good faith determines that withholding notice is in the interests of the Holders. The Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Issuer is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

The Notes provide for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Amendments and Waivers

Subject to certain exceptions, the Notes Documents may be amended, supplemented or otherwise modified with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes). However, without the consent of Holders holding not less than 90% of the then outstanding principal amount of Notes affected (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), an amendment or waiver may not, with respect to any Notes held by a non-consenting Holder:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, waiver or modification;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note (other than, for the avoidance of doubt, any payment pursuant to a Change of Control Offer or pursuant to the provisions of the covenant described under the caption ''—*Limitation on Sales of Assets and Subsidiary Stock*'');

(3) reduce the principal of, or extend the Stated Maturity of, any Note;

(4) reduce the premium payable upon the redemption of any Note or change the time at which any Note may be redeemed, in each case as described above under ''—*Optional Redemption*'' (other than, for the avoidance of doubt, any payment pursuant to a Change of Control Offer or pursuant to

the provisions of the covenant described under the caption ''—*Limitation on Sales of Assets and Subsidiary Stock*'');

(5) make any Note payable in money other than that stated in the Note (except to the extent the currency stated in the Notes has been succeeded or replaced pursuant to applicable law);

(6) impair the right of any Holder to receive payment of principal of and interest or Additional Amounts, if any, on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any such payment on or with respect to such Holder's Notes (it being understood that this clause (6) will not apply to provisions under the caption ''*Change of Control*'' and ''*Limitation on Sales of Assets and Subsidiary Stock*'' except to the extent payments thereunder are at such time due and payable);

(7) make any change in the provision of the Indenture described under ''Withholding Taxes'' that adversely affects the right of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the payor agrees to pay Additional Amounts, if any, in respect thereof;

(8) release any of the security interests granted for the benefit of the Holders in the Notes Collateral (to the extent any Notes Collateral so released in any transactions or series of transactions has a fair market value in excess of $30 million) other than in accordance with the terms of the Security Documents, the Intercreditor Agreement, any applicable Additional Intercreditor Agreement and the Indenture;

(9) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Intercreditor Agreement;

(10) waive a Default or Event of Default with respect to the nonpayment of principal, premium or interest or Additional Amounts, if any, on the Notes (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration); or

(11) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Trustee, the Security Agent and the other parties thereto, as applicable, may amend or supplement any Notes Documents to:

(1) cure any ambiguity, omission, defect, error or inconsistency;

(2) provide for the assumption by a successor Person of the obligations of the Issuer or any Guarantor under any Notes Document;

(3) add to the covenants or provide for a Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Issuer, a Covenant Party or any Restricted Subsidiary;

(4) make any change that would provide additional rights or benefits to the Trustee or the Holders or does not adversely affect the rights or benefits to the Trustee or any of the Holders in any material respect under the Notes Documents;

(5) make such provisions as necessary (as determined in good faith by the Issuer) for the issuance of Additional Notes Incurred in accordance with the terms of the Indenture;

(6) to provide for any Covenant Party or Restricted Subsidiary to provide a Note Guarantee in accordance with the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'', to add Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to effectuate or confirm and evidence the release, termination, discharge or retaking of any Note Guarantee or Lien (including the Notes Collateral and the Security Documents) or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is provided for under the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement;

(7) to conform the text of the Indenture, the Note Guarantees, the Security Documents or the Notes to any provision of this Description of Senior Notes to the extent that such provision in this Description of Senior Notes was intended to be a verbatim recitation of a provision of the Indenture, a Note Guarantee, the Security Documents or the Notes;

(8) to evidence and provide for the acceptance and appointment under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement of a successor Trustee or Security Agent pursuant to the requirements thereof or to provide for the accession by the Trustee or Security Agent to any Notes Document;

(9) as provided in ''—*Certain Covenants—Additional Intercreditor Agreements*'';

(10) provide for the assumption of a successor Person of the obligations of HOT or any HOT Proceeds Note Guarantor under any HOT Proceeds Note Document;

(11) add to the covenants or provide for a HOT Proceeds Note Guarantee for the benefit of the Issuer or surrender any right or power conferred upon HOT, a HOT Proceeds Note Guarantor or any Restricted Subsidiary of HOT;

(12) make any change that would provide additional rights or benefits to the Issuer or does not adversely affect the rights or benefits to the Issuer in any material respect, in each case, under the HOT Proceeds Note Documents or any other Finco Proceeds Loan;

(13) to provide for to add Guarantees with respect to the HOT Proceeds Note, to add security to or for the benefit of the HOT Proceeds Note, or to effectuate or confirm and evidence the release, termination, discharge or retaking of any HOT Proceeds Note Guarantee or Lien (including the HOT Proceeds Note Collateral and the HOT Security Documents) or any amendment in respect thereof with respect to or securing the HOT Proceeds Note when such release, termination, discharge or retaking or amendment is provided for under the Indenture, the HOT Security Documents or any intercreditor agreement relating to the HOT Proceeds Note; or

(14) after a HOT Direct Obligation Event, amend, extend, renew, restate, supplement or otherwise modify or release the HOT Proceeds Note and the HOT Security Documents to give effect to a repayment or reduction in the aggregate principal amount of the HOT Proceeds Note.

In formulating its decision on such matters, the Trustee shall be entitled to require and rely absolutely on such evidence as it deems necessary, including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg act dated 10 August 1915 on commercial companies, as amended, shall not apply in respect of the Notes.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will publish notice of any amendment, supplement and waiver in Luxembourg in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Such notice of any amendment, supplement and waiver may also be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*), to the extent and in the manner permitted by the rules of the Luxembourg Stock Exchange.

Acts by Holders

In determining whether the Holders of the required principal amount of the Notes have concurred in any direction, waiver or consent, the Notes owned by the Issuer or a Covenant Party or by any Person directly or indirectly controlling, or controlled by, or under direct or indirect common control with the Issuer or a Covenant Party will be disregarded and deemed not to be outstanding.

Defeasance

The Issuer at any time may terminate all obligations of the Issuer under the Notes and the Indenture (''legal defeasance'') and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the right to receive payment, defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Issuer exercises its legal defeasance option, the Security Documents and the rights of the Trustee and the Holders under the

Intercreditor Agreement or any Additional Intercreditor Agreement in effect at such time will terminate (other than with respect to the defeasance trust).

The Issuer at any time may terminate its obligations under certain covenants described under ''—*Certain Covenants*'' and ''*Change of Control*'' and the default provisions relating to such covenants described under ''*Events of Default*'' above, the operation of the cross-default upon a payment default, the cross-acceleration provisions, the bankruptcy provisions with respect to the Covenant Parties and Significant Subsidiaries, the judgment default provision, the guarantee provision and the security default provision described under ''*Events of Default*'' above (''covenant defeasance'').

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to such Notes. If the Issuer exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3) (other than with respect to the first paragraph and clauses (1) and (2) of the second paragraph of the covenant described under ''—*Certain Covenants—Merger and Consolidation*''), (4), (5), (6) (with respect only to the Covenant Parties and Significant Subsidiaries), (7), (8) or (9) under ''*Events of Default*'' above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the ''defeasance trust'') with the Trustee (or an entity designated by it for this purpose) cash in U.S. dollars or U.S. dollar-denominated U.S. Government Obligations or a combination thereof for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

(1) an Opinion of Counsel (subject to customary exceptions and exclusions) in the United States to the effect that Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law);

(2) an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer;

(3) an Officer's Certificate stating that that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with; and

(4) an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940, as amended.

Satisfaction and Discharge

The Indenture, and the rights of the Trustee and the Holders under the Intercreditor Agreement and any Additional Intercreditor Agreement and the Security Documents will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when (1) either (a) all the Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes, and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Trustee for cancellation; or (b) all Notes not previously delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee (or an entity designated by it for this purpose), money or U.S. dollar-denominated U.S. Government Obligations, or a combination thereof, as applicable, in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not previously delivered to the Trustee for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the Indenture; and (4) the Issuer has delivered to the Trustee an Officer's Certificate to the effect that all conditions precedent under the ''Satisfaction and Discharge'' section of the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Issuer, any Covenant Party or any of their respective Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Issuer under the Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

Listing and general information

Application has been made to list the Notes on the Euro MTF Market of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market. There can be no assurance that the application to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market will be approved as of the Issue Date or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on its Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Company's annual audited consolidated combined financial statements, the Company's unaudited consolidated combined interim quarterly financial statements and this Offering Memorandum may be obtained, free of charge, during normal business hours at the registered office of the Issuer.

Available Information

Anyone who receives this Offering Memorandum, any Holder of the Notes or holder of a beneficial interest in the Notes, following the Issue Date, may obtain a copy of the Indenture, the form of Notes, the Security Documents, the Escrow Agreement and the Intercreditor Agreement without charge by writing to the Issuer, 37, rue d'Anvers, L-1130 Luxembourg, Attention: Chief Financial Officer.

Concerning the Trustee and Certain Agents

Citibank, N.A., London Branch is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are set forth specifically in the Indenture. The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. During the existence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty.

The Issuer shall deliver written notice to the Trustee with thirty (30) days of becoming aware of the occurrence of a Default or Event of Default. The Indenture will impose certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture will contain provisions for the indemnification and/or security of the Trustee by the Issuer and the Guarantors for any loss, liability, taxes or expenses incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture.

Notices

All notices to Holders of the Notes will be validly given if mailed to them at their respective addresses in the register of the Holders of such Notes, if any, maintained by the Registrar. In addition, for so long as any of the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of

the Luxembourg Stock Exchange so require, notices with respect to the Notes will be published in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

For Notes which are represented by global certificates held on behalf of DTC, Euroclear or Clearstream, notices may be given by delivery of the relevant notices to DTC, Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing.

Prescription

Claims against the Issuer or any Guarantor for the payment of principal, or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

Currency Indemnity

U.S. dollar is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with the Notes and the Note Guarantees, as the case may be, including damages. Any amount received or recovered in a currency other than U.S. dollars, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the U.S. dollar amount, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient or the Trustee under any Note, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the Trustee on a joint or several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, any Note Guarantee or to the Trustee.

Enforceability of Judgments

Since substantially all the assets of the Issuer, the Company and the other Guarantors are located outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor, including judgments with respect to the payment of principal, premium, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes or the Note Guarantees, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture, the Notes and the Note Guarantees, the Issuer and each Guarantor will, in the Indenture, appoint CT Corporation System as its agent for service of process and irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States.

Governing Law

The Indenture, the Notes and the Note Guarantees, and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of the State of New York. The application of the provisions set out in Articles 86 to 94-8 of the Luxembourg law dated August 10, 1915 on commercial companies, as amended, is excluded. The Intercreditor Agreement and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of England. The Security Documents shall be governed by and construed in accordance with the laws of the State of Israel and the Grand Duchy of Luxembourg, as applicable.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

''*Acquired Indebtedness*'' means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Covenant Party or a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Covenant Party or a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with a Covenant Party or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Covenant Party or a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

''*Additional Assets*'' means:

(1) any property or assets (other than Indebtedness and Capital Stock) not classified as current assets under IFRS used or to be used by a Covenant Party or a Restricted Subsidiary or otherwise useful in a Similar Business (it being understood that capital expenditures on property or assets already used in a Similar Business or to replace any property or assets that are the subject of an Asset Disposition shall be deemed an investment in Additional Assets);

(2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by a Covenant Party or a Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary.

''*Additional Covenant Party*'' means any Person (other than the Issuer, the Senior Secured Notes Issuer, the Company or any of its Subsidiaries) that is under direct or indirect common control with the Company that is designated as an ''Additional Covenant Party'' pursuant to the covenant described under ''*—Certain Covenants—Additional Covenant Parties*''; *provided* that to the extent that a Covenant Party becomes and for so long as it continues to be a direct or indirect Restricted Subsidiary of another Covenant Party, such Person shall cease to be a Covenant Party.

''*Affiliate*'' of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, ''control'' when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms ''controlling'' and ''controlled'' have meanings correlative to the foregoing.

''*Applicable Premium*'' means, with respect to any Note the greater of:

(A) 1% of the principal amount of such Note; and

(B) the excess (to the extent positive) of:

(i) the present value at such redemption date of (i) the redemption price of such Note at December 15, 2016 (such redemption price (expressed in percentage of principal amount) being set forth in the table above under the first paragraph of this section (excluding accrued and unpaid interest)), plus (ii) all required interest payments due on such Note to and including December 15, 2016 (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points; over

(ii) the outstanding principal amount of such Note,

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of the Applicable Premium shall not be an obligation or duty of the Trustee or Paying Agents.

''*Asset Disposition*'' means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a ''disposition'') by a Covenant Party or any of the Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction; *provided* that the sale, lease, transfer, issuance or other disposition of all or substantially all of the assets of the Covenant Parties and the Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption ''Change of Control'' and/or the provisions described above under the caption ''*—Certain Covenants—Merger and Consolidation*'' and not by the provisions described under the caption ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

(1) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, by a Restricted Subsidiary to a Covenant Party or by a Covenant Party or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of cash, Cash Equivalents or Temporary Cash Investments;

(3) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of inventory, consumer equipment, trading stock, communications capacity or other assets in the ordinary course of business;

(4) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of obsolete, surplus or worn out equipment or other assets or equipment or other similar assets that are no longer useful in the conduct of the business of a Covenant Party and its Restricted Subsidiaries;

(5) transactions permitted under ''*—Certain Covenants—Merger and Consolidation*'' (other than as permitted under clause (C) of the first paragraph under ''*—Certain Covenants—Merger and Consolidation—The Subsidiary Guarantors*''), or a transaction that constitutes a Change of Control;

(6) an issuance of Capital Stock by a Restricted Subsidiary to a Covenant Party or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors of the Issuer;

(7) (a) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by the Issuer) of not greater than $20 million or (b) a transfer of Capital Stock of HOT pursuant to the exercise of a Minority Shareholder Call Option as in effect on the Issue Date;

(8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under ''*—Certain Covenants—Limitation on Restricted Payments*'', any transaction specifically excluded from the definition of Restricted Payment and the making of any Permitted Payment or Permitted Investment;

(9) the granting of Liens not prohibited by the covenant described above under the caption ''*—Certain Covenants—Limitation on Liens*'';

(10) a sale, lease, transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the licensing or sublicensing of intellectual property or other general intangibles and licenses, sublicenses, leases, subleases of other property, in each case, in the ordinary course of business;

(12) foreclosure, condemnation or any similar action with respect to any property or other assets;

(13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;

(14) sales, transfers or dispositions of receivables in connection with any Qualified Receivables Financing or any factoring transaction or in the ordinary course of business;

(15) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(16) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than a Covenant Party or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(17) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(18) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by a Covenant Party or any Restricted Subsidiary to such Person; *provided, however,* that the Board of Directors of the Issuer shall certify that in the opinion of the Board of Directors, the outsourcing transaction will be economically beneficial to the Covenant Parties and the Restricted Subsidiaries (considered as a whole); *provided further,* that the fair market value of the assets disposed of, when taken together with all other dispositions made pursuant to this clause (18), does not exceed the greater of 1.0% of Total Assets and $20 million; and

(19) any sale, lease, transfer, issuance or other disposition, or any series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, with respect to property built, owned or otherwise acquired by a Covenant Party or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitizations and other similar financings permitted by the Indenture; *provided* that network assets of any Covenant Party or any Restricted Subsidiary shall be excluded from this clause (19) unless the Net Cash Proceeds of such sale and leaseback transaction are applied in accordance with the second paragraph of the covenant described under ''*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''.

''*Associate*'' means (i) any Person engaged in a Similar Business of which a Covenant Party or a Restricted Subsidiary are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture engaged in a Similar Business entered into by a Covenant Party or any Restricted Subsidiary.

''*Beneficial Owner*'' has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Exchange Act, except that in calculating the beneficial ownership of any particular ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act), such ''person'' will be deemed to have beneficial ownership of all securities that such ''person'' has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms ''Beneficially Owns'' and ''Beneficially Owned'' have a corresponding meaning.

''*Board of Directors*'' means (1) with respect to the Issuer or any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof; and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision of this Indenture requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

''*Business Day*'' means each day that is not a Saturday, Sunday or other day on which banking institutions in London, United Kingdom, the Grand Duchy of Luxembourg or New York, New York, United States are authorized or required by law to close.

''*Capital Stock*'' of any Person means any and all shares of, interests, rights to purchase, warrants or options for, participation or other equivalents of, or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

''*Capitalized Lease Obligations*'' means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes on the basis of IFRS. The amount of Indebtedness will be, at the time any determination is to be made, the amount of such obligation required to be capitalized on a balance sheet (excluding any notes thereto) prepared in accordance with IFRS, and the stated maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty. For the avoidance of doubt, operating leases will not be deemed Capitalized Lease Obligations.

''*Cash Equivalents*'' means:

(1) securities issued or directly and fully Guaranteed or insured by the United States Government, the State of Israel, the United Kingdom, Switzerland or any member state of the European Union (other than Greece or Portugal), in each case, any agency or instrumentality of thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;

(2) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by (i) any of Israel Discount Bank Ltd, Mizrahi Tefahot Bank Ltd, Bank Leumi of Israel or Bank Hapoalim Ltd or (ii) a bank or trust company (a) whose commercial paper is rated at least ''A-1 ''or the equivalent thereof by S&P or at least ''P-1 ''or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that such bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €500 million;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least ''A-2'' or the equivalent thereof by S&P or ''P-2'' or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;

(5) readily marketable direct obligations issued by any state of the United States of America, any member of the European Union (other than Greece or Portugal) or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;

(6) bills of exchange issued in the United States, a member state of the European Union (other than Greece or Portugal), eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent); and

(7) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (6) above.

''*Change of Control*'' means:

(1) (a) prior to the Permitted Parent Designation, the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more Permitted Holders becomes the Beneficial Owner, directly or indirectly, of more than 50% of the issued and outstanding Voting Stock of the Company or any Covenant Party in a Covenant Party Control Group, in each case, measured by voting power rather than number of shares; and (b) on and after the Permitted Parent Designation, the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any ''person'' (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more Permitted Holders becomes the Beneficial Owner, directly or indirectly, of more than 50% of the issued and outstanding Voting Stock of the Company or the Permitted Parent, in each case, measured by voting power rather than number of shares;

(2) following the first Public Offering by the IPO Entity, during any period of two consecutive years, individuals who at the beginning of such period constituted the majority of the directors (excluding any employee representatives, if any) on the Board of Directors of the IPO Entity (together with any new directors whose election by the majority of such directors on such Board of Directors of the IPO Entity or whose nomination for election by shareholders of the IPO Entity, as applicable, was approved by a vote of the majority of such directors on the Board of Directors of the IPO Entity then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) ceased for any reason to constitute the majority of the directors (excluding any employee representatives, if any) on the Board of Directors of the IPO Entity, then in office;

(3) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of:

    (a) prior to the Permitted Parent Designation, the Company and its Restricted Subsidiaries, taken as a whole, or the Covenant Parties and the Restricted Subsidiaries, taken as a whole; and

    (b) on and after the Permitted Parent Designation, the Company and its Restricted Subsidiaries, taken as a whole, or the Permitted Parent and the Restricted Subsidiaries, taken as a whole,

    in each case, to a Person (including any ''person'' as defined above), other than a Permitted Holder; or

(4) the first day on which the Issuer fails to own, directly or indirectly, 100% of the Capital Stock of the Senior Secured Notes Issuer or the Permitted Holders fail to own, directly or indirectly, 100% of the Capital Stock of the Issuer.

''*Commodity Hedging Agreements*'' means, in respect of a Person, any commodity purchase contract, commodity futures or forward contract, commodities option contract or other similar contract (including commodities derivative agreements or arrangements), to which such Person is a party or a beneficiary.

''*Company*'' means Cool Holding Ltd.

''*Completion Date*'' means the date of the consummation of the Transactions.

‘‘*Consolidated Combined EBITDA*’’ for any period means, without duplication, the Consolidated Combined Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Combined Net Income:

(1) Consolidated Interest Expense and Receivables Fees;

(2) Consolidated Income Taxes;

(3) consolidated combined depreciation expense;

(4) consolidated combined amortization expense;

(5) any expenses, charges or other costs related to any Equity Offering, Investment, acquisition (including amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business; *provided* that such payments are made at the time of such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), disposition, recapitalization or the Incurrence of any Indebtedness permitted by the Indenture (whether or not successful) (including any such fees, expenses or charges related to the Transactions), in each case, as determined in good faith by the Issuer;

(6) any minority interest expense (whether paid or not) consisting of income attributable to minority equity interests of third parties in such period or any prior period or any net earnings, income or share of profit of any Associates, associated company or undertaking;

(7) any non-cash management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders (whether directly or indirectly, including through any Parent) in an aggregate principal amount not to exceed $10 million; and

(8) other non-cash charges, write-downs or items reducing Consolidated Combined Net Income (excluding any such non-cash charge, write-down or item to the extent it represents an accrual of or reserve for cash charges in any future period) or other non-cash items classified by the Company as special items less other non-cash items of income increasing Consolidated Combined Net Income (other than any non-cash items increasing such Consolidated Combined Net Income pursuant to clauses (1) through (13) of the definition of Consolidated Combined Net Income and excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period).

‘‘*Consolidated Combined Net Income*’’ means, for any period, the net income (loss) of the Issuer, the Covenant Parties and the Restricted Subsidiaries determined on a consolidated combined basis on the basis of IFRS; *provided*, *however*, that there will not be included in such Consolidated Combined Net Income:

(1) subject to the limitations contained in clause (3) below, any net income (loss) of any Person if such Person is not a Covenant Party or a Restricted Subsidiary, except that a Covenant Party’s equity in the net income of any such Person for such period will be included in such Consolidated Combined Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to such Covenant Party or a Restricted Subsidiary as a dividend or other distribution or return on investment (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below);

(2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under ‘‘—*Certain Covenants—Limitation on Restricted Payments*’’, any net income (loss) of any Restricted Subsidiary that is not a Guarantor if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to a Covenant Party by operation of the terms of such Restricted Subsidiary’s charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes and the Indenture or the HOT Proceeds Note, (c) contractual or legal restrictions in effect on the Issue Date with respect to a Restricted Subsidiary (including pursuant to the Notes, the Intercreditor Agreement and the Existing Hot Unsecured Notes), and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the Holders than such restrictions in effect on the Issue Date, and (d) restrictions as in effect on the Issue Date specified in clause (12) of the second

paragraph of the covenant described under "—*Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries*") except that the Covenant Party's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Combined Net Income up to the aggregate amount of cash or Cash Equivalents or non-cash distributions to the extent converted into cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to a Covenant Party or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(3) any net gain (or loss) realized upon the sale, abandonment or other disposition of any asset or disposed operations of a Covenant Party or any Restricted Subsidiary (including pursuant to any sale/ leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer of the Issuer);

(4) any extraordinary, exceptional, unusual or nonrecurring gain, loss, charge or expense or any charges, expenses or reserves in respect of any restructuring, redundancy or severance or any expenses, charges, reserves, gains or other costs related to the Transactions;

(5) the cumulative effect of a change in accounting principles;

(6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness;

(8) any unrealized gains or losses in respect of Hedging Obligations or other derivative instruments or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations or other derivative instruments;

(9) any unrealized foreign currency translation gains or losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;

(10) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of a Covenant Party or any Restricted Subsidiary owing to a Covenant Party, the Issuer, or any Restricted Subsidiary;

(11) any one-time non-cash charges or any increases in amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of another Person or business or resulting from any reorganization or restructuring involving a Covenant Party or its Subsidiaries;

(12) any goodwill or other intangible asset impairment charge or write-off; and

(13) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding.

"*Consolidated Income Taxes*" means taxes or other payments, including deferred Taxes, based on income, profits or capital of the Issuer, any of the Covenant Parties and the Restricted Subsidiaries whether or not paid, estimated, accrued or required to be remitted to any governmental authority.

"*Consolidated Interest Expense*" means, for any period (in each case, determined on the basis of IFRS), the consolidated combined net interest income/expense of the Issuer, the Covenant Parties and the Restricted Subsidiaries, whether paid or accrued, plus or including (without duplication) any interest, costs and charges consisting of:

(1) interest expense attributable to Capitalized Lease Obligations;

(2) amortization of debt discount, but excluding amortization of debt issuance costs, fees and expenses and the expensing of any bridge or other financing fees;

(3) non-cash interest expense;

(4) dividends on other distributions in respect of all Disqualified Stock of the Issuer and Covenant Parties and all Preferred Stock of any Restricted Subsidiary, to the extent held by Persons other than a Covenant Party or a Subsidiary of a Covenant Party;

(5) the consolidated interest expense that was capitalized during such period;

(6) net payments and receipts (if any) pursuant to Hedging Obligations (other than Currency Agreements) (excluding unrealized mark-to-market gains and losses attributable to Hedging Obligations (other than Currency Agreements)); and

(7) any interest on Indebtedness of another Person that is guaranteed by the Issuer, any Covenant Party or any Restricted Subsidiary or secured by a Lien on assets of the Issuer, any Covenant Party or any of Restricted Subsidiary.

Notwithstanding any of the foregoing, Consolidated Interest Expense shall not include (i) any interest accrued, capitalized or paid in respect of Subordinated Shareholder Funding, (ii) any commissions, discounts, yield and other fees and charges related to Qualified Receivables Financing, (iii) any payments on any operating leases, including without limitation any payments on any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date and (iv) net payments and receipts (if any) pursuant to Currency Agreements (excluding unrealized mark-to-market gains and losses attributable to Hedging Obligations).

''*Consolidated Leverage*'' means the sum, without duplication, of the aggregate outstanding Indebtedness of the Issuer, the Senior Secured Notes Issuer and the Covenant Party Group (excluding (i) Hedging Obligations and (ii) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary, Indebtedness of a Covenant Party owing to and held by the Issuer, a Covenant Party or any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary).

''*Consolidated Leverage Ratio*'' means, as of any date of determination, the ratio of (x) Consolidated Leverage at such date to (y) the aggregate amount of Consolidated Combined EBITDA for the period of the most recent two consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated combined financial statements of the Issuer, the Senior Secured Notes Issuer and the Covenant Party Group are available multiplied by 2.0; *provided*, *however*, that the *pro forma* calculation of the Consolidated Leverage Ratio shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*'' or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*''; *provided*, *further*, *however*, that for the purposes of calculating Consolidated Combined EBITDA for such period, if, as of such date of determination:

(1) since the beginning of such period a Covenant Party or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business or otherwise ceases to be a Restricted Subsidiary (and is not a Restricted Subsidiary at the end of such period) (any such disposition, a ''Sale'') or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated Combined EBITDA for such period will be reduced by an amount equal to the Consolidated Combined EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated Combined EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes ''discontinued operations'' in accordance with IFRS, Consolidated Combined Net Income shall be reduced by an amount equal to the Consolidated Combined Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Combined Net Income (if negative) attributable thereto for such period;

(2) since the beginning of such period, a Parent, a Covenant Party or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary or a Covenant Party, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business or a Person otherwise becomes a Restricted Subsidiary or a Covenant Party (and remains a Restricted Subsidiary or a Covenant Party at the end of such period) (any such Investment, acquisition or designation, a ''Purchase''), including any such Purchase occurring in connection with a transaction causing a calculation to be

made hereunder, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto (as determined in good faith by a responsible accounting or financial officer of the Company), including in respect of anticipated expense and cost reductions and synergies (other than revenue synergies), as if such Purchase occurred on the first day of such period; and

(3) since the beginning of such period, any Person that became a Covenant Party, a Restricted Subsidiary or was merged or otherwise combined with or into a Covenant Party or any Restricted Subsidiary since the beginning of such period will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by a Covenant Party or a Restricted Subsidiary since the beginning of such period, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

For the purposes of this definition and the definitions of Consolidated Combined EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Combined Net Income, (a) calculations will be as determined in good faith by a responsible financial or accounting officer of the Company or an Officer of the Issuer (including in respect of anticipated expense and cost reductions and synergies (other than revenue synergies)), (b) in determining the amount of Indebtedness outstanding on any date of determination, *pro forma* effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness as if such transaction had occurred on the first day of the relevant period and (c) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Hedging Obligations applicable to such Indebtedness if such Hedging Obligation has a remaining term in excess of 12 months).

''*Consolidated Senior Secured Leverage*'' means the sum of the aggregate outstanding Senior Secured Indebtedness of the Senior Secured Notes Issuer and the Covenant Party Group (excluding Hedging Obligations).

''*Consolidated Senior Secured Leverage Ratio*'' means, as of any date of determination, the ratio of (x) Consolidated Senior Secured Leverage at such date to (y) the aggregate amount of Consolidated Combined EBITDA for the period of the most recent two consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated combined financial statements of the Senior Secured Notes Issuer and the Covenant Party Group are available multiplied by 2.0; *provided*, *however*, that the *pro forma* calculation of the Consolidated Senior Secured Leverage Ratio shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*'' or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph under the caption ''*—Certain Covenants—Limitation on Indebtedness*''; *provided*, *further*, *however*, that for the purposes of calculating Consolidated Combined EBITDA for such period, if, as of such date of determination:

(1) since the beginning of such period a Covenant Party or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business or otherwise ceases to be a Restricted Subsidiary (and is not a Restricted Subsidiary at the end of such period) (any such disposition, a ''Sale'') or if the transaction giving rise to the need to calculate the Consolidated Senior Secured Leverage Ratio is such a Sale, Consolidated Combined EBITDA for such period will be reduced by an amount equal to the Consolidated Combined EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated Combined EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes ''discontinued operations'' in accordance with IFRS, Consolidated Combined Net Income shall be reduced by an amount equal to the Consolidated Combined Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Combined Net Income (if negative) attributable thereto for such period;

(2) since the beginning of such period, a Parent, a Covenant Party or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Covenant Party or a Restricted Subsidiary, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business or a Person otherwise becomes a

Covenant Party or a Restricted Subsidiary (and remains a Covenant Party or a Restricted Subsidiary at the end of such period) (any such Investment, acquisition or designation, a ''Purchase''), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period; and

(3) since the beginning of such period, any Person (that became a Covenant Party, a Restricted Subsidiary or was merged or otherwise combined with or into a Covenant Party or any Restricted Subsidiary since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by a Covenant Party or a Restricted Subsidiary since the beginning of such period, Consolidated Combined EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

For the purposes of this definition and the definitions of Consolidated Combined EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Combined Net Income, (a) calculations will be as determined in good faith by a responsible financial or accounting officer of the Company or an Officer of the Issuer (including in respect of anticipated expense and cost reductions and synergies (other than revenue synergies)), (b) in determining the amount of Indebtedness outstanding on any date of determination, *pro forma* effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness as if such transaction had occurred on the first day of the relevant period and (c) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Hedging Obligations applicable to such Indebtedness if such Hedging Obligation has a remaining term in excess of 12 months).

''*Contingent Obligations*'' means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness (''primary obligations'') of any other Person (the ''primary obligor''), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

  (a) for the purchase or payment of any such primary obligation; or

  (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

''*Cool Interest Loan*'' means the interest free loan from Altice VII S.à r.l to the Company in an amount equal to NIS 37 million.

''*Covenant Party*'' means the Company and each Additional Covenant Party.

''*Covenant Party Contribution*'' means the Issuance of any Capital Stock (other than Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) or Subordinated Shareholder Funding of any Covenant Party in exchange for, or any contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of a Covenant Party or any Restricted Subsidiary of, all or a portion of the Capital Stock of another Covenant Party (or any other Person that is under common control with the Company) or the Capital Stock of any other entity that owns Capital Stock of a Covenant Party (or any other Person that is under common control with the Company) or any Net Cash Proceeds from the sale of the foregoing.

''*Covenant Party*'' means the Company and each Additional Covenant Party.

''*Covenant Party Control Group*'' means a Covenant Party and its Restricted Subsidiaries or a combination of two or more Covenant Parties and their Restricted Subsidiaries that together make up more than 50% of Total Assets or more than 50% of Consolidated Combined EBITDA as reflected in the

most recent consolidated combined financial statements of the Covenant Parties delivered to the Trustee.

''*Credit Facility*'' means, with respect to the Issuer, the Covenant Parties or any of their Subsidiaries, one or more debt facilities, arrangements, instruments, trust deeds, note purchase agreements or indentures or commercial paper facilities and overdraft facilities (including the Revolving Credit Facility) with banks, institutions, funds or investors providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), notes, bonds, debentures letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks, institutions or investors and whether provided under one or more credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term ''Credit Facility'' shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of a Covenant Party as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

''*Currency Agreement*'' means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, cap, floor, ceiling, collar, currency derivative or other similar agreement to which such Person is a party or beneficiary.

''*Default*'' means any event which is, or after giving notice or with the passage of time or both would be, an Event of Default.

''*Designated Non-Cash Consideration*'' means the fair market value (as determined in good faith by the Issuer) of non-cash consideration received by a Covenant Party or a Restricted Subsidiary in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''.

''*Designated Preference Shares*'' means, with respect to a Covenant Party, Preferred Stock (other than Disqualified Stock) (a) that is issued for cash (other than to a Covenant Party or a Subsidiary of a Covenant Party or an employee stock ownership plan or trust established by a Covenant Party or any such Subsidiary for the benefit of their employees to the extent funded by such Covenant Party or such Subsidiary) and (b) that is designated as ''Designated Preference Shares'' pursuant to an Officer's Certificate of the Issuer at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of the first paragraph of the covenant described under ''*—Certain Covenants—Limitation on Restricted Payments*''.

''*Designated Senior Debt*'' means (1) any Senior Indebtedness permitted to be Incurred under the Indenture that has, at the time of designation, an aggregate principal amount outstanding of at least $50.0 million (including the amount of all undrawn commitments and matured and contingent reimbursement obligations pursuant to letters of credit thereunder) and that has been designated by the Issuer in an instrument evidencing such Senior Indebtedness and in an Officer's Certificate delivered to the Trustee as ''Designated Senior Indebtedness'' for purposes of the Indenture, (2) all Indebtedness arising under the Revolving Credit Facility and (3) all Indebtedness arising under the Senior Secured Notes Indenture and the Senior Secured Notes and Guarantees thereof.

''*Disinterested Director*'' means, with respect to any Affiliate Transaction, a member of the Board of Directors of the Issuer having no material direct or indirect financial interest in or with respect to such

Affiliate Transaction. A member of the Board of Directors of the Issuer shall be deemed not to have such a financial interest by reason of such member's holding Capital Stock of a Covenant Party or any Parent or any options, warrants or other rights in respect of such Capital Stock.

''*Disqualified Stock*'' means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of a Covenant Party or a Restricted Subsidiary); or

(3) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or repurchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part,

in each case, on or prior to the earlier of (a) the Stated Maturity of the Notes or (b) the date on which there are no Notes outstanding; *provided*, *however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require a Covenant Party to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under ''*—Certain Covenants—Limitation on Restricted Payments*''.

''*Dollar Equivalent*'' means, with respect to any monetary amount in a currency other than U.S. dollar (''*Other Currency*''), at any time of determination thereof by the Issuer or the Trustee, the amount of U.S. dollars obtained by converting such Other Currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the Other Currency as published in *The Financial Times* in the ''Currency Rates'' section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Issuer) on the date of such determination.

''*Equity Offering*'' means a public or private sale of (x) Capital Stock of a Covenant Party or (y) Capital Stock or other securities, the proceeds of which are contributed as Subordinated Shareholder Funding or to the equity of a Covenant Party or any of its Restricted Subsidiaries, in each case other than:

(1) Disqualified Stock;

(2) Designated Preference Shares;

(3) offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions;

(4) any such sale to an Affiliate of a Covenant Party, including the Issuer, a Covenant Party or a Restricted Subsidiary; and

(5) any such sale that constitutes an Excluded Contribution or a Covenant Party Contribution.

''*Escrowed Proceeds*'' means the proceeds from the offering of any debt securities or other Indebtedness paid into an escrow account with an independent escrow agent on the date of the applicable offering or Incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow account upon satisfaction of certain conditions or the occurrence of certain events. The term ''Escrowed Proceeds'' shall include any interest earned on the amounts held in escrow.

''*Exchange Act*'' means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

''*Excluded Contribution*'' means Net Cash Proceeds or property or assets received by a Covenant Party as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through a Covenant Party Contribution) of such Covenant Party after the Issue Date or from the issuance or sale (other than to the Issuer, a Covenant Party, a Restricted

Subsidiary or an employee stock ownership plan or trust established by a Covenant Party or any Subsidiary of a Covenant Party for the benefit of its employees to the extent funded by the Issuer, a Covenant Party or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preference Shares or through a Covenant Party Contribution) or Subordinated Shareholder Funding of a Covenant Party, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of the Issuer.

''*Existing HOT Unsecured Notes*'' refers to the NIS 825 million notes (Series A) and the NIS 675 million notes (Series B) of HOT, offered to the Israeli investors pursuant to an Israeli shelf offering report dated March 29, 2011 under an Israeli shelf prospectus dated February 28, 2011, as amended on March 29, 2011, and as shall be amended from time to time.

''*fair market value*'' wherever such term is used in this ''Description of Senior Notes'' or the Indenture (except in relation to an enforcement action pursuant to the Intercreditor Agreement and except as otherwise specifically provided in this ''Description of Senior Notes'' or the Indenture), may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of the Issuer setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

''*Finco Asset Disposition*'' means the sale, lease, conveyance or other disposition of any rights, property or assets by the Issuer or the Senior Secured Notes Issuer. Notwithstanding the preceding, none of the following items will be deemed to be a Finco Asset Disposition:

(1) the granting of a Permitted Issuer Lien or a Permitted Senior Secured Notes Issuer Lien;

(2) any Permitted Issuer Investment or a Permitted Senior Secured Notes Issuer Investment; and

(3) the sale or other disposition of cash or Cash Equivalents.

''*Guarantee*'' means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, *however*, that the term ''Guarantee'' will not include endorsements for collection or deposit in the ordinary course of business or any guarantee of performance. The term ''Guarantee'' used as a verb has a corresponding meaning.

''*Guarantor*'' means (i) as of the Completion Date, the Company, SPV-1 and the Senior Secured Notes Issuer and (ii) each Person that executes a Note Guarantee in accordance with the provisions of the Indenture in its capacity as a guarantor of the Notes and its respective successors and assigns, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

''*Hedging Obligations*'' of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement.

''*Holder*'' means each Person in whose name the Notes are registered.

''*Hot Direct Obligation Event*'' means the election by the Senior Secured Notes Issuer and the Company to cause HOT and the HOT Proceeds Note Guarantors to become direct Guarantors of the Senior Secured Notes by causing each of them to provide a Guarantee of the Senior Secured Notes on a senior basis and grant an equivalent Lien over all of its assets that constitute HOT Proceeds Note Collateral on such date.

''*HOT Mobile License Guarantee*'' means the NIS 695 million bank guarantee to the Ministry of Communications and Broadcast Council Incurred in connection HOT's acquisition of a frequency allotment and a cellular license in 2011.

"*HOT Proceeds Note*" means collectively, the proceeds term loan and the revolving facility proceeds loan made by the Senior Secured Notes Issuer to HOT on the Completion Date.

"*HOT Proceeds Note Collateral*" means the rights, property and assets securing the HOT Proceeds Note and the HOT Proceeds Note Guarantees and any rights, property or assets over which a Lien has been granted to secure the Obligations of HOT and the HOT Proceeds Note Guarantors under the HOT Proceeds Note.

"*HOT Proceeds Note Documents*" means the HOT Proceeds Note and the HOT Security Documents.

"*HOT Proceeds Note Guarantee*" means the guarantee by each HOT Proceeds Note Guarantor of the HOT's obligations under the HOT Proceeds Note, executed pursuant to the provisions thereof and this Indenture.

"*HOT Proceeds Note Guarantor*" means each Person that accedes to the HOT Proceeds Note as a HOT Proceeds Note Guarantor in accordance with the provisions of the HOT Proceeds Note and this Indenture in its capacity as a guarantor of the HOT Proceeds Note and its respective successors and assigns, until the HOT Proceeds Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"*HOT Security Documents*" means the security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the HOT Proceeds Note or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating the security interests in the HOT Proceeds Note Collateral as contemplated by the Indenture and the HOT Proceeds Note.

"*IFRS*" means International Financial Reporting Standards as issued by the International Accounting Standards Board or any successor board or agency as endorsed by the State of Israel and in effect on the date hereof, or, with respect to the covenant described under the caption "Reports" as in effect from time to time.

"*Incur*" means issue, create, assume, enter into any Guarantee of, incur, extend or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Covenant Party or a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Covenant Party or such Restricted Subsidiary at the time it becomes a Covenant Party or a Restricted Subsidiary and the terms "*Incurred*" and "*Incurrence*" have meanings correlative to the foregoing and any Indebtedness pursuant to any revolving credit or similar facility shall only be "Incurred" at the time any funds are borrowed thereunder.

"*Indebtedness*" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of indebtedness of such Person for borrowed money;

(2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have not been reimbursed) (except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of Incurrence);

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of assets acquired or services supplied (except trade payables), which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto;

(5) Capitalized Lease Obligations (excluding network and duct leases in existence on the Issue Date) of such Person;

(6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided*, *however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination (as determined in good faith by the Issuer) and (b) the amount of such Indebtedness of such other Persons;

(8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Currency Agreements, Commodity Hedging Agreements and Interest Rate Agreements (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The term ''Indebtedness'' shall not include (i) Subordinated Shareholder Funding, (ii) any lease (including for avoidance of doubt, any network lease), concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date, (iii) prepayments of deposits received from clients or customers in the ordinary course of business, (iv) any pension obligations, (v) Contingent Obligations Incurred in the ordinary course of business, (vi) obligations under or in respect of Qualified Receivables Financing, (vii) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Issue Date or in the ordinary course of business, (viii) non-interest bearing installment obligations and accrued liabilities incurred in the ordinary course of business that are not more than 120 days past due, (ix) Indebtedness in respect of the incurrence by a Covenant Party or any Restricted Subsidiary of Indebtedness in respect of standby letters of credit, performance bonds or surety bonds provided by a Covenant Party or any Restricted Subsidiary in the ordinary course of business to the extent such letters of credit or bonds are not drawn upon or, if and to the extent drawn upon are honored in accordance with their terms and if, to be reimbursed, are reimbursed no later than the fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit or bond, (x) Indebtedness incurred by a Covenant Party or a Restricted Subsidiary in connection with a transaction where (A) such Indebtedness is borrowed from a bank or trust company, having a combined capital and surplus and undivided profits of not less than €250 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by S&P and A2 or the equivalent thereof by Moody's and (B) a substantially concurrent Investment is made by a Covenant Party or a Restricted Subsidiary in the form of cash deposited with the lender of such Indebtedness, or a Subsidiary or Affiliate thereof, in amount equal to such Indebtedness. For the avoidance of doubt and notwithstanding the above, the term ''Indebtedness'' excludes any accrued expenses and trade payables, any obligations under the guarantee by HOT issued to the Ministry of Communications and Broadcast Council in connection with various operating and broadcasting licenses, including the bank guarantee in connection with the HOT Mobile's winning a frequency allotment and receiving a cellular license, and any obligations of HOT Systems towards the State of Israel under an agreement dated July 10, 2001, between HOT Systems and other cable companies and between the State of Israel, in each case, as in effect on the Issue Date.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the Indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (7), (8) or (9) above) shall equal the amount thereof that would appear on a balance sheet of such Person (excluding any notes thereto) prepared on the basis of IFRS.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(i) in connection with the purchase by a Covenant Party or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;

(ii) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes; or

(iii) parallel debt obligations, to the extent such obligations mirror other Indebtedness.

''*Independent Financial Advisor*'' means an investment banking or accounting firm of international standing or any third party appraiser of international standing; *provided*, *however*, that such firm or appraiser is not an Affiliate of the Issuer.

''*Initial Public Offering*'' means an Equity Offering of common stock or other common equity interests of a Covenant Party or any Parent or any successor of a Covenant Party or any Parent (the ''IPO Entity'') following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

''*Intercreditor Agreement*'' means the intercreditor agreement dated on the Issue Date and made between (among others) the Issuer, the Senior Secured Notes Issuer, the Guarantors, the Security Agent, the Facility Agent, the Mandated Lead Arrangers (as defined therein), certain financial institutions party thereto, the Hedging Banks (as defined therein) and the Trustee, as amended.

''*Interest Rate Agreement*'' means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

''*Investment*'' means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet (excluding any notes thereto) prepared on the basis of IFRS; *provided*, *however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If a Covenant Party or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by a Covenant Party or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption ''*—Certain Covenants—Limitation on Restricted Payments*''.

For purposes of ''*—Certain Covenants—Limitation on Restricted Payments*'':

(1) ''Investment'' will include the portion (proportionate to a Covenant Party's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, such Covenant Party will be deemed to continue to have a permanent ''Investment'' in an Unrestricted Subsidiary in an amount (if positive) equal to (a) such Covenant Party's ''Investment'' in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to such Covenant Party's equity interest in such Subsidiary) of the fair market value of the net assets (as conclusively determined by an Officer or the Board of Directors of the Issuer in good faith) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer (or if earlier at the time of entering into an agreement to sell such property), in each case as determined in good faith by an Officer or the Board of Directors of the Issuer.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

''*Investment Grade Status*'' shall occur when the Notes receive both of the following:

(1) a rating of ''BBB—'' or higher from S&P; and

(2) a rating of ''Baa3'' or higher from Moody's,

or the equivalent of such rating by either such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

''*Investor*'' means the controlling shareholder of Altice Group on the Issue Date.

''*Investor Affiliate*'' means (i) the Investor or any of his immediate family members, and any such persons' respective Affiliates and direct and indirect Subsidiaries, (ii) any sponsor, limited partnerships or entities managed or controlled by the Investor or any of his immediate family, or any of such persons' respective Affiliates and direct or indirect Subsidiaries, (iii) any trust of the Investor or any of his immediate family, or any of such persons' respective Affiliates and direct or indirect Subsidiaries or any trust in respect of which any such persons is a trustee, (iv) any partnership of which the Investor or any of his immediate family, or any of such persons' respective Affiliates or direct or indirect Subsidiaries is a partner that is managed or controlled by the Investor, any of his immediate family or any of such persons' respective Affiliates or direct or indirect Subsidiaries, and (v) any trust, fund or other entity which is managed by, or is under the control of, the Investor or any of his immediate family, or any of such persons' respective Affiliates or direct or indirect Subsidiaries, but excluding the Issuer, the Senior Secured Notes Issuer, any Covenant Party or any of their Subsidiaries.

''*IPO Market Capitalization*'' means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

''*Issue Date*'' means December 12, 2012.

''*Issuer*'' means Altice Finco S.A., a Luxembourg public limited liability company (*société anonyme*).

''*License Assets*'' means a ''License Asset'', as defined under the Israeli Communications Law (Telecommunications and Broadcasting) of 1982 (''Communications Law''), which includes all assets necessary for the provision by the relevant company of services under its license.

''*Lien*'' means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

''*Management Advances*'' means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, a Covenant Party or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such Person's purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Issuer, a Covenant Party, its Restricted Subsidiaries or any Parent not to exceed an amount (net of repayments of any such loans or advances) equal to $10 million in any calendar year (with unused amounts in any calendar year being carried over to the succeeding calendar years; *provided* that the aggregate Management Advances made under this sub-clause (b) do not exceed $20 million in any fiscal year);

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) (in the case of this clause (3)) not exceeding $5 million in the aggregate outstanding at any time.

''*Management Investors*'' means the current or former officers, directors, employees and other members of the management of or consultants to any Parent, a Covenant Party or any of their respective Subsidiaries, or spouses, family members or relatives thereof, or any trust, partnership or other entity for the benefit of or the beneficial owner of which (directly or indirectly) is any of the foregoing, or any of their heirs, executors, successors and legal representatives, who at any date beneficially own or have the

right to acquire, directly or indirectly, Capital Stock of a Covenant Party, any Restricted Subsidiary or any Parent.

''*Market Capitalization*'' means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

''*Merger Agreement*'' means the merger agreement entered into between Subsidiaries of the Company and HOT in connection with the Take-Private Transaction.

''*Minority Shareholder*'' means each of Yedioth Communications Ltd., Fishman Family Properties Ltd., Fishman Family Properties Management (1988) Ltd. and Monitin Itonut Holdings (1985) Ltd.

''*Minority Shareholder Option Exercise*'' means the exercise by a Minority Shareholder of the Minority Shareholder Call Option on the terms provided in the applicable Minority Shareholder Purchase Agreement.

''*Minority Shareholder Purchase Agreements*'' means each of (a) the Agreement, dated as of November 5, 2012 entered into by and between Yedioth Communications Ltd., a company incorporated in Israel with a registered address of 2 Mozes Street, Tel Aviv, Israel and the Company and (b) the Agreement dated as of November 5, 2012 entered into by and among Fishman Family Properties Ltd. and Fishman Family Properties Management (1988) Ltd., each a company incorporated in Israel with a registered address of 20 Lincoln Street, Tel Aviv, Israel, and Monitin Itonut Holdings (1985) Ltd., a company incorporated in Israel with a registered address of 53 Etzel Street, Rishon Lezion 75706, Israel and the Company, in each case providing for waiver of certain consent rights relating to the Transactions and granting of the Minority Shareholder Call Option as consideration therefor, in each case as in effect on the Issue Date except for amendments that are not materially adverse to the interests of the Holders of the Notes.

''*Minority Shareholder Call Option*'' means the right to purchase shares of Capital Stock of HOT pursuant to the applicable Minority Shareholder Purchase Agreement.

''*MOC Security Approval*'' means the approval or consent of the Israeli Ministry of Communications for (i) Citibank N.A., London Branch (or a bank international standing or an Israeli bank of national standing reasonably acceptable to the Trustee) to act as security agent under the Security Documents related the License Assets and to hold the security interests in the HOT Proceeds Note Collateral that constitutes License Assets for the direct and indirect beneficiaries thereof and (ii) the granting of security interests over the License Assets to secure the HOT Proceeds Note and the HOT Proceeds Note Guarantees.

''*Moody's*'' means Moody's Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

''*Nationally Recognized Statistical Rating Organization*'' shall have the same meaning as used in Section 3(a)(62) of the Exchange Act.

''*Net Available Cash*'' from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders (other than any Parent, the Issuer, the Senior Secured Notes Issuer, a Covenant Party or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against (a) any liabilities associated with the assets disposed in such Asset Disposition and retained by a Covenant Party or any Restricted Subsidiary after such Asset Disposition; or (b) any purchase price adjustment or earn-out in connection with such Asset Disposition.

"*Net Cash Proceeds*", with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, any Incurrence of any Indebtedness or any sale of any asset means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

"*NIS*" means New Israeli Shekels, the lawful currency of the State of Israel.

"*NIS Equivalent*" means, with respect to any monetary amount in a currency other than NIS ("*Other Currency*"), at any time of determination thereof by the Issuer or the Trustee, the amount of NIS obtained by converting such Other Currency involved in such computation into NIS at the spot rate for the purchase of NIS with the Other Currency as published in *The Financial Times* in the "Currency Rates" section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Issuer) on the date of such determination.

"*Notes Documents*" means the Notes (including Additional Notes), the Indenture, the Security Documents, the Escrow Agreement, the Intercreditor Agreement, any Additional Intercreditor Agreements and the Proceeds Loan.

"*Note Guarantee*" means the Guarantee by each Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

"*Offering Memorandum*" means the offering memorandum in relation to the Notes to be issued on the Issue Date.

"*Officer*" means, with respect to any Person, (1) any member of the Board of Directors, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an "Officer" for the purposes of the Indenture by the Board of Directors of such Person.

"*Officer's Certificate*" means, with respect to any Person, a certificate signed by one Officer of such Person.

"*Opinion of Counsel*" means a written opinion from legal counsel reasonably satisfactory to the Trustee, which opinion may contain customary assumptions and qualifications. The counsel may be an employee of or counsel to any Parent, the Issuer, a Covenant Party or any of their Subsidiaries.

"*Parent*" means any Person of which the Issuer or a Covenant Party at any time is or becomes a Subsidiary and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent.

"*Parent Expenses*" means:

(1) costs (including all professional fees and expenses) Incurred by any Parent in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to Indebtedness of a Parent, the Issuer, a Covenant Party or any Restricted Subsidiary, including in respect of any reports filed with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;

(2) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to a Parent, the Issuer, a Covenant Party or their respective Subsidiaries;

(3) obligations of any Parent in respect of director and officer insurance (including premiums therefor) to the extent relating to a Parent, the Issuer, a Covenant Party or their respective Subsidiaries and reasonable fees and reimbursement of expenses to, and customary indemnities and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Issuer, any Covenant Party, any Restricted Subsidiary or any Parent (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees)

(4) fees and expenses payable by any Parent in connection with the Transactions;

(5) general corporate overhead expenses, including (a) professional fees and expenses and other operational expenses of any Parent related to the ownership or operation of the business of the Issuer, the Covenant Parties or any of the Restricted Subsidiaries including acquisitions by a Covenant Party or a Subsidiary permitted hereunder (whether or not successful), in each case, to the extent such costs, obligations and/or expenses are not paid by another Subsidiary of such or (b) costs and expenses with respect to any litigation or other dispute relating to the Transactions or the ownership, directly or indirectly, by any Parent;

(6) any fees and expenses required to maintain any Parent's corporate existence and to provide for other ordinary course operating costs, including customary salary, bonus and other benefits payable to officers and employees of such Parent to reimburse out-of-pocket expenses of the Board of Directors of any Parent and payment of all reasonable out-of-pocket expenses Incurred by any Permitted Holder in connection with its direct or indirect investment in the Issuer, the Covenant Parties and their Subsidiaries;

(7) other fees, expenses and costs relating directly or indirectly to activities of the Issuer, the Covenant Parties and their Subsidiaries or any Parent or any other Person established for purposes of or in connection with the Acquisition or the Transaction or which holds directly or indirectly any Capital Stock or Subordinated Shareholder Funding of the Issuer or a Covenant Party, in an amount not to exceed $3 million in any fiscal year;

(8) any Public Offering Expenses; and

(9) payments pursuant to any Tax Sharing Agreement in the ordinary course of business or as a result of the formation and maintenance of any consolidated group for tax or accounting purposes in the ordinary course of business.

''*Pari Passu Indebtedness*'' means (1) with respect to the Issuer, any Indebtedness that ranks *pari passu* in right of payment to the Notes; and (2) with respect to the Guarantors, any Indebtedness that ranks *pari passu* in right of payment to such Guarantor's Guarantee of the Notes.

''*Paying Agent*'' means any Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Note on behalf of the Issuer.

''*Permitted Asset Swap*'' means the concurrent purchase and sale or exchange of assets used or useful in a Similar Business or a combination of such assets and cash, Cash Equivalents or Temporary Cash Investments between the Issuer, a Covenant Party or any of the Restricted Subsidiaries and another Person; *provided* that any cash or Cash Equivalents received in excess of the value of any cash or Cash Equivalents sold or exchanged must be applied in accordance with the covenant described under ''*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*''.

''*Permitted Collateral Liens*'' means:

(1) Liens on the Notes Collateral that are described in one or more of clauses (2), (3), (4), (5), (6), (8), (9), (11), (12), (13), (18), (20), (23), (24) and (28) of the definition of ''Permitted Liens'';

(2) Liens on the Notes Collateral (other than any Notes Collateral subject to the Escrow Assignment and the Issuer Share Pledge) to secure (a) Indebtedness that is permitted to be Incurred under the first paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'', (b) Indebtedness that is permitted to be Incurred under clauses (1), (2)(a) (in the case of (2)(a), to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be

secured on the Notes Collateral and specified in this definition of Permitted Collateral Liens), (4)(a), 4(b), (7)(a) (to the extent relating to Currency Agreements or Interest Rate Agreements related to Indebtedness), (7)(b), (14) (so long as, in the case of clause (14), on the date of Incurrence of Indebtedness pursuant to such clause (14) and after giving effect thereto on a pro forma basis, the Issuer could have incurred $1.00 of Indebtedness pursuant to the first paragraph of the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'') and clause (15) under the second paragraph of the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'' and (c) any Refinancing Indebtedness in respect of Indebtedness referred to in the foregoing clause (a) or (b), *provided*, *however*, that (i) such Lien shall rank (x) equal to all other Liens on such Notes Collateral securing Senior Indebtedness of the Issuer and the Guarantors, if such Indebtedness is Senior Indebtedness of the Issuer or the Guarantors (as applicable), or (y) pari passu with or junior to the Liens securing the Notes and the Note Guarantees; and (iii) each of the parties thereto will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement; and

(3) Liens on the Issuer Share Pledge to secure Pari Passu Indebtedness of the Issuer that is permitted to be Incurred under covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'' (other than clauses (3), (4)(a), (5), (7), (9), (10), (11), (12) and (13) of the second paragraph thereof); provided, however, that (i) such Lien shall rank pari passu or junior to the Liens securing the Notes; (ii) in each case, all property and assets of the Issuer securing such Indebtedness also secure the Notes on a senior or pari passu basis; and (iii) each of the parties thereto will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement.

''*Permitted Holders*'' means, collectively, (1) the Investor, (2) Investor Affiliates and (3) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Parent or any Covenant Party, acting in such capacity. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

''*Permitted Investment*'' means (in each case, by the Issuer, a Covenant Party or any of the Restricted Subsidiaries):

(1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary), the Issuer or a Covenant Party (other than any Investment in a Minority Shareholder Call Option or Minority Shareholder Purchase Agreement) or (b) any Person (including the Capital Stock of any such Person) that is engaged in any Similar Business and such Person will, upon the making of such Investment, become a Restricted Subsidiary;

(2) Investments in another Person if such Person is engaged in any Similar Business and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, a Covenant Party or a Restricted Subsidiary;

(3) Investments in cash, Cash Equivalents or Temporary Cash Investments;

(4) Investments in receivables owing to the Issuer, a Covenant Party or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided*, *however*, that such trade terms may include such concessionary trade terms as the Issuer, such Covenant Party or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) Management Advances;

(7) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer, a Covenant Party or any Restricted Subsidiary (including obligations of trade creditors and customers), or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor or in compromise or resolution of any litigation, arbitration or other dispute;

(8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition, in each case, that was made in compliance with ''—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*'' and other Investments resulting from the disposition of assets in transactions excluded from the definition of ''Asset Disposition'' pursuant to the exclusions from such definition;

(9) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date;

(10) Currency Agreements, Interest Rate Agreements, Commodity Hedging Agreements and related Hedging Obligations, which transactions or obligations are Incurred pursuant to clause (7) of the second paragraph of the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'';

(11) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of ''Permitted Liens'' or made in connection with Liens permitted under the covenant described under ''—*Certain Covenants—Limitation on Liens*'';

(12) any Investment to the extent made using Capital Stock of a Covenant Party (other than Disqualified Stock or Designated Preference Shares), Subordinated Shareholder Funding or Capital Stock of any Parent as consideration;

(13) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under ''—*Certain Covenants—Limitation on Affiliate Transactions*'' (except those described in clauses (1), (3), (6), (8), (9) and (12) of that paragraph);

(14) Guarantees not prohibited by the covenant described under ''—*Certain Covenants—Limitation on Indebtedness*'' and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(15) Investments in the Notes and any Additional Notes;

(16) (a) Investments acquired after the Issue Date as a result of the acquisition by a Covenant Party or any Restricted Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into a Covenant Party or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described under ''—*Certain Covenants—Merger or Consolidation*'' to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and (b) Investments of a Covenant Party or a Restricted Subsidiary of such Covenant Party existing on the date such Person becomes a Covenant Party or a Restricted Subsidiary to the extent that such Investments were not made in contemplation of such Person becoming a Covenant Party or a Restricted Subsidiary;

(17) Investments, taken together with all other Investments made pursuant to this clause (17) and at any time outstanding, in an aggregate amount at the time of such Investment not to exceed the greater of 3% of Total Assets and $80 million; *provided*, that, if an Investment is made pursuant to this clause in a Person that is not a Covenant Party or a Restricted Subsidiary and such Person subsequently becomes a Covenant Party or a Restricted Subsidiary or is subsequently designated a Covenant Party or a Restricted Subsidiary pursuant to the Indenture, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of ''Permitted Investments'' and not this clause; and

(18) Investments as a result of contribution of Tower Assets to a Towers Joint Venture within 365 days from the Issue Date; *provided*, *however*, that if a definitive binding agreement or a commitment to enter into a Towers Joint Venture is approved by the Board of Directors of the Issuer within such time, such Investment is shall be permitted by this clause (18) so long as such Investment is consummated within 180 days from the date of such approval.

''*Permitted Issuer Investments*'' means Investments in:

(1) cash and Cash Equivalents;

(2) the Notes;

(3) any other Indebtedness of the Issuer permitted to be Incurred under the Indenture; and

(4) any Proceeds Loan.

''*Permitted Issuer Liens*'' means:

(1) Permitted Collateral Liens; and

(2) Liens described in one or more of clauses (4), (5), (9), (11), (12), (13), (22), (27) (only in respect of Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness) and (28) of the definition of Permitted Liens.

''*Permitted Liens*'' means, with respect to any Person:

(1) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of such Restricted Subsidiary of a Covenant Party or another Restricted Subsidiary that is not a Guarantor of the same Covenant Party;

(2) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements and including Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmen's and repairmen's or other like Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;

(4) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(5) (a) Liens in favor of issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of the Issuer, a Covenant Party or any Restricted Subsidiary in the ordinary course of its business and (b) Liens in connection with cash management programs established in the ordinary course of business;

(6) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Issuer, the Covenant Parties and the Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Issuer, the Covenant Parties and the Restricted Subsidiaries;

(7) Liens on assets or property of the Issuer, a Covenant Party or any Restricted Subsidiary securing Hedging Obligations permitted under the Indenture;

(8) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(9) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default and notices of *lis pendens* and associated rights so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order, award or notice have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens on assets or property of the Issuer, a Covenant Party or any Restricted Subsidiary (including Capital Stock) for the purpose of securing Capitalized Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement or construction of,

assets or property acquired or constructed in the ordinary course of business; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under the Indenture (excluding Indebtedness Incurred pursuant to the first paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'') and (b) any such Lien may not extend to any assets or property of the Issuer, a Covenant Party or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property;

(11) Liens arising by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary or financial institution;

(12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Issuer, the Covenant Parties and the Restricted Subsidiaries in the ordinary course of business;

(13) (a) with respect to the Issuer, the Senior Secured Notes Issuer and the Company, Liens existing on or provided for or required to be granted under written agreements existing on the Issue Date after giving effect to the Transactions and the Issuance of the Notes and the application of the proceeds thereof (including after such proceeds are release from the Escrow Account); and (b) with respect to HOT and its Subsidiaries, Liens existing on, or provided for or required to be granted under written agreements existing on, the Completion Date after giving effect to the Transactions, including, for avoidance of doubt, the second lien floating charge to secure certain payment obligations of HOT to the State of Israel pursuant to a royalty agreement as in effect on the Issue Date;

(14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Covenant Party or a Restricted Subsidiary (or at the time the Issuer, a Covenant Party or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Issuer, a Covenant Party or any Restricted Subsidiary); *provided*, *however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Covenant Party or a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided*, *further*, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;

(15) Liens on assets or property of a Covenant Party or any Restricted Subsidiary securing Indebtedness or other obligations of such Covenant Party or such Restricted Subsidiary owing to the Issuer, another Covenant Party or another Restricted Subsidiary, or Liens in favor of the Issuer, a Covenant Party or any Restricted Subsidiary;

(16) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture; *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(18) (a) mortgages, liens, security interest, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Issuer, a Covenant Party or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;

(19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of, or assets owned by, any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(20) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(21) Liens on Receivables Assets Incurred in connection with a Qualified Receivables Financing;

(22) Liens on Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the Incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose;

(23) bankers' Liens, Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business of such Person to facilitate the purchase, shipment or storage of such inventory or other goods and Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(24) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business, and pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of business or operations as Liens only for Indebtedness to a bank or financial institution directly relating to the goods or documents on or over which the pledge exists;

(25) Permitted Collateral Liens;

(26) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(27) any security granted over Cash Equivalents in connection with the disposal thereof to a third party and Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(28) (a) Liens created for the benefit of or to secure, directly or indirectly, the Notes, (b) Liens pursuant to the Intercreditor Agreement and (c) Liens in respect of property and assets securing Indebtedness if the recovery in respect of such Liens is subject to loss-sharing or similar provisions as among the Holders of the Notes and the creditors of such Indebtedness pursuant to the Intercreditor Agreement or an Additional Intercreditor Agreement;

(29) Liens created on any asset of a Covenant Party or a Restricted Subsidiary established to hold assets of any stock option plan or any other management or employee benefit or incentive plan or unit trust of a Covenant Party or a Restricted Subsidiary securing any loan to finance the acquisition of such assets;

(30) Liens on the property and assets of the Senior Secured Notes Issuer, the Covenant Parties and the Restricted Subsidiaries to secure (a) Indebtedness that is permitted to be Incurred under the clause (2) of the first paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'', (b) Indebtedness that is permitted to be Incurred under clauses (1), (2)(a) (in the case of (2)(a), to the extent such Guarantee is in respect of Indebtedness otherwise specified in this clause (30)), (4)(b), (5), (7)(a) (to the extent relating to Currency Agreements or Interest Rate Agreements related to Indebtedness), (7)(b), (14) (so long as, in the case of clause (14), on the date of Incurrence of Indebtedness pursuant to such clause (14) and after giving effect thereto on a pro forma basis, the Senior Secured Notes Issuer could have incurred $1.00 of Indebtedness pursuant to clause (2) the first paragraph of the covenant described under ''—Certain Covenants—Limitation on Indebtedness'') and clause (15) under the second paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'' and (c) any Refinancing Indebtedness in respect of Indebtedness referred to in the foregoing clause (a) or (b), *provided*, *however*, that such Indebtedness (other than Indebtedness Incurred under clauses (1), (5) and (15) under the second paragraph of the covenant described under ''*—Certain Covenants—Limitation on Indebtedness*'') is Senior Indebtedness of the Guarantors; and

(31) Liens; *provided* that the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this clause (31) does not exceed the greater of $30 million and 1% of Total Assets.

''*Permitted Parent''* means any Parent that operates as a holding company of the Covenant Parties and the Restricted Subsidiaries following a Permitted Parent Designation.

''*Permitted Parent Designation*'' means the designation of a Person by the Board of Directors of the Issuer as a Permitted Parent as evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation in accordance with the covenant described under ''*Certain Covenants—Designation of the Permitted Parent*''.

''*Permitted Senior Secured Notes Issuer Investments*'' means Investments in:

(1) cash and Cash Equivalents;

(2) the Senior Secured Notes;

(3) any other Indebtedness of the Senior Secured Notes Issuer permitted to be Incurred under the Indenture; and

(4) any Finco Proceeds Loan.

''*Permitted Senior Secured Notes Issuer Liens*'' means:

(1) Permitted Collateral Liens; and

(2) Liens described in one or more of clauses (4), (5), (9), (11), (12), (13), (22), (27) (only in respect of Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness), (28) of the definition of Permitted Liens and (30).

''*Person*'' means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

''*Preferred Stock*'', as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

''*Pro Forma Consolidated Gross Assets*'' means, with respect to any specified Person as of any date, the total assets of such Person and its Restricted Subsidiaries, calculated on a consolidated basis in accordance with IFRS, excluding all intra group items and investments in any Subsidiaries of such Person of or by such Person or any of its Restricted Subsidiaries, giving pro forma effect to any acquisitions (including through mergers or consolidations) and dispositions that have occurred subsequent to such period.

''*Proceeds Loan*'' means any loan agreement entered into between the Issuer and the Senior Secured Notes Issuer pursuant to which the Issuer lends to the Senior Secured Notes Issuer all or substantially all of the net proceeds of any Incurrence of Indebtedness by the Issuer; *provided* that (i) the principal amount of, and interest rate on, such Proceeds Loan will not be less than the principal amount of, and interest rate on, the Indebtedness of the Issuer that funded such Proceeds Loan, (ii) a Lien over such Proceeds Loan is granted at the time of its Incurrence on a junior basis to secure the Notes and the Note Guarantees and (iii) such Proceeds Loan shall be subject to the Intercreditor Agreement and any Additional Intercreditor Agreement.

''*Public Debt*'' means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

''*Public Market*'' means any time after:

(1) an Equity Offering has been consummated; and

(2) shares of common stock or other common equity interests of the IPO Entity having a market value in excess of $100 million on the date of such Equity Offering have been distributed pursuant to such Equity Offering.

''*Public Offering*'' means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A and/or Regulation S under the Securities Act to professional market investors or similar persons).

''*Public Offering Expenses*'' means expenses Incurred by any Parent in connection with any Public Offering or any offering of Public Debt (whether or not successful):

(1) where the net proceeds of such offering are intended to be received by or contributed or loaned to the Issuer, a Covenant Party or a Restricted Subsidiary;

(2) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received, contributed or loaned; or

(3) otherwise on an interim basis prior to completion of such offering so long as any Parent shall cause the amount of such expenses to be repaid to the Issuer, the relevant Covenant Party or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed, in each case, to the extent such expenses are not paid by another Subsidiary of such Parent.

''*Purchase Money Obligations*'' means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

''*Qualified Receivables Financing*'' means any Receivables Financing of a Receivables Subsidiary that meets the following conditions: (1) an Officer or the Board of Directors of the applicable Covenant Party shall have determined in good faith that such Qualified Receivables Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to such Covenant Party and the Receivables Subsidiary, (2) all sales of accounts receivable and related assets to the Receivables Subsidiary are made at fair market value (as determined in good faith by such Covenant Party), and (3) the financing terms, covenants, termination events and other provisions thereof shall be on market terms (as determined in good faith by such Covenant Party) and may include Standard Securitization Undertakings.

The grant of a security interest in any accounts receivable of a Covenant Party or any Restricted Subsidiary (other than a Receivables Subsidiary) to secure Indebtedness under a Credit Facility or Indebtedness in respect of the Notes shall not be deemed a Qualified Receivables Financing.

''*Rating Agencies*'' means Moody's and S&P or, in the event Moody's or S&P no longer assigns a rating to the Notes, any other Nationally Recognized Statistical Rating Organization who assigns a rating to the Notes in lieu of the ratings by Moody's or S&P.

''*Receivable*'' means a right to receive payment arising from a sale or lease of goods or services by a Person pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay for goods or services under terms that permit the purchase of such goods and services on credit, as determined on the basis of IFRS.

''*Receivables Assets*'' means any assets that are or will be the subject of a Qualified Receivables Financing.

''*Receivables Fees*'' means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Receivables Financing.

''*Receivables Financing*'' means any transaction or series of transactions that may be entered into by a Covenant Party or any of its Subsidiaries pursuant to which such Covenant Party or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by such Covenant Party or any of its Subsidiaries), or (b) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of such Covenant Party or any of its Subsidiaries, and any assets related thereto, including all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interest are customarily granted in connection with asset securitization transactions involving accounts receivable and any Hedging Obligations entered into by any Covenant Party or any such Subsidiary in connection with such accounts receivable.

''*Receivables Repurchase Obligation*'' means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming

subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

''*Receivables Subsidiary*'' means a Wholly Owned Subsidiary of a Covenant Party (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with a Covenant Party in which a Covenant Party or any Subsidiary of a Covenant Party makes an Investment and to which a Covenant Party or any Subsidiary of a Covenant Party transfers accounts receivable and related assets) which engages in no activities other than in connection with the financing of accounts receivable of a Covenant Party and its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of such Covenant Party (as provided below) as a Receivables Subsidiary and:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer, a Covenant Party or any other Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is subject to terms that are substantially equivalent in effect to a guarantee of any losses on securitized or sold receivables by the Issuer, a Covenant Party or any other Restricted Subsidiary, (iii) is recourse to or obligates the Issuer, a Covenant Party or any other Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (iv) subjects any property or asset of the Issuer, any Covenant Party or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) with which neither the Issuer, any Covenant Party nor any other Restricted Subsidiary has any material contract, agreement, arrangement or understanding other than on terms which the Issuer reasonably believes to be no less favorable to the Issuer, such Covenant Party or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer; and

(3) to which neither the Issuer, any Covenant Party nor any other Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

''*Refinance*'' means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms ''*refinances*'', ''*refinanced*'' and ''*refinancing*'' as used for any purpose in the Indenture shall have a correlative meaning.

''*Refinancing Indebtedness*'' means Indebtedness of the Issuer, the Company or any Restricted Subsidiary to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the Indenture or Incurred in compliance with the Indenture including Indebtedness that refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final stated maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final stated maturity of the Indebtedness being refinanced or, if shorter, the Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith);

(3) if the Indebtedness being refinanced is expressly subordinated to the Notes or any Note Guarantee, such Refinancing Indebtedness is subordinated to the Notes or such Note Guarantee, as

applicable, on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced; and

(4) (i) subject to clause (ii) of this clause (4), if the Issuer or any Guarantor was the obligor on the Indebtedness being refinanced, such Indebtedness is incurred either by the Issuer or by a Guarantor, (ii) if the Indebtedness being refinanced was originally Incurred by the Issuer or the pursuant to the first paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'' or clauses (4)(a), (4)(b) (in respect of the Existing HOT Unsecured Notes) (5) or (6) of second paragraph of the covenant described under ''*Certain Covenants—Limitation on Indebtedness*'', such Indebtedness is incurred by the Issuer or the Senior Secured Notes Issuer,

provided, *however*, that Refinancing Indebtedness shall not include (i) Indebtedness of the Issuer or the Senior Secured Notes Issuer that refinances Indebtedness of an Unrestricted Subsidiary, (ii) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary, Indebtedness of a Covenant Party owing to and held by the Issuer, any Covenant Party or any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary or (iii) any Finco Proceeds Loan or any Proceeds Loan.

''*Related Person*'' with respect to any Permitted Holder, means:

(1) any controlling equity holder or majority (or more) owned Subsidiary of such Person; or

(2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof; or

(3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(4) any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

''*Related Taxes*'' means, without duplication (including, for the avoidance of doubt, without duplication of any amounts paid pursuant to any Tax Sharing Agreement):

(1) any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding taxes), required to be paid (*provided* such Taxes are in fact paid) by any Parent by virtue of its:

    (a) being incorporated or otherwise being established or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Issuer, the Senior Secured Issuer, a Covenant Party or any Subsidiary of a Covenant Party);

    (b) issuing or holding Subordinated Shareholder Funding;

    (c) being a holding company parent, directly or indirectly, of the Issuer, the Senior Secured Notes Issuer, a Covenant Party or any Subsidiary of a Covenant Party;

    (d) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Issuer, the Senior Secured Notes Issuer, a Covenant Party or any Subsidiary of a Covenant Party; or

    (e) having made any payment in respect to any of the items for which the Issuer or a Covenant Party is permitted to make payments to any Parent pursuant to ''*—Certain Covenants—Limitation on Restricted Payments*''; or

(2) if and for so long as the Issuer or a Covenant Party is a member of a group filing a consolidated or combined tax return with any Parent, any Taxes measured by income for which such Parent is liable up to an amount not to exceed with respect to such Taxes the amount of any such Taxes that the Issuer, the Senior Secured Notes Issuer, the Covenant Parties and Subsidiaries of the Covenant Parties would have been required to pay on a separate company basis or on a consolidated basis if

the Issuer, the Covenant Parties and the Subsidiaries of the Covenant Parties had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Issuer, the Covenant Parties and the Subsidiaries of the Covenant Parties.

''*Representative*'' means any trustee, agent or representative (if any) for an issue of Indebtedness or the provider of Indebtedness (if provided on a bilateral basis), as the case may be.

''*Restricted Investment*'' means any Investment other than a Permitted Investment.

''*Restricted Subsidiary*'' means a Subsidiary of the Issuer or a Covenant Party other than an Unrestricted Subsidiary.

''*Revolving Credit Facility*'' means that certain agreement dated November 27, 2012 between, *inter alia*, the Issuer, the Company, certain financial institutions party thereto and Citibank International plc as facility agent and security agent, as amended.

''*S&P*'' means Standard & Poor's Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

''*SEC*'' means the U.S. Securities and Exchange Commission.

''*Securities Act*'' means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

''*Security Agent*'' means Citibank, N.A., London Branch acting as security agent pursuant to the Intercreditor Agreement or such successor Security Agent or any delegate thereof as may be appointed thereunder or any such security agent, successor or delegate thereof pursuant to an Additional Intercreditor Agreement.

''*Security Documents*'' means the security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the Indenture or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating the security interests in the Notes Collateral as contemplated by the Indenture.

''*Senior Indebtedness*'' means, whether outstanding on the Issue Date or thereafter Incurred:

(1) all Indebtedness of the Issuer or any Guarantor outstanding under the Revolving Credit Facility, all Hedging Obligations and all Obligations with respect to any of the foregoing;

(2) the Senior Secured Notes and Guarantees thereof; and

(3) any other Indebtedness of the Issuer or any Guarantor permitted to be incurred under the terms of the Indenture, unless the instrument under which such Indebtedness is Incurred (or the Intercreditor Agreement or any Additional Intercreditor Agreement to which such Indebtedness is subject) expressly provides, in the case of the Issuer, that it is subordinated in right of payment to the Notes, or in the case of any Guarantor, that it is on a parity with or subordinated in right of payment to the Note Guarantee of such Guarantor, including, without limitation, any Subordinated Indebtedness, and all Obligations with respect to any of the foregoing.

Notwithstanding anything to the contrary in the preceding, Senior Indebtedness will not include:

(1) any liability for national, state, local or other taxes owed or owing by the Issuer, a Covenant Party or any Restricted Subsidiary;

(2) any (i) Indebtedness of the Issuer owing to and held by a Covenant Party or any Restricted Subsidiary of the Issuer or a Covenant Party, (ii) Indebtedness of a Covenant Party owing to and held by the Issuer, a Covenant Party or any Restricted Subsidiary of the Issuer or a Covenant Party, (iii) Indebtedness of a Restricted Subsidiary of the Issuer or a Covenant Party owing to and held by the Issuer, a Covenant Party or any other Restricted Subsidiary of the Issuer or a Covenant Party or (iv) any Indebtedness the Issuer, a Covenant Party or any other Restricted Subsidiary of the Issuer or a Covenant Party owing to any of Affiliate of the Issuer or any Covenant Party;

(3) any trade payables;

(4) the portion of any Indebtedness that is incurred in violation of the Indenture; or

(5) Indebtedness which is classified as non-recourse in accordance with IFRS or any unsecured claim arising in respect of any insolvency proceedings.

"*Senior Secured Indebtedness*" means, with respect to any Person as of any date of determination, any Indebtedness for borrowed money that is Incurred by the Senior Secured Notes Issuer, any Covenant Party or any Restricted Subsidiary under clause (2) of the first paragraph of the covenant described under "*Certain Covenants—Limitation on Indebtedness*" or clauses (1), (4)(b) and (c), (5), (6), (7), (14) or (15) of the second paragraph of the covenant described under "*Certain Covenants—Limitation on Indebtedness*" and any Refinancing Indebtedness in respect of the foregoing; *provided* that, if such Indebtedness is Incurred by the Issuer or any Guarantor, such Indebtedness (other than Indebtedness Incurred pursuant to clause (4)(b) of the second paragraph of the covenant described under "*Certain Covenants—Limitation on Indebtedness*") is in each case secured by a Lien (other than Liens on the Capital Stock of the Senior Secured Notes Issuer or any Covenant Party, Liens on the Proceeds Loans and Subordinated Shareholder Note, in each case, that secure Pari Passu Indebtedness of the Guarantors that also secure the Notes and the Note Guarantees.

"*Significant Subsidiary*" means any Restricted Subsidiary that meets any of the following conditions:

(1) the Covenant Parties' and the Restricted Subsidiaries' investments in and advances to the Restricted Subsidiary exceed 10% of the total assets of the Covenant Parties and the Restricted Subsidiaries on a consolidated combined basis as of the end of the most recently completed fiscal year;

(2) the Covenant Parties' and the Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 10% of the total assets of the Covenant Parties and the Restricted Subsidiaries on a consolidated combined basis as of the end of the most recently completed fiscal year; or

(3) the Covenant Parties' and the Restricted Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the Restricted Subsidiary exceeds 10% of such income of the Covenant Parties and the Restricted Subsidiaries on a consolidated combined basis for the most recently completed fiscal year.

"*Similar Business*" means (a) any businesses, services or activities (including marketing) engaged in by the Company or any of its Subsidiaries on the Issue Date, (b) broadcast television, broadband and fixed and mobile telephony businesses, including the distribution, sale and for provision of mobile voice and data, fixed-line voice and internet services, transit voice traffic services and other services and equipment in relation thereto and (c) any businesses, services and activities (including marketing) engaged in by the Company or any of its Subsidiaries that are (i) related, complementary, incidental, ancillary or similar to any of the foregoing or (ii) are reasonable extensions or developments of any thereof.

"*Standard Securitization Undertakings*" means representations, warranties, covenants, indemnities and guarantees of performance entered into by a Covenant Party or any Subsidiary of a Covenant Party which the Issuer has determined in good faith to be customary in a Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subordinated Indebtedness*" means, in the case of the Issuer, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated or junior in right of payment to the Notes or pursuant to a written agreement and, in the case of a Guarantor, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated or junior in right of payment to the Note Guarantee of such Guarantor.

"*Subordinated Shareholder Funding*" means, collectively, any funds provided to the Issuer or a Covenant Party by any Parent, any Affiliate of any Parent or any Permitted Holder or any Affiliate thereof, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by any of the foregoing Persons, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any

obligation under any Subordinated Shareholder Funding; *provided*, *however*, that such Subordinated Shareholder Funding:

(1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Issuer or a Covenant Party or any funding meeting the requirements of this definition) or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement;

(2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

(3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the date that is six months following the Stated Maturity of the Notes or the payment of any amount as a result of any such action or provision or the exercise of any rights or enforcement action, in each case, prior to the date that is six months following the Stated Maturity of the Notes, is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

(4) does not provide for or require any security interest or encumbrance over any asset of the Issuer, the Covenant Parties or any of the Restricted Subsidiaries; and

(5) pursuant to its terms or to the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement, is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding or are no less favorable in any material respect to Holders than those contained in the Intercreditor Agreement as in effect on the Issue Date.

''*Subordinated Shareholder Note*'' means the interest free loan from Altice VII S.a.r.l. to the Company, as amended.

''*Subsidiary*'' means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

    (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

    (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

''*Subsidiary Guarantor''* means any Restricted Subsidiary that Guarantees the Notes.

''*Taxes*'' has the meaning given to such term under ''*Withholding Taxes''*.

''*Tax Sharing Agreement*'' means any tax sharing or profit and loss pooling or similar agreement with customary or arm's-length terms entered into with any Parent or Unrestricted Subsidiary, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof and of the Indenture.

''*Temporary Cash Investments*'' means any of the following:

(1) any investment in

(a) direct obligations of, or obligations Guaranteed by, (i) the United States of America, (ii) any European Union member state (other than Greece or Portugal), (iii) the State of Israel, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by a Covenant Party or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state, or

(b) direct obligations of any country recognized by the United States of America rated at least ''A'' by S&P or ''A-1 ''by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:

(a) any institution authorized to operate as a bank in any of the countries or member states referred to in subclause (1)(a) above, or

(b) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof,

in each case, having capital and surplus aggregating in excess of €250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least ''A'' by S&P or ''A-2'' by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Issuer, the Covenant Parties or any of their Subsidiaries), with a rating at the time as of which any Investment therein is made of ''P-2'' (or higher) according to Moody's or ''A-2'' (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, any European Union member state (other than Greece or Portugal) or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least ''BBB—'' by S&P or ''Baa3'' by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in the United States of America or a member state of the European Union (other than Greece or Portugal) eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least ''A'' by S&P or ''A-2'' by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment and/or distribution); and

(9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

"*Total Assets*" means the consolidated total assets of the Covenant Parties and the Restricted Subsidiaries as shown on most recent the consolidated combined balance sheet prepared on the basis of IFRS prior to the relevant date of determination.

"*Towers Assets*" communication masts/towers owned by HOT Mobile as part of its mobile telephony infrastructure.

"*Towers Joint Venture*" means the joint venture formed by the contribution of the Towers Assets by HOT Mobile, contribution of towers assets by another Israeli mobile telephony service provider and contribution of financing and operational expertise by an operator that results in nationwide coverage for HOT Mobile mobile telephony services network.

"*Treasury Rate*" means, as of the applicable redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519) that has become publicly available at least two (2) Business Days prior to such redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to December 15, 2016; *provided* that if the period from such redemption date to December 15, 2016 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"*U.S. GAAP*" means generally accepted accounting principles in the United States of America as in effect from time to time.

"*U.S. Government Obligations"* means securities that are (a) direct obligations (or certificates

representing an ownership interest in such obligations) of the United States of America, for the timely payment of which its full faith and credit is pledged or (b) obligations (or certificates representing an ownership interest in such obligations) of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, rated at least "*A-1*" by S&P or "*P-1*" by Moody's, and which are not callable or redeemable at the option of the issuer thereof.

"*Uniform Commercial Code*" means the New York Uniform Commercial Code.

"*Unrestricted Subsidiary*" means:

(1) any Subsidiary of a Covenant Party that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Issuer in the manner provided below); and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of a Covenant Party may designate any Subsidiary of such Covenant Party (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Issuer, any Covenant Party or any other Subsidiary of a Covenant Party which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and

(2) such designation and the Investment of such Covenant Party and the Restricted Subsidiaries in such Subsidiary complies with "*—Certain Covenants—Limitation on Restricted Payments*".

Any such designation by the Board of Directors of such Covenant Party shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of such Covenant Party giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of a Covenant Party may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that immediately after giving effect to such designation (1) no Default or Event of Default would result therefrom and (2) (x) the Issuer could Incur at least $1.00 of additional Indebtedness under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" or (y) the Consolidated Leverage Ratio would be no higher than it was immediately prior to giving effect to such designation, in each case, on a *pro forma* basis taking into account such designation. Any such designation by the Board of Directors shall be evidenced to the Trustee by

promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation or an Officer's Certificate certifying that such designation complied with the foregoing provisions.

''*Voting Stock*'' of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

''*Wholly Owned Subsidiary*'' means a Restricted Subsidiary of a Person, all of the Capital Stock of which (other than directors' qualifying shares or shares required by any applicable law or regulation to be held by a Person other than such Person or another Wholly Owned Subsidiary of such Person) is owned by such Person or another Wholly Owned Subsidiary of such Person.

BOOK-ENTRY, DELIVERY AND FORM

General

Each series of the Notes sold outside the United States pursuant to Regulation S will initially be represented by one or more global notes in registered form without interest coupons attached (the ''Regulation S Global Notes''). The Regulation S Global Notes representing the Dollar Senior Secured Notes and the Senior Notes (the ''Dollar Regulation S Global Notes'') will be deposited upon issuance with Citibank, N.A., as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC. The Regulation S Global Notes representing the Euro Senior Secured Notes (the ''Euro Regulation S Global Notes'') will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

Each series of the Notes sold within the United States to ''qualified institutional buyers'' pursuant to Rule 144A will initially be represented by one or more global notes in registered form without interest coupons attached (the ''144A Global Notes'' and, together with the Regulation S Global Notes, the ''Global Notes''). The 144A Global Notes representing the Dollar Senior Secured Notes and the Senior Notes (the ''Dollar 144A Global Notes'') will be deposited upon issuance with Citibank, N.A., as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC. The 144A Global Notes representing the Euro Senior Secured Notes (the ''Euro 144A Global Notes'') will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

The Dollar 144A Global Notes and the Dollar Regulation S Global Notes are collectively referred to herein as the ''Dollar Global Notes''. The Euro 144A Global Notes and the Euro Regulation S Global Notes are collectively referred to herein as the ''Euro Global Notes''.

Ownership of interests in the 144A Global Notes (the ''144A Book-Entry Interests'') and ownership of interests in the Regulation S Global Notes (the ''Regulation S Book-Entry Interests'' and, together with the 144A Book-Entry Interests, the ''Book-Entry Interests'') will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants. The Book-Entry Interests in the Euro Global Notes will be issued only in denominations of €100,000 and in integral multiples of €1,000 in excess thereof and the Book-Entry Interests in the Dollar Global Notes will be issued only in denominations of $200,000 and integral multiples of $1,000 in excess thereof.

The Book-Entry Interests will not be held in definitive form. Instead, DTC, Euroclear and/or Clearstream, as applicable, will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interest in the Global Notes will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or ''holders'' of Notes under each of the Indentures for any purpose.

So long as the Notes are held in global form, the common depositary for DTC, Euroclear and/or Clearstream (or their respective nominees), as applicable, will be considered the sole holders of Global Notes for all purposes under each of the Indentures. As such, participants must rely on the procedures of DTC, Euroclear and/or Clearstream, as applicable, and indirect participants must rely on the procedures of DTC, Euroclear and/or Clearstream, as applicable, and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under each of the Indentures.

Neither we, the Registrar, Citibank, N.A., as custodian for DTC nor the Trustee under each of the Indentures nor any of our respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of Definitive Registered Notes

Under the terms of each of the Indentures, owners of Book-Entry Interests will receive definitive Notes in registered form (the ''Definitive Registered Notes''):

- if DTC (with respect to the Dollar Global Notes), or Euroclear and Clearstream (with respect to the Euro Global Notes) notify the applicable Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the applicable Issuer within 120 days,
- if DTC (with respect to the Dollar Global Notes), or Euroclear or Clearstream (with respect to the Euro Global Notes) so requests following an event of default under the relevant Indenture, or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through DTC, Euroclear and/or Clearstream, as applicable, following an event of default under the applicable Indenture.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of DTC, Euroclear and/or Clearstream, as applicable, or the applicable Issuer, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in ''*Transfer Restrictions*'', unless that legend is not required by the applicable Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the Paying Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such.

We will not impose any fees or other charges in respect of the Notes, however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and/or Clearstream, as applicable.

Redemption of the Global Notes

In the event any Global Note, or any portion thereof, is redeemed, DTC, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that under existing practices of DTC, Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, DTC, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate, *provided*, *however*, that no Book-Entry Interest of less than €100,000, in the case of the Euro Global Notes, or $200,000, in the case of the Dollar Global Notes, principal amount at maturity, or less, may be redeemed in part.

Payments on Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to Euroclear and Clearstream (in the case of the Euro Global Notes) and to DTC or its nominee (in the case of the Dollar Global Notes), which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of each of the Indentures, the Issuers and the Trustee will treat the registered holder of the Global Notes (for example, DTC, Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither we, the Trustee, the Registrar nor the U.S. Paying Agent or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by DTC, Euroclear, Clearstream or any participant or indirect participant, or for maintaining,

supervising or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, or

- payments made by DTC, Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, or
- DTC, Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in ''street name''.

Currency and Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Euro Global Notes will be paid to holders of interest in such Notes (each a ''Euroclear/Clearstream Holder'' and together, the ''Euroclear/Clearstream Holders'') through Euroclear and/or Clearstream, as applicable, in euro. The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Dollar Global Notes will be paid to holders of interest in such Notes (each a ''DTC Holder'' and together, the ''DTC Holders'') through DTC in U.S. dollars.

Notwithstanding the payment provisions described above, Euroclear/Clearstream Holders may elect to receive payments in respect of the Euro Global Notes in U.S. dollars and DTC Holders may elect to receive payments in respect of the Dollar Global Notes in euro.

If so elected, a Euroclear/Clearstream Holder may receive payments of amounts payable in respect of its interest in the Euro Global Notes in U.S. dollars in accordance with Euroclear or Clearstream's customary procedures, which include, among other things, giving to Euroclear or Clearstream, as appropriate, a notice of such holder's election. All costs of conversion resulting from any such election will be borne by such Euroclear/Clearstream Holder.

If so elected, a DTC Holder may receive payment of amounts payable in respect of its interest in the Dollar Senior Secured Global Notes in euro in accordance with DTC's customary procedures, which include, among other things, giving to DTC a notice of such holder's election to receive payments in euro. All costs of conversion resulting from any such election will be borne by such DTC Holder.

Action by Owners of Book-Entry Interests

DTC, Euroclear and Clearstream have advised the Issuers that they will take any action permitted to be taken by a holder of the Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under each of the Indentures, each of DTC, Euroclear and Clearstream reserves the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

Transfers

Transfers between participants in DTC will be done in accordance with DTC rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell the Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of DTC and in accordance with the provisions of each of the Indentures.

The Global Notes will bear a legend to the effect set forth in ''*Transfer Restrictions*''. Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed in ''*Transfer Restrictions*''.

Through and including the 40th day after the later of the commencement of the Offering of the Notes and the closing of the Offering (the ''40-day Period''), beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note denominated in the same currency only if such transfer is made pursuant to Rule 144A and the transferor

first delivers to the Trustee a certificate (in the form provided in each of the Indentures) to the effect that such transfer is being made to a person who the transferor reasonably believes is a ''qualified institutional buyer'' within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under ''*Transfer Restrictions*'' and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

After the expiration of the 40-day Period, beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note denominated in the same currency without compliance with these certification requirements.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note denominated in the same currency only upon receipt by the Trustee of a written certification (in the form provided in each of the Indentures) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available).

Subject to the foregoing, and as set forth in ''*Transfer Restrictions*'', Book-Entry Interests may be transferred and exchanged as described under ''*Description of Senior Secured Notes—Transfer and Exchange*'' and ''*Description of Senior Notes—Transfer and Exchange*''. Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note of the same denomination will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it retains such a Book-Entry Interest.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under ''*Description of Senior Secured Notes—Transfer and Exchange*'' and ''*Description of Second Notes—Transfer and Exchange*'' and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in each of the Indentures) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See ''*Notice to Investors*''.

This paragraph refers to transfers and exchanges with respect to Dollar Global Notes only. Transfers involving an exchange of a Regulation S Book-Entry Interest for 144A Book-Entry Interest in a Dollar Global Note will be done by DTC by means of an instruction originating from the Trustee through the DTC Deposit/Withdrawal Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the relevant Regulation S Global Note and a corresponding increase in the principal amount of the corresponding 144A Global Note. The policies and practices of DTC may prohibit transfers of unrestricted Book-Entry Interests in the Regulation S Global Note prior to the expiration of the 40 days after the date of initial issuance of the Notes. Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Information Concerning DTC, Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of DTC, Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither we, nor the Initial Purchasers are responsible for those operations or procedures. DTC has advised the Issuers that it is:

- a limited purpose trust company organized under New York Banking Law,
- a ''banking organization'' within the meaning of New York Banking Law,
- a member of the Federal Reserve System,
- a ''clearing corporation'' within the meaning of the New York Uniform Commercial Code, and

- a ''clearing agency'' registered pursuant to the provision of Section 17A of the U.S. Securities Exchange Act of 1934, as amended (the ''U.S. Exchange Act'').

DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (that DTC's direct participants deposit with DTC). DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic book-entry transfers and pledges between direct participants' accounts. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (''DTCC''). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

Like DTC, Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and/or Clearstream is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodian relationship with a Euroclear and/or Clearstream participant, either directly or indirectly.

Because DTC, Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC, Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited. In addition, owners of beneficial interests through the DTC, Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through DTC, Euroclear or Clearstream participants.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market thereof and to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will therefore be required by DTC to be settled in immediately available funds. The Issuers expect that secondary trading in any certificated Notes will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Notes, cross-market transfers between participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its common depositary, however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and regulations and within the established deadlines of such system (Brussels time). Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes by DTC, and making and receiving payment in accordance with normal procedures for same-day funds settlement application to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the common depositary.

Because of the time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Global Note by or through a Euroclear or Clearstream participant to a participant in DTC, will be received with value on the settlement date of DTC, but will be available in the relevant Euroclear or

Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. Neither we, the Trustee, the Registrar nor the Principal Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in euro and U.S. dollars. Book-Entry Interests owned through DTC, Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of DTC, Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of DTC and Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TRANSFER RESTRICTIONS

The Notes have not been registered under the U.S. Securities Act or any other applicable securities laws, and unless so registered, the Notes may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of any U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws. The Notes are being offered, sold and issued to (i) qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A (ii) non-U.S. persons as defined in Rule 902 under the U.S. Securities Act in offshore transactions in reliance on Regulation S or (iii) if to an Israeli person, then only to a ''qualified investor'' (as defined in the First Appendix to the Israeli Securities Law) who is not an individual (a ''Qualified Israeli Investor''), who has (x) completed and signed a questionnaire regarding qualification as a Qualified Israeli Investor and delivered it to Goldman Sachs International and (y) certified that it has an exemption from Israeli withholding taxes on interest and delivered a copy of such certification to Goldman Sachs International.

By purchasing the Notes, you will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the U.S. Securities Act are used herein as defined therein):

(1) You are not an ''affiliate'' (as defined in Rule 144 under the U.S. Securities Act) of the Issuer, you are not acting on behalf of the Issuer and you (A) (i) are a ''qualified institutional buyer'' (as defined in Rule 144A under the U.S. Securities Act), (ii) are aware that the sale to you is being made in reliance on Rule 144A; and (iii) are acquiring the Notes for your own account or for the account of a qualified institutional buyer; or (B) are not a U.S. person (as defined in Regulation S under the U.S. Securities Act) (and are not purchasing the Notes for the account or benefit of a U.S. person, other than a distributor) and are purchasing the Notes in an offshore transaction pursuant to Regulation S.

(2) You understand that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that the Notes have not been and will not be registered under the U.S. Securities Act or any other applicable securities laws and that (A) if in the future you decide to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (i) for so long as the Notes are eligible for resale under Rule 144A, in the United States to a person whom you reasonably believe is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (ii) outside the United States in a transaction complying with the provisions of Regulation S under the U.S. Securities Act; (iii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (iv) to the Issuer; or (v) pursuant to another available exemption from the registration requirements of the U.S. Securities Act, subject to the Issuer's and the Trustee's right prior to any such offer, sale or transfer pursuant to this clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to them, in each case in accordance with any applicable securities laws; and (B) you will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from you or it of the resale restrictions referred to the legend below.

(3) You acknowledge that none of us, the Initial Purchasers or any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offer or sale of any of the Senior Secured Notes, other than by us with respect to the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You acknowledge that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning us and the Notes as you deemed necessary in connection with your decision to purchase any of the Senior Secured Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(4) You also acknowledge that:

(a) the Issuer and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under the paragraph two above the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Issuer and the Trustee; and

(b) each Global Note will contain a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE ''U.S. SECURITIES ACT''), THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, PLEDGED, ENCUMBERED, DISPOSED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) EXCEPT TO (A) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A OR (B) PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A ''QUALIFIED INSTITUTIONAL BUYER'' (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN ''OFFSHORE TRANSACTION'' PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTES, PRIOR TO THE DATE (THE ''RESALE RESTRICTION TERMINATION DATE'') THAT IS IN THE CASE OF RULE 144A NOTES: ONE YEAR AND IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATES OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A ''QUALIFIED INSTITUTIONAL BUYER'' AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

BY ACCEPTING THIS NOTE (OR AN INTEREST IN THE NOTES REPRESENTED HEREBY) EACH ACQUIRER AND EACH TRANSFEREE IS DEEMED TO REPRESENT, WARRANT AND AGREE THAT AT THE TIME OF ITS ACQUISITION AND THROUGHOUT THE PERIOD THAT IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH NOTES OR ANY INTEREST THERE IN IT WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF), AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (''ERISA'')), SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO

WHICH SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, (''CODE''), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE ''PLAN ASSETS'' BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A ''BENEFIT PLAN INVESTOR''), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE (''SIMILAR LAWS''), AND NO PART OF THE ASSETS USED BY IT TO ACQUIRE OR HOLD THIS SENIOR SECURED NOTE OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE OR AN INTEREST HEREIN DOES NOT AND WILL NOT CONSTITUTE OR OTHERWISE RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A NON-EXEMPT VIOLATION OF ANY SIMILAR LAWS); (2) NEITHER ISSUER NOR ANY OF ITS AFFILIATES IS A ''FIDUCIARY'' (WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR, WITH RESPECT TO A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, ANY DEFINITION OF ''FIDUCIARY'' UNDER SIMILAR LAWS) WITH RESPECT TO THE PURCHASER OR HOLDER IN CONNECTION WITH ANY PURCHASE OR HOLDING OF THE SENIOR SECURED NOTES, OR AS A RESULT OF ANY EXERCISE BY THE ISSUER OR ANY OF ITS AFFILIATES OF ANY RIGHTS IN CONNECTION WITH THE SENIOR SECURED NOTES, AND NO ADVICE PROVIDED BY THE ISSUER OR ANY OF ITS AFFILIATES HAS FORMED A PRIMARY BASIS FOR ANY INVESTMENT DECISION BY OR ON BEHALF OF THE PURCHASER AND HOLDER IN CONNECTION WITH THE NOTES AND THE TRANSACTIONS CONTEMPLATED WITH RESPECT TO THE NOTES; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHER THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE.

(c) The following legend shall also be included, if applicable:

THE FOLLOWING INFORMATION IS SUPPLIED SOLELY FOR U.S. FEDERAL INCOME TAX PURPOSES. THIS NOTE WAS ISSUED WITH ''ORIGINAL ISSUE DISCOUNT'' (''OID'') WITHIN THE MEANING OF SECTION 1273 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE''), AND THIS LEGEND IS REQUIRED BY SECTION 1275(c) OF THE CODE: U.S. HOLDERS MAY OBTAIN INFORMATION REGARDING THE AMOUNT OF OID, IF ANY, THE ISSUE PRICE, THE ISSUE DATE AND YIELD TO MATURITY BY CONTACTING ALTICE FINANCING S.A., 37, RUE D'ANVERS, L-1130 LUXEMBOURG +352 283 71 079 ATTN: CHIEF FINANCIAL OFFICER.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(1) You acknowledge that the registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to the Issuer and the registrar that the restrictions set forth herein have been complied with.

(2) You acknowledge that:

(a) The Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgments, representations and agreements set forth herein and you agree that, if any of your acknowledgments, representations or agreements herein cease to be accurate and complete, you will notify the Issuer and the Initial Purchasers promptly in writing; and

(b) if you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:

(i) you have sole investment discretion; and

(ii) you have full power to make, and make, the foregoing acknowledgments, representations and agreements.

(3) You agree that you will give to each person to whom you transfer these Notes notice of any restrictions on the transfer of the Notes.

(4) You acknowledge that the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Notes issued under Rule 144A under the U.S. Securities Act) or 40 days (in the case of Notes issued under Regulation S under the U.S. Securities Act) after the later of the closing date and the last date that the Issuer or any of its affiliates was the owner of the Notes or any predecessor of the Senior Secured Notes (the ''*Resale Restriction Period*''), and will not apply after the applicable Resale Restriction Period ends.

(5) The purchaser understands that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for the purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth hereunder and/or in the front of this Offering Memorandum under ''*Notice to European Economic Area Investors*'', ''*Notice to Certain European Investors*'', ''*Notice to Israeli Investors*'' and/or under ''*Plan of Distribution*'' or ''*Certain Employee Benefit Plan Considerations*''.

TAX CONSIDERATIONS

Luxembourg Taxation

The following discussion summarizes certain important Luxembourg taxation principles that may be relevant to you if you invest in, own, hold or dispose of the Notes. Unless otherwise indicated, all information contained in this section is based on laws, regulations, practice and decision in effect in Luxembourg at the date of this Offering Memorandum (as referred to herein, collectively, ''*Luxembourg Tax Laws*''), and as such, may be superseded after such date. Any subsequent changes to Luxembourg Tax Laws could apply retroactively and could affect the continued accuracy of this summary. This summary does not purport to be a comprehensive description of all Luxembourg Tax Laws and Luxembourg tax considerations that may be relevant to a decision to invest in, own, hold, or dispose of the Notes and is not intended as tax advice to any particular investor or potential investor in the Notes. You should consult your own tax advisors about the tax consequences of investing in, owning, holding or disposing of the Notes (including with respect to receiving interest on and redeeming the Notes). This summary does not describe any tax consequences arising under the laws of any state, locality or other taxing jurisdiction other than Luxembourg.

The residence concept used below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg Tax Laws and/or concepts only. Any reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate Noteholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Luxembourg tax residency of the Noteholders

A Luxembourg non-resident Noteholder will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of their entitlements thereunder.

Withholding Tax

Under Luxembourg income tax law currently applicable there is no withholding tax on the payment of interest, principal, premium or (to the extent the transaction is conducted on an arms-length basis) accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes.

a. the Luxembourg laws of June 21, 2005 implementing the Council directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (the ''EU Savings Directive'') and several agreements concluded with certain dependent or associated territories (the ''Agreements'') providing for the possible application of a withholding tax (35% from July 1, 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called ''Residual Entities'' as construed by article 4.2 of the EU Savings Directive) where the Issuers appoint a paying agent established in Luxembourg within the meaning of the EU Savings Directive (see section ''EU Savings Directive'' below) or Agreements apply; and

b. the application of the Luxembourg law of December 23, 2005 regarding Luxembourg resident individuals (acting within the context of their private wealth) which introduced a 10% final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of June 21, 2005 implementing the EU Savings Directive).

In each case described here above, responsibility for the withholding tax will be assumed by the Luxembourg paying agent.

Other Withholding Taxes

If interest is paid by an entity that is not considered a Luxembourg entity, other withholding taxes could apply. A company that is considered an Israeli resident for tax purposes paying interest on a note denominated in a foreign currency to an individual who is a non-Israeli resident is required to withhold tax at a rate of 25%, except for interest paid to ''material shareholders,'' who are subject to tax according to their marginal tax rate (currently 48%). ''Material shareholders'' for these purposes are shareholders who hold directly or indirectly, including with others, at least 10% of any means of control in the company. Taxes to be withheld from interest paid to non-Israeli residents by an Israeli company may be reduced under an applicable tax treaty.

A company that is an Israeli for tax purpose paying interest on a similar note to a corporate entity will be subject to withholding tax in accordance with the applicable corporate tax rate for the year in which the interest is paid. The current corporate tax rate in Israel is 25%.

In this section, ''Interest'', ''Residual Entities'' and ''Paying Agent'' have the meaning given thereto in the laws of June 21, 2005 (or the relevant treaties). ''Interest'' will include accrued or capitalized interest at the sale, repayment or redemption of the Notes. ''Residual Entities'' include, in general, all entities established in the EU and certain Territories (as defined below) other than legal entities, UCITS, and entities taxed as enterprises. ''Paying agent'' is defined broadly for this purpose and, in the context of the Notes, means any economic entity established in Luxembourg which pays interest on the Notes to, or ascribes the payment of such interest to or for the immediate benefit of the beneficial owner or the Residual Entity whether the entity is, or acts on behalf of, the Issuers or is instructed by, the beneficial owner, or the Residual Entity, as the case may be, to collect such payment of interest.

EU Savings Directive

On June 3, 2003, the Council of the European Union adopted the EU Savings Directive. According to the EU Savings Directive, effective as from July 1, 2005, Member States are required to provide to the tax authorities of another Member State details of payment of interest or other similar income within the meaning of the EU Savings Directive made by a paying agent established within its jurisdiction to an individual resident or certain entities called ''Residual Entities'' (within the meaning of the EU Savings Directive) established in that other Member State or in a Territory (as defined below).

However, for a transitional period, Luxembourg is permitted to apply a withholding tax system whereby if a beneficial owner (within the meaning of the EU Savings Directive) does not opt for the exchange of information or does not provide specific tax certificate reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The rate of withholding is 35% since July 1, 2011. The transitional period is to terminate at the end of the first full fiscal year following the agreement by certain countries to the exchange of information in relation to such payments.

Also with effect from July 1, 2005, a number of non-E.U. countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino) and certain dependent or associated territories (including Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Curaçao, Saba, Sint Eustatius, Bonaire, St. Maarten, Aruba, Cayman Islands, Turks and Caicos Islands and Anguilla) (the ''Territories'') have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual resident or a Residual Entity established in a Member State. In addition, Luxembourg has entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) in Luxembourg to, or collected by such a paying agent for, an individual resident or a Residual Entity (within the meaning of the EU Savings Directive) established in one of those Territories.

Investors should note that the E.U. Commission has announced proposals to amend the EU Savings Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the EU Savings Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an E.U. resident individual, and (ii) a wider range of income similar to interest.

Taxation of the Noteholders

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg, or non-resident Noteholders that have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, must, for income tax purposes, include any interest paid or accrued in their taxable income. Specific exemptions may be available for certain tax payers benefiting from a particular status.

Luxembourg resident individuals

A Luxembourg resident individual Noteholder acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue discounts under the Notes, except if a final withholding tax has been levied on such payments. See paragraph (ii) of ''—*Withholding Tax*''.

Luxembourg resident individual Noteholders acting in the course of the management of a professional or business undertaking to which the Notes are attributable, may have to include any interest received or accrued, as well as any gain realized on the sale or disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes (income tax levied at progressive rates and municipal business tax). For Luxembourg resident individuals receiving interest as income from assets used in their professional capacity, the 10% withholding tax levied is credited against their final tax liability. The same tax treatment applies to non-resident Noteholders who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable.

Luxembourg corporate residents

Luxembourg corporate Noteholders must include any interest received or accrued, as well as any gain realized on the sale or disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes (corporate income tax and municipal business tax).

Luxembourg corporate residents benefiting from a special tax regime

Luxembourg corporate resident Noteholders that benefit from a special tax regime, such as, for example, (i) undertakings for collective investment subject to the amended law December 17, 2010, (ii) specialized investment funds subject to the law dated February 13, 2007 or (iii) family wealth management companies subject to the law dated May 11, 2007, are exempt from income tax in Luxembourg except for an annual subscription tax (*tax d'abonnement*) and thus income derived from the Notes, as well as gains realized thereon, are not subject to Luxembourg income taxes.

Taxation of non-resident Noteholders

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg to which the Notes are attributable are not liable to any Luxembourg income tax, whether they receive payments of principal or interest (including accrued but unpaid interest) or realize capital gains upon redemption, repurchase, sale or exchange of any Notes. Noteholders who are non-residents of Luxembourg and who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable have to include any interest received or accrued, as well as any capital gain realized on the sale or disposal of the Notes in their taxable income for Luxembourg income tax assessment purposes.

Net Wealth Tax

Individuals

An individual Noteholder, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

Corporations

Corporate Luxembourg resident Noteholders or non-resident Noteholders which maintain a permanent establishment, fixed place of business or a permanent representative in Luxembourg to which the Notes or income thereon are attributable, are subject to an annual Luxembourg net wealth tax on such Notes levied at a rate of 0.5% of their value, except if the Noteholder is (i) a resident or non-resident individual

taxpayer, (ii) an undertaking for collective investment subject to the amended law December 17, 2010, (iii) securitization vehicles governed by the law of March 22, 2004 on securitization (as amended), (iv) a company governed by the law of June 15, 2004 on venture capital vehicles (as amended), (v) a specialized investment fund subject to the law of February 13, 2007 (as amended) or (vi) a family wealth management company subject to the law of May 11, 2007.

Other Taxes

Registration taxes and stamp duties

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, redemption or repurchase of the Notes. There is no obligation to register the Notes in Luxembourg. However, a registration duty may apply (i) upon voluntary registration of the Notes in Luxembourg, (ii) in the case of legal proceedings before Luxembourg courts or (iii) in the case that the documents relating to the Notes issuance must be produced before an official Luxembourg authority (''*autorité constitutée*'').

Value added tax

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuers, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services. Due to the activity of the Issuers, this value-added tax could be a final cost. Foreign value-added tax that might be payable in respect of fees charged for certain services rendered to the Issuers could also be a final cost.

Inheritance tax and gift tax

No estate or inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg at the time of his death for inheritance tax purposes.

Gift tax may be due on a gift or donation of Notes in instances where the gift is recorded in a deed passed in front of a Luxembourg notary or otherwise registered in Luxembourg.

Certain U.S. Federal Income Tax Considerations

Pursuant to Internal Revenue Service (''IRS'') Circular 230, you are hereby informed that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on any taxpayer under the U.S. Internal Revenue Code of 1986, as amended (the ''Code''). Such description was written in connection with the marketing by the Issuers of the Notes. Taxpayers should seek advice based on the taxpayers' particular circumstances from an independent tax advisor.

The following is a description of certain U.S. federal income tax considerations of the acquisition, ownership, and disposition of the Notes by a U.S. Holder thereof as defined below. This description only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- banks or other financial institutions;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- tax-exempt organizations;

- persons that will own the Notes through partnerships or other pass-through entities;
- dealers or traders in securities or currencies;
- U.S. Holders that have a functional currency other than the U.S. dollar;
- certain former citizens and long-term residents of the United States;
- U.S. Holders that use a mark-to-market method of accounting; or
- U.S. Holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes.

Moreover, this description does not address the Medicare tax on net investment income, the U.S. federal estate and gift tax or the alternative minimum tax consequences of the acquisition, ownership, and disposition of the Notes and does not address the U.S. federal income tax treatment of holders that do not acquire the Notes as part of the initial distribution at their initial issue price (generally, in the case of the Dollar Senior Secured Notes, the Euro Senior Secured Notes or the Senior Notes, the first price to the public at which a substantial amount of the Dollar Senior Secured Notes, the Euro Senior Secured Notes or the Senior Notes, as applicable, is sold for money) and assumes that the Notes will be treated as debt for U.S. federal income tax purposes. If the Notes are not treated as debt for U.S. federal income tax purposes, the tax consequences of acquiring, owning and disposing of the Notes could be substantially different from those described herein. Each prospective purchaser should consult its own tax advisor with respect to the U.S. federal, state, local and non-U.S. tax consequences of acquiring, holding and disposing of the Notes.

This description is based on the Code, U.S. Treasury Regulations promulgated thereunder, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change or differing interpretations, possibly with retroactive effect, which could affect the tax consequences described herein. No opinion of counsel to the Issuers or the holders or ruling from the Internal Revenue Service (the ''IRS'') has been or will be given with respect to any of the considerations discussed herein. No assurances can be given that the IRS would not assert, or that a court would not sustain, a position different from any of the tax considerations discussed below.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is:

- a citizen or individual resident of the United States;
- a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any State thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (1) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

If a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

Redemptions and Additional Amounts

In certain circumstances (see, e.g. ''*Description of Senior Secured Notes—Interest*, ''*Description of Senior Secured Notes—Optional Redemption*'', ''*Description of Senior Secured Notes—Change of Control*'', ''*Description of Senior Secured Notes—Withholding Taxes*'', ''*Description of Senior Secured Notes—Redemption for Changes in Withholding Taxes*'', ''*Description of Senior Secured Notes—Escrow Proceeds; Special Mandatory Redemption*'', ''*Description of Senior Secured Notes—Minority Shareholder Option Exercises*'', ''*Description of Senior Notes—Interest*'', ''*Description of Senior Notes—Optional Redemption*'', ''*Description of Senior Notes—Change of Control*'', ''*Description of Senior Notes—Withholding Taxes*'', ''*Description of Senior Notes—Redemption for Changes in Withholding Taxes*'', ''*Description of Senior Notes—Escrow Proceeds; Special Mandatory Redemption*'' and

''*Description of Senior Notes—Minority Shareholder Option Exercises*''), the Issuers may be obligated to make payments in excess of stated interest (i.e. in the case of the Dollar Senior Secured Notes, 7.875%, in the case of the Euro Senior Secured Notes, 8.000%, and in the case of the Senior Notes, 9.875%) and the adjusted issue price of the Notes and/or redeem the Notes in advance of their stated maturity. The Issuers intend to take the position that the Notes should not be treated as contingent payment debt instruments because of, among other things, the possibility of such payments. This position is based in part on assumptions, as of the date of issuance of the Notes, regarding the likelihood that such payments will have to be paid and/or relating to the expected yield to maturity of the Notes. Assuming such position is respected, any such amounts paid to a U.S. Holder pursuant to any repurchase or redemption would be taxable as described below in ''*—Sale, Exchange or Disposition by a U.S. Holder*'' and any payments of Additional Amounts in amount in excess of stated interest (as described above) and the adjusted price issue price would be taxable as additional ordinary income when received or accrued, in accordance with such holder's method of accounting for U.S. federal income tax purposes. An Issuer's position is binding on a U.S. Holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury Regulations. The IRS, however, may take a position contrary to the Issuer's position, which could affect the timing and character of a U.S. Holder's income with respect to the Notes. U.S. Holders should consult their tax advisors regarding the potential application to the Notes of the contingent payment debt instrument rules and the consequences thereof. This discussion assumes that the Notes are not treated as contingent payment debt instruments.

U.S. Holders

Payments of Stated Interest

Stated interest paid on the Notes (i.e., in the case of the Dollar Senior Secured Notes, 7.875%, in the case of the Euro Senior Secured Notes, 8.000%, and in the case of the Senior Notes, 9.875%) (including Additional Amounts and any non-U.S. taxes withheld on payments of such stated interest or Additional Amounts) will generally be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Interest (including original issue discount (''OID''), if any, as described below) included in a U.S. Holder's gross income with respect to the Notes will be treated as foreign source income for U.S. federal income tax purposes. The limitation on non-U.S. taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific ''baskets'' of income. For this purpose, interest should generally constitute ''passive category income'', or in the case of certain U.S. Holders, ''general category income''. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits.

With respect to the Euro Senior Secured Notes, stated interest paid in euros will be included in a U.S. Holder's gross income in an amount equal to the U.S. dollar value of the euros, including the amount of any withholding tax thereon, regardless of whether the euros are converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the euros received. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the portion of the accrual period within each taxable year in the case of a partial accrual period) or the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date the payment is received differs from the rate used in translating the accrual of that interest. The amount of foreign currency gain or loss to be recognized by such U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the euro interest payment (determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above) regardless of whether the payment is converted to U.S. dollars. This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense.

Foreign currency gain or loss generally will be U.S. source provided that the residence of a taxpayer is considered to be the United States for purposes of the rules regarding foreign currency gain or loss.

Original Issue Discount

A Note may be treated as issued with OID for U.S. federal income tax purposes. A Note will be treated as having been issued with OID for U.S. federal income tax purposes if its stated principal amount exceeds its issue price by at least the ''OID de minimis amount''. The OID de minimis amount equals 1/4 of 1% of the stated principal amount of the Note multiplied by the number of complete years from its issue date to maturity.

If you are a U.S. Holder and a Note is issued with OID you will generally be required to include OID in income before you receive the associated cash payment, regardless of your accounting method for tax purposes. The amount of OID with respect to a Note you must include in income is the sum of the ''daily portions'' of the OID for the Note for each day during the taxable year (or portion of the taxable year) in which you held the Note. The daily portion is determined by allocating a pro rata portion of the OID for each day of the accrual period. An accrual period may be of any length and the accrual periods may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first day of an accrual period or on the final day of an accrual period. The amount of OID allocable to an accrual period is equal to the difference between (1) the product of the ''adjusted issue price'' of the Note at the beginning of the accrual period and its yield to maturity (computed generally on a constant yield method and compounded at the end of each accrual period, taking into account the length of the particular accrual period) and (2) the amount of any stated interest (as described above under ''—Payments of Stated Interest'') allocable to the accrual period. The ''adjusted issue price'' of a Note at the beginning of any accrual period is the sum of the issue price of the Note plus the amount of OID allocable to all prior accrual periods reduced by any payments on the Note that were not stated interest (as described above under ''—Payments of Stated Interest'').

Under these rules, you will generally have to include in income increasingly greater amounts of OID in successive accrual periods. Under applicable U.S. Treasury Regulations, a holder of a Note with OID may elect to include in gross income all interest that accrues on the Note using the constant yield method described above. Once made with respect to the Note, the election cannot be revoked without the consent of the IRS. If you are a holder considering an election under these rules you should consult your tax advisor.

U.S. Holders may obtain information regarding the amount of OID, if any, the issue price, the issue date and yield to maturity by contacting Altice Financing S.A., 37, rue d'Anvers, L-1130 Luxembourg +352 283 71 079 attn: Chief Financial Officer.

The rules regarding OID are complex. U.S. Holders are urged to consult their own tax advisors regarding the application of these rules to their particular situations.

Any OID on a Euro Senior Secured Note generally will be determined for any accrual period in euros and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or disposition of such a Euro Senior Secured Note), a U.S. Holder generally will recognize foreign currency gain or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above. Holders are urged to consult their own tax advisors regarding the interplay between the application of the OID and foreign currency exchange gain or loss rules.

Sale, Exchange or Disposition by a U.S. Holder

A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. dollar cost increased by the amount of any OID previously included in income and decreased by payments other than stated interest (as described above under ''Payments of Stated Interest'') made with respect to the Note.

A U.S. Holder generally will recognize capital gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of a Note equal to the difference, if any, between the amount realized on the sale, exchange, redemption, retirement or other disposition of the Note (less any amounts attributable to accrued but unpaid interest, which will be subject to tax in the manner described above under ''—Payments of Stated Interest'' to the extent not previously so taxed), and the U.S. Holder's adjusted

tax basis in the Note. If a U.S. Holder purchases a Euro Senior Secured Note with euros, the U.S. dollar cost of the Euro Senior Secured Note will generally be the U.S. dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. The amount realized upon the disposition of a Euro Senior Secured Note will generally be the U.S. dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date. However, if the Euro Senior Secured Note is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) should determine the U.S. dollar value of the cost of or amount received on the Euro Senior Secured Note, as applicable, by translating the amount paid or received at the spot rate of exchange on the settlement date of the purchase or disposition, as applicable. The election available to accrual basis U.S. Holders in respect of the purchase and disposition of Euro Senior Secured Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Subject to the foreign currency rules discussed below, any gain or loss recognized on the sale, exchange, retirement, or other disposition of a Note will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year as of the date of disposition. Long-term capital gain of a non-corporate U.S. Holder is generally taxed at preferential rates. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any gain or loss recognized on the sale or other disposition of a Note generally will be treated as income from sources within the United States or loss allocable to income from sources within the United States.

Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of a Euro Senior Secured Note will generally be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in foreign currency exchange rates during the period in which the U.S. Holder held such Euro Senior Secured Note. Such foreign currency gain or loss will equal the difference between (i) the U.S. dollar value of the U.S. Holder's euro purchase price for the Euro Senior Secured Note calculated at the spot rate of exchange on the date of the sale, exchange, retirement or other disposition and (ii) the U.S. dollar value of the U.S. Holder's euro purchase price for the Euro Senior Secured Note calculated at the spot rate of exchange on the date of purchase of the Euro Senior Secured Note. If the Euro Senior Secured Note is traded on an established securities market, with respect to a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder), such foreign currency gain or loss will equal the difference between (x) the U.S. dollar value of the U.S. Holder's euro purchase price for the Euro Senior Secured Note calculated at the spot rate of exchange on the settlement date of the disposition and (y) the U.S. dollar value of the U.S. Holder's euro purchase price for the Euro Senior Secured Note calculated at the spot rate of exchange on the settlement date of the purchase of the Euro Senior Secured Note. The realization of any foreign currency gain or loss, including foreign currency gain or loss with respect to amounts attributable to accrued and unpaid stated interest and any OID, will be limited to the amount of overall gain or loss realized on the disposition of the Euro Senior Secured Notes.

Exchange of Amounts in Other than U.S. Dollars

If a U.S. Holder receives euros as interest on a Euro Senior Secured Note or on the sale, exchange, retirement or other disposition of a Euro Senior Secured Note, such U.S. Holder's tax basis in the euros will equal the U.S. dollar value when the interest is received or at the time of the sale, exchange, retirement or other disposition. If a U.S. Holder purchased a Euro Senior Secured Note with previously owned non-U.S. currency, gain or loss will be recognized in an amount equal to the difference, if any, between the U.S. Holder's tax basis in such currency and the spot rate on the date of purchase. Any such gain or loss generally will be treated as ordinary income or loss from sources within the United States provided that the residence of the U.S. Holder is considered to be the United States for purposes of the rule governing foreign currency transactions.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in ''reportable transactions'' (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on IRS Form 8886. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Euro Senior Secured Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Euro Senior Secured Notes, or any related transaction, including without limitation, the disposition of any

non-U.S. currency received as interest or as proceeds from the sale, exchange, retirement or other disposition of the Euro Senior Secured Notes.

U.S. Backup Withholding Tax and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments of principal of, and interest (including accruals of OID, if any) on, and to proceeds from the sale or disposition of Notes that are held by U.S. Holders. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman (and certain subsidiaries thereof), on a Note to a U.S. Holder, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman (and certain subsidiaries thereof), of principal and interest (including OID, if any) and proceeds of a sale or disposition to a holder of a Note that is not a U.S. person are generally subject to information reporting, but will not be subject to backup withholding tax if an appropriate certification is timely provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS and furnishing any required information in a timely manner.

Certain U.S. Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in custodial accounts maintained by certain financial institutions). U.S. Holders are urged to consult their own tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the Notes.

FATCA

Legislation referred to as the Foreign Account Tax Compliance Act (''FATCA'') generally may impose withholding at a rate of 30% on payments made to any foreign entity on debt obligations generating U.S. source interest or certain other debt obligations generating non-U.S. source interest issued by a foreign financial institution entering into certain agreements with the IRS to the extent such payments are attributable to U.S. source income, unless the foreign entity receiving such payments complies with various U.S. information reporting and/or due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with such foreign entity). These rules will begin to phase in starting on January 1, 2014, but withholding on certain payments, including on debt obligations generating non-U.S. source interest, will not occur before 2017. Under the proposed regulations, however, the new withholding tax rules under FATCA will not apply to payments made on, or gross proceeds from sales or dispositions (including redemptions) of, debt instruments that are outstanding on January 1, 2013. Accordingly, even if the withholding under FATCA were otherwise potentially applicable to payments on or with respect to a Note, such withholding will not apply to those payments if the grandfathering under the proposed regulations is adopted in the final regulations. Nevertheless, if an Issuer is treated as a foreign financial institution for purposes of FATCA, payments on a Note, and gross proceeds from sales or dispositions (including redemptions) may become subject to the withholding tax rules under FATCA starting January 1, 2017 if the Note is modified more than six months after the date final regulations define a ''foreign passthru payment''. If withholding is required with respect to payments on a Note or interests therein in order for the relevant payor to comply with FATCA, holders and beneficial owners of the Note will not be entitled to receive any additional amounts to compensate them for such withholding. The IRS's guidance with respect to these rules is only preliminary, and the scope of these rules remains unclear and potentially subject to material changes. Holders should consult their tax advisors regarding the possible implications of this legislation on their investment in a Note.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Notes. Prospective purchasers of the Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

CERTAIN EMPLOYEE BENEFIT PLAN CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (''ERISA''), imposes certain fiduciary standards and certain other requirements on employee benefit plans subject to ERISA, including entities such as collective investment funds, certain insurance company separate accounts, certain insurance company general accounts, and entities whose underlying assets are treated as being subject to ERISA (collectively, ''ERISA Plans''), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment should be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment, including, but not limited to, the matters discussed above under ''*Risk Factors*'' and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Notes or any interest therein.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the ''Code''), prohibit certain transactions involving the assets of an ERISA Plan, as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts and Keogh plans (together with ERISA Plans, ''Plans''), and certain persons (referred to as ''parties in interest'' under ERISA or ''disqualified persons'' under the Code) having certain relationships to Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code, and the transaction may have to be rescinded.

Governmental plans, certain church plans and certain non-U.S. plans, while not subject to the fiduciary responsibility or prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non-U.S. or other laws or regulations (such as the prohibited transaction rules of Section 503 of the Code) that are substantially similar to the foregoing provisions of ERISA or the Code (''Similar Laws'').

Each of us, the Initial Purchasers, the Trustee and certain other parties, or their respective affiliates, may be the sponsor of, or Fiduciary to, one or more Plans. Because such parties may receive certain benefits in connection with the sale of the Notes to such Plans, the purchase of such Notes using the assets of a Plan over which any of such parties is the sponsor or a Fiduciary might be deemed to be a violation of the prohibited transaction rules of ERISA or Section 4975 of the Code for which no exemption may be available. Accordingly, the Notes may not be purchased using the assets of any Plan if any of us, the Initial Purchasers, the Trustee or their respective affiliates is the sponsor of or Fiduciary to, such Plan.

In addition, if the Notes are acquired by a Plan with respect to which we, the Initial Purchasers, the Trustee, any holder of the Notes or any of their respective affiliates is a party in interest or a disqualified person, other than a sponsor of, or Fiduciary to, such Plan, such transaction could be deemed to be a direct or indirect prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code. In addition, if a party in interest or disqualified person with respect to a Plan owns or acquires a 50% or more beneficial interest in the Issuers, the acquisition or holding of the Notes by or on behalf of such Plan could be considered to constitute a prohibited transaction. Moreover, the acquisition or holding of the Notes or other indebtedness issued by the Issuers by or on behalf of a party in interest or disqualified person with respect to a Plan that owns or acquires an equity interest in the Issuers also could give rise to a prohibited transaction. Certain exemptions from the prohibited transaction provisions of ERISA and Section 4975 of the Code could be applicable, however, to a Plan's acquisition of a Note depending in part upon the type of Fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Exemption (''PTE'') 84-14, regarding transactions effected by a ''qualified professional asset manager''; PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 95-60, regarding investments by insurance company general accounts and PTE 96-23, regarding investments by certain ''in-house asset managers;''. In addition to the class exemptions listed above, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide a statutory prohibited transaction exemption for transactions between a Plan and a person or entity that is a party in interest to such Plan solely by reason of providing services to the Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Plan

involved in the transaction), provided that the Plan receives no less, and pays no more than ''adequate consideration'' (within the meaning of Section 408(b)(17) of ERISA and Section 4975(f)(10) of the Code) in connection with the transaction. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might not cover all acts which might be construed as prohibited transactions.

EACH ACQUIRER AND EACH TRANSFEREE OF A NOTE OR ANY INTEREST THEREIN WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE AT THE TIME OF ITS ACQUISITION AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTES OR ANY INTEREST THEREIN, THAT (1) EITHER (A) IT IS NOT, AND IS NOT ACTING ON BEHALF OF, A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY SIMILAR LAWS, AND NO PART OF THE ASSETS TO BE USED BY IT TO ACQUIRE OR HOLD SUCH NOTES OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTES OR ANY INTEREST THEREIN DOES NOT AND WILL NOT CONSTITUTE OR OTHERWISE RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH, OR NON-U.S. PLAN, A NON-EXEMPT VIOLATION OF ANY SIMILAR LAWS); AND (2) NEITHER ISSUER NOR ANY OF ITS AFFILIATES IS A FIDUCIARY (WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR, WITH RESPECT TO A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, ANY DEFINITION OF ''FIDUCIARY'' UNDER SIMILAR LAWS) WITH RESPECT TO THE PURCHASER OR HOLDER IN CONNECTION WITH ANY PURCHASE OR HOLDING OF THE NOTES, OR AS A RESULT OF ANY EXERCISE BY THE ISSUER OR ANY OF ITS AFFILIATES OF ANY RIGHTS IN CONNECTION WITH THE NOTES, AND NO ADVICE PROVIDED BY THE ISSUER OR ANY OF ITS AFFILIATES HAS FORMED A PRIMARY BASIS FOR ANY INVESTMENT DECISION BY OR ON BEHALF OF THE PURCHASER AND HOLDER IN CONNECTION WITH THE NOTES AND THE TRANSACTIONS CONTEMPLATED WITH RESPECT TO THE NOTES; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER SUCH NOTES OR ANY INTEREST THEREIN OTHER THAN TO AN ACQUIRER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTE.

WE, THE INITIAL PURCHASERS AND THE TRUSTEE, AND THEIR RESPECTIVE AFFILIATES, SHALL BE ENTITLED TO CONCLUSIVELY RELY UPON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATIONS, WARRANTIES AND AGREEMENTS BY ACQUIRERS AND TRANSFEREES OF ANY NOTES WITHOUT FURTHER INQUIRY. THE ACQUIRER AND ANY FIDUCIARY CAUSING IT TO ACQUIRE AN INTEREST IN ANY NOTES AGREES TO INDEMNIFY AND HOLD HARMLESS THE ISSUER, THE INITIAL PURCHASERS AND THE TRUSTEE, AND THEIR RESPECTIVE AFFILIATES, FROM AND AGAINST ANY COST, DAMAGE OR LOSS INCURRED BY ANY OF THEM AS A RESULT OF ANY OF THE FOREGOING REPRESENTATIONS AND AGREEMENTS BEING OR BECOMING FALSE.

ANY PURPORTED ACQUISITION OR TRANSFER OF ANY NOTE OR BENEFICIAL INTEREST THEREIN TO AN ACQUIRER OR TRANSFEREE THAT DOES NOT COMPLY WITH THE REQUIREMENTS DESCRIBED HEREIN SHALL BE NULL AND VOID *AB INITIO*.

It should be noted that an insurance company's general account may be deemed to include assets of Plans under certain circumstances, e.g., where a Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the United States Supreme Court *in John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Notes with assets of its general account should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, Section 401(c) of ERISA and the U.S. Department of Labor regulation at 29 C.F.R. Section 2550.401c-1.

A fiduciary of an ERISA Plan or other employee benefit plan that is subject to Similar Laws, prior to investing in the Notes or any interest therein, should take into account, among other considerations, whether the fiduciary has the authority to make the investment; the composition of the plan's portfolio with respect to diversification by type of asset; the plan's funding objectives; the tax effects of the investment; and whether, under the general fiduciary standards of ERISA or other applicable laws, including investment prudence and diversification, an investment in the Notes or any interest therein is appropriate for the plan, taking into account the plan's particular circumstances and all of the facts and

circumstances of the investment, including such matters as the overall investment policy of the plan and the composition of the plan's investment portfolio.

The sale of any Note or any interest therein to a Plan or a governmental, church or non-U.S. plan that is subject to any Similar Laws is in no respect a representation by us, the Initial Purchasers or the Trustee, or any of their respective affiliates, that such an investment meets all relevant legal requirements with respect to investments by such plans generally or any particular such plan; that the prohibited transaction exemptions described above, or any other prohibited transaction exemption, would apply to such an investment by such plan in general or any particular such plan; or that such an investment is appropriate for such plan generally or any particular such plan.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Memorandum, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

Any Plan or employee benefit plan not subject to ERISA or Section 4975 of the Code, and any fiduciary thereof, proposing to invest in the Notes or any interest therein should consult with its legal advisors regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA, Section 4975 of the Code and any Similar Laws, to such investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of any applicable requirement of ERISA, Section 4975 of the Code or Similar Laws.

LIMITATION ON VALIDITY AND ENFORCEABILITY OF THE GUARANTEES AND THE SECURITY INTERESTS

Set forth below is a summary of certain limitations on the enforceability of the Guarantees and the Collateral in each of the jurisdictions in which the Issuers and the Guarantors are organized.

Luxembourg

The conditions to be satisfied by the granting of guarantees/security interests relate to (i) corporate power, (ii) corporate authority, and (iii) corporate benefit. These rules are derived from general principles and must be applied to specific circumstances, which have to be analyzed on a case by case basis.

Corporate power

Limits on corporate power can either be imposed (i) by law or (ii) by the articles of association of the company.

1. Limitations imposed by law.

   Pursuant to the Luxembourg Civil Code, a company is incorporated with a view to participate in the profits (and the losses) which may arise therefrom. The goal to share the profits is an essential element of every company and therefore, a purely free (or gratuitous) act, without consideration, may be outside the scope of the activities of a company as contemplated by law. A company may however carry out gratuitous acts whenever these acts are accomplished with a view to the realization, directly or indirectly, of the company's corporate objective. It is normally understood that except in exceptional circumstances, an intragroup security is a type of act which may serve the purpose of realizing a profit.

   Thus, it is only in exceptional circumstances when there is no reasonable indirect potential benefit of, or a motivated interest for, a proposed guarantee/security to be given by a company, that the validity of such a guarantee/security interest could be challenged for lack of any interest by the guarantor in providing the guarantee/security interest.

   Further to this general legal restriction, additional limitations are imposed by specific laws, such as the prohibition to exercise a financial activity without a specific authorization (which in the case of a Luxembourg company, does not apply to financial activities within a group of companies) or the limitation on financial assistance to shareholders in the case of subscription or purchase of shares of the guarantor.

2. Limitations imposed by the articles of association.

   The provision of guarantees or security interest by a company must be within the limits of the object clause of its articles of association.

   Should the provision of a guarantee or security by a Luxembourg company be considered to exceed the corporate objective as expressed in the articles of association, the company is still bound by such action, unless there is evidence that the beneficiary of such acts knew that the acts exceeded the corporate objective or that the beneficiary could not, in light of the circumstances, have been unaware of that fact.

Corporate authority

When a Luxembourg company grants guarantees/security interests, applicable corporate procedures normally entail that the decision be approved by a board resolution or by decision of delegates that have been appointed for such purpose.

Corporate benefit

The third condition for a guarantee/security interest to be granted by a Luxembourg company is that the proposed action by the company must be ''in the corporate interest of the company'', which words are a translation of the French *intérêt social*, an equivalent term to the English legal concept of corporate benefit. The concept of ''corporate interest'' is not defined by law, but has been developed by doctrine and court precedents and may be described as being ''the limit of acceptable corporate behavior''. Whereas the previous discussions regarding the limits of corporate power are based on objective criteria (provisions of law and of the articles of association), the concept of corporate benefit requires a

subjective judgment. In that context, the concept of a group of companies may be relevant, and while it should first be analyzed whether a transaction is in the best interest of the company on a standalone basis, it should also be examined whether the transaction is justified in the light of the interest at the level of the group, which may result in a benefit for the guarantor.

In general terms, group interest may justify the issue of a guarantee or the granting of security in favor of a parent company (upstream guarantee) or a sister company (cross-stream guarantee), under the following circumstances:

- the proposed action must be justified on the basis of a common economical, social, or financial policy applicable throughout the whole group;
- the existence of a group should be evidenced through capital links; or
- the proposed action must not (i) be without any consideration, or alternatively (ii) break up the balance between the undertakings of the various group companies.

To the extent that all companies of the group are asked to bear in a similar way the burden of guarantees or security given for the benefit of the other group company or companies in an equal way, the obligation undertaken by a group company for the benefit of other group companies may be justified. Similarly, if a group company cannot exist outside of the group and is dependent on the group, assistance to other group companies should ultimately result in a benefit for such company. The limit of reasonable corporate behavior is reached when the transaction is exclusively in the interest of the parent company or the other companies of the group, without any benefit, direct or indirect, for the Luxembourg company granting the guarantee.

However, the failure to comply with the corporate benefit requirement will typically result in liability for the directors or managers of the guarantor concerned.

There is a limited risk that the directors or managers of the Luxembourg company be held liable if, *inter alia*:

- the guarantee/security interest so provided would materially exceed the (direct or indirect) benefit deriving from the secured obligations for the Luxembourg company, or
- the Luxembourg company derives no personal benefit or obtains no direct or indirect consideration for the guarantee/security interest granted; or
- the commitment of the Luxembourg company exceeds its financial means.

In addition to any criminal and civil liability incurred by the directors or managers of the Luxembourg company, the guarantee/security interest could itself be held unenforceable, if it is held that it is contrary to public policy (*ordre public*).

The above analysis is slightly different within a group of companies where a group interest (*intérêt du groupe*) exists. The existence of a group interest would prevent the guarantee/security interest from falling foul of the above constraints. In order for a group interest to be recognized, the following cumulative criteria must be met and proven:

- the ‘‘assisting’’ company must receive some benefit, or there must be a balance between the respective commitments of all the affiliates;
- the guarantee must not exceed the assisting company's financial means;
- the companies involved must form part of a genuine group operating under a common strategy aimed at a common objective; and
- the assistance must be granted for purposes of promoting a common economic, social and financial interest determined in accordance with policies applicable to the entire group.

The criteria mentioned above have to be applied on a case-by-case basis and a subjective fact-based judgment is required to be made by the directors or managers of the Luxembourg guarantor.

As a result, the guarantees (upstream and cross-stream) granted by a Luxembourg company are subject to certain limitations, which usually take the form of a general limitation language, which is inserted in the relevant transaction document(s) and which covers the aggregate obligations and exposure of the relevant Luxembourg assisting company under the transaction documents.

The Indentures will contain the following limitation language:

The guarantee granted by any Guarantor which is incorporated and/or having its registered office and its place of central administration in Luxembourg (a ''Luxembourg Guarantor'') for the obligations of the Issuer which is not a direct or indirect subsidiary of such Luxembourg Guarantor shall be limited at any time to an aggregate amount not exceeding:

(A) the aggregate amount of the outstanding intercompany loans made to the Luxembourg Guarantor or Subsidiaries of that Luxembourg Guarantor (which are Subsidiaries of that Luxembourg Guarantor on the Completion Date or which will be Subsidiaries of that Luxembourg Guarantor hereafter) by the Issuer which have been funded directly or indirectly with proceeds deriving from the sale of the Notes increased by

(B) the greater of:

(1) 90% of the Luxembourg Guarantor's own funds (*capitaux propres*) and subordinated debt (*dettes subordonnées*, including for the avoidance of doubt intragroup liabilities), both as referred to in Article 34 of the Luxembourg law of 19 December 2002 on the commercial register and annual accounts, as amended (the ''2002 Law'') as at the Completion Date (whether as original party or by way of accession); or

(2) 90% of the Luxembourg Guarantor's own funds (*capitaux propres*) and subordinated debt (*dettes subordonnées*, including for the avoidance of doubt intragroup liabilities), both as referred to in Article 34 of the 2002 Law, as at the date on which a demand is made under the Senior Secured Notes; or

(3) 90% of the net assets of the Luxembourg Guarantor calculated on the basis of the fair market value of the assets and liabilities of the Luxembourg Guarantor (as determined by the Agent or if the Agent so decides by a Luxembourg statutory approved auditor (*réviseur d'entreprise agréé*) (an ''Independent Auditor'') as at the Completion Date (whether as original party or by way of accession); or

(4) 90% of the net assets of the Luxembourg Guarantor calculated on the basis of the fair market value of the assets and liabilities of the Luxembourg Guarantor (as determined by the Trustee or if the Trustee so decides by an Independent Auditor as at the date on which a demand is made under the Notes.)

Security interests considerations

According to Luxembourg conflict of law rules, the courts in Luxembourg will generally apply the *lex rei sitae* or *lex situs* (the law of the place where the assets or subject matter of the pledge or security interest is situated) in relation to the creation, perfection and enforcement of security interests over such assets. As a consequence, Luxembourg law will apply in relation to the creation, perfection and enforcement of security interests over assets located or deemed to be located in Luxembourg, such as registered shares in Luxembourg companies, bank accounts held with a Luxembourg bank, receivables/claims governed by Luxembourg law and/or having debtors located in Luxembourg, tangible assets located in Luxembourg, securities which are held through an account located in Luxembourg, bearer securities physically located in Luxembourg, etc.

If there are assets located or deemed to be located in Luxembourg, the security interests over such assets will be governed by Luxembourg law and must be created, perfected and enforced in accordance with Luxembourg law. The Collateral Act 2005 governs the creation, validity, perfection and enforcement of pledges over shares, bank accounts and receivables located or deemed to be located in Luxembourg.

Under the Collateral Act 2005, the perfection of security interests depends on certain registration, notification and acceptance requirements. A share pledge agreement must be (i) acknowledged by the company which has issued the shares and (ii) registered in the shareholders' register of such company. If future shares are pledged, the perfection of such pledge will require additional registration in the shareholders' register of such company. A receivables pledge becomes enforceable against the debtor and against third parties by the mere entering into the pledge agreement by the pledgor and the pledgee. However, the debtor is validly discharged from its payment obligations by payment to the pledgor as long as it has not gained knowledge of the pledge.

Article 11 of the Collateral Act 2005 sets out the following enforcement remedies available upon the occurrence of an enforcement event:

- appropriate or cause a third party to appropriate this collateral at a price determined, before or after appropriation, by the valuation method agreed by the parties;
- assign or cause to be assigned the pledged collateral by private sale in a commercially reasonable manner, by sale over a stock exchange or by public auction;
- court allocation of the pledged assets to the pledgee in discharge of the secured obligations following a valuation made by a court-appointed expert; or
- set-off between the secured obligations and the pledged assets.

As the Collateral Act 2005 does not provide any specific time periods and depending on (i) the method chosen, (ii) the valuation of the pledged assets, (iii) any possible recourses, and (iv) the possible need to involve third parties, such as, e.g., courts, stock exchanges and appraisers, the enforcement of the security interests might be substantially delayed.

The perfection of the security interests created pursuant to the pledge agreements does not prevent any third-party creditor from seeking attachment or execution against the assets, which are subject to the security interests created under the pledge agreements, to satisfy their unpaid claims against the pledgor. Except as provided in article 20.4 of the Collateral Act 2005, a third party creditor may seek the forced sale of the assets of the pledgor which are subject to such security through court proceedings, although the beneficiaries under the relevant pledge or security documents will remain entitled to priority over the proceeds of such sale.

Under Luxembourg law, security interests qualifying as financial collateral arrangements under the Collateral Act 2005 may be granted in favor of a person acting on behalf of the beneficiaries of such security interests, a fiduciary or a trustee as a security for the claims of third party beneficiaries, present or future, to the extent that such third party beneficiaries are or may be determined.

Registration in Luxembourg

The registration of the transaction documents with the *Administration de l'Enregistrement et des Domaines in Luxembourg* may be required in the case of legal proceedings before Luxembourg courts or in the case that they must be produced before an official Luxembourg authority (*autorité constituée*). In such case, either a nominal registration duty or an ad valorem duty (or, for instance, 0.24% of the amount of the payment obligation mentioned in the document so registered) will be payable depending on the nature of the document to be registered. No ad valorem duty is payable in respect of security interest agreements, which are subject to the Collateral Act 2005.

The Luxembourg courts or the official Luxembourg authority may require that the transaction documents and any judgment obtained in a foreign court be translated into French or German.

Israel

General Corporate Power

The Israeli Companies Law, 5759-1999 requires a company to indicate its purpose in its articles of association. Thus, the general corporate capacity of an Israeli company to provide a guarantee or security may be limited by its organizational documents (i.e., its articles of association).

Subject to any specific provision in a company's organizational documents, a grant of security or a guarantee by an Israeli company would generally require the approval of its board of directors, absent the existence of any interested party transactions. Transactions involving interested parties may also require approvals of the shareholders, audit committee and/or independent directors.

Limitation on Distributions and Fiduciary Duties

Under Israeli law, in certain circumstances, a company's undertaking to guarantee or provide security for the benefit of its parent company with respect to an amount in excess of the amounts actually received by such company (i.e., with respect to excess amounts received by other entities), will result in the excess being a ''distribution'' under Israeli law, which term also includes a company purchasing its own shares or assisting with the purchase thereof. Under Israeli law, a company may only make distributions

up to the amount of the greater of: (i) its retained earnings and (ii) its cumulative net income over the preceding eight quarters (and provided that it meets the Solvency Test as defined under Israeli law) (''Distributable Profits''). Distributable Profits will be reduced by the amount of prior distributions to the extent not already reflected in the calculation of Distributable Profits. Any distribution which is not out of Distributable Profits will require court approval.

The fiduciary duty of directors requires that they act in the best interests of the company. Thus, the board of directors must determine in each case whether granting a guarantee or security interest is in the best interest of the company.

Security Interests

Under Israeli law, there are generally two types of charges, a fixed charge and a floating charge. A fixed charge is the charge of a certain asset as a security until the debt secured by the charge is settled. A floating charge is a charge over all or an unspecified part of the assets of a company, including its future assets. Unless otherwise specifically stated, a floating charge would include all of a pledging company's assets that by their nature may change from time to time in accordance with the company's business and the nature of its operations. Generally and unless otherwise restricted pursuant to the debenture under which it is created, a floating charge does not restrict the company's conduct in its ordinary course, the sale of the charged assets in the ordinary course of business, or the imposition of additional charges and liens on the company's assets. When the floating charge crystallizes (for example, upon a default), it becomes, in effect, a fixed charge over all the company's assets at the time of crystallization.

A security interest is generally created by an agreement between the company and the creditor (certain security interests by operation of law excluded). The security is perfected against third parties if registered with the Companies Registrar within 21 days of its creation (or, if created by a non Israeli company, upon registration with the Registrar of Pledges); however, certain charges may be perfected by the possession of the asset by the creditor or its agent. A charge over real-estate of a company (a ''mortgage'') must also be registered with the Land Registry Bureau. Charges over vessels, patents, trademarks and other assets subject to separate government registrars may be also registered with such registrars.

Enforcement of Guarantee and Securities

General

A guarantee is governed by the Guarantee Law, 5727-1967 and is generally enforced as a contract under Israeli law.

Under Israeli law, the realization of a pledge generally requires a court order or, with respect to certain assets, an order from the Office of Execution of Judgments (''*Hotzaa Lapoal'')* and as a practical matter generally results in the appointment of a receiver to manage the assets under supervision of the court. Certain limited exemptions allowing for self-realization apply with respect to certain pledges in favor of certain institutional entities (namely a ''Banking Institution'' under Israeli law, the Bank of Israel, Israeli insurance companies, Israeli Provident Funds Management Companies, and members of the Tel Aviv Stock Exchange) and certain securities pledges in favor of certain institutional entities. Certain terms and conditions apply to any such ''self help'' realization procedures including, without limitation, the obligation to provide notice and the obligation to sell the pledged assets in the manner common in the applicable market of the asset (and in the absence of such manner, in a reasonable commercial manner).

Israeli courts would apply Israeli law for the creation, perfection, and enforcement of a security created by an Israeli company over its assets located in Israel. In addition, Israeli courts would generally apply Israeli law for the creation, perfection and enforcement of a security created by a non Israeli company over shares physically located in Israel.

Insolvency

Under Israeli law, if, among other things, a company is insolvent or the company adopts a special resolution approving a court-supervised liquidation, a company can be placed into involuntary liquidation through a liquidation order issued by the court. Upon the issuance of a liquidation order with respect to an Israeli company in the process of liquidation by the court (or the appointment of a temporary receiver therefor), there is an automatic stay of proceedings. The court may also impose a

stay prior to the granting of the order of liquidation but after the filing of a petition for liquidation. In a process of voluntary dissolution, which is initiated by the determination of shareholders to dissolve the company, while there is no automatic stay of proceedings, the liquidator may apply to the court for a stay of proceedings.

As long as the stay is in effect, the continuance or commencement of any proceeding against the company is prohibited other than with the permission of the court or upon certain limited circumstances, which include the right of secured creditors to enforce their security to recover up to the amount of their secured debt. Any balance from such realization exceeding the secured debt will form part of the assets of the company to be distributed by the liquidator. If the value of the security is less than the value of the debt, then the secured creditor may recover the balance of the sum owed to it (exceeding such value) *pari passu* with the unsecured creditors. In addition, the liquidator may disclaim certain unfavorable contracts of the company.

A transaction in the assets of the company made after the commencement of the liquidation is void unless the court has otherwise ordered. In addition, certain security interests created in proximity to liquidation may be voided at liquidation. Such transactions include a floating charge created in the six months prior to liquidation (unless it is proven that the company was solvent immediately after the creation thereto), a transaction made when the company was not able to pay its debts when due, the transaction was entered into to create a preference or the transaction was entered into within three months prior to the petition for liquidation.

Reorganization

The Israeli Companies Law provides for a reorganization process for a company regardless whether the company is insolvent. A company (or an administrator or liquidator) or any creditor or shareholder of a company may request the court to summon a meeting of creditors or shareholders to agree to a compromise or arrangement between the company and its creditors or shareholders.

The court has a general authority to impose a stay of proceedings upon a request for a creditors and/or shareholders arrangement or compromise. As long as the stay is in effect, the continuance or commencement of any proceeding against the company is prohibited, including the realization of pledged assets and crystallization of a floating charge which require the consent of the court, which is conditioned upon the court determining that the pledgee was not provided adequate protection, or that the realization would not undermine the ability to formulate and approve the plan.

Pursuant to amendments to the Israeli Companies Law which are to become effective in January 2013, an authorized person appointed by the court in case of a request for arrangement or compromise may sell pledged assets if deemed necessary for the rehabilitation of the company, provided that the secured creditors have ''adequate protection'' from the proceeds of the sale or other assets acquired in substitution of the sold assets. These amendments also provide that such authorized person may cause the company to raise new financing secured by assets that are already charged and, if determined by the court to be necessary, such new security would be senior to the then-existing security; provided that the court determined that there is ''adequate protection'' for the existing secured lenders.

Special Regulatory Approvals

The approval of the Israeli Ministry of Communications is required prior to the realization of the security interest granted (whether directly or indirectly) over the shares of Cool Holding, SPV1, HOT and HOT Net and the interests in HOT Telecom and over the assets of HOT (which realization may not interfere with the orderly provision of the services). There is no set time period for review by the Israeli Ministry of Communications and such approval may be withheld or delayed by the Israeli Ministry of Communications in its sole discretion.

Priority of Claims

Generally, the priority of claims on a company's assets will be determined in the following order:

1. Secured Creditors—including: (a) statutory pledges, such as taxes due; (b) certain costs related to execution of judgments; and (c) secured creditors with valid security interests including fixed equitable charges, legal mortgage and floating charges which crystallize prior to the liquidation process and holders of a contractor's lien;

2. Liquidation expenses;
3. Preferential creditors—specifically certain employee wages (to a limited extent), and different payments or taxes to tax authorities;
4. Pledgees under floating charges which crystallized with the liquidation of the company;
5. Unsecured creditors; and
6. Shareholders.

PLAN OF DISTRIBUTION

The Issuers have agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from the Issuer, the entire aggregate principal amount of the Notes. The sale was made pursuant to a purchase agreement dated December 7, 2012.

The obligations of the Initial Purchasers under the purchase agreement, including their agreement to purchase Notes from the Issuers, are several and not joint. Pursuant to the terms of the purchase agreement, the Senior Secured Notes Issuer has agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from the Senior Secured Notes Issuer, together with all other Initial Purchasers, Dollar Senior Secured Notes in an aggregate principal amount of $450 million and Euro Senior Secured Notes in an aggregate principal amount of €200 million, and the Senior Notes Issuer has agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from the Senior Notes Issuer, together with all other Initial Purchasers, Senior Notes an aggregate principal amount of $400 million.

The Initial Purchasers initially propose to offer the Notes for resale at the issue price that appears on the cover of this Offering Memorandum. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell Notes through certain of their affiliates. Sales in the United States will be made through affiliates of the Initial Purchasers which are registered with the SEC as U.S. registered broker dealers.

In the purchase agreement, the Issuers have agreed that:

- The Issuers will not offer or sell any of their debt securities (other than the Notes and subject to certain other exceptions), without the prior consent of the Representatives (as defined therein), for a period of 45 days after the date of the final Offering Memorandum.
- The Issuers will indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

United States

Each purchaser of Notes offered by this Offering Memorandum, in making its purchase, will be deemed to have made the acknowledgements, representations and agreements as described under ''*Transfer Restrictions*''.

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and to persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Until 40 days after the later of (i) the commencement of this offering and (ii) the issue date of the Notes, an offer or sale of Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements for the U.S. Securities Act is such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act. For a description of certain further restrictions on resale or transfer of the Senior Secured Notes, see ''*Transfer Restrictions*''.

The Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

United Kingdom

In the purchase agreement, each Initial Purchaser has also represented and agreed that:

(i) it has complied and will comply with all applicable provisions of the FSM Act with respect to anything done by it in relation to the Senior Secured Notes in, from or otherwise involving the United Kingdom; and

(ii) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSM Act) received by it in connection with the issue or sale of any Senior Secured Notes in circumstances in which section 21(1) of the FSM Act does not apply to such Initial Purchaser.

This Offering Memorandum is directed solely at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as ''relevant persons''). This Offering Memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a ''Relevant Member State''), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the ''Relevant Implementation Date''), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Senior Secured Notes shall require the publication by the Issuers or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospective Directive other than in reliance of Article 3(2)(b).

For the purposes of this provision, the expression an ''offer of Senior Secured Notes to the public'' in relation to any Senior Secured Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Senior Secured Notes to be offered so as to enable an investor to decide to purchase or subscribe the Senior Secured Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression ''Prospectus Directive'' means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State.

Grand Duchy of Luxembourg

In addition to the cases described in the section entitled Public Offer Selling Restriction under the Prospectus Directive in which the Initial Purchasers can make an offer of the Senior Secured Notes to the public in an EEA Member State (including Luxembourg), the Initial Purchasers can also make an offer of the Senior Secured Notes to the public in Luxembourg:

(a) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organizations;

(b) at any time, to legal entities which are authorized or regulated to operate in the financial markets (including credit institutions, investment firms, other authorized or regulated financial institutions, undertakings for collective investment and their management companies, pension and investment funds and their management companies, insurance undertakings and commodity dealers) as well as entities not so authorized or regulated whose corporate purpose is solely to invest in securities; and

(c) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act implementing the Prospectus Directive into Luxembourg law) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the Commission de surveillance du secteur financier as competent authority in Luxembourg in accordance with the Prospectus Directive.

Israel

Sales of the Notes in Israel will be made through the Initial Purchasers and/or through an Israeli broker(s) engaged by them. The Notes will not be offered to an Israeli person unless such offeree is a ''qualified investor'' (as defined in the First Appendix to the Israeli Securities Law) who is not an individual (a ''Qualified Israeli Investor'') and who has (x) completed and signed a questionnaire regarding qualification as a Qualified Israel Investor and (y) certified that it has an exemption from Israeli withholding taxes on interest.

General

The Notes are a new issue of securities, and there is currently no established trading market for the Notes. In addition, the Notes are subject to certain restrictions on resale and transfer as described under ''Transfer Restrictions''. The Issuers have applied for the Notes to be admitted to listing and to trading on the Euro MTF Market of the Luxembourg Stock Exchange. The Initial Purchasers have advised us that they intend to make a market in the Senior Secured Notes, but they are not obligated to do so. The Initial Purchasers may discontinue any market making in the Notes at any time in their sole discretion. In addition, such market making activities will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act. Accordingly, we cannot assure you that a liquid trading market will develop for the Senior Secured Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

Each Initial Purchaser has also agreed in the purchase agreement that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Memorandum, and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force.

In connection with the offering of the Notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the Initial Purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

Delivery of the Notes was made against payment on the Notes on or about the date specified on the cover of this Offering Memorandum, which is three business days following the date of pricing of the Notes (this settlement cycle is referred to as ''T+3'').

Other Relationships

The Initial Purchasers and their respective affiliates from time to time have provided in the past and may provide in the future investment banking, commercial lending, consulting and financial advisory services to members of our group, including the Issuers, and any of their respective affiliates in the ordinary course of business for which the Initial Purchasers may receive customary advisory and transaction fees and expense reimbursement. Each of the Initial Purchasers or their affiliates will be lenders under the Revolving Credit Facility Agreement. An affiliate of Goldman Sachs International is a lender on the Cool Loan which will be repaid with a portion of the proceeds of this offering of Notes. An affiliate of HSBC Securities (USA) Inc. is a lender on the Existing HOT Loans which will be repaid with a portion of the proceeds of this offering of Notes. In addition, certain of the Initial Purchasers or their affiliates are party to certain of our hedging arrangements.

Furthermore, on the Completion Date, Cool Holding will repay the Cool Interest Loan in an amount equal to NIS 37 million to Altice with a portion of the proceeds of the offering of the Notes. Altice is expected to use the proceeds of such repayment to repay a credit facility under which Goldman Sachs International and affiliates of HSBC Securities (USA) Inc. and Morgan Stanley & Co. International plc. are lenders.

In addition, affiliates of the Issuers may purchase Notes in the offering.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Ropes & Gray International LLP, London, England, as to matters of United States federal, New York and English law; by Meitar Liquornik Geva & Leshem Brandwein, as to matters of Israeli law; and by Luther, as to matters of Luxembourg law.

Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP, as to matters of United States federal, New York and English law; by Goldfarb Seligman & Co., Tel Aviv, Israel, as to matters of Israeli law; and by Elvinger, Hoss & Prussen, as to matters of Luxembourg law.

Certain legal matters in connection with this offering will be passed upon for the Trustee by White & Case LLP, as to matters of New York law.

ENFORCEMENT OF JUDGMENTS

The Issuers are public limited liability companies (*société anonyme*), incorporated under the laws of the Grand Duchy of Luxembourg.

Many of the directors, members of the supervisory board, general partners, officers and other executives of our group are neither residents nor citizens of the United States. Furthermore, most of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, the Issuers or to enforce against them judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws despite the fact that, pursuant to the terms of the Indenture, the Issuers have appointed, or will appoint, an agent for the service of process in New York. It may be possible for investors to effect service of process within Luxembourg or Israel upon those persons, our group or over other subsidiaries of our group that the Hague Convention on the Service Abroad of Judicial and Commercial Matters of November 15, 1965 is complied with.

We have been advised by Luther, our Luxembourg counsel, that a valid final and conclusive judgment against an issuer of Luxembourg nationality with respect to the Senior Secured Notes obtained from a court of competent jurisdiction in the United States, which judgment remains in full force and effect after all appeals as may be taken in the relevant state or federal jurisdiction with respect thereto have been taken, may be entered and enforced through a court of competent jurisdiction of Luxembourg subject to compliance with the enforcement procedures set out in Article 678 et seq. of the Luxembourg *Nouveau Code de Procedure Civile* being:

- the U.S. court awarding the judgment has jurisdiction to adjudicate the respective matter under its applicable laws, and such jurisdiction is recognized by Luxembourg private international and local law;
- the judgment is final and enforceable in the jurisdiction where the decision is rendered;
- the U.S. Court has applied the substantive law as designated by the Luxembourg conflict of laws rules;
- the U.S. Court has acted in accordance with its own procedural laws;
- the judgment was granted following proceedings where the counterparty had the opportunity to appear, and if appeared, to present a defense;
- the decision of the U.S. Court must not have been obtained by fraud; and
- the decisions and the considerations of the foreign court must not be contrary to Luxembourg international public policy rules or have been given in proceedings of a tax, penal or criminal nature (which would include awards of damages made under civil liabilities provisions of the U.S. federal securities laws, or other laws, to the extent that the same would be classified by Luxembourg courts as being of a penal or punitive nature (for example, fines or punitive damages)) or rendered subsequent to an evasion of Luxembourg law (*fraude à la loi*).

The Issuers have been also advised by its Luxembourg counsel that if an original action is brought in Luxembourg, without prejudice to specific conflict of law rules, Luxembourg courts may refuse to apply the designated law if the choice of such foreign law was not made *bona fide* or if (i) the foreign law was not pleaded and proved or (ii) if pleaded and proved, such foreign law was contrary to mandatory Luxembourg laws or incompatible with Luxembourg public policy rules. In an action brought in Luxembourg on the basis of U.S. federal or state securities laws, Luxembourg courts may not have the requisite power to grant the remedies sought.

The Issuers have also been advised by its Israeli counsel that, subject to specified time limitations and legal procedures, Israeli courts may enforce a foreign judgment in a civil matter which is non-appealable, provided that among other things:

- the judgment is obtained after due process before a court of competent jurisdiction, according to the laws of the foreign state in which the judgment is given and the rules of private international law currently prevailing in Israel;
- the prevailing law of the foreign state in which the judgment is rendered allows for the enforcement of judgments of Israeli courts;

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard and to present his or her evidence;
- the judgment is not contrary to public policy of Israel, and the enforcement of the civil liabilities set forth in the judgment is not likely to impair the security or sovereignty of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties;
- an action between the same parties in the same matter was not pending in any Israeli court at the time at which the lawsuit was instituted in the foreign court; and
- the judgment is enforceable according to the laws of Israel and according to the law of the foreign state in which the relief was granted.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action before an Israeli court to recover an amount in a non-Israeli currency is for the Israeli court to issue a judgment for the equivalent amount in Israeli currency at the rate of exchange in force on the date of the judgment, but the judgment debtor may make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily will be linked to the Israeli consumer price index plus a per annum statutory rate of interest set on a quarterly basis by Israeli regulations. Judgment creditors must bear the risk of unfavorable exchange rates. In recent years, Israeli courts have increasingly been willing to enforce a foreign judgment in the foreign currency specified in the judgment, in which case there are also applicable rules regarding the payment of interest.

AUDITORS

The consolidated financial statements of HOT and its subsidiaries as of and for the years ended December 31, 2011, 2010 and 2009, have been, with respect to the years ended December 31, 2011 and 2010, audited by Ernst & Young, Kost Forer Gabbay & Kasierer and, with respect to the year ended December 31, 2009, audited jointly by Ernst & Young, Kost Forer Gabbay & Kasierer and Somekh Chaikin (KPMG Israel).

The consolidated financial statements of Cool Holding as of and for the years ended December 31, 2011, 2010 and 2009 have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer.

The consolidated financial statements of HOT Mobile and its subsidiaries as of and for the year ended December 31, 2010 have been audited by Ernst & Young, Kost Forer Gabbay & Kasierer.

The statutory auditor (*commissaire aux comptes*) of each Issuer is LG Management S.à r.l., a private limited liability company (*société à responsabilité limitée*), having its registered office at 7, rue Portland, L-4281 Esch-sur-Alzette, registered with the Luxembourg Trade and Companies Register under number B156639.

The independent auditor (*réviseur d'entreprises agréé*) of each Issuer is Deloitte Audit S.à R.L., a private limited company (*société à responsabilité limitée*), having its registered office at 560, rue de Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies Register under number B67895.

LISTING AND GENERAL INFORMATION

Listing

Application has been made for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. Notice of any optional redemption, Minority Shareholder Option Proceeds Offer change of control or any change in the rate of interest payable on the Notes will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Copies of the following documents may be obtained or inspected in physical form during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuers, Transfer Agent and Principal Paying Agent so long as the Senior Secured Notes remain listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of such exchange require:

(1) the articles of association of the Issuers and the Guarantors;

(2) Cool Holding's most recent annual reports and quarterly reports and consolidated financial statements required to be provided under ''*Description of Senior Secured Notes—Certain Covenants—Reports*'' and ''*Description of Senior Notes—Certain Covenants—Reports*'';

(3) the Issuers' future annual financial statements required to be provided under ''*Description of Senior Secured Notes—Certain Covenants—Reports*'' and ''*Description of Senior Notes—Certain Covenants—Reports*'';

(4) the Indentures;

(5) the security documents governing the Senior Secured Notes Collateral; and

(6) the Senior Notes security documents governing the Senior Notes Collateral.

This Offering Memorandum includes consolidated financial statements of HOT and HOT Mobile. In the future, financial statements of HOT and HOT Mobile will be consolidated in Cool Holding's financial statements and will not be made available separately to holders of the Notes.

The Issuers will maintain a paying and transfer agent in Luxembourg for so long as any of the Notes are listed on the Luxembourg Stock Exchange. The Issuers reserve the right to vary such appointment and will publish notice of such change of appointment on the website of the Luxembourg Stock Exchange (www.bourse.lu).So long as the Notes are listed on the official list of the Luxembourg Stock Exchange and so long as the rules and regulations of such stock exchange require, the Issuers will maintain a paying and transfer agent in Luxembourg.

Pursuant to Part 1 chapter 5, Item 502 of the rules and regulations of the Luxembourg Stock Exchange, the Notes will be freely transferable on the Luxembourg Stock Exchange.

The gross proceeds of the offering of the Notes will be $1,090 million.

Clearing Information

The Euro Senior Secured Notes sold pursuant to Regulation S and the Euro Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of Clearstream and Euroclear and have been assigned common codes 086461161 and 086458136. The International Securities Identification Number (ISIN) for the Euro Senior Secured Notes sold pursuant to Regulation S is XS0864611610 and the ISIN for the Euro Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act is XS0864581367.

The Dollar Senior Secured Notes sold pursuant to Regulation S and the Dollar Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of DTC and have been assigned CUSIP numbers L0178W AA0 and 02154C AA1. The ISIN for the Dollar Senior Secured Notes sold pursuant to Regulation S is USL0178WAA01 and the ISIN for the Dollar Senior Secured Notes sold pursuant to Rule 144A of the U.S. Securities Act is US02154CAA18. The common code for the Dollar Senior Secured Notes sold pursuant to Regulation S and Rule 144A of the U.S. Securities Act are 086450054 and 086450020, respectively.

The Senior Notes sold pursuant to Regulation S and the Senior Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of DTC and have been assigned CUSIP numbers L0179R AA0 and 02154E AA7. The ISIN for the Senior Notes sold pursuant to

Regulation S is USL0179RAA07 and the ISIN for the Senior Notes sold pursuant to Rule 144A of the U.S. Securities Act is US02154EAA73. The common codes for the Senior Notes sold pursuant to Regulation S and Rule 144A of the U.S. Securities Act are 086450852 and 086450909, respectively.

Legal Information

The Senior Secured Notes Issuer is incorporated under the name of Altice Financing S.A. as a public limited liability company (*société anonyme*), incorporated under the laws of Luxembourg on August 17, 2012. The articles of association of the Senior Secured Notes Issuer have been filed with the Luxembourg Trade and Companies Register and are published in the *Mémorial C, Recueil des Sociétés et Associations* dated 27 September 2012, under number 2407, page 115493 *et seq*. The registered office of the Senior Secured Notes Issuer is 37, rue d'Anvers, L-1130 Luxembourg. The Senior Secured Notes Issuer's telephone number is +352 283 71 079. The Senior Secured Notes Issuer is registered with the Luxembourg Trade and Companies Register under number B171162.

The Senior Secured Notes Issuer has a share capital of €35,000 comprised of 35,000 shares with a nominal value of €1, all of which have been subscribed and fully paid-up.

According to Article 3 of the articles of association of the Senior Secured Notes Issuer relating to its corporate object, the Senior Secured Notes Issuer may carry out all transactions pertaining directly or indirectly to the taking of participating interests in any entities in whatsoever form, as well as the administration, management, control and development of such participating interests, in the Grand Duchy of Luxembourg and abroad.

The Senior Secured Notes Issuer may particularly use its funds for the setting-up, management, development and disposal of a portfolio consisting of any securities and intellectual property rights of whatever type or origin, participate in the creation, development and control of any entities, acquire by way of contribution, subscription, underwriting or by option to purchase and any other way whatsoever, any type of securities and intellectual property rights, realise them by way of sale, transfer, exchange or otherwise, have these securities and intellectual property rights developed. The Senior Secured Notes Issuer may grant assistance (by way of loans, advances, guarantees or securities or otherwise) to companies or other entities in which the Senior Secured Notes Issuer has an interest or which form part of the group of companies to which the Senior Secured Notes Issuer belongs (including shareholders or affiliated entities) or any other companies. The Senior Secured Notes Issuer may further pledge, transfer, encumber or otherwise create security over all or over some of its assets.

The Senior Secured Notes Issuer may borrow and raise funds in any form by way of public offer or exempted public offer. It may issue any kind of debt instruments (including, but not limited to notes, bonds and debentures), whether convertible or not, and/or equity securities, which may be unlisted or listed.

In general, the Senior Secured Notes Issuer may likewise carry out any financial, commercial, industrial, movable or real estate transactions, take any measures to safeguard its rights and make any transactions whatsoever which are directly or indirectly connected with its corporate object or which are liable to promote its development provided that the Senior Secured Notes Issuer will not enter into any transaction which would constitute a regulated activity of the financial sector.

The Senior Notes Issuer is incorporated under the name of Altice Finco S.A. as a public limited liability company (*société anonyme*), incorporated under the laws of Luxembourg on August 17, 2012. The articles of association of the Senior Notes Issuer have been filed with the Luxembourg Trade and Companies Register and are published in the *Mémorial C, Recueil des Sociétés et Associations* dated 28 September 2012, under number 2426, page 116402 et seq. The registered office of the Senior Notes Issuer is 37, rue d'Anvers, L-1130 Luxembourg. The Senior Notes Issuer's telephone number is +352 283 71 079. The Senior Notes Issuer is registered with the Luxembourg Trade and Companies Register under number B171151.

The Senior Notes Issuer has a share capital of €35,000 comprised of 35,000 shares with a nominal value of €1, all of which have been subscribed and fully paid-up.

According to Article 3 of the articles of association of the Senior Notes Issuer relating to its corporate object, the Senior Notes Issuer may carry out all transactions pertaining directly or indirectly to the taking of participating interests in any entities in whatsoever form, as well as the administration, management, control and development of such participating interests, in the Grand Duchy of Luxembourg and abroad.

The Senior Notes Issuer may particularly use its funds for the setting-up, management, development and disposal of a portfolio consisting of any securities and intellectual property rights of whatever type or origin, participate in the creation, development and control of any entities, acquire by way of contribution, subscription, underwriting or by option to purchase and any other way whatsoever, any type of securities and intellectual property rights, realise them by way of sale, transfer, exchange or otherwise, have these securities and intellectual property rights developed. The Senior Notes Issuer may grant assistance (by way of loans, advances, guarantees or securities or otherwise) to companies or other entities in which the Senior Notes Issuer has an interest or which form part of the group of companies to which the Senior Notes Issuer belongs (including shareholders or affiliated entities) or any other companies. The Senior Notes Issuer may further pledge, transfer, encumber or otherwise create security over all or over some of its assets.

The Senior Notes Issuer may borrow and raise funds in any form by way of public offer or exempted public offer. It may issue any kind of debt instruments (including, but not limited to notes, bonds and debentures), whether convertible or not, and/or equity securities, which may be unlisted or listed.

In general, the Senior Notes Issuer may likewise carry out any financial, commercial, industrial, movable or real estate transactions, take any measures to safeguard its rights and make any transactions whatsoever which are directly or indirectly connected with its corporate object or which are liable to promote its development provided that the Senior Notes Issuer will not enter into any transaction which would constitute a regulated activity of the financial sector.

The creation and issuance of the Notes has been authorized by resolutions of the Board of Directors of each Issuer dated November 28, 2012.

Cool Holding was incorporated in Israel under the name of Cool Holding Ltd. on April 26, 2009. The registered office of Cool Holding in Israel is 16 Abba Hillel Rd., Ramat-Gan 52506, Israel. Cool Holding is registered with the Israeli corporate registrar under number Israeli registration number 51-426602-2. On April 2, 2010, the general meeting of Cool Holding's equity holders approved Cool Holding's registration as a public limited liability company (*société anonyme*) in Luxembourg. The articles of association of Cool Holding have been filed with the Luxembourg Trade and Companies Register and are published in the *Mémorial C, Recueil des Sociétés et Associations* dated May 20, 2010, under number 1060, page 50862 *et seq*. The registered office of Cool Holding in Luxembourg is 37, rue d'Anvers, L-1130 Luxembourg. Cool Holding's telephone number is +352 27 12 53 37. Cool Holding is registered with the Luxembourg Trade and Companies Register under number B152495. According to its articles of association, Cool Holding's principal place of management and control is Luxembourg. Cool Holding is subject to both Luxembourg laws and Israeli laws and is deemed to have a dual nationality.

According to Article 2.5 of the articles of association of Cool Holding relating to its corporate purpose, the purpose of Cool Holding is to take participations, in any form whatsoever, in any commercial, industrial, financial or other Luxembourg or foreign enterprises; to acquire any securities and rights through participation, contribution, option or in any other way.

Cool Holding may use its funds to invest in real estate, to establish, manage, develop and dispose of its assets as they may be composed from time to time and namely but not limited to, its portfolio of securities of whatever origin, to participate in the creation, development and control of any enterprise, to acquire, by way of investment, subscription, underwriting or option, securities, and any intellectual property rights, to realize them by way of sale, transfer, exchange or otherwise, to receive or grant licenses on intellectual property rights and to grant to or for the benefit of companies in which Cool Holding has a direct or indirect participation, to any companies being shareholder of Cool Holding, to companies being owned by a shareholder of Cool Holding and to companies of the group, any assistance including financial assistance, loans, advances or guarantees.

Without prejudice to the generality of the object of Cool Holding, this latter may do all or any of the following:

(i) to take, manage and sell participation in other companies by way of acquisition, possession, administration, sale, exchange, transfer, trade, investment in and alienation of shares, bonds, funds, notes, evidences of indebtedness, debentures, certificates and other securities;

(ii) to borrow money in any form or to obtain any form of credit facility and raise funds through, including, but not limited to, the issue of bonds, notes, promissory notes, certificates and other debt or equity instruments, convertible or not, or the use of financial derivatives or otherwise;

(iii) to advance, lend or deposit money or give credit to or with or to subscribe to or purchase any debt instrument issued by any Luxembourg or foreign entity on such terms as may be thought fit and with or without security;

(iv) to enter into any guarantee, pledge or any other form of security, whether by personal covenant or by mortgage or charge upon all or part of the undertaking, property assets (present or future) or by all or any of such methods, for the performance of any contracts or obligations of Cool Holding and of any of connected companies, or any director, manager or other agent of Cool Holding or any of connected companies, within the limits of any applicable law provision; and

(v) to enter into any agreements, including, but not limited to partnership agreements, underwriting agreements, marketing agreements, management agreements, advisory agreements, administration agreements, cooperation agreement and other services contracts, selling agreements, interest and/or currency exchange agreements and other financial derivative agreements in relation to its object.

(vi) to acquire income arising from the disposal or licensing of copyrights, patents, designs, secret processes, trademarks or other similar interests;

(vii) to render technical assistance to other companies;

It being understood that Cool Holding will not enter into any transaction which would cause it to be engaged in any activity that would be considered as a regulated activity of the financial sector.

In a general fashion, Cool Holding may carry out any operation, which it may deem useful in the accomplishment and development of its purposes.

Cool Holding has a share capital of NIS 6,147,657 (six million one hundred forty-seven thousand six hundred fifty-seven shekels) divided into 6,147,657 (six million one hundred forty-seven thousand six hundred fifty-seven) ordinary shares, with a nominal value of NIS 1.00 (one shekel) each.

SPV1 was incorporated in Israel under the name of H.Hadaros 2012 Ltd. on March 22, 2012. The registered office of SPV1 is 16 Abba Hillel Rd., Ramat Gan, 52506, Israel. SPV1 is registered with the Israeli Registrar of Companies under number 51-475212-0.

According to its Articles of Association, SPV1's corporate objectives are to carry on any legal business. SPV1 has a share capital of NIS 100,000 comprised of 10,000,000 ordinary shares with a par value of NIS 0.01 per ordinary share, of which 100 ordinary shares are issued and outstanding.

The creation and issuance of the Guarantees has been authorized by resolutions of the Board of Directors of Cool Holding and SPV1 dated on or about November 28, 2012 and December 11, 2012, respectively.

At the Completion Date, the Guarantors will not have any indebtedness other than under the Notes, the Shareholder Loan and the Pledged Proceeds Loan. The Issuers may issue, and the Guarantors may guarantee, Additional Notes permitted to be issued under the applicable Indentures governing the Notes. Such issuance of Additional Notes may occur from time to time whether prior to or after the Completion Date.

Management

Each of the Senior Secured Notes Issuer and the Senior Notes Issuer is managed by a board of directors composed of three (3) members being:

1. Mr. Jérémie BONNIN (chairman);
2. Ms. Emilie SCHMITZ; and
3. Mr. Laurent GODINEAU.

Cool Holding is managed by a board of directors composed of three (3) members being:

1. Mr. Jérémie BONNIN (chairman);
2. Ms. Anne-Laure COATES; and
3. Mr. Laurent GODINEAU.

SPV1 is managed by a board of directors of which Cool Holding is the sole member.

Business Year

The business year for each Issuer begins on the first day of January and ends on the last day of December of each year, except for the first business year which commences on August 17, 2012, being the date of incorporation of each Issuer and ends on 31 December 2012.

The business year for Cool Holding begins on the first day of January and ends on the last day of December of each year.

The business year for SPV1 begins on the first day of January and ends on the last day of December of each year, except for the first business year which commenced on March 22, 2012, being the date of incorporation of SPV1 and ends on December 31, 2012.

Annual accounts

The annual accounts will be published by the Issuers on an annual basis. Each Issuer will provide annual stand-alone financial statements. These statements will be audited by each Issuer's respective auditors (see below). The Issuers will not publish any interim reports or accounts.

Since their incorporation on August 17, 2012 no annual accounts of the Issuers have been prepared. The Issuers intend to publish their first annual accounts in respect of the year ended 2012. Any future published annual accounts prepared by the Issuers (which will be in respect of the period ending on December 31 in each year) will be available from the Principal Paying Agent and at the registered office of the Issuers in Luxembourg.

The annual accounts of Cool Holding will be published by Cool Holding on an annual basis. These statements will be audited by Cool Holding's auditors (see below). Cool Holding will also provide quarterly reports as provided under ''*Description of Senior Secured Notes—Certain Covenants—Reports*''.

No accounts of SPV1 have been prepared and SPV1 will not prepare any stand-alone accounts in the future. Any future annual accounts of Cool Holding will consolidate the accounts of SPV1.

Auditors

The statutory auditor (*commissaire aux comptes*) of the Issuers is LG Management S.à r.l., a private limited liability company (*société à responsabilité limitée*), having its registered office at 7, rue Portland, L-4281 Esch-sur-Alzette, registered with the Luxembourg Trade and Companies Register under number B156639.

The independent auditor (*réviseur d'entreprises agréé*) of the Issuers is Deloitte Audit S.à R.L., a public limited liability company (*société anonyme*), having its registered office at 560, rue de Neudorf, L-2220 Luxembourg registered with the Luxembourg Trade and Companies Register under number B67895 which is a member of the *Institut des Réviseurs d'Entreprises*.

The independent auditor (*réviseur d'entreprises agréé*) of Cool Holding in Luxembourg is Ernst & Young, a public limited liability company (*société anonyme*), having its registered office at 7 rue Gabriel Lippmann, L-5365 Munsbach and registered with the Luxembourg Trade and Companies Register under number B47771, which is a member of the *Institut des Réviseurs d'Entreprises.* The independent auditor of Cool Holding and its subsidiaries, including SPV1, in Israel is Ernst & Young, Kost Forer Gabbay & Kasierer.

Litigation

Other than as disclosed in this Offering Memorandum, there are no, and have not been any, governmental, legal or arbitration proceedings against or affecting the Issuers or the Guarantors, nor are the Issuers aware of any pending or threatened proceedings of such kind, which may have or have had a significant effect on the financial position of the Issuers.

Offering Memorandum

Except as disclosed in this Offering Memorandum:

- there has been no material adverse change in the consolidated financial position of the Issuers since August 17, 2012 or the Guarantors since September 30, 2012; and

- neither Issuer nor any of the Guarantors is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer or any Guarantor is aware) since the dates of their incorporation, which may have, or have had in the recent past, significant effects on the Issuer's or the Guarantors' financial position or profitability.

The Issuers accept responsibility for the information contained in this Offering Memorandum. The information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect import of such information.

The language of this Offering Memorandum is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable laws.

The Trustee

The Notes provide for the Trustee to take action on behalf of the holders of the Notes in certain circumstances, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances, the Trustee will be unable to take action, notwithstanding the provision of an indemnity or security to it, and it will be for the holders of the Notes to take action directly. If the Trustee resigns or is removed, the Issuers will appoint a successor.

GLOSSARY

Term	Definition
"3G"	The third generation of mobile communications standards, referred to in the industry as IMT-2000, capable of data speeds exceeding the 14.4 Kbps of GSM technology.
"4G"	The fourth generation of mobile communications standards, referred to the industry as IMT-Advanced with a nominal data rate of 100 Mbit/s while the client physically moves at high speeds relative to the station, and 1 Gbit/s while client and station are in relatively fixed positions. Expected to provide a comprehensive and secure all-IP based mobile broadband solution to laptop computer wireless modems, smartphones, and other mobile devices. Facilities such as ultra-broadband Internet access, IP telephony, gaming services, and streamed multimedia may be provided to users, which when fully implemented is expected to allow for higher data speeds than achievable with 3G and additional network features and capabilities.
"ADSL"	Asymmetrical DSL; an Internet access technology that allows voice and high-speed data to be sent simultaneously over local copper telephone line.
"ARPU"	Average Revenue Per User; ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the services provided, in each case including the proportional allocation of the bundling discount) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.
"bandwidth"	The width of a communications channel; in other words, the difference between the highest and lowest frequencies available for network signals. Bandwidth also refers to the capacity to move information.
"broadband"	Any circuit that can transfer data significantly faster than a dial-up phone line.
"churn"	The number of RGUs for a given service disconnected (either at the customer's request or due to termination of the subscription by us) during the period divided by the number of average RGUs for such service for such period; statistics do not include customers excluding transfers between our services (other than a transfer between our cable services and our cellular services).
"CPE"	Customer premise equipment, which typically comprises a modem or set-top box and associated cabling and other fittings such as an NIU in order to deliver service to a subscriber.
"DSL"	Digital Subscriber Line; DSL is a technology that provides high-speed Internet access over traditional telephone lines.
"DTT"	Digital terrestrial television.

Term	Definition
"HD"	High definition.
"HFC"	Hybrid fiber coaxial.
"HSPA"	High Speed Packet Access, a type of UMTS3G network that supports both mobile communications technology that provides enhanced download and upload speeds.
"Internet"	A collection of interconnected networks spanning the entire world, including university, corporate, government and research networks. These networks all use the IP (Internet Protocol) communications protocol.
"IP"	Internet Protocol.
"ISP"	Internet Service Provider.
"IT"	Information technology, a general term referring to the use of various software and hardware components when used in a business.
"local loop"	The network element used to connect a subscriber to the nearest switch or concentrator, commonly referred to as the "last mile" because it is the part of the network that is connected directly to the subscriber; alternatively the HFC access network.
"LTE"	Long term evolution technology being a standard in mobile network technology.
"MHz"	Megahertz; a unit of frequency equal to one million Hertz.
"Mbps"	Megabits per second; each megabit is one million bits.
"Moody's"	Moody's Investors Services, Inc.
"multiple-play"	The bundling of different telecommunications services, e.g. digital cable television, broadband Internet and fixed telephony services, by one provider.
"MVNO"	Mobile virtual network operator. Refers to a company that provides cellular services but does not have its own licensed frequency allocation of radio spectrum, nor necessarily all of the infrastructure required to provide mobile telephony services.
"network"	An interconnected collection of components which would, in a telecommunications network, consist of switches connected to each other and to customer equipment by real or virtual links. Transmission links may be based on fiber optic or metallic cable or point to point radio connections.
"PacketCable™"	A CableLabs-led initiative to develop interoperable interface specifications for delivering advanced, real-time multimedia services over two-way cable plant. PacketCable™ networks use internet protocol (IP) technology to enable a wide range of multimedia services, such as IP telephony, multimedia conferencing, interactive gaming and general multimedia applications.
"quad-play"	Triple-play with the addition of cellular service.
"RGU"	Revenue Generating Unit. RGUs relate to sources of revenue, which may not always be the same as customer relationships. For example, one person may subscribe for two different services, thereby accounting for only one subscriber, but two

Term	Definition
	RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per source service basis and RGUs for fixed-line telephony are counted on a per line basis. Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network.
"S&P"	Standard & Poor's Investors Ratings Services.
"triple-play"	Where a customer has subscribed to a combination of three products, digital cable television, broadband Internet and fixed telephony services, from us.
"UMTS"	Universal Mobile Telecommunications Service, a 3G mobile networking standard commonly used to upgrade GSM networks to 3G standards.
"U.S. Docsis 3.0"	Data over cable service interface specification, a technology that enables the addition of high-speed data transfer over an existing cable television system.
"VOD"	Video on demand; a service which provides subscribers with enhanced playback functionality and gives subscribers access to a broad array of on demand programming, including movies, live events, local drama, music videos, children programming and adult programming.
"VoIP"	Voice over Internet Protocol; a telephone service via Internet, or via TCP/IP protocol, which can be accessed using a computer, a sound card, adequate software and a modem.
"VPN"	Virtual private network, a business service enabling users to obtain remote access to network functionality.
"VDSL"	Very high speed DSL. A high speed variant of ADSL.
"VoN"	Voice over Net, a form of telephony over the Internet that is usually a lower quality than VoIP.

INDEX OF FINANCIAL INFORMATION

	Page
ALTICE FINANCING S.A.	
Independent Auditor's Report	F-5
Balance Sheet as at August 17, 2012 (incorporation date)	F-7
Notes to the opening balance sheet	F-8
ALTICE FINCO S.A.	
Independent Auditor's Report	F-13
Balance Sheet as at August 17, 2012 (incorporation date)	F-14
Notes to the opening balance sheet	F-15
HOT-TELECOMMUNICATION SYSTEMS LTD.	
SEPTEMBER 30, 2012 CONSOLIDATED INTERIM FINANCIAL STATEMENTS	F-18
Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 (unaudited)	F-19
Consolidated Statement of Operations for the Three and Nine Months ended September 30, 2012 and 2011 (unaudited)	F-21
Consolidated Statement of Changes in Equity (Deficit) for the Nine Months Ended September 30, 2012 and 2011 (unaudited)	F-22
Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (unaudited)	F-24
Notes to the Consolidated Interim Financial Statements (unaudited)	F-27
DECEMBER 31, 2011 CONSOLIDATED FINANCIAL STATEMENTS	F-39
Independent Auditor's Report	F-40
Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010	F-41
Consolidated Statement of Operations for the Year ended December 31, 2011, 2010 and 2009	F-43
Consolidated Statement of Changes in Equity (Deficit) for the Year ended December 31, 2011, 2010 and 2009	F-44
Consolidated Statement of Cash Flows for the Year ended December 31, 2011, 2010 and 2009	F-45
Notes to the Consolidated Financial Statements	F-47
COOL HOLDING LTD.	
SEPTEMBER 30, 2012 CONSOLIDATED INTERIM FINANCIAL STATEMENTS	F-156
Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 (unaudited)	F-157
Consolidated Statement of Operations for the Three and Nine Months ended September 30, 2012 and 2011 (unaudited)	F-159
Consolidated Statement of Changes in Equity (Deficit) for the Nine Months Ended September 30, 2012 and 2011 (unaudited)	F-161
Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (unaudited)	F-166
Notes to the Consolidated Interim Financial Statements (unaudited)	F-170

	Page
DECEMBER 31, 2011 CONSOLIDATED FINANCIAL STATEMENTS	F-185
Independent Auditor's Report	F-186
Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010	F-187
Consolidated Statement of Operations for the Year ended December 31, 2011, 2010 and 2009	F-189
Consolidated Statement of Changes in Equity (Deficit) for the Year ended December 31, 2011, 2010 and 2009	F-190
Consolidated Statement of Cash Flows for the Year ended December 31, 2011, 2010 and 2009	F-191
Notes to the Consolidated Financial Statements	F-194

MIRS COMMUNICATIONS LTD.

DECEMBER 31, 2010 CONSOLIDATED FINANCIAL STATEMENTS	F-307
Independent Auditor's Report	F-308
Consolidated Balance Sheets as of December 31, 2010	F-309
Consolidated Statement of Operations for the Year ended December 31, 2010	F-311
Consolidated Statement of Changes in Equity (Deficit) for the Year ended December 31, 2010	F-312
Consolidated Statement of Cash Flows for the Year ended December 31, 2010	F-313
Notes to the Consolidated Financial Statements	F-315

ALTICE FINANCING S.A.

Société Anonyme

Opening balance sheet at incorporation on August 17, 2012 and report of the réviseur d'entreprises agréé

37, rue d'Anvers
L-1130 Luxembourg
RCS Luxembourg : B 171162

ALTICE FINANCING S.A.

Société Anonyme

TABLE OF CONTENTS

	Page(s)
The Report of the Reviseur D'Entreprises Agree	F-5
Opening Balance Sheet	F-7
Notes to the Opening Balance Sheet	F-8

ALTICE FINANCING S.A.
Société Anonyme

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

To the Shareholders of
Altice Financing S.A.
37 rue d'Anvers
L-1130 Luxembourg

We have audited the accompanying opening balance sheet of Altice Financing S.A. as of August 17, 2012 and a summary of significant accounting policies and other explanatory information (together ''the opening balance sheet''). The opening balance sheet has been prepared under the responsibility of the Board of Directors using the basis of preparation described in Note 2.

Responsibility of the Board of Directors for the opening balance sheet

The Board of Directors is responsible for the preparation and fair presentation of this opening balance sheet in accordance with the basis of preparation described in Note 2. This includes determining that the basis of preparation is an acceptable basis for the preparation of the opening balance sheet in the circumstances, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the opening balance sheet that is 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 opening balance sheet 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 opening balance sheet are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the opening balance sheet. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the opening balance sheet, 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 opening balance sheet 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 Board of Directors appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the opening balance sheet. 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 opening balance sheet presents fairly, in all material respects, the financial position of Altice Financing S.A. as at incorporation on 17 August 2012 in accordance with the basis of preparation described in Note 2.

Other matters

Without modifying our opinion, we draw attention to Note 2 to the opening balance sheet, which describes the basis of preparation. The opening balance sheet is prepared for the sole purpose of inclusion in the Offering Memorandum of Altice Financing S.A. in relation to the issuance of a bond and is not suitable for any other purpose.

For Deloitte Audit, *Cabinet de révision agréé*

John Psaila, *Réviseur d'entreprises agréé*
Partner

November 20, 2012

ALTICE FINANCING S.A.
Société Anonyme

Opening balance sheet at incorporation on August 17, 2012

	Notes	August 17 2012
		EUR
ASSETS		
Current assets		
Cash and cash equivalents	5	31 000,00
Total assets		**31 000,00**
EQUITY AND LIABILITIES		
Shareholder's Equity		
Issued capital	3	31 000,00
Loss as at corporation		(1 740,06)
Total equity and reserves		29 259,94
Current liabilities		
Trade and other payables	4	1 740,06
Total equity and liabilities		**31 000,00**

The accompanying notes form an integral part of this opening balance sheet.

ALTICE FINANCING S.A.

Société Anonyme

NOTES TO THE OPENING BALANCE SHEET

As of August 17, 2012

NOTE 1:—CORPORATE INFORMATION

Altice Financing S.A. (hereafter ''the Company'') is a Luxembourg holding company incorporated on August 17, 2012 as a ''Société Anonyme'' for an unlimited period of time, subject to general company law. Its registered office is established at 37, rue d'Anvers, L-1130 Luxembourg.

The Company's financial year begins on 1 January and ends on 31 December of each year with the exception for the first financial year which began on August 17, 2012 (incorporated date) and will end on December 31, 2012.

The principal activity of the Company is to carry out all transactions pertaining directly or indirectly to the taking of participating interests in any entities in whatsoever form, as well as the administration, management, control and development of such participating interests, in the Grand Duchy of Luxembourg and abroad.

The Company may particularly use its funds for the setting-up, management, development and disposal of a portfolio consisting of any securities and intellectual property rights of whatever type or origin, participate in the creation, development and control of any entities, acquire by way of contribution, subscription, underwriting or by option to purchase and any other way whatsoever, any type of securities and intellectual property rights, realise them by way of sale, transfer, exchange or otherwise, have these securities and intellectual property rights developed. The Company may grant assistance (by way of loans, advances, guarantees or securities or otherwise) to companies or other entities in which the Company has an interest or which form part of the group of companies to which the Company belongs (including shareholders or affiliated entities) or any other companies. The Company may further pledge, transfer, encumber or otherwise create security over all or over some of its assets.

The Company may borrow and raise funds in any form by way of public offer or exempted public offer. It may issue any kind of debt instruments (including, but not limited to notes, bonds and debentures), whether convertible or not, and/or equity securities, which may be unlisted or listed.

In general, the Company may likewise carry out any financial, commercial, industrial, movable or real estate transactions, take any measures to safeguard its rights and make any transactions whatsoever which are directly or indirectly connected with its corporate object or which are liable to promote its development provided that the Company will not enter into any transaction which would constitute a regulated activity of the financial sector.

NOTE 2:—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The opening balance sheet of the Company has been prepared in accordance with IAS 1 and IAS 32 of the International Financial Reporting Standards as adopted in the European Union.

It has been prepared on the historical cost basis. Historical costs are usually based on the fair value of the consideration given in exchange for assets.

The measurement and recognition criteria of those international financial reporting standards applicable to the account balances are included in the opening balance sheet.

The principal accounting policies are set below:

2.1.1. Cash and cash equivalents

Cash includes cash in hand and cash at bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

NOTE 2:—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.2. Trade payables

Trade payables are stated at their nominal value.

2.1.3. Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax. Taxable profit may differ from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

NOTE 3:—ISSUED CAPITAL

The Company's equity is composed of ordinary shares as follows:

	17/08/2012
	EUR
Issued capital:	
31 000 ordinary shares of EUR 1 each	31 000,00

NOTE 4:—TRADE PAYABLES

This item is composed of amounts due to the notary in connection with expenses incurred at incorporation for an amount of EUR 1 740,06.

NOTE 5:—CASH AND CASH EQUIVALENTS

Cash and bank equivalents consist of the current account with the bank of all company, and are considered as cash and cash equivalents.

NOTE 6:—TAXATION

In the context of the opening balance sheet, no deferred tax asset has been recorded in relation to the loss incurred at incorporation since the Company's ability to crystallise the deferred tax asset amounting to EUR 501 is contingent upon the success of all contemplated funding operations.

NOTE 7:—RELATED PARTY DISCLOSURE

Board of Directors

The Company is managed by a Sole Director, ALTICE FINCO S.A.. The Sole Director is invested with the broadest powers to perform all acts of administration and disposition in compliance with the corporate objects of the Company.

NOTE 8:—SUBSEQUENT EVENTS

On August 23, 2012, the Company entered into a bridge facility agreement (the ''Bridge Loan Agreement'') between Altice Finco, as Holdco, the Company, as Borrower, COOL Holding Limited, a company with limited liability organized and existing under the laws of the State of Israel and of the Grand Duchy of Luxembourg, having its registered office at 16 Abba Hillel Silver St, Ramat Gan, 52008 Israel with Israeli registration number 514266022 and having its registered office and place of central administration at 37, rue d'Anvers, L-1130 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Company Register under number B 152.495 (''Cool'') as Original Guarantor, Goldman Sachs Bank USA, HSBC Bank plc and Morgan Stanley Bank International Limited as Arrangers, with HSBC Bank plc as Agent and HSBC Corporate Trustee Company (UK) Limited as Security Agent and the Lenders.

The Bridge Loan Agreement provides for up to USD 562,343,250 (equivalent to ILS 2,150,000) in borrowings which are available in three tranches subject to certain conditions, any proceeds of which are expected to be used by the Altice Finco to finance refinancing of certain indebtedness of Cool Holding Limited, finance the acquisition of the remaining shares of Hot-Telecommunications Systems Ltd, a company organized and existing under the laws of Israel with registered company number 520040072 (''HOT''), not owned by Cool Holdings (the ''Take-Private Transaction''), and pay the related fees and expenses. The commitments of the lenders under the Bridge Loan Agreement are to be reduced on a dollar-for-dollar basis by any proceeds Altice Finco receives from any offering of its debt securities that it may undertake.

Borrowing under the Bridge Loan Agreement is subject to customary conditions for financings of this type and additional conditions relating to the transaction, including the approval of the shareholders of HOT of the Take-Private Transaction. Any borrowings outstanding under the Bridge Loan Agreement would be due and payable on the later of (i) 12 months following the initial borrowing under the Bridge Loan Agreement and (ii) December 31, 2013.

Any borrowings by the Borrower under the Bridge Loan Agreement will bear interest at a rate of the higher of (i) variable rate based on LIBOR and (ii) 1.5% per annum plus, in each case, an applicable margin described in the Bridge Loan Agreement.

In connection with entering into the Bridge Loan Agreement, the Borrower has agreed to pay the lenders thereunder customary fees, including: (1) a commitment fee based upon the undrawn portion of commitments under the Bridge Loan Agreement; (2) a duration fee equal to a specified percentage of the aggregate principal amount of the outstanding borrowings under the Bridge Loan Agreement, if any, (3) a funding fee based upon the aggregate amount of the outstanding borrowings under the Bridge Loan Agreement, if any and (4) a refinancing fee to the extent outstanding borrowings under the Bridge Loan Agreement are prepaid, repurchased, redeemed, replaced or otherwise acquired or retired for value (other than with proceeds of certain specified events).

The Bridge Loan Agreement contains customary events of default, representations, warranties and covenants, including a financial covenant that requires the Borrower and Altice Finco to comply with a leverage ratio specified in the Bridge Loan Agreement.

ALTICE FINCO S.A.

Société Anonyme

Opening balance sheet and report of the réviseur d'entreprises agréé as of August 17, 2012

37, rue d'Anvers
L-1130 Luxembourg
RCS Luxembourg : B 171151

ALTICE FINCO S.A.

Société Anonyme

TABLE OF CONTENTS

	Page(s)
Report of the Reviseur D'Entreprise Agree	F-13
Opening Balance Sheet	F-14
Notes to the Opening Balance Sheet	F-15

ALTICE FINCO S.A.

Société Anonyme

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

To the Sole Shareholder of
Altice Finco S.A.
37 rue d'Anvers
L-1130 Luxembourg

We have audited the accompanying opening balance sheet of Altice Finco S.A. as of August 17, 2012 and a summary of significant accounting policies and other explanatory information (together ''the opening balance sheet''). The opening balance sheet has been prepared under the responsibility of the Board of Directors using the basis of preparation described in Note 2.

Responsibility of the Board of Directors for the opening balance sheet

The Board of Directors is responsible for the preparation and fair presentation of this opening balance sheet in accordance with the basis of preparation described in Note 2. This includes determining that the basis of preparation is an acceptable basis for the preparation of the opening balance sheet in the circumstances, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the opening balance sheet that is 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 opening balance sheet 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 opening balance sheet are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the opening balance sheet. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the opening balance sheet, 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 opening balance sheet 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 Directors, as well as evaluating the overall presentation of the opening balance sheet. 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 opening balance sheet presents fairly, in all material respects, the financial position of Altice Finco S.A. as at incorporation on August 17, 2012 in accordance with the basis of preparation described in Note 2.

Other matters

Without modifying our opinion, we draw attention to Note 2 to the opening balance sheet, which describes the basis of preparation. The opening balance sheet is prepared for the sole purpose of inclusion in Offering Memorandum of Altice Finco S.A. in relation to the issuance of a bond and is not suitable for any other purpose.

For Deloitte Audit, *Cabinet de révision agréé*

John Psaila, *Réviseur d'entreprises agréé*
Partner

November 20, 2012

ALTICE FINCO S.A.

Société Anonyme

Opening balance sheet as of August 17, 2012

	Notes	17/08/2012 EUR
ASSETS		
Current assets		
Cash and cash equivalents	5	35 000,00
Total assets		**35 000,00**
EQUITY AND LIABILITIES		
Shareholder's Equity		
Issued capital	3	35 000,00
Loss as at corporation		(1 749,27)
Total equity and reserves		33 250,73
Current liabilities		
Trade and other payables	4	1 749,27
Total equity and liabilities		**35 000,00**

The accompanying notes form an integral part of this opening balance sheet.

ALTICE FINCO S.A.

Société Anonyme

NOTES TO THE OPENING BALANCE SHEET

As of August 17, 2012

NOTE 1—CORPORATE INFORMATION

Altice Finco S.A. (hereafter ''the Company'') is a Luxembourg holding company incorporated on August 17, 2012 as a ''Société Anonyme'' for an unlimited period of time, subject to general company law. Its registered office is established at 37, rue d'Anvers, L-1130 Luxembourg.

The Company's financial year begins on 1 January and ends on 31 December of each year with the exception for the first financial year which began on August 17, 2012 (incorporated date) and will end on December 31, 2012.

The principal activity of the Company is to carry out all transactions pertaining directly or indirectly to the taking of participating interests in any entities in whatsoever form, as well as the administration, management, control and development of such participating interests, in the Grand Duchy of Luxembourg and abroad.

The Company may particularly use its funds for the setting-up, management, development and disposal of a portfolio consisting of any securities and intellectual property rights of whatever type or origin, participate in the creation, development and control of any entities, acquire by way of contribution, subscription, underwriting or by option to purchase and any other way whatsoever, any type of securities and intellectual property rights, realise them by way of sale, transfer, exchange or otherwise, have these securities and intellectual property rights developed. The Company may grant assistance (by way of loans, advances, guarantees or securities or otherwise) to companies or other entities in which the Company has an interest or which form part of the group of companies to which the Company belongs (including shareholders or affiliated entities) or any other companies. The Company may further pledge, transfer, encumber or otherwise create security over all or over some of its assets.

The Company may borrow and raise funds in any form by way of public offer or exempted public offer. It may issue any kind of debt instruments (including, but not limited to notes, bonds and debentures), whether convertible or not, and/or equity securities, which may be unlisted or listed.

In general, the Company may likewise carry out any financial, commercial, industrial, movable or real estate transactions, take any measures to safeguard its rights and make any transactions whatsoever which are directly or indirectly connected with its corporate object or which are liable to promote its development provided that the Company will not enter into any transaction which would constitute a regulated activity of the financial sector.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The opening balance sheet of the Company has been prepared in accordance with IAS 1 and IAS 32 of the International Financial Reporting Standards as adopted in the European Union. It has been prepared on the historical cost basis. Historical costs are usually based on the fair value of the consideration given in exchange for assets.

The measurement and recognition criteria of those international financial reporting standards applicable to the account balances are included in the opening balance sheet.

The principal accounting policies are set below:

2.1.1. Cash and cash equivalents

Cash includes cash in hand and cash at bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.2. Trade payables

Trade payables are stated at their nominal value.

2.1.3. Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax. Taxable profit may differ from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

NOTE 3—ISSUED CAPITAL

The Company's equity is composed of ordinary shares as follows:

	17/08/2012
	EUR
Issued capital:	
35 000 ordinary shares of EUR 1 each	35 000,00

NOTE 4—TRADE PAYABLES

This item is composed of amounts due to the notary in connection with expenses incurred at incorporation for an amount of EUR 1 749,27.

NOTE 5—CASH AND CASH EQUIVALENTS

Cash and bank equivalents consist of the current account with the bank of the company, and are considered as cash and cash equivalents.

NOTE 6—TAXATION

In the context of the opening balance sheet, no deferred tax asset has been recorded in relation to the loss incurred at incorporation since the Company's ability to crystallise the deferred tax asset amounting to EUR 504 is contingent upon the success of all contemplated funding operations.

NOTE 7—RELATED PARTY DISCLOSURE

Board of Directors

The Company is managed by a Sole Director, Altice VII S.à r.l.. The Sole Director is invested with the broadest powers to perform all acts of administration and disposition in compliance with the corporate objects of the Company.

NOTE 8—SUBSEQUENT EVENTS

On August 23, 2012, the Company entered into a bridge facility agreement (the ''Bridge Loan Agreement'') between the Company, as Holdco, Altice Financing, as Borrower, COOL Holding Limited, a company with limited liability organized and existing under the laws of the State of Israel and of the Grand Duchy of Luxembourg, having its registered office at 16 Abba Hillel Silver St, Ramat Gan, 52008 Israel with Israeli registration number 514266022 and having its registered office and place of central administration at 37, rue d'Anvers, L-1130 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Company Register under number B 152.495 (''Cool'') as Original Guarantor, Goldman Sachs Bank USA, HSBC Bank plc and Morgan Stanley Bank International Limited as Arrangers, with HSBC Bank plc as Agent and HSBC Corporate Trustee Company (UK) Limited as Security Agent and the Lenders.

The Bridge Loan Agreement provides for up to USD 562,343,250 (equivalent to ILS 2,150,000) in borrowings which are available in three tranches subject to certain conditions, any proceeds of which are expected to be used by the Company to finance refinancing of certain indebtedness of Cool Holding Limited, finance the acquisition of the remaining shares of Hot-Telecommunications Systems Ltd, a company organized and existing under the laws of Israel with registered company number 520040072 (''HOT''), not owned by Cool Holdings (the ''Take-Private Transaction''), and pay the related fees and expenses. The commitments of the lenders under the Bridge Loan Agreement are to be reduced on a dollar-for-dollar basis by any proceeds the Company receives from any offering of its debt securities that it may undertake.

Borrowing under the Bridge Loan Agreement is subject to customary conditions for financings of this type and additional conditions relating to the transaction, including the approval of the shareholders of HOT of the Take-Private Transaction. Any borrowings outstanding under the Bridge Loan Agreement would be due and payable on the later of (i) 12 months following the initial borrowing under the Bridge Loan Agreement and (ii) December 31, 2013.

Any borrowings by the Borrower under the Bridge Loan Agreement will bear interest at a rate of the higher of (i) variable rate based on LIBOR and (ii) 1.5% per annum plus, in each case, an applicable margin described in the Bridge Loan Agreement.

In connection with entering into the Bridge Loan Agreement, the Borrower has agreed to pay the lenders thereunder customary fees, including: (1) a commitment fee based upon the undrawn portion of commitments under the Bridge Loan Agreement; (2) a duration fee equal to a specified percentage of the aggregate principal amount of the outstanding borrowings under the Bridge Loan Agreement, if any, (3) a funding fee based upon the aggregate amount of the outstanding borrowings under the Bridge Loan Agreement, if any and (4) a refinancing fee to the extent outstanding borrowings under the Bridge Loan Agreement are prepaid, repurchased, redeemed, replaced or otherwise acquired or retired for value (other than with proceeds of certain specified events).

The Bridge Loan Agreement contains customary events of default, representations, warranties and covenants, including a financial covenant that requires the Borrower and the Company to comply with a leverage ratio specified in the Bridge Loan Agreement.

HOT—TELECOMMUNICATION SYSTEMS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2012

NIS IN MILLIONS

UNAUDITED

INDEX

	Page
Consolidated Balance Sheets	F-19–F-20
Consolidated Statements of Comprehensive Income	F-21
Consolidated Statements of Changes in Equity	F-22–F-23
Consolidated Statements of Cash Flows	F-24–F-26
Notes to Interim Consolidated Financial Statements	F-27–F-38

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

	As of September 30		As of December 31
	2012	2011	2011
	Unaudited		Audited
	NIS Millions		
Current Assets			
Cash and cash equivalents	7	120	16
Trade receivables	487	170(*)	361(*)
Other receivables	66	56	79
Inventory	30	—	24
	590	346	480
Non-Current Assets			
Long-term trade receivables	90	—	85
Investment in financial asset available for sale	27	45	42
Long term receivables	117	107(*)	103(*)
Fixed assets, net	4,108	3,074	3,763
Intangible assets, net	786	478	837
Goodwill	1,264	1,057	1,264
Deferred taxes	46	37	71
	6,438	4,798	6,165
	7,028	5,144	6,645

(*) Reclassified, see Note 2C.

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS (Continued)

	As of September 30		As of December 31
	2012	2011	2011
	Unaudited		Audited
	NIS Millions		
Current Liabilities			
Credit from banking entities and others and current maturities of bonds	406	107(*)	436(*)
Trade payables	1,136	554	814(*)
Other payables	429	261(*)	310(*)
Provision for legal claims	111	309	168
	2,082	1,231	1,728
Non-Current Liabilities			
Loans from banking entities and bonds	2,706	1,812(*)	2,064(*)
Other long-term liabilities	382	149(*)	555
Prepaid income for terminal equipment instillation	55	38	42
Employee benefit liabilities, net	28	22	23
Deferred taxes	324	89	302
	3,495	2,110	2,986
Equity			
Share capital	96	96	96
Treasury shares	(184)	—	—
Share premium	1,655	1,654	1,654
Capital reserve for share-based payments	46	25	31
Capital reserve on available for sale financial asset	9	24	21
Retained earnings accumulated (losses)	(171)	4	129
	1,451	1,803	1,931
	7,028	5,144	6,645

(*) Reclassified, see Note 2C.

November 11, 2012			
Financial Statements Approval Date	**Stella Handler Chairman of the Board of Directors**	**Hertzel Ozer Chief Executive Officer**	**Jean-Luc Berrebi Chief Financial Officer**

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the 9 Months ended September 30		For the 3 Months ended September 30		For the Year ended December 31
	2012	2011(*)	2012	2011(*)	2011(*)
	Unaudited				Audited
	NIS Millions (Except for Net Earnings (Loss) per Share Data)				
Revenues	3,126	2,482	1,067	836	3,374
Depreciation and amortization	792	609	283	209	844
Operating expenses	1,651	1,184	601	402	1,621
Sales and marketing expenses	238	165	75	63	242
Administrative and general expenses	123	89	42	31	130
Other expenses (income), net and network set up expenses (see Note 2D)	—	16	(21)	20	(103)
Operating income	322	419	87	111	640
Financing income	24	19	7	31	31
Financing expenses	(236)	(178)	(84)	(60)	(230)
Income before taxes on income	110	260	10	82	441
Taxes on income	45	44	8	24	100
Net income	65	216	2	58	341
Other comprehensive income (loss) (after tax effect):					
Income (loss) on available for sale financial asset	(12)	(33)	5	(14)	(36)
Other comprehensive income (loss)	(12)	(33)	5	(14)	(36)
Total comprehensive income	53	183	7	44	305
Net earnings per share attributable to Company's shareholders (in NIS)					
Basic net earnings	0.86	2.80	0.03	0.75	4.41
Diluted net earnings	0.86	2.78	0.03	0.74	4.38

(*) Reclassified, see Note 2C.

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share Premium	Capital Reserve on Share-Based Payments	Treasury shares	Reserve on Available for Sale Financial Asset	Retained Earnings (Accumulated losses)	Total Equity
	Unaudited NIS Millions						
Balance as of January 1, 2012 (audited)	96	1,654	31	—	21	129	1,931
Net income	—	—	—	—	—	65	65
Other comprehensive loss, net of tax	—	—	—	—	(12)	—	(12)
Total comprehensive income (loss)	—	—	—	—	(12)	65	53
Purchase of treasury shares	—	—	—	(184)	—	—	(184)
Dividend paid	—	—	—		—	(365)	(365)
Exercise of option warrants into shares	—(*)	1	(1)	—	—	—	—(*)
Cost of share-based payments	—	—	16	—	—	—	16
Balance as of September 30, 2012	96	1,655	46	(184)	9	(171)	1,451

(*) An amount that is less than NIS 1 million.

	Share Capital	Share Premium	Capital Reserve on Share-Based Payments	Reserve on Available for Sale Financial Asset	Retained Earnings (Accumulated losses)	Total Equity
	Unaudited NIS Millions					
Balance as of January 1, 2011 (audited)	95	1,572	9	57	(212)	1,521
Net income	—	—	—	—	216	216
Other comprehensive loss, net of tax	—	—	—	(33)	—	(33)
Total comprehensive income (loss)	—	—	—	(33)	216	183
Issuance of shares capital	1	82	—	—	—	83
Cost of share-based payments	—	—	16	—	—	16
Balance as of September 30, 2011	96	1,654	25	24	4	1,803

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Share Capital	Share Premium	Capital Reserve on Share-Based Payments	Treasury shares	Reserve on Available for Sale Financial Asset	Retained Earnings (Accumulated losses)	Total Equity
	Unaudited NIS Millions						
Balance as of July 1, 2012	96	1,655	42	(184)	4	(173)	1,440
Net income	—	—	—	—	—	2	2
Other comprehensive income, net of tax	—	—	—	—	5	—	5
Total comprehensive income	—	—	—	—	5	2	7
Cost of share-based payments	—	—	4	—	—	—	4
Balance as of September 30, 2012	96	1,655	46	(184)	9	(171)	1,451

	Share Capital	Share Premium	Capital Reserve on Share-Based Payments	Reserve on Available for Sale Financial Asset	Retained Earnings (Accumulated losses)	Total Equity
	Unaudited NIS Millions					
Balance as of July 1, 2011	96	1,654	18	38	(54)	1,752
Net income	—	—	—	—	58	58
Other comprehensive loss	—	—	—	(14)	—	(14)
Total comprehensive income (loss)	—	—	—	(14)	58	44
Cost of share-based payments	—	—	7	—	—	7
Balance as of September 30, 2011	96	1,654	25	24	4	1,803

	Share Capital	Share Premium	Capital Reserve on Share-Based Payments	Reserve on Available for Sale Financial Asset	Retained Earnings (Accumulated losses)	Total Equity
	Audited NIS Millions					
Balance as of January 1, 2011	95	1,572	9	57	(212)	1,521
Net income	—	—	—	—	341	341
Other comprehensive loss, net of tax	—	—	—	(36)	—	(36)
Total comprehensive income (loss)	—	—	—	(36)	341	305
Issuance of share capital	1	82	—	—	—	83
Cost of share-based payments	—	—	22	—	—	22
Balance as of December 31, 2011	96	1,654	31	21	129	1,931

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the 9 Months Ended September 30		For the 3 Months Ended September 30		For the Year Ended December 31
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS Millions				
Cash flows from operating activities					
Net income	65	216	2	58	341
Adjustments required to present cash flows from current activities:					
Adjustments to items in the statement of income:					
Depreciation and amortization	792	609	283	209	844
Taxes on income	45	44	8	24	100
Change in employee benefit liabilities, net	5	4	—	1	5
Gain on the disposal of fixed assets	(1)	—	(1)	—	
Linkage differentials and amortization of discounts relating to long-term loans from financial institutions and bonds	23	17(*)	10	6(*)	15
Revaluation of other long-term liabilities	2	9(*)	(13)	2(*)	19
Cost of share-based payments	16	16	4	7	22
Financing and other expenses, net	54	91	(21)	30	110
	936	790	270	279	1,115
Changes in asset and liability items:					
Decrease (increase) in trade receivables	(126)	1(*)	(49)	(4)(*)	(2)(*)
Decrease (increase) in other receivables and long-term receivables	(22)	(34)(*)	4	(14)(*)	(33)(*)
Prepaid expenses paid to sales sub-contractors	(76)	—	(29)	—	—
Increase in subscription acquisition costs	—	(25)	—	(4)	(26)
Decrease (increase) in inventory	(6)	—	5	—	1
Decrease (increase) in long-term trade receivables	(5)	—	1	—	(6)
Increase in trade payables	115	19	79	16	43
Increase (decrease) in other payables	(16)	—(*)	10	(2)(*)	—(*)
Increase (decrease) in provision for legal claims	(57)	36	(55)	19	(105)
Increase (decrease) in other long-term liabilities	(13)	(2)(*)	(4)	(1)(*)	2
Increase in advances for the instillation of terminal equipment, net	15	1	6	2	5
	(191)	(4)	(32)	12	(121)
Cash paid and received during the period for:					
Interest paid	(85)	(64)	(17)	(3)	(105)
Interest received	10	1	4	—	4
Taxes received	13	—	13	—	—
Dividends received	—	3	—	—	6
	(62)	(60)	—	(3)	(95)
Net cash provided by operating activities	748	942	240	346	1,240

(*) Reclassified, See Note 2C.

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the 9 Months Ended September 30		For the 3 Months Ended September 30		For the Year Ended December 31
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS Millions				
Cash flows from investment activities					
Acquisition of initially consolidated, consolidated company (A)	—	—	—	—	(480)
Acquisition of fixed assets and intangible assets	(752)	(345)(*)	(175)	(93)(*)	(511)(*)
Consideration from the disposal of fixed assets	2	1(*)	2	—(*)	—
Change in designated cash, net	—	121	—	—	121
Net cash used in investment activities	(750)	(223)	(173)	(93)	(870)
Cash flows from financing activities					
Short-term credit from banking entities, net	(179)	(191)	(199)	(121)	(225)(*)
Receipt of long-term loans from financial institutions, net of reorganization commissions and the issuance of bonds	950	1,881(*)	250	—(*)	2,181(*)
Repayment of long term loans from banking entities	(174)	(2,329)	(131)	—	(2,338)
Increase in other long-term liabilities	2	—	1	—	3(*)
Repayment of other long-term liabilities and bonds	(57)	(44)(*)	(19)	(12)(*)	(59)
Issuance of share capital	—	83	—	—	83
Dividend to shareholders in the Company	(365)	—	—	—	—
Purchase of treasury shares	(184)	—	—	—	—
Net cash used in financing activities	(7)	(600)	(98)	(133)	(355)
Increase (decrease) in cash and cash equivalents	(9)	119	(31)	120	15
Balance of cash and cash equivalents at the beginning of the period	16	1	38	—	1
Balance of cash and cash equivalents at the end of the period	7	120	7	120	16

(*) Reclassified—see Note 2C.

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the Year Ended December 31 2011
	Audited
	NIS Millions
(a) *Acquisition of initially consolidated, consolidated company*	
Assets and liabilities of the consolidated company at the time of the acquisition:	
Working capital (excluding cash and cash equivalents)	316
Non-current liabilities, including for conditional consideration	403
Fixed assets	(640)
Intangible assets	(389)
Goodwill	(207)
Other long-term fixed assets	(83)
Deferred tax liabilities, net	120
	(480)

	For the 9 Months Ended September 30		For the 3 Months Ended September 30		For the Year Ended December 31
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS Millions				
(b) *Material non-cash activities*					
Acquisition of fixed assets on deferred terms	448	153	448	153	241
Acquisition of fixed assets under finance leasing	49	15	49	15	34(*)

(*) Reclassified—see Note 2C.

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

NOTE 1:—GENERAL

a. HOT—Telecommunication Systems Ltd. (hereinafter—''The Company'') together with its subsidiaries (hereinafter—''The Group'') is one of the largest providers of communication services in Israel and is engaged in three major fields of activity: Telecom (internet and telephone), cable television, and providing cellular services using advanced technology.

b. The Company is registered in Israel and its shares are traded on the Tel Aviv Stock Exchange. The interim consolidated financial statements of the Company include the financial information of the Group.

c. The Controlling shareholder of the Company is Cool Holding Ltd.

d. Those financial statements were approved by the Company's Board of Directors on November 11, 2012.

e. These financial statements have been prepared in condensed format as of September 30, 2012 and for the periods of nine and three months than ended on that date (hereinafter—''The Interim Consolidated Financial Statements''). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2011 and for the year then ended and the accompanying notes thereto (hereinafter—''The Consolidated Annual Financial Statements'').

f. As of the September 30, 2012 the Group has a working capital deficit of approximately NIS 1,492 million (as of December 31, 2011—approximately NIS 1,248 million). The Group's management estimates that upon the date when financial statements are authorized for issue it has sufficient resources to cover the deficit on its working capital and for its continuing operations, inter alia, by means of unused credit lines.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES

a. The consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods as determined in International Accounting Standard IAS 34 ''Financial reporting for interim periods'' and also with the disclosure provisions in accordance with Chapter D of the Securities Regulations (Periodic and interim reports)—1970. The main accounting policies and calculation methods that have been implemented in the preparation of the Interim Consolidated Financial Statements are consistent with those that were implemented in the preparation of the Consolidated Annual Financial Statements.

b. The Interim Consolidated Financial Statements do not contain all of the information that is recorded in the annual consolidated financial statements, but rather they only contain the changes that have occurred.

c. Reclassification and change in the structure of the presentation of the statement of comprehensive income:

   1. Change in the structure of the presentation of the statement of comprehensive income:

      Within the framework of these interim consolidated financial statements, the Company's management has decided to change the structure of the statement of comprehensive income. The Company's management believes that the current presentation structure represent more fairly and more reliably its financial results. The said change did not affect the reported results or on the Company's financial position.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is the impact of the change on the structure of the presentation for the periods of nine and of three months ended September 30, 2011 and for each of the years ended on December 31, 2011, 2010 and 2009:

	For the period of nine months ended September 30, 2011			For the period of three months ended September 30, 2011		
	As previously reported	The change	As presented after restatement	As previously reported	The change	As presented after restatement
	NIS Millions (unaudited)					
Gross profit	781	(781)	—	256	(256)	—
Depreciation	517	92	609	178	31	209
Amortization of intangible assets	89	(89)	—	30	(30)	—
Selling and marketing expenses	166	(1)	165	64	(1)	63
Administrative and general expenses	91	(2)	89	31	—	31
Net income	216	—	216	58	—	58

	For the year ended December 31, 2011			For the year ended December 31, 2010		
	As previously reported	The change	As presented after restatement	As previously reported	The change	As presented after restatement
	NIS Millions (audited)					
Gross profit	1,045	(1,045)	—	890	(890)	—
Depreciation and amortization	708	136	844	665	118	783
Selling and marketing expenses	244	(2)	242	204	(2)	202
Administrative and general expenses	134	(4)	130	129	(4)	125
Net income	341	—	341	106	—	106

	For the year ended December 31, 2009		
	As previously reported	The change	As presented after restatement
	NIS Millions (audited)		
Gross profit	654	(654)	—
Depreciation and amortization	747	116	863
Selling and marketing expenses	183	(1)	182
Administrative and general expenses	125	(5)	120
Net income	85	—	85

2. *Reclassification:*

The Company has reclassified certain items in the comparative period presented in the Interim Consolidated Financial Statements, in order to adjust them to the classification presented in the current period.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The main reclassifications that have been made include:

a) A reclassification in respect of the balance in respect of the finance lease liabilities as of September 30, 2011, in an amount of approximately NIS 31 million from loans from financial institutions and debentures to other long-term liabilities and an amount of approximately NIS 12 million in respect of finance lease from credit from financial institutions and others and current maturities of debentures to other payables.

Furthermore, a reclassification has been made in the statement of cash flows of the finance lease for the year ended December 31, 2011 and for the periods of nine and of three months ended September 30, 2011 in respect of finance lease in the amounts of NIS 28 million, NIS 9 million and NIS 9 million, respectively from the acquisition of fixed assets, which formed part of the cash flows net used for investment activities and from the increase in other long-term liabilities, which formed part of net cash provided by financing activities to significant non-cash financing activities (2010—an amount of NIS 35 million).

(b) A reclassification of prepaid income from other payables to trade receivables as of December 31, 2010, as of September 30, 2011 and as of December 31, 2011, in the amounts of NIS 14 million, NIS 18 million and NIS 18 million, respectively.

(c) A reclassification of the liabilities in respect of debentures from the item debentures to loans from financial institutions and debentures (by way of the unification of items), as of September 30, 2011 and as of December 31, 2011, in the amounts of NIS 1,441 million and NIS 1,439 million, respectively.

Furthermore, a reclassification has been made in respect of current maturities of debentures to credit from financial intuitions and current maturities of debentures (by way of the unification of items) as of September 30, 2011 and as of December 31, 2011, in the amount of NIS 61 million. The aforesaid also has an appropriate impact on the statements of cash flows for the said periods.

(d) A reclassification in respect of expenses payable to suppliers as of December 31, 2011 in an amount of NIS 13 million from other payables to trade payables.

(e) A reclassification in respect of broadcasting rights movies (by way of the unification of items) from broadcasting rights movies and programs to other long-term receivables as of December 31, 2010, as of September 30, 2011 and as of December 31, 2011, in the amounts of NIS 67 million, NIS 72 million and NIS 69 million, respectively

d. Expenses relating to the setting up of the network:

Costs relating to the advanced cellular services on a 3.9 Generation GSM network, which was launched by Hot Mobile in May 2012, which include other operating costs, administrative and general expenses and selling and marketing expenses, for the period of nine months ended on September 30, 2012 and for the period from November 28, 2011 until December 31, 2011, expenses relating to the setting up of the network in the amounts of approximately NIS 11 million and NIS 1 million, respectively have been recorded under other expenses.

NOTE 3:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD

a. The Group is subject to a broad range of legislation, which organizes the activity in the communications market in Israel, including the Communication Law (Telecommunications and Broadcasting)—1982, (hereinafter—''The Communication Law'') and the regulations and directives promulgated thereunder, the provisions of the broadcasting license and the Fixed-line Operator license.

NOTE 3:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

The following are the main developments accrued in the regulatory field compared to the annual consolidated financial statements. These developments have been published in the relevant official gazettes:

1. On March 21, 2012 the Knesset passed an Amendment to the Communication Law in respect of the placing of a prohibition on a license holder from making a connection between the commitment of a subscriber to receive mobile telephone services and the commitment by that same subscriber to rent, borrow or lease terminal equipment. The Amendment will apply as from January 1, 2013. The Minister of Communications has been given the possibility of deferring that time by six months. In addition, the Knesset passed an Amendment to the Communications Law in respect of the placing of a prohibition on the collection of an exit fee as from November 1, 2011 and thereafter, on the cancellation of an agreement as from the time of the entry into force of the amendment to the law.
2. On May 2, 2012 the Ministry of Communications approved a final policy document based on the recommendations of the Hayek Committee, relating to the creation of a wholesale market in the landline market.
3. On May 3, 2012 the Ministry of Communications and the Committee for the Selection of an Investor for a Communications Company announced its decision to make changes in the course of the selection, which would significantly improve the feasibility of a communications venture of the Electricity Corporation.
4. On June 26, 2012, the Ministry of Communications published a hearing on the subject of Gigabit Ethernet Connections (GBE) to ISP suppliers.
5. On July 3, 2012, the Ministry of Communications announced the amendment of the licenses held by Bezeq and its subsidiary companies, in such manner that will enable them to market joint bundles of services to the business sector as well.
6. On July 10, 2012, the Finance Committee approved the amendment to the Communications Regulations (Telecommunications and Broadcasting) (Royalties) (Temporary Provisions)—2012, and the wording of the amendment was published in the Official Gazette on August 1, 2012.
7. In July 2012, the Supreme Court gave instructions for the extension for a limited period of the temporary order that prohibits the setting up of wireless access facilities with an exemption from a building permit, in relation to HOT Mobile and Golan Telecom until January 31, 2013. An additional hearing has been set in the Case. On July 17, 2012, the Interior and Environmental Committee of the Knesset approved the Un-ionized Radiation Bill (Amendment No. 3) (Safety and the maximum level for a source of radiation in radio frequencies) for its first reading. The bill contains significant restrictions that relate to the placement and operation of wireless access instillations.
8. On July 24, 2012, the Knesset approved an amendment to the Telecommunications Law, on the subject of financial penalties, which was published in the Official Gazette on August 5, 2012.
9. On September 27, 2102 the Council for Cable TV and Satellite Broadcasting announced that it had decided to require the cable and satellite companies to offer subscribers a reduced package of channels (''the narrow package''), and that this is in obligation to their duty to offer a basic package of channels. The Company will be given time until December 1, 2012 to get organized for this decision.
10. On September 11, 2012, the Ministry of Communications announced that the blocking or restriction of the use of terminal equipment as ''a hot spot'' that distributes radio signals (Wifi) in a manner that enables additional nearby equipment to use the subscriber's cellular internet is a contravention of the law and that it is to be discontinued and avoided.

NOTE 3:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

The Company is studying the said developments. In the Company's assessment, some of the regulatory restrictions and the developments in the field may cause changes in the patterns of consumption of the Group's subscribers, to a significant reduction in the Company's income and as a result of this a significant negative impact may arise on the Company's business and on its business results in the future. The Company's management assesses that as of the time of the report, no significant worsening has occurred in the Company's business and its current business results.

b. On May 21, 2012, the Registrar of companies approved the changing of Mirs Communications Ltd.'s name to ''Hot Mobile Ltd.'' (hereinafter—''Hot Mobile''). In continuation of the purchase of Hot Mobile on November 28, 2011, on May 14, 2012, the Group launched advanced cellular services on a 3.9 Generation GSM network. In parallel, the company Golan Telecom Ltd. launched its UMTS network. In March 12, 2012, the Ministry of Communications determined that the prefix 053 would be allocated for use by Hot Mobile. The vacation of the prefix 057 will be done gradually.

c. On May 30, 2012, ''Mirs International Communications Ltd.'' received a general license for the provision of international communications services. In August 2012 Mirs International Communications Ltd.'s name was changes to ''Hot Mobile International Communications Ltd''.

d. On June 28, 2012 the Company's Board of Directors approved a program for the buy-back (by the Company or by its wholly owned subsidiary company) of debentures (Series A) and debentures (Series B) of the Company, which are traded on Tel-Aviv Stock Exchange. As of the date of the approval of the financial statement, the Company has not re-purchased any debentures.

e. In continuation of what is stated in Note 1A(4)(b)(6) to the Consolidated Annual Financial Statements, in connection with the Council's decision on the matter of the manner of the collection of payments from the Company's customers, the Company has began to gradually transfer the subscription charge from a payment for services in respect of the current month to a payment for services in respect of the previous month. In accordance with the Council's decision, the Company is required to complete the transition of the charge for all of the subscribers by December 31, 2012.

f. In accordance with the Un-ionized Radiation Law—2006 (hereinafter—The Radiation Law), the Supervisor of Radiation has authority to direct the cessation and/or the removal of a source of radiation that is operated other than in accordance with the provisions of the Law. In addition, the construction or the operation of a source of radiation other than in accordance with the provisions of the Law constitutes an offense that could lead to fines and other punishments in accordance with what is set forth in the Law. All of HOT Mobile's sites on the UMTS network were constructed in accordance with construction permits from the Ministry of the Environment, as is required under the Radiation Law, which were granted in November 2011 and are in force for one year. As from the time of the receipt of the construction permit the holder of the permit is authorized to operate the sites that are the subject of the operating permit for a period of three months, following which it must receive an operating permit. As from May 2012, the Company has begun the construction of sites in accordance with the construction permits that it has received.

During the course of August 2012, HOT Mobile presented applications to the Ministry of the Environment for the receipt of permits for the operation of sites, in accordance with the Radiation Law.

In continuation, and in accordance with the HOT Mobile's request, in November 2012 the Company had begun to receive site operation permits. A requirement has been set in the permits for connection to the Ministry of the Environment's monitoring system by February 5, 2013.

g. On November 11, 2012, the Company's Board of Directors approved the extension of a guarantee to HOT Telecom, as collateral for all the payments that HOT Telecom owes or that it may owe in the future to Techicolor, under the agreement.

NOTE 3:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

h. In continuation to Note 15 to the Company's annual financial statements and to Note 5c to these financial statements, in relation to the calling of a special general meeting of the Company to approve a transaction for the merger of the Company with a subsidiary company of the controlling shareholder, and in respect of valuation performed by an external expert, which was received by the Company for the purpose of testing the fairness of the price in the purchase offer for the shares in the Company that are held by the shareholders other than the controlling shareholders, the Company has came to the conclusion that the forecasts that were used by the expert in the execution of the work involved in the valuation of the Company and the valuation that was made in that work constitute an indicator, as defined in IAS 36, that requires the Company's management to conduct an impairment test for the various cash-generating units that include the goodwill.

In the light of the evaluation that had been received for each of the cash-generating units, the Company reached the conclusion that the recoverable amount of each cash-generating unit exceeds its amounts.

The fair value of the different cash-generating units has been determined by dividing of the value of the Company as a whole into the value of the various units, inter alia, by means of the allocation of the expected cash flows to the various cash-generating units. The real discount rate that was used for discounting of the cash flows of the cable television segment and the telecom segment is 9%, whereas the real discount rate that was used for discounting the cash flows of the cellular segment is 9.5%. The cash flow forecast for the period that exceeds 5 years have been estimated using a fix growth rate of 0.5% in the cable television segment and the telecom segment and 2.5% in the cellular segment.

The following are the main assumptions that were used in the evaluation the value of the value of the various cash-generating units as of September 30, 2012:

The key assumptions that have been used in the evaluation of the various units

The calculation of the value of the various units is subject to changes in the following assumptions:

- Revenues.
- Operating expenses.
- Selling and marketing expenses.
- Administrative and general expenses.
- Investments.
- The weighted cost of capital.
- Long-term growth.

Revenues – The level of the revenues is derived from changes in the number of subscribers and from changed in the average income per subscriber over the length of the period of the forecast.

Operating expenses – The operating expenses (other than depreciation expenses), are mostly fixed and semi-fixed, where the pronounced expenses are content, salary costs and network maintenance.

Selling and marketing expenses – The selling and marketing expenses primarily include salary expenses and advertising and marketing expenses that have been estimated for the purposes of the forecast at a rate of 6%—7% % of the revenues in the cable television segment, at a rate of 4% of the revenues in the telecom segment and at a rate of 6%—12% of revenues in the cellular telecommunications segment.

Administrative and general expenses – The administrative and general expenses are primarily fixed.

NOTE 3:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

The weighted cost of capital – The real discount rate that has been taken for the cable television segment and the telecom segment is 9% after tax, reflecting a pre-tax discount rate of 12%. The discount rate for the cable television segment and the telecom segment reflects equity of approximately 14.2%, and interest rate of approximately 5% on debt and a growing rate of approximately 50% of the overall assets.

The real discount rate that was taken for the cellular segment is 9.5% after tax, reflecting a pre-tax discount rate of 12.7%. The discount rate for the cellular segment reflects equity of approximately 15.2%, and interest rate of approximately 5% on debt and a growing rate of approximately 50% of the overall assets.

Long-term growth – The long-term growth rate for the cable television segment and the telecom segment is 0.5% a year, whereas the long-term growth rate for the cellular segment is 2.5% a year.

h. In continuation of Note 24 to the annual financial statements and to what is stated in section f above, during the reporting period the Company's management updated its forecast in respect of the amount of the contingent consideration on the purchase of the shares in HOT Mobile, which was done as the result of the updating of its forecasts for the EBITDA targets and the market share target in the years from 2013 to 2016, inclusive, such that in the Company's assessment, which is based, inter alia, on an external evaluation, the fair value of the payable in respect of an acquisition (the liability in respect of the contingent consideration) as of September 30, 2012 is NIS 336 million. As a result of this the Company recognized a gain in an amount of NIS 21 million in the third quarter of 2012 under other income.

NOTE 4:—CONTINGENT LIABILITIES

During the normal course of business, legal claims have been filed against the companies in the Group companies and various legal proceedings are outstanding against them (hereinafter—''The Legal Claims'').

In the opinion of the managements the Group companies, based, inter alia, on legal opinions in respect of the chances of the legal claims, a provision in amount of NIS 111 million has been recorded in the financial statements as of September 30, 2012, in cases where provisions are required, in order to cover the exposure as the result of the Legal Claims.

In the opinion of the managements Group companies, the additional exposure, in an amount of approximately NIS 7.4 billion (an amount of NIS 2.9 billion in respect of claims that were filed after the balance sheet date) (over and above the provisions that have been recorded in these financial statements), as of September 30, 2012 as a result of legal claims that have been filed against the Group companies on various matters, is as follows:

a. An amount of approximately NIS 1.8 billion in respect of claims, in respect of which in the assessment of the management of the Group companies, 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 3.7 billion (an amount of NIS 2.9 billion in respect of claims that were filed after the balance sheet date) in respect of claims, in respect of which it is not yet possible to make an assessment, the main ones being in connection with the approval of class actions that were presented close to the date of the financial statements.

c. An amount of approximately NIS 1.9 billion 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%.

NOTE 4:—CONTINGENT LIABILITIES (Continued)

The following is an abbreviated summary of the Group's contingent liabilities effective as of September 30, 2012 in accordance with groupings having similar characteristics:

a. Claims by customers:

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by customers amounts to approximately NIS 6.6 billion. Of the said claims an amount of NIS 2.9 billion relates to claims which it is not possible to assess at this stage and which relate primarily to applications for the approval of class actions, which were presented after the balance sheet date.

In the opinion of the management of the Group companies, based, inter alia on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 12.2 million (which in the periods of nine months and three months ended September 30, 2012, includes increases in the net liability by the amounts of NIS 5.4 million and NIS 1.4 million respectively), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of those claims.

b. Claims in connection with copyright:

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims in connection with allegations of breach of copyright and the payment of appropriate royalties by the Group, amounts to NIS 121 million. In the opinion of the management of the companies in the Group, based, inter alia on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 88.65 million (which in the periods of nine months and three months ended September 30, 2012, includes increases in the net liability by an amount of NIS 1.3 million and NIS 0.5 million, respectively), where provisions are required to cover the exposure as the result of the claims.

The amount of the provision includes an amount of NIS 63 million in respect of compromise agreements with a number of copyright organizations.

c. Claims by suppliers and communications providers:

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by suppliers and communications providers amounts to NIS 710 million. In the opinion of the management of the companies in the Group, based, inter alia on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 9.6 million (which in the periods of nine months ended September 30, 2012 includes an increase in the net liability by an amount of NIS 7.3 million), where provisions are required to cover the exposure as the result of the claims.

d. Claims by employees:

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by employees amounts to NIS 4 million, and it relates primarily to individual claims. In the opinion of the managements of the companies in the Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements, where provisions are required to cover the exposure as the result of the claims.

NOTE 5:—EQUITY

a. On January 31, 2012, the Company's Board of Directors approved a distribution of a dividend in an overall amount of NIS 365 million, representing a dividend of NIS 4.699 per share, where the effective date was determined to be February 7, 2012. The dividend was paid on February 19, 2012.

NOTE 5:—EQUITY (Continued)

b. On May 31, 2012 the Company published a private purchase offer for the purchase of 4,842,105 ordinary shares of par value NIS 1, which constitute 6.23% of the Company's issued and paid-up capital and of its voting rights (5.95% of the capital at full dilution), which are held by the Company's shareholders, at a price of NIS 38 per share. The final amount of the consideration for the purchase of the shares amounted to NIS 184 million. The Company completed the purchase of the shares on June 19, 2012. The shares that are held by the Company have been recorded in accordance with the amount paid and are presented as a deduction from the Company's shareholders' equity. Any gain or loss deriving from the purchase, sale, issuance or cancellation of the treasury shares is reflected directly in equity.

c. On August 26, 2012 the Company announced that it had received an approach from Cool Holdings Ltd., the controlling shareholders in the Company (hereinafter—''Cool''), within the framework of which Cool would like to acquire all of current outstanding shares of the Company which are not held by Cool, and which would be performed by way of the triangle reverse statutory merger (hereinafter—''the transaction'').

   On September 28, 2012 the Company entered into a merger agreement with companies which are owned by the controlling shareholder. Within the framework of the merger, all of the Company's shares will be acquired, except for shares which are held by the controlling shareholder and shares of the Company which are held by the Company, constituting approximately 31% of the Company's issued and outstanding share capital, such that following the merger the controlling shareholder will hold, directly and indirectly, 100% of the Company's issued share capital.

   The Company's shares will be delisted from trading on Tel-Aviv Stock Exchange and it will become a private company, which is a reporting company, within the definition of that term in the Companies Law—1999. The consideration for the merger that was set at that time was NIS 38 per share (see below in respect of the updating of the price per share).

   The Completion of the merger transaction is subject to various conditions, which include, inter alia: (1) the receipt of the approval of a general meeting of the Company, with the majority that is required under the Companies Law, (2) the receipt of approval from the Ministry of Communications and the Cable Broadcasting Council, (3) the receipt of all third parties consents which are required in connection with the completion of the merger, including the agreement of the financial institutions which granted financing available to the Company. After the balance sheet date Cool and the Company received the consents of the relevant financial intuitions for the execution of the transaction, in accordance with the terms that were set with them.

   The completion of the merger (closing) will take place shortly after all of the crucial conditions for the merger, which are required to be met prior to the time of the closing, have been met. It was stipulated in the merger agreement that in case of non completion of the agreement after 180 days following signing, the agreement can be cancelled by any of the parties, subject to the conditions that were stipulated therein.

   On November 1, 2012 an approach was received from the controlling shareholder in the Company in respect of the updating of the consideration that was proposed per share within the framework of the merger, such that the consideration will stand at NIS 41 per share instead of NIS 38 per share, as aforesaid.

   On November 5, 2012 Cool updated the Company that it had entered into separate agreements with two shareholders of Hot (Yedioth Communications Ltd. (''Yedioth'') and companies from the Fishman Group (collectively, ''Fishman'' and, together with Yedioth, the ''interested shareholders''), pursuant to which:

   1. Cool will acquire from each of the interested shareholders its full holdings in the Company in consideration for a payment of NIS 41 per share, which is identical to the share price in the merger transaction described above. The purchase of the shares from the interested

NOTE 5:—EQUITY (Continued)

shareholders will be consummated at such time as Cool determines, but not later than on April 30, 2013.

2. Each interested shareholder will waive the obligation of Cool towards such interested shareholder, pursuant to which, until the earlier of (a) the date on which Yedioth or Fishman will hold less than 2.5% of the Company shares and or (b) the date that is three years from the date of Cool's acquisition of the Company shares from the interested shareholders in 2011, as applicable, it will not take any action which will cause the Company to became a private company or for its shares to be delisted from the Tel Aviv Stock Exchange, without receiving the consent of each interested shareholder (hereinafter- the obligation).

   As additional consideration for the waiver of the obligation, Cool agreed to grant each interested shareholder the right to purchase from Cool, at a price per share equal to NIS 48 (hereinafter- the call consideration), during the 12 months period from the date of the share purchased as mentioned above, to acquire from Cool the acquired shares, all or partially, on the terms set forth in the agreement (hereinafter- ''the call option'').

   If following completion of the share acquisition described above, one of the interested shareholders exercises the call option while Hot shares are registered for trading on the Tel-Aviv Stock Exchange, the call consideration will be NIS 41 per share, the waiver of the obligation will be cancelled and the period between the signing date of the agreements and the date of exercise of the call option will be added to the applicable periods under the original agreements.

   The agreements include provisions in respect of the adjustment of the price of the call option in the event of: the unification or the splitting of the company, a dividend in cash or in kind, transactions with interested parties, the distribution of bonus shares or an issuance or rights or some other issue that has a dilutionary effect.

3. Cool will so cause it that so long as the shareholders hold shares in the Company or call options (but no later than the time of the redemption of the Company's marketable bonds), the Company will remain a reporting entity, in accordance with the Securities Law or that it will deliver reports to the shareholders, as stipulated in the agreement. The agreements also cover certain minority rights in the event that the call option is exercised where the Company has become a private company.

4. As long as the Company is a private company and the shareholder holds its shares, it will not sell the control in the Company without receiving the agreement of that shareholders, except in the cases that are set forth in the agreement.

5. Cool will be given the right to force the interested shareholder to sell its shares in the Company (drag along) in case Cool receives a proposal to sell the entire share capital of the Company to a third party and each of the interested shareholders has the right to join (tag along) the sale by Cool of control over the Company to a third party, in each case in accordance with the terms of the agreements.

In the light of the aforesaid, the date of the general meeting in relation of the approval of the merger transaction was postponed to November 12, 2012.

On November 7, 2012, an evaluation was presented to the Company in connection with the consideration components in a transaction between the controlling shareholders and Yidioth and Fishman (hereinafter—the evaluation). The Company's Board of Directors is examining the evaluation through external consultants, and it will publish the evaluation together with the Board of Directors' position in the coming days.

In the light of the aforesaid, and in order to afford the shareholders sufficient time to make a decision on the issue of the transaction that is on the agenda of the general meeting for the approval of the merger transaction, the timing of the meeting has been deferred until November 25, 2012.

NOTE 5:—EQUITY (Continued)

In continuation of the aforesaid, on November 6, 2012 the Company received approval from the banking institutions which have made financing available to the Company for the execution of the transaction, which constituted part of the crucial terms that are required for the purposes of the completion of the transaction.

On November 11, 2012, the Ministry of Communications announced the granting of approval for HOT Telecom in connection with the transfer of means of control in the Company and through it in HOT Telecom, within the framework of the transaction, as defined above, subject to the conditions that were detailed in the approval.

d. On September 19, 2012, Midroog Ltd. (hereinafter—Midroog) published an updated rating report, which related to the possible transaction, according to which, in Midroog's assessment, if the transaction, as aforesaid in section c above, becomes reality, it could lead to an increase in HOT's credit risk, in so far as the transaction involves the increasing of the gearing ratio of the shareholders in HOT and the increasing of the incentive for dividends on the part of HOT's shareholders.

NOTE 6:—OPERATING SEGMENTS

a. General:

As stated in the annual financial statements, the companies in the Group are engaged in three main activities: Cable television, telecom and cellular services.

b. Report on segmental activities:

	For the period of nine months ended September 30, 2012					
	Telecom	Cable Television	Cellular(**)	Other	Adjustments(*)	Total
	Unaudited NIS Millions					
Total revenues	1,502	1,714	619	7	(716)	3,126
Segmental income (loss)	354	80	(128)	(5)	(2)	299
Other unattributed revenues						23
Operating profit						322
Financing expenses, net						(212)
Income before taxes on income						110

	For the period of nine months ended September 30, 2011			
	Telecom	Cable Television	Adjustments(*)	Total
	Unaudited NIS Millions			
Total revenues	1,510	1,724	(752)(*)	2,482
Segmental income (loss)	390	29	—	419
Other unattributed revenues				5
Unattributed expenses				(5)
Operating profit				419
Financing expenses, net				(159)
Income before taxes on income				260

(*) Inter-segmental adjustments, which are primarily attributed to the telecom segment.

NOTE 6:—OPERATING SEGMENTS (Continued)

(**) As from November 28, 2011.

	For the period of three months ended September 30, 2012					
	Telecom	Cable Television	Cellular(**)	Other	Adjustments(*)	Total
	Unaudited NIS Millions					
Total revenues	505	565	237	3	(243)	1,067
Segmental income (loss)	119	30	(83)	(2)	—	64
Other unattributed revenues						23
Operating profit						87
Financing expenses, net						(77)
Income before taxes on income						10

	For the period of three months ended September 30, 2011			
	Telecom	Cable Television	Adjustments(*)	Total
	Unaudited NIS Millions			
Total revenues	508	581	(253)(*)	836
Segmental income (loss)	122	(10)	—	112
Unattributed expenses				(1)
Operating profit				111
Financing expenses, net				(29)
Income before taxes on income				82

	For the year ended December 31, 2011					
	Telecom	Cable Television	Cellular(**)	Other	Adjustments(*)	Total
	Audited NIS Millions					
Total revenues	2,004	2,299	66	—	(995)	3,374
Segmental income (loss)	496	152	(6)	(8)	—	634
Other unattributed revenues						6
Operating profit						640
Financing expenses, net						(199)
Income before taxes on income						441

(*) Inter-segmental adjustments, which are primarily attributed to the telecom segment.

(**) As from November 28, 2011.

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

NIS IN MILLIONS

INDEX

	Page
Auditors' Report	F-40
Consolidated Balance Sheets	F-41
Consolidated Statements of Comprehensive Income	F-43
Consolidated Statements of Changes in Equity	F-44
Consolidated Statements of Cash Flow	F-45
Notes to the Consolidated Financial Statements	F-47
Appendix to the Consolidated Financial Statements—List of Principal Investee Companies	F-155

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AUDITORS' REPORT

To the Shareholders of

HOT—TELECOMMUNICATION SYSTEMS LTD

We have audited the accompanying consolidated balance sheets of HOT—Telecommunication Systems Ltd. (hereinafter—''the Company'') as of December 31, 2011 and 2010 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

The Company's financial statements as of December 31, 2009 and for the year ended on that date were audited jointly by us and the firm of Somech Hayekin.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations changes in their equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009, in conformity with International Financial Reporting Standards (IFRS) and with the provision of the Israeli Securities Regulations (Annual Financial Statements)—2010.

Without qualifying our above opinion, we hereby draw attention to Notes 1 and 26 to the consolidated financial statements regarding claims filed against the Group and restrictions placed by legislation and supervisory arrangements, including the Second Channel Law on the subject of Digital Broadcasting Stations (as stated in Note 1A(4)b(1)), which could have a material adverse effect on the Group's business and on its operating results.

Without qualifying our above opinion, we hereby draw attention to Notes 1 and 26 to the consolidated financial statements regarding claims filed against the Group and restrictions placed by legislation and supervisory arrangements, including the Second Channel Law on the subject of Digital Broadcasting Stations (as stated in Note 1A(4)b(1)), which could have a material adverse effect on the Group's business and on its operating results.

Tel Aviv
March 20, 2012

KOST FORER GABBAY & KASIRER
Certified Public Accountants

HOT—TELECOMMUNICATION SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

	Note	December 31 2011	December 31 2010
		NIS in millions	
Current Assets			
Cash and cash equivalents	5A	16	1
Designated cash	5B	—	121
Trade receivables	6	379	185
Other receivables	7	79	24
Inventory	8	24	—
Total current assets		498	331
Non-Current Assets			
Long-term trade receivables	9	85	—
Movie and program broadcasting rights	10	69	67
Investment in financial asset available for sale	11	42	90
Other long-term receivables	13	34	8
Fixed assets, net	14	3,763	3,263
Intangible assets, net	15	837	534
Goodwill	15	1,264	1,057
Deferred taxes	25	71	39
Total non-current assets		6,165	5,058
		6,663	5,389

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

HOT—TELECOMMUNICATION SYSTEMS LTD.
CONSOLIDATED BALANCE SHEETS (Continued)

	Note	December 31 2011	December 31 2010
		NIS in millions	
Current Liabilities			
Credit from financial institutions	16	375	249(*)
Current maturities of debentures	21	61	—
Trade payables	17	801	554
Other payables	18	341	241(*)
Provision for legal claims	19	168	273
Total current liabilities		1,746	1,317
Non-Current Liabilities			
Loans from financial institutions	20	625	2,262(*)
Debentures	21	1,439	—
Other long-term liabilities	24	555	176(*)
Advanced received for terminal equipment installation		42	37
Employee benefit liability, net	23	23	18
Deferred taxes	25	302	58
Total non-current liabilities		2,986	2,551
Equity	27		
Share capital		96	95
Share premium		1,654	1,572
Reserve on share-based payments		31	9
Capital reserve from available for sale financial asset		21	57
Retained earnings (accumulated loss)		129	(212)
		1,931	1,521
		6,663	5,389

(*) Reclassified—see Note 2X.

March 20, 2012			
Date of the approval of the Financial Statements	Stella Handler Chairperson of the Board of Directors	Hertzel Ozer CEO	Jean-Luc Berrebi Deputy CEO and CFO

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

HOT—TELECOMMUNICATION SYSTEM LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31		
		2011	2010	2009
		NIS in millions (except for per share data)		
Revenues	28A	3,374	3,254	3,129
Cost of producing revenues				
Depreciation and amortization		708	665	747
Other operating expenses	28B	1,621	1,699	1,728
Total cost of producing revenues		2,329	2,364	2,475
Gross profit		1,045	890	654
General and administrative expenses	28C	(134)	(129)	(125)
Sales and marketing expenses:	28C			
Amortization of intangible assets		(130)	(112)	(110)
Other sales and marketing expenses		(244)	(204)	(183)
Other income (expenses), net	28E	103	(154)	38
Operating income		640	291	274
Financing income	28D	31	10	7
Financing expenses	28D	(230)	(201)	(202)
Income before taxes on income		441	100	79
Taxes on income (tax benefit)	25	100	(6)	(6)
Net income		341	106	85
Other comprehensive earnings (loss) (after tax effects):				
Changes in the fair value of an available for sale financial asset less tax effects		(36)	(4)	14
Total other comprehensive income (loss)		(36)	(4)	14
Total comprehensive income		305	102	99
Net earnings per share attributable to shareholders in the Company (in NIS):	29			
Basic net earnings		4.41	1.39	1.12
Diluted net earnings		4.38	1.39	1.12

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

HOT—TELECOMMUNICATION SYSTEM LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve on share-based payment transactions	Retained earnings (losses)	Capital Reserve on an available for sale financial asset	Total Equity
			NIS in millions Audited			
Balance as of January 1, 2009	95	1,561	12	(403)	47	1,312
Net income	—	—	—	85	—	85
Total other comprehensive income	—	—	—	—	14	14
Total comprehensive income	—	—	—	85	14	99
Change in the terms of a share-based payment to a liability	—	8	(9)	—	—	(1)
Exercise of options into shares	—(*)	1	(1)	—	—	—(*)
Cost of share-based payment	—	—	1	—	—	1
Balance as of December 31, 2009	95	1,570	3	(318)	61	1,411
Net income	—	—	—	106	—	106
Total other comprehensive loss	—	—	—	—	(4)	(4)
Total comprehensive income (loss)	—	—	—	106	(4)	102
Exercise of options into shares	—(*)	2	(1)	—	—	1
Cost of share-based payment	—	—	7	—	—	7
Balance as of December 31, 2010	95	1,572	9	(212)	57	1,521
Net income	—	—	—	341	—	341
Total other comprehensive loss	—	—	—	—	(36)	(36)
Total comprehensive income (loss)	—	—	—	341	(36)	305
Issuance of shares	1	82	—	—	—	83
Exercise of options into shares	—(*)	—	—	—	—	—
Cost of share-based payment	—	—	22	—	—	22
Balance as of December 31, 2011	96	1,654	31	129	21	1,931

(*) Represents an amount lower than NIS 1 million.

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

HOT—TELECOMMUNICATION SYSTEM LTD.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended December 31		
	2011	**2010**	**2009**
	NIS in millions		
Cash flow from operating activities			
Net income	341	106	85
Adjustments required to present cash flows from current activities:			
Adjustments to items in statement of income:			
Depreciation of fixed assets, including the updating of the impairment provision	661	630	715
Amortization of intangible assets	183	153	148
Gain on the disposal of fixed assets	—	(1)	—
Taxes on income	100	(6)	(6)
Change in employee benefit liabilities, net	5	(6)	(4)
Linkage differentials on debentures	15	—	—
Revaluation of other long-term liabilities	19	29	6
Cost of share-based payment	22	7	1
Financing and other expenses, net	110	92	126
	1,115	898	986
Changes in asset and liability items:			
Increase in trade receivables	(6)	(14)	(13)
Decrease (increase) in other receivables and long-term receivables	(31)	(8)	20
Decrease (increase) in movie and program broadcasting rights	(2)	(8)	14
Increase in subscription acquisition costs	(26)	(38)	(38)
Decrease in inventory	1	—	—
Increase in non-current trade receivables	(6)	—	—
Increase (decrease) in trade payables	43	55	(20)
Increase in other payables	4	16	—
Increase (decrease) in provision for legal claims	(105)	199	20
Increase (decrease) in other long-term liabilities	2	(6)	(14)
Increase (decrease) in advances received for installation fees and deposits for terminal equipment, net	5	(3)	1
	(121)	193	(30)
Cash paid and received during the course of the year for:			
Interest paid	(105)	(120)	(140)
Interest received	4	1	3
Taxes paid	—	—	(2)
Dividends received	6	25	9
	(95)	(94)	(130)
Net cash generated from operating activities	1,240	1,103	911

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

HOT—TELECOMMUNICATION SYSTEM LTD.

CONSOLIDATED STATEMENTS OF CASH FLOW (Continued)

	Year ended December 31		
	2011	2010	2009
	NIS in millions		
Cash flows from investment activities			
Purchase of initially consolidated, consolidated company (A)	(480)	—	—
Acquisition of fixed assets and intangible assets	(539)	(648)	(683)
Consideration from the disposal of an asset held for sale (real estate)	—	6	—
Consideration from the disposal of fixed assets	—	1	—
Repayment (investment) in designated cash, net	121	49	(52)
Net cash used in investing activities	(898)	(592)	(735)
Cash flows from financing activities			
Short-term credit from banking institutions, net	(252)	(312)	(124)
Receipt of long-term loans from banking institutions	723	600	—
Repayment of long term loans from banking institutions	(2,338)	(792)	(5)
Increase in other long-term liabilities	31	41	2
Repayment of other long-term liabilities	(59)	(49)	(50)
Issuance of debentures	1,485	—	—
Issuance of share capital	83	—	—
Net cash generated by financing activities	(327)	(512)	(177)
Increase (decrease) in cash and cash equivalents	15	(1)	(1)
Cash and cash equivalents at the beginning of the year	1	2	3
Cash and cash equivalents at the end of the year	16	1	2
(A) *Purchase of initially consolidated, consolidated company*			
Working capital (Except for cash and cash equivalents)	316		
Non-current liabilities, including in respect of contingent consideration	403		
Fixed assets	(640)		
Intangible assets	(389)		
Goodwill	(207)		
Other long-term fixed assets	(83)		
Deferred tax liabilities, net	120		
	(480)		
(B) *Significant Non-cash Transaction*			
Acquisition of fixed assets on credit	241	172	144

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

NOTE 1:—GENERAL

A. *General description of the Group*

1. HOT Telecommunication Systems Ltd. (hereinafter—the Company) operates, independently and through wholly-owned subsidiaries and consolidated partnerships, in four main areas:

   a) Providing multi-channel television broadcasting services to subscribers.

   b) Providing in country landline telecommunication services.

   c) Providing Cellular telecommunication services—beginning from November 28, 2011, the date of first consolidation of Mirs communication Ltd (hereinafter—Mirs). See Note 3 on the subject of the completion of the acquisition of Mirs entire share capital by the Company on this issue.

   d) Providing ISP services—as of December 31, 2011 an immaterial service.

2. *The legal merger*

   On May 8, 2006 the merger agreement between the cable companies, within the framework of which the Company gave an undertaking to purchase the operations of the other cable companies in the broadcasting and the telecommunications fields, in consideration for the allocation of shares in the Company to the selling parties or to the holders of the rights therein and the endorsement of the debts of the selling parties to the Company, was signed.

   On December 31, 2006 the merger transaction was completed and as a result, directly and indirectly, all of the operations of the other cable companies in the broadcasting and the telecommunications fields were transferred to the Company, including all of the commitments, the assets and the liabilities (whether by means of the purchase of rights and whether by means of the acquisition of operations). In continuation thereof, all of the operations in the telecommunications field have been condenser in HOT Telecom.

3. *Application for the approval of a structural change*

   As part of a re-organization process, the Company is examining the possibility of merging all of its operations in the broadcasting field, part of which are conducted within the framework of the Company and some of which are conducted within the framework of consolidated companies, into a new company that was set up for that purpose, HOT—Yeudit Ltd. (hereinafter—HOT Yeudit), which will hold, inter alia, HOT Telecom, in which the operations in the in country landline telecommunications field are conducted, by way of the elimination of some of the consolidated companies. The main practical effect of the re-organization process that is described above is the simplification of the structure whilst creating a convenient and efficient structure for the routine operations.

   The re-organization process, as described above, is conditional, inter alia, on the completion of all of the activities that are required for the completion of the merger, including the receipt of a pre-ruling from the tax authorities for the execution of the re-organization with a tax exemption, in accordance with the provisions of Chapter E'2 of the Income Tax Ordinance, the ratification of the process by the Company's Board of Directors and the receipt of additional approvals from the relevant regulatory bodies.

   In December 2011, the Company presented an application for the execution of a structural change with effect on December 31, 2011 to the Tax Authority in Israel, according to which the Merger will be executed of all of the broadcasting operations that are conducted in the Group within the framework of its concentration into Hot Yeudit. As of the date of the approval of the financial statements, all of the approvals that are required for the execution of the structural change have not yet been received.

NOTE 1:—GENERAL (Continued)

4. *Multi channel television broadcasts*

In this field, the Company, operating by itself and through subsidiary companies that are wholly owned by it, directly and indirectly, supplies multi channel cable television broadcasts for subscribers with a countrywide dispersal. The services in this field are delivered through a national network of cables and under a general, non-exclusive cable-broadcasting license, which applies to all regions of the country, under a general, non-exclusive cable broadcasting license, which applies to Judaea and Samaria and under a special license to operate a broadcasting center, which is owned by HOT Telecom.

The multi-channel television services include a variety of content, including series, movies, sports broadcasts, children's programs, enrichment, entertainment and leisure, music, culture, science, foreign languages and international news, using digital and analogical broadcasting (in this connection, it should be noted that in July 2009 the Cable And Satellite Broadcasting Council (hereinafter—the Council) gave its approval for the Company to start the process of reducing the analogical broadcasts until they are completely discontinued).

The transmission of the multi-channel television services via the digital infrastructure enables the Company to offer dozens of channels as well as special services, such as inter-active services. Furthermore, the cables network in its updated format enables to the company to provide view on demand services (HOT VOD) as well as technology content and channels using HD technology— innovative technology that enables a broadcast viewing experience with better picture resolution and sound (The sharpness of the color and sound). In addition, the Group offers Personal Video Recorder (PVR) services to its digital subscribers through a converter that is marketed under the ''Hot Magic'' commercial name, which in addition to the recording of the regular broadcasts, enables the recording of broadcasts in accordance with the subscriber's decision, the editing of the broadcasts and control over the timing of the broadcasts. In addition, during the course of the year 2011 the Company launched, in a combined format, the PVR services as well as the high definition quality viewing services (the HD-PVR converter).

Within the framework of the broadcasting operations, as aforesaid, the Company holds, directly and indirectly, 100% of HOT Vision Ltd. (hereinafter—HOT Vision), which is engaged in the preparation of content for screening and broadcasting by the cable companies, and in additions it purchases content and produce original productions for the Company and the consolidated companies. The said activity is conducted by the Company through HOT Vision.

a) *Licenses in the broadcasting field*

(1) A general cable broadcasting license, which applies to all regions of the country (hereinafter—the broadcasting license). The broadcasting license that has been granted to the company is for a period of 15 years, starting on April 30, 2002 and it can be extended with the approval of the Council for additional periods of ten years each.

(2) A license for the provision of cable television broadcasts (hereinafter—the license), which was granted by the Head of the Civil Administration to the Company in June 2006, in a number of settlements in Judaea and Samaria. The license is in force until April 30, 2017 and it can be extended for additional periods of ten years each, each time, subject to the conditions that were stipulated in the license. The Company supplies cable television broadcasting services in the said settlements under the license, in a similar format to that supplied under the Company's general cable television broadcasting license.

b) *Legislation and supervision*

As aforesaid, the Group's operations in the broadcasting field are subject to a wide range of legislation that arranges the activity in the telecommunications market in Israel, including the Telecommunications Law and the rules thereunder as well as the provisions of the broadcasting license.

NOTE 1:—GENERAL (Continued)

The Group's operations in the broadcasting fields are also subject to specific legislation applicable to television broadcasting such as the Classification, Marking and Prohibition of Harmful Broadcasts Law, 2001 (under which commitment have been placed upon the Company on the subject to the classification of the marking of certain television broadcasts) and the Television Broadcasting (Subtitles and Sign Language Translation) Law, 2005 (under which commitments have been placed upon the Company on the subject of television broadcasts that relate to the provision of subtitles and sign language translation for certain television programs that are broadcasted by it).

The Group's broadcasting activity is also subject to supervision by the Ministry of Communications and the Council for Cable and Satellite Television Broadcasting (hereinafter—the Council), inter alia, in connection with the pricing of analog services, broadcasting content, agreements with subscribers, the introduction of new broadcasting channels and the termination of broadcasting channels. The Company has been declared to be a monopoly in the multi-channel television for subscribers broadcasting field and accordingly, the Anti-trust Director (hereinafter- the Director) is entitled to issue directives to it in accordance with the Anti-trust Law.

(1) *The setting up of live digital broadcasting stations—The Digital Terrestrial Transmission (DTT) (and the expansion of their activity)*

In the light of the amendment to the Second Authority for Television and Radio Law, the Second Authority was obligated to plan, set up and operate, by itself or through others, digital terrestrial television channels for free public reception and distribution of television broadcasts (The DDT broadcasts). In August 2009, the Second Authority launched these broadcasts nationwide, allowing the free public distribution of the television channels of the Israel Broadcasting Authority (''IBA'') (Channels 1 and 33), the commercial television channels (Channels 2 and 10) and the Israeli Knesset Channel (Channel 99). The establishment of the digital broadcasting stations, as aforesaid, allows customers to watch each of the above five channels for a non-recurring fee for the purchase of broadcast reception equipment and for no additional fees whatsoever.

In January 2012 the Finance Committee of the ''Knesset'' (Israeli parliament) approved the Draft Distribution of Broadcasts Via Digital Stations Bill—2011 (hereinafter—the Draft Law) for its second and third readings. In accordance with the Draft Law, inter alia, the DTT system will be expanded within two years from the earlier of the date of the publication of the Law or December 31, 2013, such that there will be added to it, inter alia, a radio channel, which is to includes the regional and national radio channel, the educational television channel if it should so request, a designated channel if this has been requested by it, an additional IBA channel that has been dubbed using HD technology—if this has been asked for by it (where as of today there are two designated channels—a designated Russian language channel and a designated Israeli and Mediterranean music channel, to which a designated Arabic language channel will be added). However, the broadcast of a designated channel over the five channels, is subject to the existence of available capacity for this purpose.

The attachment of any of the said channels will be done at its request and in consideration for the payment of a distribution fee.

The distribution fees will be set by the Minister of Communications and the Minister of Finance and will be calculated in accordance with the payments and the costs that are involved in the operation and maintenance of the DTT system and any other operational payment, which is involved in the distribution of the broadcast, except for set-up costs.

NOTE 1:—GENERAL (Continued)

The Draft Law includes, inter alia, a prohibition on the collection of any payment whatsoever from the public for the receipt of the broadcasts that are distributed using the digital broadcasting stations in accordance with the Draft Law.

It is also proposed that the Minister of Communications, after consultation with the Minister of Finance, the Second Channel Authority and the Council will be entitled to give instructions for the attachment of additional channels that have asked to join the DTT system and its operations, and this in consideration for the payment of distribution fees, as aforesaid.

In addition, in accordance with the draft law, as from January 1, 2014, the DTT system will be transferred from the Second Authority to a public body, a statutory entity or a government company, which are not broadcasters and which are not supervisors of television or radio programs, which will be appointed by the Minster of Communications and the Minister of Finance with the Government's approval.

The draft law, which includes the expansion of the DTT system will be presented for its second and third readings in the Knesset with the attachment of qualifications from the Ministry of Finance.

In the Company's assessment, the DTT broadcasting and in particular the addition of additional channels to the existing broadcasting system may cause changes in the viewing habits of multi-channel television subscribers, resulting in a significant reduction in the Company's revenues and as a result of this, having a significant adverse impact on the Company's business and future business results. In the Company's management's assessment, as of the date of the financial statements, there has been no material deterioration in the Company's business or in its current operating results as a result of the DTT broadcasts in their current format.

(2) *The commercial television channels—The transition from the concessions method to a licenses method*

Within the framework of the Amendment to the Second Authority for Television and Radio (Amendment No. 33) (Transition from Franchises to Licenses in Television Broadcasting) Law, 2010, whose legislative proceedings were completed in February 2011 (hereinafter—the Amendment), it is proposed that the scope of the content that is broadcast on the commercial television channels be increased by way of a change in the system that arranges the commercial television broadcasts by means of transition from the current system of (exclusive) concessions to a system of licenses that would be granted to entities that meet the threshold conditions that are set in the Amendment and which will be in force for a longer period by comparison with the current concessions.

In accordance with the Amendment, 2013 is the designated year for the transition from a system of concessions to a system of licenses and every commercial license holder will be entitled to be included within the framework of the DTT broadcasts. Furthermore, the Amendment stipulates that changes will take place in the channel numbers of the existing channels as may be determined by the authorized bodies (the Council, The Second Television and Radio Authority and the Minister of Communications).

In the Company's assessment, the transition from a system of concessions to a system of licenses could cause changes in the viewing habits of the multi-channel television subscribers, to a significant decline in the Company's revenues and as a result of this, there could be a significant negative impact of the Company's business and on its future business results.

NOTE 1:—GENERAL (Continued)

(3) *VOD services and broadcasting via the internet network*

The Video on Demand (VOD) service is an interactive service for the broadcasting of content to the television converter, with which the customer can view a range of content such as movies, series, shows, educational content, content for children and teenagers and adult content, by ordering it personally, as they choose.

In August 2007, the Telecommunications Law was amended so as to enable additional suppliers of content to provide content supply services on demand, on a broadband access network using IP technology. Furthermore, the Council was empowered to grant licenses for on demand broadcasts, which are transmitted via broadband infrastructure, and which are provided at the assured quality and quality of service that is generally acceptable for broadcasts using the digital method. It was further determined that in a case in which an application for the receipt of a license for on demand broadcasting has been presented to the Council, the Council is entitled to decide that for the purposes of the broadcasting it is necessary to receive a general cable television broadcasting license, taking note, inter alia, of the characteristics of the broadcasts, their nature and the volume. As of the date of the financial statements, no special licenses for on demand broadcasting have been given under the said Amendment.

The company is taking action in order to improve and to promote its VOD services by means of broadcasting additional sorts of content in a manner that will enable every user to view their preferred content. It should be noted in this connection that during the course of the year 2010, Yes began to supply VOD services to its subscribers by means of converters on the internet network, and as from that time the Company is no longer the sole supplier of this service.

Furthermore, additional players in the field of activity, for example, those that hold a commercial television concession, also offer similar services, which constitute competition in this field of activity.

With the development of the swift internet networks, the use of technology that enables broadcasting and the transmission of video content using broadband internet infrastructures may well expand. This trend could also affect the broadcasting field by way of a change in the viewing habits of the final users.

(4) *The amendment of the Telecommunications Law on the subject of the supply of a basic basket of broadcasts in consideration for access fees (hereinafter—the narrow package)*

Over the course of recent years, a proposal for the Amendment of the Communications Law has been on the Knesset's agenda, within the framework of which it is proposed, inter alia, that a holder of a general cable broadcasting license will be entitled to demand payment from its subscribers for connecting their homes to its broadcasting center; the payment is to be based on the cost of the connection to the center with the addition of a reasonable margin (hereinafter—the access fee). Furthermore, the broadcasting license holder is required to enable the subscriber who pays access fees to purchase a broadcasting channel in accordance with the subscriber's demand or any other broadcast that is offered to subscribers for purchase, separately, without conditioning the purchase of one channel on the purchase of the other.

In accordance with the proposed Amendment, the owner of a general cable broadcasting license is to provide all of its subscribers the Knesset Channel, the IBA's channels (Channels 1 and 33), Channel 2 and Channel 10 without collecting any fee apart from the access fee. In the event that the certain channels are provided by an owner of a special cable-broadcasting license or by an independent channel producer through the owner of a general cable-broadcasting license, the latter will not be entitled to collect any fee for the channels besides the access fee collected from the final customers.

NOTE 1:—GENERAL (Continued)

In accordance with the draft Amendment, the owner of a cable-broadcasting license will be entitled to include commercials in its broadcasts in consideration for a payment that it sets, subject to the rules that will be set in the law. In May 2010, the Government withdrew this draft Amendment.

In the Company's assessment in so far as it may be required in the future to provide a basic broadcasting package under a similar format to the aforesaid, its business results may be adversely affected.

(5) *The impact on content and the specifications of the broadcasts*

(a) The Company's main activity in broadcasting field consists of broadcasting the various channels under its multi-channel television services. The Company is subject to regulatory restrictions in connection with the ownership and production of channels, among other things, as prescribed in the Communications Law and in the Telecommunication and Broadcasting Rules (Owner of Broadcasting License), 1987 (hereinafter—''the telecommunication rules''). According to the provisions of the Communications Law, as of the date of the approval of the financial statements, the Company is subject to restrictions regarding the number of channels that it may produce by itself or in conjunction with another owner of a broadcasting license, such that this number does not exceed two fifths of the number of independent channels (as defined in the Communications Law) which are broadcast by the Group. Similarly, in the telecommunication rules and in accordance with the decision of the Council approving the merger, additional restrictions were imposed in this respect. In addition, the telecommunication rules determine that the number of channels, which are produced by the Company, shall not exceed at any time 20% of the number of its own channels broadcast by it. In addition, the Company is allowed to hold means of control in additional channels whose number may not exceed 4% of the number of its own channels, provided that the Company is not a controlling interest in those channels. Furthermore, in accordance with the decision of the Director approving the merger, the Group may hold means of control in Channel HOT 3 and HOT Movies (formerly: Channel 3 and Channel 4) as well as in only four other channels (unless the Director gives approval otherwise) and additional restrictions have also been placed on connections with channels.

(b) In accordance with the provisions of the Telecommunications Law, the telecommunications rules and the Council decisions, the Company is required, inter alia, to invest in local productions at a rate of 8% of its annual revenues from subscription fees. In the course of the years 2009, 2010 and 2011 the Company complied with the investment rate that is required, as aforesaid. In this connection, it should be noted that the Telecommunications Law empowers the Council to set the rate of investment that is required, and solely that it not exceed 12% and it shall not be less than 8% of the annual revenues from subscription fees.

In this connection, in October 2011 the Council announced to the Company that as from the year 2012 it would see its income from subscription fees, which constitute the basis for the calculation of the duty to produce original content, as including all of the payments that are paid by its subscribers for the purpose of receiving their broadcasts and receiving their services, including income from terminal equipment and its instillation, and this was despite the fact that in accordance with the policy that the Council has implemented up to now on the matter of the inclusion of the income from terminal equipment for the purpose of calculating the duty to produce original productions, was made conditional upon a mechanism that was based on the profitability of this component of income, and in previous years income from terminal equipment and its instillation has not been included in the basis for the calculation of

NOTE 1:—GENERAL (Continued)

the original production requirement. In response to the Company's claims, which were delivered to the Council on January 12, 2012, the Council determined that the Company would be entitled to complete the amount of the additional investment for the year 2012 over a period of three years of investment, in equal amounts for each of the years 2012 to 2014. In the Company's assessment, it is expected that there will be a significant increase in the amount of the annual investment in original productions that the Company will be required to make as from the year 2012.

(c) The Council is entitled to grant a special cable-broadcasting license, and the holders of the broadcasting license are required to transmit the broadcasts of the special license holders, as aforesaid, and solely that the capacity that is available to the holders of the general broadcasting licenses is not to be less than five sixths. Furthermore, in accordance with the Telecommunications Law, the Council is entitled to grant special licenses for designated channels with the intention of bringing about an increase in the number of parties who are involved in broadcasting to the public. In accordance with the conditions set by the Council for the merger of the cable companies and in accordance with the terms set by the Director for the merger of the cable companies, the Company is to reserve a minimal capacity for holders of special licenses. In accordance with a decision by the Minister of Communications on the subject of the setting of the transmission fees, dated August 23, 2007, the Company is entitled to collect transmission fees for the transmission of the broadcasts of a holder of a special license in accordance with the mechanism set in the decision. In accordance with Amendment 44 to the Telecommunications Law as from July 2010, the designated channels will be exempted from the payment of transmission fees for the transmission of their broadcasts (it should be clarified that there is nothing in the said Amendment that detracts from the other contractual authorities between the Company and the owners of the designated channels).

(d) *The amendment of the Council's policy on the subject of the conditions for the granting of special licenses*

On September 10, 2009, the Council made a decision to amend its existing policy on the subject of the conditions for the grant of special licenses, the main points of which are: (a) the cancellation of the prohibition in the policy to grant special licenses for movie channels. In this connection, it was determined that the Council would, within six months from the date of its decision, examine whether to cancel the prohibition in the policy regarding the grant of special licenses to series channels; (b) the examination of the cancellation of the restriction in the policy in respect of the number of licenses to be granted to one body, which was to be done within six months from the time of the said decision; (c) the imposition of certain restrictions on original productions in certain cases where more than one license is requested.

As of the date of the financial statements, no special broadcast licenses have been issued yet in accordance with the said Amendment.

(6) *The Council's decision on the subject of the manner of the collection of payment from the Company's customers*

On September 22, 2011 the Council passed a decision in accordance with which the Company's broadcasting licenses will be amended such that the Company may collect payment from its suppliers for the Company's services solely and exclusively in respect of the month that has passed and not in respect of the current month. In accordance with the letter from the Chairman of the Council dated October 26, 2011, the Amendment will enter force and will apply to new subscribers as well as to customers whose period of commitment has ended and who have chosen to renew the subscription agreement from the time of the decision, on December 1, 2011. In addition, in accordance with what is

NOTE 1:—GENERAL (Continued)

stated in the decision, at the end of a period of 12 months from the time of the decision, the Amendment will apply to all of the Company's subscribers.

In the Company's assessment, the Council's decision is likely to cause a worsening of the Company's business results and primarily a non-recurring worsening of the Company's cash flows.

(7) *The amendment of the Telecommunications Law (Amendment No. 50)—2011*

On July 27, 2011, the ''Knesset'' passed an Amendment to the Telecommunications Law (Amendment No. 50)—2011 at the second and third reading (in this section—the amendment to the law). The main points of Amendment to the Law are as follows:

(a) A license holder will not be entitled to collect any payments whatsoever from a subscriber, who has entered into a commitment with it after the entry of the Amendment to the Law into force, who cancels the commitment agreement with it, and it will not be entitled to prevent them from receiving a benefit that they would receive were it not for the cancellation; despite the aforesaid, the license holder will be entitled to collect the balance of the payments for the terminal equipment that was purchased by the subscriber and the debts that the subscriber has accumulated.

(b) A license holder who has agreed with a subscriber that has purchased terminal equipment from it that the subscriber will pay for the equipment in installment payments, will not be entitled to make the balance of the subscriber's payments for the terminal equipment payable immediately, in the event that the subscriber cancels the commitment agreement.

(c) In relation to existing subscribers, who entered into a commitment with the license holder before the entry of the Amendment to the Law into force, the payment that the license holder is entitled to collect from a subscriber, who cancels the commitment agreement with them during the course of the period of the commitment, may not exceed 8% of the subscriber's average monthly bill for services from the license holder, which the consumer had during the course of the period of the agreement until it was cancelled, multiplied by the number of months remaining until the end of the period of the commitment (hereinafter— the ceiling amount). The ceiling amount does not include a payment for the purchase of terminal equipment. Furthermore, the ceiling amount is not to include a payment that has been made by the subscriber for rental or borrowing services in respect of terminal equipment from the license holder. This provision will apply at the end of a period of three months from the time of the entry of the Amendment to the Law into force and thereafter.

(d) The Amendment will not apply to a subscriber, whose average monthly bill for services from the license holder up to the time of the cancellation exceeds NIS 5,000.

In accordance with the Amendment to the Law, the Minister of Communications is entitled: (1) to defer the date on which a certain type of license starts for a period that shall not exceed six months, if he is satisfied that there exists fear of material damage to the regular course of business of the holders of the licenses of that sort; (2) determine, with the approval of the Finance Committee of the Knesset, that the amount determined in the definition of ''a subscriber'' within the framework of the Amendment to the Law, shall be different in respect of a certain type of licenses. A determination, as aforesaid, shall be for a period not exceeding one year.

The Minister is entitled to return and extend the said period for additional periods, which may not exceed one year each time.

The Company begun to implement the provisions of the Amendment to the Law in respect of new subscribers in August 2011 and as from the beginning of November 2011, in

NOTE 1:—GENERAL (Continued)

respect of existing subscribers. In the Company's assessment, a significant negative impact on the Group's business and on its future business results may arise as a result of the Amendment to the Law.

(8) *The entry of new competitors into the broadcasting field, via the internet and cellular services*

During 2009, an invitation was published by the Council and the Ministry of Communications to present positions on the question of the arrangement of broadcasting on new platforms and technologies, with the objective of examining whether there is a need for regulatory arrangement of video content being transmitted via the internet network. During the course of September 2009, a hearing was held on the subject, within the framework of which positions were heard from various parties, with the Company among them. It should further be noted that the Company made an approach to the Minister of Communications and the Council and it presented its position, according to which the internet broadcasting activity of telecommunications companies that compete with the Company is ''cable broadcasts'' as defined in the Law and that accordingly any entity that transmits these broadcasts should comply with all of the requirements in the Law and in the Regulations, including the duty of structural separation, as those apply to the Company.

On October 11, 2011 the recommendation of a joint team of the Council and the Ministry of Communications on the subject of the distribution of content to the public at large via electronic telecommunications networks (hereinafter—the contract services) was published. The central recommendation is to arrange the contract services on electronic networks, such as the internet, in so far as they meet certain tests, which were detailed within the framework of the recommendations.

An additional possible platform for the transmission of content is the cellular infrastructure.

As of the date of these financial statements, the Minister of Communications has not yet made a decision in respect of the said recommendations.

In the Company's assessment, the entry of new competitors into the broadcasting via the internet field, as aforesaid, and especially if those competitors are not made subject to the regulations to which the Company is subject, will have a significant impact on the character of the competition in the field, which is expected to increase. In the Company's assessment, the aforesaid may have an extremely negative impact on its business in the broadcasting field.

(9) *Government committees for examining the broadcasting field*

In March 2008, the Grunau Committee (a public committee appointed to formulate detailed recommendations regarding policy and rules of competition in the Israeli communications market) published its conclusions, including recommendations relating to the multi-channel broadcasting sector. Inter alia, the Committee recommended: the offering of ''a narrow basic package of channels'' comprising five to ten channels; the removal of the restrictions that apply to competitors in respect of content; the need for the reexamination of the price that a special license holder is to pay to the holder of a general license for transmission of their broadcasts. On August 13, 2008, the Minister of Communications published a press release on the subject of the adoption of the recommendations of the Grunau Committee and on the subject of the organization of the multi-channel television market, the Minister of Communications decided to carry out a comprehensive examination of all levels of the broadcasting field and to appoint a committee for this purpose, to formulate recommendations with regards to the policy and rules of competition in the multi-channel television and the commercial television fields. Such a committee, as noted, was not appointed, in the light of the appointment of an inter-

NOTE 1:—GENERAL (Continued)

ministerial committee (hereinafter—the Mordechai Committee) to examine the implications of a change in the method by which the commercial television broadcasting field is organized.

Beside the recommendations of the Mordechai Committee in 2009, in connection with the commercial television broadcasting field (including, inter alia, the transition from the concessions method to licensing and the expansion of the range of channels in the DTT broadcasts), recommendations were also made in the multi-channel television broadcasting field, inter alia, as follows: (1) the duty to offer a narrow package of channels in consideration for the payment of an access fee; (2) the deferral of the time for the broadcast of advertizing by a license holder to January 2012; (3) the distribution of special channel broadcasts without collecting payment over and above the access fee and as part of the narrow basic channel of channels.

In February 2010 the Ministry of Communications announced that the Minister of Finance and the Minister of Communications has appointed a committee that was to be headed by the Director General of the Ministry of Industry and Trade, Mr. Amir Hayek (hereinafter—the Hayek Committee), which would examine two main subjects and make recommendations on their behalf: (a) a new arrangement for charge rates for the Bezeq company, with the arrangement being adapted for the changing environment in the telecommunications sector and the policy of competition; and (b) the determination of charge rate for various sections, which relate to the supply of services in the wholesale market in the landline segment by the owners of the universal infrastructure and the setting of charge rates for the completion of conversations on the fixed-line networks. On March 3, 2011, the Hayek Committee published recommendation on the structural issues, which were presented for comments by the public. For details in respect of the final recommendations of the Hayek Committee, see section 5b(6) below.

5. *The in country landline telecommunications field*

HOT Telecom, a partnership that is wholly owned, directly and indirectly, by the Company, is engaged in the provision of in country landline telecommunications services on the cables infrastructure. The services in this field are provided under a general license for the provision of in country landline telecommunications services (hereinafter—a national operator license). The national operator license that was granted to HOT Telecom permits, inter alia, the provision of access service to fast internet providers (transmission) on the cables infrastructure, the provision of in country landline telephony services, data communications services and digital and optical transmission in a range of speeds and band widths, as well as internet protocol virtual private line data transmission services (IPVPN). In addition, as of the time of the report, the Group's telecommunications network allows the provision of transmission services on optical fibers using Synchronous Digital Hierarchy (SDH) or Internet Protocol (IP) technology.

a) *Licenses in the in country landline telecommunications field*

(1) HOT Telecom operates in accordance with a national operator license, which was granted to it by the Ministry of Communications in November 2003 (hereinafter—the national operator license).

The said national operator license was given for a period of twenty years and it can be extended with the approval of the Minister of Communications, for additional periods of ten years each.

(2) In June 2006 the Head of the Civil Administration granted HOT Telecom a license for the provision of telecommunications services in a number of settlements in Judaea and Samaria.

NOTE 1:—GENERAL (Continued)

The license that was granted is in place until November 30, 2023 and it can be extended for an additional period of 10 years each time, subject to the conditions that were stipulated in the license. HOT Telecom provides telecommunication services under the license, in a similar format to that which it provides under the national operator license, in a number of settlements in Judaea and Samaria.

(3) In September 2007 HOT Telecom was awarded a special license by the Ministry of Communications, for the operation of broadcasting centers, which replaced the previous licenses that the Company and the other cable companies held prior to the merger transaction. The special license will remain in force so long as the broadcasting license, which has been granted to the Company is in force, but no later than August 31, 2012, unless it has been extended with the approval of the Director.

b) *Legislation and supervision*

HOT Telecom's operations in the communications field are subject to the supervision of the Minister of Communications and the Ministry of Communications, who are empowered to arrange and to permit the provision of services in the telecommunications field. The policy of the Minister of Communications and the Ministry of Communications has a significant impact on HOT Telecom's operation in this field.

In addition, HOT Telecom's operations in the telecommunications field are subject to the national operator license, which stipulates conditions and restrictions on a wide range of aspects.

(1) *Restrictions on the operations of the Bezeq company, which constitutes a monopoly in the field*

In May 2010, with the decline in Bezeq's market share in the landline telephony field to less than 85%, the Ministry of Communications announced the amendment of the license of the Bezeq company and of its subsidiary companies, in respect of the possibility of marketing joint baskets of services. In July 2010 the Ministry of Communications announced that in continuation of the amendment of the licenses, as aforesaid, Bezeq would start to offer a basket of services in co-operation with the subsidiary companies in its group. As of the time of these financial statements, to the best of the Company's knowledge, Bezeq markets two telecommunications baskets, which include: (1) internet infrastructure services (ADSL) as well as the ISP services of its subsidiary company—Bezeq International; and (2) internet infrastructure services (ADSL), the ISP services of its subsidiary company- Bezeq International and fixed-line telephony services. On February 3, 2011 the Ministry of Communications published a hearing for Bezeq and its subsidiary companies, in accordance with which the Ministry intended to amend their licenses in the wake of the decline of Bezeq's market share below 85%, in the business sector as well, in a manner that would enable Bezeq and its subsidiary companies to market joint baskets of services to business customers as well. HOT Telecom has presented its position in connection with the hearing.

In the Company's assessment, the amendment to the licenses of Bezeq and its subsidiary companies and the marketing of joint baskets of services could lead to a significant decrease in the Group's revenues, having a negative impact on the Group's business results. As of the time of these financial statements, the said impact is not yet apparent.

(2) *The obligation to provide service*

HOT Telecom is committed to provide service to anyone who requests it in the entire region covered by the license. The requirement to provide the service in certain cases causes a situation in which HOT Telecom is committed to provide service where this is not economically feasible and the Company has made approaches to the Ministry of

NOTE 1:—GENERAL (Continued)

Communications requesting an exemption from the requirement to provide service to various people who have requested it. In accordance with the provisions of national operator license, it is stipulated that the Minister of Communications is to appoint an exceptions committee, which is to deal with applications for an exemption from the holder of a license. On January 23, 2012 the Telecommunications Regulations (Telecommunications and Services) (Consultative Committee) (Temporary Directive)—2011 was published (hereinafter in this section—the Regulations).

The regulation contain provisions in respect of the appointment of a consultative council (in this section—the Council), whose role is to consider applications that have been presented by holders of a national license, with the objective of restricting the requirement to provide service that applies to them under Regulation 18(C)(3) of the Telecommunications Regulations (Telecommunications and Broadcasts) (procedures and conditions for the receipt of a general license for the provision of in country landline telecommunications services)—2000, or under the provisions of the national operator license that was granted to them, which commits them to providing service to anyone who requests it.

In addition, the Committee is to consider applications that have been presented by a company that holds a license with the objective of restricting the requirement to provide the service, which applies to it under Regulations 26 and 27 of the Telecommunications Regulations (Instillation, operation and maintenance)—1985, or under the provisions of the general license that has been granted to it, which require the company to provide its services to anyone who asks for them. The Regulations contain provisions relating to the composition of the Committee, the arrangements for its work, the considerations that it is to take into account when it comes to consider an application and in respect of its recommendations.

In continuation to the publication of the Regulations, on November 17, 2011 the Minister of Communications appointed a consultative committee, which has five members, in accordance with Regulation 2 of the Regulations. HOT Telecom has presented applications to the Committee, in respect of the demands to receive service, which had been presented to it immediately before the entry into force of the Regulations.

It should be noted that in accordance with the provisions of the national operator license, the non-compliance with the requirement to connect, as aforesaid, could, inter alia, lead to the cancellation of the license or be grounds for the non-extension of the period of the license, as well as creating an exposure to lawsuits from citizens who have not been connected to the cables infrastructure. It should be noted in this connection that in past an application for recognition as a class action was filed against the Company in respect of the non-connection of settlements to the cables network, which were turned down and the applicant has filed an appeal against the turning down of the action. Furthermore, on January 3, 2011, the Company received an application for the approval of a further class action on the allegations that the Company has breached the provisions of the national operator license in that it has avoided connection settlements on the periphery to its infrastructure.

(3) *The provision of broadband telephony services (VOB)*nk

In January 2007, the Ministry of Communications published its policy for the regulation and licensing of the provision of telephony services via the broadband internet infrastructure—Voice over Broadband (VOB). Within the framework of the policy decision, it was stipulated that the provision of in country landline VOB services was to be organized within the framework of a designated in country operator license that would be given in accordance with the provisions of the Telecommunications Regulations (Telecommunications and Broadcasting) (Proceedings and conditions for receipt of a designated general license),

NOTE 1:—GENERAL (Continued)

2004. In accordance with the said license, the provision of telephony services using VoIP technology would be permitted using the broadband access service of a national operator that holds a general national operator's license (as of the date of the approval of the financial statements, HOT Telecom or Bezeq).

This policy enables a sort of virtual ''unbundling'', with the supply of the service making use of sections of the access network, but without making payment to the owner of the network for its use and whilst competing with it in the provision of telephone services, except for a reciprocal connection fee.

It was further decided that the payment arrangement in respect of the reciprocal connection fee was to be examined by the Ministry of Communications no later than by February 1, 2009. Despite the fact that this date has passed, the arrangement remains in place, which means that the reciprocal connection fee in respect of a conversation that ends on a VOB operator network is charged at an identical rate as the reciprocal connection fee to the general national operator network. . As of the date of the financial statements, a number of companies are providing VOB services in accordance with the Ministry of Communications' policy on this matter, under designated domestic operator licenses that have been issued to them.

(4) *The use of the Israel Electricity Corporation's infrastructure for the provision of telecommunications services*

In January 2010, the Ministry of Communications announced that in light of its desire to exploit the existing infrastructure of the Israel Electricity Corporation Ltd. (IEC) with the objective of increasing the level of competition in the telephony and broadband internet field, it intends to grant a communications company, which would be set up for this purpose (in which the IEC would hold no more than 49% of the means of control and which it would not control) a license to provide various communications services including, inter alia, transmission services and broadband internet services to subscribers. In June 2010, the Ministry of Communications announced that the IEC had presented the Ministry with the results of a technological trial for the provision of high-speed internet services on its existing infrastructure, which was conducted in Kiryat Shmona. In July 2010, the government reached a decision in accordance with which, inter alia, the Electricity Sector Law and the Communications Law would be amended so that a communications company, as aforesaid, which is related to the IEC would be permitted to operate in the communications market, subject to certain conditions. As at the date of these financial statements, the Law has not yet been amended as aforesaid. The company has expressed its opposition to the granting of a license for the provision of communications services on the IEC's infrastructure to the Ministry of Communications.

In accordance with the announcement by the Ministry of Communications on March 6, 2011, the Government has approved the establishment of a new telecommunications infrastructure company (hereinafter—the telecommunications company) in which 51% of the shares will be held by a private external investor (hereinafter—the partner) and 49% of the shares will be held by the IEC.

On July 10, 2011 the Ministry of Communications announced its intention to publish a tender for the selection of an external company (hereinafter—the investor), which will cooperate with a subsidiary company of the IEC (hereinafter—the telecommunications company), which will receive a license for the provision of various telecommunications services with the objective of exploiting the IEC's existing infrastructure, in order to increase the level of competition in the telephony and broadband internet field.

On October 9, 2011 the Ministry of Communications, the Treasury and the Ministry of National Infrastructures announced the setting up of a joint committee of the government

NOTE 1:—GENERAL (Continued)

and the IEC, whose objective is to select the investor in the telecommunications company, in a process that is supposed to last about six months. It should be noted that on October 25, 2011 an amendment to the Telecommunications Regulations (Telecommunications and Broadcasting) (Processes and conditions for the receipt of a general license for the provisions of in country landline telecommunications services)—2011, which sets conditions for the granting of a national infrastructure operator license.

(5) See section 2b(7) above on the subject of the amendment of the Telecommunications Law (Amendment No. 50)—2011.

(6) *Government committees for examining the telecommunications field*

In continuation of the recommendations of the Grunau Committee, in February 2010 the Ministry of Communications announced that the Minister of Finance and the Minister of Communications had appointed a committee headed by the former Director General of the Ministry of Industry, Trade and Employment, Mr. Amir Hayek (hereinafter—the Hayek Committee), which will examine and make recommendations on their behalf in respect of two key issues: (a) a new charge rate arrangement for Bezeq, which has been adapted to the variable charge rates in the telecommunications sector and the policy of the level of competition; and (b) the setting of charge rates for various sections, which relate to the provision of services in the wholesale market in the landline segment by the owners of the universal infrastructure, and the setting of charge rates for the completion of a conversation on the landline networks.

It should be noted in this connection that it was stipulated in the Committee's letter of appointment that it will be entitled, but not bound, to make a recommendation on any issue that is required in order to formulate its recommendations that were the subject of the letter of appointment, subject to the holding of a public hearing.

On March 3, 2011 the Hayek Committee published its recommendations on the structural issues that were presented for the receipt of comments from the public. The Committee clarified that the structural recommendations constitutes as aforesaid a condition for the implementation of the detailed arrangements that would be formulated by it later on.

The Committee's recommendations relate, inter alia, to the following subjects: (a) the cancellation of the requirement of structural separation in the landline field and in other fields in the telecommunications sector, except for the multi-channel television field, which will be cancelled after the operation of the television market on the internet becomes possible; (b) the supervision of the retail price of the Bezeq company will be under a method for determining the maximum price and not under a method by which a fixed price is set in accordance with section 15(A) of the Telecommunications Law, which is to be done without delay and independently of any other subject in accordance with the letter of recommendations; (c) holders of general national operator licenses are to provide service and are to enable use of all of the infrastructure that is required in order to enable the operations of the other license holders who supply services to terminal customers, which includes, inter alia, that broadband internet access service is to be provided immediately in a manner that will enable operation and control by a service provider, who does not own the infrastructure, who can manage the service; (d) the holders of national operator licenses are to routinely make public to the other license holders in the telecommunications field the deployment of the existing infrastructure in accordance with demands from the body that organizes the subject; (e) holders of national operator licenses are to reach agreements with the other license holders for the use of the types of infrastructure that are detailed above, which are to be passed on to the organizing body and which are to be published for review by the public; (f) in parallel, the Committee will formulate detailed arrangements for the various sections that relate to the assurance of the possibility of supplying the types of wholesale services that are detailed in the document.

NOTE 1:—GENERAL (Continued)

These arrangements, or any other specific involvement by the regulator, will be put into operation, if the regulator learns that the wholesale market has not developed as required within six months of the publication of the Committee's final recommendations, and within three months in respect of broadband access services; (g) the Committee attaches considerable importance to the promotion of the communications company's operations using the IEC's infrastructure, in accordance with the Government's decision, and believes that the authority that will be established in this context should be subject to the same regulations with respect to the provision of wholesale services as apply to the other general national operator license holders, with the necessary regulatory adaptations.

On the subject of the cancellation of the structural separation requirement, the Committee recommended that this is to apply immediately once the following conditions are met: (a) on the adoption of the Committee's recommendations, as detailed above; (b) at the earlier of six months from the date of the signing of the agreements with the other license holders for the provision of wholesale services, or from the date on which the provision of the services commences; (c) the holders of general national operator licenses are to provide autonomous bank guarantees of hundreds of millions of NIS as collateral for the maintenance of a wholesale market; (d) non-compliance with any of the above conditions will result, inter alia, in a regime of strict supervision over the holders of general licenses, the forfeiture of the bank guarantees, the imposition of personal accountability on the directors of the companies that own the general national operator licenses and the consideration of the imposition of structural separation between the general national operator license holder's infrastructure and the services that are provided to the final users.

On October 4, 2011 the Hayek Committee presented a report on the examination of the Bezeq company's charge rates and their updating and the setting of the charge rates for wholesale services in the landline telecommunications field. The Committee's report contains, inter alia, recommendations on the following subjects:

(a) *The development of a wholesale market*

Within the framework of the Committee's recommendations in connection with the development of a wholesale market, the Committee included the following recommendations: (a) requiring the holders of general national operator licenses to provide services that will enable the use of their infrastructures in order to enable the operations of other telecommunications license holders, in the provision of services to final customers; (b) broadband access services are to be provided immediately, in a manner that will enable operation and control by a service provider who does not own the infrastructure, who can manage the service; (c) holders of general national operator licenses are to reach agreement with other license holders in respect of the abovementioned services and usage, including a specification of the services, the manner in which they are to be ordered, their price and the level of the service (SLA). The organizing body will be entitled to compel changes in the agreements, if they do not comply with the principles that are stated in the recommendations; (d) holders of general national operator licenses are to deposit autonomous bank guarantees in an overall amount of NIS 200 million as collateral for the maintenance of a wholesale market.

(b) *The arrangement of the prices for wholesale services*

Until the charge rates are set by the arranging body, the price of each wholesale service is to be uniform, independently of the characteristics of the consumer. The services are to be costed by the arranging body in accordance with the cost principle. The charge rates are to be set as a maximum price that the holders of a general national operator license will be entitled to sell the services to other license holders, and these are to be re-examined once every three years.

NOTE 1:—GENERAL (Continued)

Until the setting of the prices, as aforesaid, the services that are sold by holders of general national operator licenses on a wholesale basis, are to be sold to the other license holders at a price that is not to exceed 75% of the retail price that is offered by the holder of the general national operator license, with the largest market share in the field of internet infrastructure for private customers, on the basis of the average price from July to September 2011. This arrangement will apply for a period of six months from the date of the approval of the recommendations by the Minster of Communications, and the Minister can only extend this period for six months.

(c) *The requirement for structural separation*

The cancellation of the requirement for structural separation in the landline field and in other fields in the telecommunications sector, except for the multi-channel television field, which will be cancelled after the broadcasting of television on the internet infrastructure is made possible.

To give immediate approval for all of the telecommunications companies and groups to provide all of the telecommunications services (which they do not currently provide) without structural separation restrictions. The structural separation requirement should be replaced by an accounting separation requirement. In addition, a prohibition is to be place on the transfer of information between the retail sector and the wholesale sector in each of the companies.

The existing requirement for structural separation is to be cancelled at the earlier of the day on which six months have passed from the day on which the aforesaid agreements were signed, or the day on which the general national operator license operators begin to provide the wholesale services as determined in the said agreements.

If no wholesale market will operate in 24 months after the date of the publication of the Committee's recommendations, the organizing body is to take execute a structural separation between the infrastructures of the general license holders and the services that are provided to the final customers.

The Committee see the importance in promotion of the operations of the telecommunications company that is expected to operate on the IEC's infrastructure (as stated in section (4) above), and it is of the opinion that similar regulatory principles should be applied to it in respect of the provision of wholesale services as those that will apply to the holders of the other general national operator licenses.

The Committee's recommendations, their adoption and their actual implementation are subject to the approval of the Minister of Communications and the Minister of Finance.

As of the date of the financial statements, the Ministry of Communications has not yet adopted the recommendations of the Hayek Committee.

(7) *Structural separation*

Provisions are stipulated in the national operator license in respect of the existence of an structural separation between the Company as the holder of a broadcasting license, and Hot Telecom as the holder of a national operator license and its general partner, in a similar manner to the provisions set in the broadcasting license, inter alia, in accordance with what is detailed as follows: (1) At least half of the members of the Company's Board of Directors are not to hold office in the Board of Directors of the general partner of HOT Telecom, and at least one of the members of the Company's Board of Directors must not be an related party in the Company or an office holder in an related party in the Company; (2) There is to be structural separation between the management of the Company and the management

NOTE 1:—GENERAL (Continued)

of HOT Telecom and the general partner of HOT Telecom, including on all matters relating to the business system, the financial set up and the marketing system; and in addition there is a requirement to separate the assets, and there is to be a mutual prohibition on the employment of employees.

Despite the requirement for separation, as aforesaid, HOT Telecom is permitted to sell a basket of services that includes the services of HOT Telecom and broadcasting services that are provided by the Company, and to perform the collection activities that are involved in that, and solely that HOT Telecom only transfers commercial information to the Company that it need in order to market a basket of services and to make collections as aforesaid.

In accordance with the amendment to the national operator license in August 2009, qualification and reliefs were determined in respect of the requirement for structural separation as set from the outset in the national operator license. It was also determined in the amendment, inter alia, that HOT Telecom is entitled to make use of the Company's management, operational and information systems maintenance, billing and collection services, in consideration for a reasonable payment and within the restrictions that have been placed on access to information, in accordance with the conditions that have been set in the amendment. In addition, it was stipulated that HOT Telecom and the Company will be entitled to make use of the assets in which the other entity has property rights in consideration for a reasonable payment. HOT Telecom is further permitted to make use of manpower services that are provided by the Company in consideration for a reasonable payment, and to pass financial information to the Company's Chief Financial Officer in respect of HOT Telecom, and solely that the information is required for the purpose of monitoring the provisions of the financing agreement that was signed between the Company and the banks in December 2006 (and which was most recently amended in November 2011).

6. *The cellular telecommunications field*

Mirs, the purchase of whose entire share capital was completed by the Company in November 2011 (see Note 3), operates in the cellular telecommunications field.

Mirs provides cellular telecommunications services to its customers using designated technology (iDEN), which include: Walky-talky services (Push to Talk), telephone conversations, data transfer, content services, added value services, text message sending, cellular oversees roaming services, as well as the sale and maintenance of terminal equipment. The iDEN technology is cellular technology that permits a combination of personal and group walky-talky conversations with telephone conversations, data transfer and message transfer (SMS).

In addition, Mirs provides its customers with selling and maintenance services for terminal equipment, which also includes the sale of ancillary equipment for mobile telephones such as hands free sets, pouches and so on.

a) *Licenses in the cellular telecommunications field*

(1) Mirs received a special license from the Ministry of Communications for a multi-wave, multi-frequency access business, using iDEN technology, which was developed by the Motorola Solutions company (formerly Motorola Inc.), which is the technology that is used by Mirs as of the date of these financial statements (hereinafter—the special license). On February 5, 2001, the Ministry of Communications converted the special license into a general license for the provision of radio, mobile telephone services in Israel and on February 11, 2003 that license was extended by 15 years until 2016.

(2) In April 2011 Mirs won a tender that was published by the Ministry of Communications for the allocation of frequencies, which enable the setting up of a generation 3.9 network (UMTS).

NOTE 1:—GENERAL (Continued)

Within the framework of the tender, Mirs gave an undertaking to supply national coverage (at an extent of 90%) by means of the new infrastructure within seven years of the receipt of the new radio, mobile telephone license, part of which was to be provided by means of Mirs existing sites, which would be converted to the new broadcasting frequencies, and some of which by means of new sites to be set up by Mirs. Till the completion of the coverage as required in the radio cellular telephone license of Mirs, Mirs can expand the coverage by means of the use of in country roaming services.

The version of the license that was received in 2001 was amended in September 2011 in order to adapt it to the terms of the frequencies tender that was won by Mirs (hereinafter—the expansion of the license). Within the framework of the expansion of the license, it was stipulated that the license would be in force for a period of twenty years, as from September 26, 2011. However, it is stipulated in the license that on the matter of the use of frequencies, Mirs will be entitled to make use of the frequencies that have been allocated to it in the course of 2001 until February 4, 2016.

Within the framework of the tender, Mirs gave an undertaking to provide countrywide cover by means of the new network during the course of the seven years that follow the receipt of the license at an extent of 20% inside two years, an extent of 40% within four years, an extent of 55% within five years, an extent of 75% within six years and an extent of 90% within seven years.

In accordance with the results of the frequency tender, the license fees were set at an amount of NIS 705 million (hereinafter—the license fees). Mirs paid an amount of NIS 10 million on the receipt of the license and it is to pay an additional amount of NIS 695 million after a period of five years commencing on September 26, 2011 (hereinafter—the time of the expansion of the license), in the wake of its win in the frequencies tender (hereinafter—the balance). Mirs has made a bank guarantee in an amount of NIS 695 million available in respect of the balance. However, the license contains a mechanism for the reduction of the balance, as follows: the entitlement to the reduction of the license fee will be examined in accordance with the market share that Mirs accumulated in the private sector at two times that have been set for the examination—two years from the time of the expansion of the license and at the end of a period of five years from the time of the expansion of the license (hereinafter—the market share).

The market share will be calculated as the regular average of (a) the ratio between the number of Mirs private subscribers and the overall number of subscribers in the private sector; (b) the ratio between the number of outgoing minutes that are initiated by Mirs private subscribers and the overall number of outgoing minutes (including minutes within networks) in the market that are initiated by the generality of subscribers in the private sector; (c) the ratio between the volume of revenues from Mirs private subscribers and the volume of revenues from subscribers in the private sector as a whole. In accordance with the key for the reduction, the balance of the license fee will be reduced by a seventh for each 1% of market share that has been accumulated by Mirs.

At the end of a period of five years and three months from the date of the granting of the license, Mirs will pay the lower of the balance, which has reduced in accordance with the market share that it has accumulated up to the time of the second check, or the balance, which has reduced in accordance with the market share that it had accumulated up to the time of the first check.

As of the time of the signing of these financial statements, Mirs is engaged in the setting up of the new network and is making preparations for the start of its commercial operations. In accordance with its assessment and its forecasts, inter alia on the basis of the assumption that regulation will exist that will enable the construction of instillations or that will give an exemption from the need to construct instillations. The new network is expected to begin to operate during the course of the year 2012. Costs in connection with the new network, which have been incurred after the time of its win and which can be attributed directly to bringing the network to its current state in a manner that it can operate in the manner in which management intended,

NOTE 1:—GENERAL (Continued)

have been recorded as part of the cost of the property, plant and equipment that are attributed to the network.

b) *Legislation and supervision*

Mirs' operations in the field of activity are subject to the supervision of the Ministry of Communications, which is empowered to organize and to permit the provision of the services in the telecommunications field.

(1) Mobile Virtual Network Operators (MVNO)

On January 19, 2012 the Ministry of Communications published regulations, which enable telecommunications companies to present an application for the granting of a virtual operator license in accordance with the conditions that are set in the regulations. To the best of Mirs' knowledge, as of the date of the financial statements, a number of companies have presented applications to receive a virtual operator license, of which eight companies have received the said license. On November 17, 2010 the Ministry of Communications announced that the Director General of the Ministry has made an approach to the cellular companies and the companies that hold an MNVO license, asking to receive details on the question of whether negotiations were being held on the terms of the commitment between the cellular companies and the virtual operators in accordance with the provisions of the Telecommunications Law, and the stage at which the negotiations were situation, in so far as they had started.

On December 23, 2010 the Bezeq company announced that its subsidiary company, Pelephone Communications Ltd. (hereinafter—Pelephone) had entered into a commitment under an agreement in accordance with which Pelephone would allow a virtual network operator to use sections of its network for the purpose of providing cellular services to the public. To the best of Mirs' knowledge, during the course of the year 2011 the virtual network operator began to operate in the field of mobile telephony services.

The entry of MVNO operators into the cellular telecommunications field as well as the issuing of licenses to virtual operators who will operate under the VOIP method will increase the competition in the field and could impact on Mirs' profitability rates.

(2) *The Telecommunications Law*

The Telecommunications Law and the Regulations that have been promulgated thereunder are the main legislation that organizes the field of telephony services in Israel. The Telecommunications Law prohibits any person from providing Bezeq services without have received an appropriate permit or license from the Minister of Communications. In addition, the Law empowers the Minister of Communications to impose significant monetary sanctions on license holders who breach its provisions and/or who have caused significant damage to the public or to its competitors.

On December 14, 2011, a draft of the Telecommunications Law (Bezeq and broadcasting) (Amendment No. 52) (The prohibition of payment and the loss of a benefit as the result of the cancellation of an agreement for the provision of radio, mobile telephone services)—2011 (hereinafter—the draft law) was published in the official gazette.

Within the framework of the draft law, it is proposed that the collection of payments and the prevention of benefits from a subscriber of a radio, mobile telephone license holder, who seeks to cancel the commitment agreement with the holder of the license be absolutely forbidden, except for the collection of the balance of the payments for the terminal equipment that the subscriber purchased from the license holder, in accordance with the provisions of section 51B of the Telecommunications Law. The proposed amendment will apply to subscribers who entered into a commitment under an agreement with a holder of a radio, mobile telephone license as from November 1, 2011 (except in relation to

NOTE 1:—GENERAL (Continued)

customers who have 100 or more subscriptions) .Furthermore, in accordance with this proposal, as from January 1, 2013 it will not be possible to make a connection between a transaction for the purchase of terminal equipment and a transaction for the provision of services.

In this connection, on March 5, 2011 the Finance Committee of the Knesset (hereinafter—the Committee), approved a draft law within the framework of its preparation in advance of the second and third readings. The law is expected to reach the Knesset Plenum for second and third readings and to be published in the official gazette in April 2012.

In Mirs' assessment, the said change is likely to further reduce the barriers to transferring between the competitors in the cellular market and this to ease the acquisition of market share by new competitors, including Mirs.

However, as of the time of these financial statements, Mirs is unable to quantify the degree to which this will impact on its business, inter alia, since the transition provisions on the matter of the amendment of the Law, in the event that it is passed, have not yet been clarified.

(3) *The Non-ionized Radiation Law*

During the course of January 2006 the Non-ionized Radiation Law (in this section—the Law) was passed, within the framework of which the Planning and Construction Law—1965 (hereinafter—the Planning and Construction Law) was also amended. The main provisions of the Law entered force at the beginning of 2008. The amendment determines, inter alia, that as a condition for the issuance of a license for the construction of a broadcasting facility, a letter of indemnification against claims for compensation under section 197 of the Planning and Construction Law, in respect of impairment in the value of land is to be demanded by the planning institution, which gives the permit (hereinafter—the letter of indemnification), in accordance with the directives issued by the National Council. These directives will remain in force until a change is made in National Outline Plan 36. At the beginning of January 2006 official directives from the National Planning and Construction Council, in which a duty of indemnification at a rate of 100% was set, were published. The deliverer of a letter of indemnification will be given the possibility of conducting the legal proceedings opposite a claim that is presented, as aforesaid.

Following the legislation of the Law, Mirs has delivered 215 letters of indemnification as a condition for the receipt of building permits at various sites across the country.

Up to the date of the financial statements, no claims have been filed against Mirs under the letters of indemnification and in accordance with an announcement by the Attorney General, no claims will be recognized under the letters of indemnification, which are presented after one year has passed since the time of the receipt of the building permit.

It should be noted that up to the present time a partial version of the regulations has been approved and the chapter in the regulations, which relates to the maximum radiation levels has not yet been promulgated. The version of the said chapter, which is acceptable to the Minster of Communications has been presented by the Ministry of the Environment, for approval by the Interior and Environment Committee of the Knesset but it has not won approval, since the Committee has demanded a stiffening of the criteria for the granting of the permits from the Supervisor of Environmental Radiation. If the Committees demands are met, in Mirs assessment this will significantly impair its ability to provide cellular services in the State of Israel.

(4) *Structural separation*

In accordance with the terms of the license, Mirs is to maintain structural separation between itself and the Company and HOT Telecom, as detailed below: (a) full separation

NOTE 1:—GENERAL (Continued)

between Mirs' management and the managements of the Company and of HOT Telecom, including in all matters relating to the business system, the financial system and the marketing system; (b) full separation between Mirs' assets and the assets of the Company and of HOT Telecom; (c) Mirs is not to employ the Company's employees, nor is it to employ HOT Telecom's employees, and it is not to cause in any way, whether by act or by omission, for the Company or HOT Telecom to employee its employees; (d) conditions exist in relation to the maintenance of the confidentiality of commercial information, its receipt and its transfer to the Company and to HOT Telecom.

7. *The internet supply services—ISP services field*

In 2008 the Group made an approach to the Ministry of Communications requesting a license for ISP services. On December 5, 2010 it was decided to grant a license for the provision of ISP services to a subsidiary company of the Company (hereinafter—the decision), subject to arrangements that were stipulated in the decision, including the amendment of certain provisions in HOT Telecom's national operator license and the Company's broadcasting license (hereinafter—the amendments to the national operator license and the broadcasting license).

In continuation of the decision, on December 14, 2010 the Ministry of Communications granted a special license to HOT Investments and Finance Ltd., which changed its name to Hot Net Internet Services Ltd. (hereinafter—HOT Net), a subsidiary company of the Company (hereinafter- the internet provider) to carry out Bezeq activities and to provide Bezeq services—internet access services (hereinafter—the ISP license). On February 15, 2012, HOT Net began to supply ISP services to private subscribers. As of the date of these financial statements, this activity of the Group is not on a significant scale, and therefore it is not reported as a reportable segment.

The details of the ISP license are presented below:

a) *Services under the license*

The license affords the internet supplier authorization to provide various Bezeq services, including: internet access services, e-mail services, the setting up and maintenance of a data transfer network, electronic data interchange (EDI), processing activities, management and routing of messages and system management services (including the monitoring and handling of malfunctions, information security, information systems and information compression, the security of access to the computer of the recipient of the service).

b) *The period of the license*

The ISP license has been given for a period starting at the time of the granting of the license and ending on December 31, 2015. Towards the end of the period of the license the internet provider will be entitled to present an application for the renewal of the license for an additional period.

The ISP license contains provisions on the subject of a prohibition on the transfer of the license as well as any right or duty thereunder, except with the approval of the Minister of Communications, as well as restrictions on a charge on the means of control in the license holder or in a related party therein, as well as restrictions on a charge on the license assets. Despite the aforesaid, the internet supplier is entitled to charge any of the license assets in favor of a banking entity that lawfully operates in Israel, for the purpose of receiving bank credit and solely that the charge agreement is to include a terms that the exercise of the rights is not to harm the provision of the services in accordance with the license.

c) *The requirement for structural separation*

The provisions of the ISP license require HOT Net to maintain structural separation between HOT Net, the Company and HOT Telecomm which includes a requirement to separate the managements of the entities, including on all matters relating to the business system, the

NOTE 1:—GENERAL (Continued)

financial system and the marketing system, the separation of assets of the Company and a prohibition on employing the employees of another entity. Furthermore, HOT Net is to have a separate CEO appointed. The amendments to the national operator license and the broadcasting license add a prohibition on the Company and on HOT Telecom from transferring commercial information that they possess to HOT Net, including information on subscribers and marketing plans, unless this is required for the purpose of supplying a joint basket of services as described in section (e) below.

d) *The duty to provide service without discrimination*

The internet supplier will be required to provide its services to any random subscriber or recipient of service or holder of an ISP license, including subscribers of other holders of a national operator license or a radio, mobile telephone license, and this is to be done without discrimination and under egalitarian terms.

e) *The marketing of a joint basket of services*

In accordance with the provisions of the ISP license and the amendments to the national operator and the broadcasting licenses, each of the following entities: HOT Net, the Company and Hot Telecom will be entitled to market a basket of services, which includes, inter alia, the Company's broadcasting services, Bezeq services that are provided by HOT Telecom, in whole or in part, together with HOT Net's ISP services, and to carry out the collection activities that are involved therewith, subject to compliance with certain conditions that were set in the license.

8. On February 14, 2012, the Company received a letter from the Ministry of Communications, in connection with a demand for data in respect of the packages of services that the Group intends to market to the public. In this connection, because of the fact that the packages that are offered to the public by the Group offer significant discount rates, the Company was requested to present data and details to the Ministry of Communications in respect of the terms of the packages being offered by it. As of the date of these financial statements, the Company has provided the Ministry of Communications with the data that was requested.

   On February 22, 2012, the Company received a letter from the Ministry of Communications, according to which the Company, HOT Telecom and HOT Net had purportedly breached provisions in their licenses, which stipulated a requirement for structural separation, because of the joint marketing of HOT Net's services with other services provided by the Group (hereinafter—the approach). In response to the approach, the Companies in the Group informed the Ministry of Communications, that from their perspective the marketing activities were undertaken in conformity with their licenses. In continuation the companies announced that the marketing format in the company had been adapted so as to accord with the approach taken by the Ministry of Communications. On March 20, 2012 the Company received a letter from the Ministry of Communications, according to which it had noted the Company's announcement, and making it clear that if the Company was interested in marketing a basket of joint services, within the framework of which HOT Net's services would be marketed, it was to present an application for the approval of the director and that the application would be considered properly.

9. *International operator license*

   On March 18, 2008 the Group made an approach to the Ministry of Communications with a request to receive an international operator license in order to provide international calling services (hereinafter—the international operator license). The Group requested that such a license should also include international VOB services, in accordance with the policy of the Ministry of Communications as issued in January 2007. On February 2, 2012 Mirs International Telecommunications Ltd., a wholly owned subsidiary of Mirs' made an approach to the Ministry of Communications requesting to receive a general license for the provision of international telecommunications services. At this stage it is not possible to assess if and when an international

NOTE 1:—GENERAL (Continued)

operator license will be granted and what the volume of activity will be in this field, if the Group operates in it or what its implications will be for the Group's operations.

10. *The Company's working capital deficit*

As of the balance sheet date the Group has a working capital deficit of NIS 1,248 million (as of December 31, 2010—NIS 986 million). Approximately NIS 364 million of the said deficit derives from loans that have been received from banking institutions, in accordance with the credit agreement, as detailed in Note 20.

In the Company's management's assessment, as of the time of the approval of the financial statements, it has sufficient sources of funds to repay the deficit in its working capital and to continue its operations.

B. *Definitions*

In these financial statements:

The Company	—	HOT Telecommunications Ltd.
The company in its previous format	—	The Company before the completion of the legal merger.
The cable companies in their previous format	—	The HOT Gold Group and the Tevel Group.
The merging companies	—	The Company in its previous format and the cable companies in their previous format.
Consolidated companies and partnerships	—	Companies or partnerships over which the Company has control (as defined in IAS 27 (2008)) and whose financial statements are consolidated with the Company's financial statements.
Investee companies	—	Consolidated companies and partnerships and associate companies.
The Tevel Group	—	Tevel International Transmissions Ltd., Gvanim Cable Television Ltd. and Gvanim-Krayot Cable Television Ltd.
The HOT Gold Group	—	The HOT Gold & Co. Partnership (hereinafter—HOT-Gold), Drom Hasharon Telecommunications Ltd., Isracable Ltd., HOT T.L.M. Subscriber Television Ltd., HOT Idan Cables Systems Israel (Holdings 1987) Ltd., HOT—Idan Cable Systems Israel Ltd. and HOT Edom Ltd.
Other company	—	A company that is not an investee company and the investment in which is measured on the basis of its fair value.
The parent company	—	Cool Holdings Ltd. (Cool Holdings S.a.r.l.).
The Group	—	The Company and its consolidated companies and partnerships.
Interested parties and controlling shareholders	—	As defined in the Securities Regulations (Annual financial statements)—2010.
Related parties	—	As defined in IAS 24.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of presentation of the financial statements*

1. *Measurement basis*

The Company's financial statements have been prepared on the cost basis, except for the liability for cash settled share based payment transaction, derivatives and financial instruments at fair value through profit or loss, available for sale financial assets, deferred tax assets and deferred tax liabilities, employee benefits assets and liabilities and provisions.

The Company has elected to present profits or loss items using the nature of activities method.

2. *Basis preparation of the financial statements*

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter—IFRS Standards). These standards include:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. Interpretations issued by the IFRIC and by the SIC.

Furthermore, the financial statements have been prepared in accordance with the provisions of the Israeli Securities Regulations (Annual financial statements)—2010.

3. *Consistent accounting policies*

The accounting policies that are detailed below have been implemented in the financial statements in a consistent manner in all of the periods that are presented, except as stated in section 4 below.

4. *Changes in the accounting policies in view of the adoption of new standards IFRS 7—Financial instruments: Disclosure*

The amendment to IFRS 7 (''the Amendment'') clarifies the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. The Amendment also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The Amendment has been implemented retrospectively commencing from the financial statements for periods beginning on January 1, 2011.

The retrospective application of the Amendment did not have an impact on the Company's financial statements.

B. *Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements*

1. *Judgments*

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

Classification of leases

In order to determine whether to classify a lease as a finance lease or an operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Company evaluates such criteria as the existence of a ''bargain'' purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognizing revenue on a gross or net basis

In cases in which the Group operates as an agent or as a broker without bearing any of the risks and the reward derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis.

Determination the fair value of share based payment transactions

The fair value of share based payment transactions is determined using option-pricing model. The assumptions used in the model include the share price, the exercise price, expected volatility, the expected lifetime, expected dividends and the risk free interest rate.

2. *Estimates and assumptions*

The preparation of the financial statements requires management 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 of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Legal claims

In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the 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.

Impairment of goodwill

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. Further details are given in O.

Deferred tax assets

Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in P.

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. Further details are given in R.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Consolidated financial statements*

Effective from January 1, 2010, the date of adoption of IFRS 3 (Revised), and of IAS 27 (2008), the Group applies the accounting policies required by these standards for business combinations and transactions with non-controlling interests.

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

D. *Functional currency and foreign currency*

1. *Functional currency and the presentation currency*

The presentation currency of the financial statements is the NIS.

The functional currency which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group entity, and is used to measure its financial position and operating results. The functional currency of the Company is the NIS.

2. *Transactions, assets and liabilities in foreign currency*

Transactions denominated in foreign currency (other than the Company's functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction.

3. *Index-linked monetary items*

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index (''Israeli CPI'') are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, are recognized in profit or loss.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are details in respect of the exchange rates of various currencies that are relevant to the Group and the Consumer Prices Index:

	December 31		
	2011	2010	2009
The Index (in points)(*)	216.3	211.7	206.2
Exchange rates (In NIS):			
US Dollar	3.82	3.55	3.78
Euro	4.94	4.74	5.44

(*) The basis for the Index is the average index for 1993 = 100.

	For the year ended December 31		
	2011	2010	2009
	%	%	%
Rate of change in the year then ended:			
Consumer Prices Index	2.17	2.67	3.93
US Dollar	7.61	(6.08)	(0.53)
Euro	4.22	(12.87)	2.64

E. *Cash equivalents*

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.

F. *Designated cash*

Designated cash is considered to be cash that is designated for the repayment of the Company's liabilities to financial institutions in accordance with the Company's credit agreement.

G. *Allowance for doubtful accounts*

The allowance for doubtful accounts is determined in respect of specific debts where the Company's management believes that their collection is doubtful. Moreover, the Company has recognized a provision for groups of customers who are evaluated collectively in respect of impairment based on their credit risk characteristics. The debts of customers where an impairment of value has occurred, derecognized at the time that it is determined that those debts cannot be collected.

H. *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 Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

I. *The operating cycle*

The Group's regular operating cycle is one year, as a result of this the current assets and the current liabilities include items that are intended and expected to be realized within the Company's regular operating cycle.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. *Financial instruments*

1. *Financial assets*

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment for investments in financial assets is based on their classification into one of the following three categories:

- Financial assets at fair value through profit or loss.
- Loans and receivables.
- Available for sale financial assets.

a) *Financial assets at fair value through profit or loss*

The Group has financial assets at fair value through profit or loss, which include financial assets that are held for trading.

Financial assets that are classified as held for trading are a derivative that is not designated as a hedging instrument.

Gains or losses on investments that are held for trading are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss. And (d) the currency in which the contract is denoted (foreign currency) is not the functional currency of the counter-party, which operates in Israel.

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

The Group assesses whether embedded derivatives are required to be separated 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.

All of the derivatives are not designated for effective accounting hedging usage.

b) *Loans and receivables*

The group has loans and receivables, which are (non-derivative) financial assets with fixed or determinable payments, that are not quoted on an active market. After initial measurement, the loans are measured in accordance with their terms at amortized cost using the effective interest method, while taking into account directly attributable transactions costs, if any. Short-term receivables (such as trade and other receivables) are measured based on their terms, and generally at its face value. Gains and losses are recognized in profit or loss when the loans and the receivables are derecognized, or when a loss from impairment in value is recognized in respect of them, as well as through the systematic amortization.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) *Available for sale financial assets*

The Group has available for sale financial assets that are (non-derivative) financial assets that have been designated as available for sale. After the initial recognition, available for sale financial assets are measured at fair value. Gains or losses as the result of the adjustments of fair value are recognized directly in equity as other comprehensive income (losses) under a capital reserve in respect of available for sale financial assets. At the time of the disposal of the investment or if an impairment in value is recognized in respect of it, the other comprehensive income (loss) is recognized in profit or loss.

2. *Financial liabilities*

a) *Financial liabilities at amortized cost*

Loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process. See section S below in respect of the recognition of income from interest.

b) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading 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 separated embedded derivatives, are classified as held for trading. 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 separated 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.

3. *Fair value*

The fair value of financial instruments that are traded in an actively traded in organized financial market is determined by reference to quoted market prices at the end of the reporting period. For financial instruments for which there is no active market, fair value is determined by the use of valuation techniques. Such techniques include using arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

4. *Offsetting financial instruments*

Financial assets and financial liabilities are offset and their net amount is presented in the balance sheet, if a legally enforceable right to set-off the amounts that have been recognized and there is an intention either to settle the asset and the liability on a net basis or to realize the asset and to settle the liability in parallel.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. *Derecognition of financial instruments*

a) *Financial assets*

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset have expired or when the Company has transferred the contractual rights to receive cash flows from the financial asset or when it has taken upon itself a commitment to pay the cash flows that have been received in full to a third party, without any significant delay, and in addition, it has substantially transferred all of the risks and the benefits that are connected to the asset or it has not transferred nor retained substantially all of the risks and the benefits that are connected to the asset, but has transferred control over the asset.

b) *Financial liabilities*

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or has expired. A financial liability is extinguished where the debtor (the Group):

- Discharges the liability by a cash payment, by means of other financial assets, by means of goods or services, or
- Is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

6. *Impairment in the value of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

a) *Financial assets carried at amortized cost*

There is objective evidence of impairment of loans and carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account (see allowance for doubtful accounts above). In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

b) *Available for sale financial assets*

In respect of available for sale financial assets, which are equity instruments, objective evidence includes a significant or continuing impairment in the fair value of the asset to

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

beneath its costs as well as the examination of changes in the technological, economic, legal or market environment in which the company that has issued the instrument operates.

The examination of a significant or prolonged impairment is dependent on the circumstances at each balance sheet date, where within the framework of the examination, historical fluctuations in the fair value as well as the decline in the fair value are taken into account. Where there is evidence of impairment, the cumulative loss—measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value—is reclassified from other comprehensive income and recognized as an impairment loss in profit or loss. In following periods, any reversal of the impairment loss is not recognized in profit or loss but recognized in other comprehensive income.

K. *Leasing*

The testing for classification as finance leasing or operating leasing is based on the substance of the agreements and is made at the inception of the lease in accordance with the following principles set in IAS 17.

The group as a Lessee

1. *Financing leasing*

Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease liability using the effective interest method.

After initial recognition, the leased asset is accounted for according to the accounting policy applicable for this type of asset .

2. *Operating leasing*

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

L. *Business combinations and goodwill*

Effective from January 1, 2010, following the expansion of the definition of a ''business'' pursuant to IFRS 3 (Revised), the Company also accounts for activities and assets as a business even when they are not conducted as such as long as the seller is capable of operating them as a business.

Business combinations are treated using the acquisition method of accounting. Under this method, the identifiable assets and the liabilities of the acquired company are identified in accordance with their fair value at the acquisition date. The cost of the acquisition is the cumulative fair value at the time of the acquisition of the assets that have been given, the liabilities that have been taken up and the equity interests that have been issued by the acquirer.

For business combinations that occurred on or after January 1, 2010, direct acquisition costs relating to the business combination are recognized as an expense in profit or loss and are not part of the acquisition cost.

As for business combinations that occurred through December 31, 2009, these costs are recognized as part of the acquisition cost.

On the acquisition date, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

that exist at the acquisition date, except for lease contracts that have not been modified on the acquisition date and whose classification as a finance or operating lease is therefore not reconsidered.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed as measured on the acquisition date.

After initial recognition, goodwill is measured at cost less, if relevant, any accumulated impairment losses. Goodwill is not systematically amortized. As for testing the impairment of goodwill, see O.

For business combinations that occurred on or after January 1, 2010, contingent consideration is recognized at fair value on the acquisition date. If the contingent consideration is classified as a financial liability in accordance with IAS 39, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Effective from January 1, 2010, an adjustment to the deferred tax asset balance in respect of acquired temporary differences which did not meet the recognition criteria at acquisition date is recorded in profit or loss and not as an adjustment to goodwill.

M. *Property, plant and equipment*

Property, plant and equipment items are measured at cost with the addition of direct purchase costs and less accumulated depreciation, accumulated impairment losses and any related investment grants 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 equipment.

The cost of a number of Property, plant and equipment items has been determined in accordance with their fair value as of January 1, 2007, the time of the transition to IFRS (deemed cost).

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

	%	
Buildings	2 – 4	Primarily 2%
Cable network	5 – 25	
Call center (primarily electronic equipment)	11 – 20	
Infrastructure for the telecommunications network	6 – 15	
Converters and modems	15	
Computers and ancillary equipment	15 – 33	
Office furniture and equipment	6 – 15	
Leasehold improvements	10	

Leasehold improvements are depreciated in accordance with the straight line method over the shorter of the period of the rental (including the option period for an extension by the Group, which it intends to exercise) or the expected life of the improvement.

Elements of a property, plant and equipment item, having a cost that is significant by comparison with the overall cost of the item, are depreciated separately, using the elements method. The depreciation is calculated in accordance with the straight line method at annual rates that are considered to be sufficient to depreciate the assets over the useful life of the part.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant and equipment, see P below.

The depreciation of assets is discontinued at the earlier of the date at which the asset is classified as held for sale and the date at which the asset is derecognized. An asset is derecognized on disposal or when no further economic benefit is expected to derive from the use of the asset. The gain or loss

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset in the financial statements) is included in profit or loss in the period in which the asset is derecognition.

N. *Intangible assets*

Intangible assets that are acquired separately are measured at cost on initial recognition, with the addition of direct acquisition costs. Intangible assets that are acquired in a business combination are measured at fair value at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and less any accumulated impairment losses.

In management's opinion, the intangible assets have defined useful lives. The assets are amortized over their useful lives using the straight line method and assessed for impairment signs exist that indicates 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 by way of from here onwards. The amortization expenses in respect of intangible assets with finite useful lives are recognized in profit or loss.

The useful lives of the intangible assets are as follows:

	Years
Software	3
Customer relationships	7 – 9
Customer relationships with a defined contractual period	3
Brand name	5 – 12
Subscription purchase costs	1.5 – 3
Rights to screen movies and programs	(*)
Mirs' License	5

(*) Rights to screen films and programs

The costs includes the amounts of the commitments with suppliers of the rights to screen films and programs on the television, with the addition of the direct costs expensed for the purpose of adapting the films and the programs for screening in Israel. Content usage rights are recorded under this item. The rights are amortized on the basis of the actual screenings, whilst giving a relatively higher weighting to the initial screening.

On an original production, 65% of the asset is amortized on the first screening (which includes the screenings that take place in the following 72 hours), and the balance is amortized over the balance of the screenings in accordance with the agreement. The rights to screen films and programs from overseas suppliers are amortized by 65% on the initial screening and by 35% on a straight line over the balance of the screenings under the agreement.

Goodwill

Goodwill represents the surplus of the acquisition cost over the estimated fair value of the tangible and intangible assets, after deducting the fair value of the liabilities that have been acquired by the Company.

Customer relationships

Customer relationships—this intangible asset was evaluated on the basis of the fair value of the existing customers in accordance with the contacts with them, in accordance with the excess earnings method for multiple periods.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amortization period for customer relationships that have been valued within the framework of the legal merger between the cable companies is 9 years and in accordance with the economic conditions that are expected in each period.

The amortization period for customer relationships that were valued within the framework of the acquisition of Mirs is 7 years and in accordance with the economic conditions that are expected in each period.

Customer relationships with a defined contractual term

This intangible asset was estimated under the purchase of Mirs shares 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 capitalized estimated number of years, based on the existing agreements data.

Brand name

The ''HOT'' brand and ''Mirs'' brand—this intangible asset was evaluated within the framework of the businesses combinations in accordance with the ''exempt from royalties'' method, which constituted the implementation of the income approach in the evaluation of the value of the assets. The amortization period for the brand name is 12 years under the straight line method for HOT and 5 years for Mirs.

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 is exist according to the obligation. The expenses relating to the amortization of the purchase of the subscribers are recorded in the statement of comprehensive income over the length of the period of the subscribers' average contractual commitment.

During the reporting period, as a result of the amendment of the Telecommunications Law, as noted in Note 1A(4)(b)(7) and the change in the level of the maximum fine in respect of a breach of the customers' commitment, the amortization of the asset was accelerated so as to reflect the maximum fine that exists in respect of the Group's customers' commitment.

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 property, plant and equipment. By contrast, licenses from stand-alone software which add additional functionalities for the hardware are classified as intangible assets.

Mirs' license

Mirs have a general license to provide cellular phone services in a cellular network. In February 2003, the license period was updated and extended for 15 years. The license is amortized using the straight line method over its useful lives under the license period set forth in the agreement.

O. *Impairment in the value of non-financial assets*

The group assesses the need for the examination of the impairment in the carrying amount of non-financial assets (property, plant and equipment and intangible assets except goodwill) when there are signs, as the result of events or changes in the circumstances that indicate that the carrying amount in the financial statements is not recoverable. In cases where the carrying amount in the financial statements of the non-financial assets exceed their recoverable amount, the assets are written down to their recoverable value. The recoverable amount is the higher of the fair value

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

less costs of sale and the value in use. In assessing value in use, the estimated future cash flows are discounted to using a pre-tax discount rate that reflected the risks that are specific to each asset. For assets that do not generate independent cash flows, the recoverable amount for the cash generating unit to which the asset belongs is determined. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are used in the assessing impairment of the following specific assets:

Goodwill in respect of subsidiaries

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

The Company reviews goodwill for impairment once a year as of December 31 or more frequently if events or changes in circumstances indicate that there is impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

Effective from January 1, 2010, each unit or group of units to which the goodwill is allocated shall not be larger than an operating segment determined in accordance with IFRS 8, ''Operating Segments'', prior to aggregation for reporting purposes.

P. *Taxes on income*

Taxes on income in the profit or loss 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 other comprehensive income or in equity, in these cases the tax effect is reflected under the relevant item.

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. *Deferred taxes*

   Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

   Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, ''taxes on income''.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the balance sheet as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the balance sheet if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

Q. *Share based payment transactions*

The Company'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.

Equity settled transactions

The cost of equity settled transactions with employees is measured in accordance with the fair value that have been granted at the time of the grant and in respect of options that existed at the time of the business combination that took place on March 16, 2011, in accordance with their value at that time. The fair value is determined using a generally acceptable pricing model, see note 27.

The cost of equity settled transactions is recognized in the profit or loss together with the parallel increase in equity over the length of the period in which the service terms are met and ending at the time at which the relevant employees are entitled to the award (hereinafter—the vesting period). The cumulative expenses that have been recognized in respect of equity settled transactions at the end of each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate in respect of the number of equity instruments that will ultimately vest. The expense or the income profit or loss reflects the change between the cumulative expense that has been recognized as at the end of the reporting period and the cumulative expense that has been recognized at the end of the previous reporting period.

No expense is recognized in respect of awards that do not ultimately vest.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value on the grant date using a standard option pricing model. The fair value is recognized as an expense over the vesting period and a corresponding liability is recognized. The liability is re-measured at each reporting date until settled at fair value with any changes in fair value recognized in profit or loss.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. *Employee benefit liabilities*

There are number of sorts of employee benefits in the Group:

1. *Short-term employee benefits*

Short-term benefits for employees include salaries, paid annual leave, paid sick leave, recuperation pay and social security contributions and are recognized as an expense when the services are provided. A liability in respect of a cash bonus or a profits sharing scheme is recognized where the Group has a legal or constructive obligation 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. *Post-employment benefits*

The plans are generally financed by contribution to insurance companies and they are classified as defined contribution plans and also as defined benefit plans.

The Group operates a defined benefits plan in respect of severance pay in accordance with the Severance Pay Law. According to the 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 credit method. The actuarial calculation takes into account increases in salaries in the future and the rate at which employees leave the Company 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 expected future cash flows using a discount rate determined by reference to yield on government bonds, with a term that matches the estimated term of the benefit obligation.

The Company deposits monies in respect of its liabilities to pay severance pay to some of its employees, in a routine manner, in pension funds and with insurance companies (hereinafter—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 they cannot be returned directly to the Group.

The liability in respect of employee benefits that is presented in the balance sheet represents the present value of the defined benefits obligation less the fair value of the plan assets, less the past service costs. Actuarial gains or losses are reflected profit or loss in the period in which they arise, as part of the salary costs.

As from the year 2011, the Group has defined contribution plans pursuant to Section 14 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.

3. *Other long-term employee benefits*

The Group's net obligation in respect of 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.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. *Termination benefits*

Severance pay for employees is reflected as an expense when the Group has committed, with no real possibility of withdrawal, to terminate 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 are reflected where 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.

S. *Revenues recognition*

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Revenues from credit sales transactions that include a financing element are recorded at present value such that the difference between the fair value of the consideration had credit not been provided and the nominal amount of the consideration is recognized in profit or loss as finance income using the effective interest method.

The following are the specific criteria in respect of the recognition of income in respect of the following types of income:

Revenue from the provision of services

Income from the provision of cables, internet, telephony and mobile radio telephone network in a cellular network are recognized in accordance with the stage of completion of the transaction as of the reporting date. In accordance with this method, the income is recognized in the reporting period in which the services are provided. Prepaid revenues are recognized from selling calling cards according to the actual use of the customers or upon their expiration, whichever is earlier.

Revenues from the sale of goods

Revenues from the sale of goods are including sale of mobile devices and related equipment.

Revenues from the sale recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

The charge for the end equipment is done separately from the monthly charge for services and according to a stated amount included in a separate invoice reflecting the fair value of the end equipment that is not subsidized by the group. In view of the above, the group recognized revenues from selling instruments upon transfer of title on such instruments to its customers. Revenue is recognized on the first day according to its fair value for that day and the difference between the fair value and the stated amount of the consideration is recognized as financial income during the payment period.

Revenues from credit arrangements

Revenues from long term credit arrangements (such as sale of instruments in payments) are recorded based on the present value of future cash flows (against long term trade receivables) and are capitalized according to interest rates. The difference between the original amount of the credit and the present value, as above, is spread over the credit period and recorded as interest income over the credit period.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income

Interest income in respect of financial assets is recognized on the accruals basis using the effective interest method.

The reporting of income on the gross basis or on the net basis

In cases in which the Group operates as an agent or as a broker, without bearing the risks and the rewards that are derived from the transaction, its revenues are presented on a net basis. As of the balance sheet date, the Company has revenues that are presented on the net basis in respect of the connection fees of international telecommunications operators. By contrast, in cases in which the Group operates as the main supplier and bears the risks and the rewards that are derived from the transaction, its revenues are presented on a gross basis.

Income in respect of fees for installation in customer's homes

In accordance with the provisions of IAS 18, since the transaction in respect of the connection of a customer to the Group's services is connected to a services arrangement, in such manner that the services arrangement will only have a commercial effect in relation to both of the transactions together (the connection and the services), the income from installation/connection fees is recognized over the length of the expected period of the commitment between the customer and the Company, in accordance with the services arrangement, as aforesaid.

Customer discounts

Current customer discounts are recognized in the financial statements when granted and are deducted from sales.

Arrangements with multiple elements

Revenues from sale agreements that do not contain a general right of return and that are composed of multiple elements such as equipment, services and technical support are allocated to the various accounting units and recognized for each accounting unit separately. An element constitutes a separate accounting unit if and only if it has a separate value to the customer. Furthermore, this only applies if there is objective and reliable evidence as to the fair value of each element in the agreement or as to the fair value of undelivered elements. Elements that have not been separated into accounting units because they do not comply with the above criteria are grouped as a single accounting unit. Revenue from the various accounting units is recognized when the criteria for revenue recognition regarding the elements of that accounting unit have been met according to their type and only to the extent of the consideration that is not contingent upon completion or performance of the remaining elements in the contract.

Revenue from Dividend

Dividend income from investments that are treated as an available for sale financial asset are recognized at the determining date for entitlement to the dividend.

Finance income and expenses

Finance income comprises interest income on amounts invested, changes in fair value of financial assets at fair value through profit or loss and exchange rate gains. Interest income is recognized as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the time value of provisions, changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized in profit or loss using the effective interest method.

Gains and losses on exchange rate differences are reported on a net basis.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. *Earnings per share*

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares (such employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

U. *Operating segments*

An operating segment is a component of the Group that meets the following three conditions:

1. Is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intra-group transactions;
2. Whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
3. For which separate financial information is available.

V. *Provisions*

A provision in accordance with IAS 37 is recognized when the Group has an obligation in the present (legal or constructive) as the result of a past event, it is probable that an outflow of resources embodying economic benefits will be required in order to settle the obligation and reliable estimate can be made of the amount of the obligation.

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

Legal claims

A provision in respect of claims is recognized where the Group has a present legal or constructive obligation as the result of past event, where it is more likely than not that the outflow of resources embodying economic benefits will be required by the group to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of time is significant, the provision is measured in accordance with the present value.

Provision for 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.

W. *Advertizing expenses*

Expenses in respect of advertising activities, sales promotion and marketing such as production of catalogs and promotional pamphlets. are recognized as an expense at the time at which the Group has access to the advertising products or where the service in respect of those activities is provided to the Group.

X. *Reclassification*

The Company has reclassified the balances of the liability in respect of finance leasing as of December 31, 2010 in an amount of NIS 26 million, from loans from financial institutions account to other long-term liabilities account.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

In parallel, the Company has reclassified the balance of the current maturities as of December 31, 2010 in an amount of NIS 8 million in respect of finance leasing from current maturities of long-term loans account, which appears under credit from financial institutions and others to current maturities of long-term liabilities account, which appears under other payables.

Y. *Presentation of statement of comprehensive income*

The Company has elected to present a single statement of comprehensive income, which contains items relating the statement of income as well as items relating to other comprehensive income.

Z. *Disclosure of new IFRSs in the period prior to their adoption*

IAS 19 (Revised)—Employee benefits

In June 2011 the IASB published IAS 19 (Revised) (hereinafter—the standard). The principal amendments included in the standard are:

– Actuarial gains and losses will only be recognized in other comprehensive income and not recorded in profit or loss.

– The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.

– The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.

– Past service cost arising from changes in the plan will be recognized immediately. The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted. The Company is evaluating the possible impact of the adoption of the Standard but is presently unable to assess the effects, if any, on its financial statements.

IAS 32—Financial instruments: Presentation and IFRS 7—Financial instruments: Disclosure

In December 2011, the IASB issued amendments to IAS 32 (''the amendments to IAS 32'') regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of ''currently has a legally enforceable right of set-off'' (''the right of set-off''). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

Simultaneously in December 2011, the IASB issued amendments to IFRS 7 (''the amendments to IFRS 7'') regarding the offsetting of financial assets and liabilities. According to the amendments to IFRS 7, the Company is required, among others, to provide disclosure of rights of set-off and related arrangements (such as collateral agreements), the composition of amounts that are set off, and amounts subject to enforceable master netting arrangements that do not meet the offsetting criteria of IAS 32.

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2014, or thereafter. Earlier application is permitted, but disclosure of early adoption is required as well as the disclosures required by the amendments to IFRS 7 as described above. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2013, or thereafter.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Company's financial statements.

IFRS 7—Financial instruments: Disclosure

The amendment to IFRS 7 (''the Amendment'') provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The objective of the Amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Company's financial position. The Amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The Amendment is to be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The appropriate disclosures will be included in the Company's financial statements.

IFRS 9—Financial instruments

1. In November 2009, the IASB issued IFRS 9, ''Financial Instruments'', the first part of Phase 1 of a project to replace IAS 39, ''Financial Instruments: Recognition and Measurement''. IFRS 9 (''the Standard'') focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

   - The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
   - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency (''accounting mismatch'') that would have otherwise arisen.

   Subsequent measurement of all other debt instruments and financial assets should be at fair value.

   Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

   The Standard is effective commencing from January 1, 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the Standard.

2. In October 2010, the IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

The Company is evaluating the possible impact of the Standard but is presently unable to assess its effect, if any, on the financial statements.

IFRS 10, IFRS 11, IFRS 12, IFRS 13—Consolidated financial statements, Joint arrangements, Disclosure of interest in other entities, Fair value measurement.

In May 2011, the IASB issued four new Standards: IFRS 10, ''Consolidated Financial Statements'', IFRS 11, ''Joint Arrangements'', IFRS 12, ''Disclosure of Interests in Other Entities'' (''the new Standards'') and IFRS 13, ''Fair Value Measurement'', and amended two existing Standards, IAS 27R (Revised 2011), ''Separate Financial Statements'', and IAS 28R (Revised 2011), ''Investments in Associates and Joint Ventures''.

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

The main provisions of the Standards and their expected effects on the Company are as follows:

IFRS 10—Consolidated financial statements

IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, ''Consolidation—Special Purpose Entities''.

IFRS 10 does not prescribe changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management's intentions and financial ability to exercise such rights.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models—the de facto control model and the legal control model.

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Company believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements.

IAS 27R—Separate financial statements

IAS 27R supersedes IAS 27 and only addresses separate financial statements. The existing guidance for separate financial statements has remained unchanged in IAS 27R.

IFRS 12—Disclosure of interests in other entities

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Company's financial statements upon initial adoption of IFRS 12.

IFRS 13—Fair Value Measurement

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

The Company is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on its financial statements.

NOTE 3:—INVESTMENT IN MIRS

A. *Business combination in the reporting period*

On November 28, 2011 the acquisition of the entire rights of Altice Securities S.A.r.I (hereinafter—''Altice''), a company that is controlled by Altice VII S.A.r.l., which is the sole shareholder in the controlling interest in the Company and of a third party that is not related to the Company (hereinafter—''Migad'') in Mirs was completed by the Company, which includes: (1) 33,162,309 regular shares of par value NIS 1.00 each in Mirs, constituting 100% of Mirs' issued and paid up share capital; (2) shareholders' loans in an amount of NIS 69 million, which has been made available to Mirs by Altice and Migad; as well as (3) a capital note in an amount of NIS 200 million, which had been issued to Mirs by Altice and Migad. The overall consideration for the business combination amounted to up to NIS 1.2 billion.

As from the date of the completion of the transaction, the Company has been consolidating Mirs financial statements.

The Company 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 management with the assistance of an independent valuation firm. As of the time of the approval of the financial statements, a final evaluation has been received.

Consideration

The total consideration for the acquisition of Mirs has been calculated in accordance with the value of the Mirs which evaluated to approximately NIS 1.2 billion, which is based upon the cash payment and the contingent consideration on behalf of future performance, as detailed below:

1. An amount of NIS 750 million in deduction of the amount of the net debt as defined in the purchase agreement (as of June 30, 2011- an amount of NIS 264 million, which was paid on the date of closing).

2. Additional consideration, in an amount of NIS 450 million, which is subject to future performance, and will be paid in payments, as detailed below:

   a) Contingent future payment upon achievement of the Company's and Mirs' EBITDA targets—an amount of up to NIS 225 million is to be paid in four equal payments of NIS 56.25 million each, which are conditional upon the achievement of accounting EBITDA targets in accordance with the consolidated financial statements of the Company (including Mirs) for the years 2013 to 2016 inclusive, as defined in the agreement.

   b) Contingent future payment upon the achievement of Mirs' market share—an amount of up to NIS 225 million is to be paid in end of the increasing of Mirs' ''market share'', as defined in Mirs' license, up to the year 2016 at a rate of 7% of the overall Israeli market, and this over and above its existing market share.

In accordance to the purchase agreement a mechanism for future payments was determined in relation with EBITDA and/or market share targets are met at earlier stages and/or in the amount of the EBITDA that is achieved in the years prior to 2016 in accordance with the EBITDA target for the year 2016. Furthermore, a mechanism was determined for a case in which Mirs may be charged with payments to the State in respect of the non-compliance with the market share targets in accordance with the license that was granted, those payments are to be deducted from the future payment that is to be made to the sellers in accordance with section 2(b).

As of the date of the purchase, the fair value of the contingent consideration was estimated at NIS 340 million.

NOTE 3:—INVESTMENT IN MIRS (Continued)

Financing the acquisition

The Company financed the acquisition by means of the Company's existing credit facilities, which had been extended by Bank Hapoalim Ltd. and Bank Leumi Ltd., less the cash balance that was available to it at that time (hereinafter—''The financing banks'').

On November 28, 2011 the Company signed on an amendment to the Company's existing credit agreement, which inter alia included the agreement of the financing banks for the execution of the acquisition and the financing for the payment of its consideration, from the Company's credit facilities with the financing banks (see also Note 20C(9) on this matter).

Allocation of the acquisition price

The acquisition cost is determined by management with the assistance of an independent valuation firm, as of the time of the transaction.

The acquisition cost has been allocated to Mirs' tangible and intangible assets as well as to the liabilities that were taken up in accordance with their assessed fair value. The excess of the acquisition cost over the fair value of the identified tangible assets and intangible assets and less the fair value of the liabilities taken up has been recorded as goodwill.

The overall purchase price amounted to NIS 826 million.

As aforesaid, based on management evaluation, the acquisition cost was allocated to Mirs' assets and liabilities, as follows:

a) The ''Mirs'' brand name (which was evaluated at NIS 8 million) was evaluated in accordance with the ''exemption from royalties'' approach, a method that constitutes the implementation of the income approach in the evaluation of the value of assets.

b) Customer relationships (which were evaluated at NIS 168 million) were evaluated on the basis of the fair value of the existing customers and in accordance with the relationship with them in accordance with the excess earnings method for multiple periods.

c) Customer relationships with defined periods (which were evaluated at NIS 86 million) were evaluated on the basis of the cash flows that are expected to be received during the period of the signed contracts.

d) Goodwill represents the surplus of the cost of the acquisition over the estimated fair value of the tangible and intangible assets after the deducting of the fair value of the liabilities that were acquired by the Company.

e) The fair value of the fixed assets (approximately NIS 640 million, including an excess cost of NIS 237 million) was determined in accordance with the actual current cost that would have derived where the cable network and other equipment had to be repurchased, and taking into account amortization representing technological and economic depreciation.

f) The liability in respect of the marketing contract as a result of its adjustment to fair value (which was estimated at approximately NIS 26 million) has been evaluated using the excess earning method, on the basis of the amounts that are expected to be paid in the course of the period of the marketing contract and the amounts that are expected to be paid under the parallel services contract at market prices.

g) Deferred taxes have been attributed in respect of the said surplus costs (except for goodwill).

NOTE 3:—INVESTMENT IN MIRS (Continued)

Details of the acquisition consideration by allocation to assets and liabilities

	November 30, 2011
	100%
	Fair value
	NIS in millions
Current assets	238
Fixed assets	640
Customer relationships, including with a defined contractual period	254
The Mirs brand	8
Other intangible assets	127
Other non-current assets	83
	1,350
Current liabilities	550
Other non-current liabilities	61
Deferred taxes	120
	731
Identified assets, net	619
Goodwill deriving from the acquisition	207
Total acquisition cost	826

The cost of the acquisition

	NIS in millions
Cash paid, including the repayment of a loan to the previous shareholder	486
Payables in respect of the acquisition (presented under other long-term liabilities)	340
Total acquisition cost	826
Cash absorbed by the acquisition	
Cash and cash equivalents in the acquired company at the time of the acquisition	6
Cash paid	486
Net cash	(480)

The total cost of the business combination amounted to NIS 826 million and included a cash payment of NIS 486 million, including in respect of the repayment of a loan due from Mirs to the seller.

Direct acquisition costs, which have been attributed to the transaction, in an amount of approximately NIS 7 million have been reflected as an expenses and recorded under other expenses (income), net.

Beginning from the date of the acquisition, Mirs has increased the consolidated revenue by NIS 66 million and reduced the consolidated net income by NIS 42 million (in respect of the period in which it has been consolidated into the Company's financial statements). Under the assumption that Mirs would have been initially consolidated as from January 1, 2011, Mirs would have increased the consolidated revenue by NIS 829 million and reduced the consolidated net income by NIS 56 million.

The goodwill arising on the acquisition has been attributed to the forecast benefits deriving from the synergies in the integration of the activities of the Company and of the acquire deriving company.

NOTE 4:—THE LEGAL MERGER

A. As stated in Note 1A(2), the legal merger between the merging companies was actually completed on December 31, 2006, following the signing of the financing agreement with the banks on December 12, 2006.

B. *The consideration for the acquisition*

The original overall consideration for the acquisition in respect of the acquisition of the merging companies, which was based on an evaluation from an independent external expert and in reliance on the price per cable television subscriber of NIS 6,277.50, amounted to an overall sum of approximately NIS 4.4 billion, with the Company taking a financial debt in an overall amount of approximately NIS 3.2 billion upon itself, in parallel to the allocation of capital that it executed.

NOTE 5:—CASH AND CASH EQUIVALENTS AND DESIGNATED CASH

A. *Cash and cash equivalents*

	December 31	
	2011	2010
	NIS in millions	
Cash for immediate withdrawal	16	1

B. *Designated cash*

	December 31	
	2011	2010
	NIS in millions	
Designated cash	—	121

The restricted cash has been deposited in financial institutions and as of the balance sheet date it bears interest based on the interest rate on daily bank deposits.

NOTE 6:—TRADE RECEIVABLES

A. Composition:

	December 31	
	2011	2010
	NIS in millions	
Open debts	352	166
Trade receivable	36	14
Credit cards	84	54
Checks collectable	4	1
Current maturities of long term receivables (see Note 9)	(3)	—
	473	235
Less—provision for doubtful accounts	94	50
Trade receivables, net	379	185
Including—principal shareholders	1	1

B. Additional details:

1. See Note 22 in respect of the linkage terms of the trade receivables.
2. The debts of Mirs' customers, which are in arrears, are interest bearing.
3. Impairment in the value of customers' debts is treated by means of the recording of an allowance for doubtful accounts.

NOTE 6:—TRADE RECEIVABLES (Continued)

C. The following is the movement in the allowance for doubtful debt:

	Total
	NIS in millions
Balance as of January 1, 2010	38
charge for the year	12
Balance as of December 31, 2010	50
Amount added for initially consolidated company	38
Charge for the year	10
Recognition of bad debts	(4)
Balance as of December 31, 2011	94

D. The following is an analysis of the trade receivables (open accounts and income receivable) in respect of which full impairment in value (allowance for doubtful debts) has not been recognized, net trade receivables in accordance with the period of arrears in collection in relation to the balance sheet date:

	Trade receivables settlement date has not yet been reached	30 – 90 days	90 days and more	Total
		NIS in millions		
December 31, 2011	226	20	48	294
December 31, 2010	92	14	24	130

NOTE 7:—OTHER RECEIVABLES

A. Composition:

	December 31	
	2011	2010
	NIS in millions	
Government authorities	18	1
Prepaid expenses	18	10
Derivative instruments	21	—
Income receivable	8	1
Advances to suppliers	9	5
Others	5	7
	79	24

B. See Note 22 in respect of the linkage terms of the other receivables.

NOTE 8:—INVENTORY

Composition:

	December 31, 2011
	NIS in millions
Mobile telephones	26
Accessories	4
Spare parts	3
	33
Less—Provision for inventories impairment	(9)
	24

NOTE 9:—LONG-TERM TRADE RECEIVABLES

The balance represents the debts in respect of selling mobile phones with deferred consideration. The balance is presented at its present value discounted using interest rate of 5% for a period of 36 months net of current maturities which is presented under trade receivables (as of December 31, 2011—NIS 42 million).

NOTE 10:—MOVIE AND PROGRAM BROADCASTING RIGHTS

	December 31	
	2011	2010
	NIS in millions	
Balance at the January 1, 2011	67	59
Purchases	95	108
Disposals	(1)	—
Depreciations	(92)	(100)
Balance at December 31, 2011	69	67

NOTE 11:—INVESTMENTS IN FINANCIAL ASSET AVAILABLE FOR SALE

A. The value of the investment

	December 31	
	2011	2010
	NIS in millions	
Ordinary shares—quoted	42	90

B. Additional details:

1. As of December 31, 2011, the Company, through HOT Net Internet Services Ltd. (formerly: HOT Investments and Financing Ltd.) (hereinafter—HOT Net), holds 1,454,663 regular shares in the company Partner Communications Ltd. (hereinafter—Partner), constituting approximately 0.9% of Partner's share capital, which is engaged in the provision of cellular communications services, and whose shares are traded on stock exchanges in the United States, London and Israel.

   Partner's shares are subject to the Israeli restrictions, in accordance with the mobile radio-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.

   During the reporting period, Hot Net received a dividend of NIS 6 million from Partner, which is recorded under other income (in 2010 and 2009 Hot Investments received dividends of NIS 25 million and NIS 9 million, respectively, from Partner).

2. The Company presents its investment in Partner as an investment in financial asset available for sale that is measured at fair value (less a discount, which in the opinion of the Company's management reflects the value of the Israel restriction, as aforesaid in section 1 above). Changes in the fair value, net of tax, are reflected under other comprehensive income, in a reserve for available for sale financial assets.

NOTE 12:—INVESTMENTS IN CONSOLIDATED INVESTEE COMPANIES (HELD DIRECTLY BY THE COMPANY)

A. Composition:

	December 31	
	2011	2010
	NIS in millions	
Details of the investments (directly held by the Company)		
Shares	1,142	156
Loans	3,105	2,677
	4,247	2,833
Goodwill recorded as part of the investments	464	257

B. General information:

2011	Country of incorporation	The Company's rights in equity and in voting rights	Amounts made available to the consolidated company by the Company		Total amount invested consolidated company
			Loans	Guarantees	
		%	NIS in millions		
HOT Cable Telecommunication Systems Haifa-Hadera Ltd.(*)	Israel	100%	117	—	8
HOT—Net Internet Services Ltd.	Israel	100%	14	—	31
HOT Properties Ltd.	Israel	100%	1	—	1
HOT Vision Ltd.	Israel	100%	60	—	62
Non-Stop Ventures Ltd.	Israel	100%	3	—	—
HOT Telecom Limited Partnership	Israel	100%	2,304	299	2,740
Drom Hasharon Telecom (1990) Ltd.(*)	Israel	100%	1	—	1
IsraCable Ltd.	Israel	100%	—	—	—
HOT T.L.M. Subscriber Television Ltd.	Israel	100%	106	—	95
HOT Edom Ltd.	Israel	100%	8	—	12
HOT—Eidan Cable Systems (Holdings) 1987 Ltd.(*)	Israel	100%	92	—	154
HOT Eidan Cable Systems in Israel Ltd.	Israel	100%	—	—	—
HOT Gold & Co.	Israel	100%	(28)	—	—
HOT Net Limited Partnership	Israel	100%	—	—	—
MIRS Communications Ltd	Israel	100%	427	—	1,143
			3,105	299	4,247

(*) Companies held 100% directly.

NOTE 12:—INVESTMENTS IN CONSOLIDATED INVESTEE COMPANIES (HELD DIRECTLY BY THE COMPANY) (Continued)

2010	Country of incorporation	The Company's rights in equity and in voting rights	Amounts made available to the consolidated company by the Company		Total amount invested consolidated company
			Loans	Guarantees	
		%	NIS in millions		
HOT Cable Telecommunication Systems Haifa-Hadera Ltd.(*)	Israel	100%	128	—	13
HOT—Net Internet Services Ltd.	Israel	100%	(3)	—	54
HOT Properties Ltd.	Israel	100%	1	—	1
HOT Vision Ltd.	Israel	100%	50	—	52
Non-Stop Ventures Ltd.	Israel	100%	3	—	—
HOT Telecom Limited Partnership	Israel	100%	2,295	268	2,436
Drom Hasharon Telecom (1990) Ltd.(*)	Israel	100%	1	—	1
Isracable Ltd.	Israel	100%	—	—	—
HOT T.L.M. Subscriber Television Ltd.	Israel	100%	116	—	102
HOT Edom Ltd.	Israel	100%	8	—	12
HOT—Idan Cable Systems (Holdings) 1987 Ltd.(*)	Israel	100%	—	—	—
HOT Idan Cable Systems in Israel Ltd.	Israel	100%	104	—	162
HOT Gold & Co.	Israel	100%	(26)	—	—
HOT Net Limited Partnership	Israel	100%	—	—	—
			2,677	268	2,833

(*) Companies held 100% directly.

C. The amounts of dividends from consolidated companies that the Company has received or which it is entitled to receive:

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
HOT-Net Internet Services Ltd.	2	28	57

NOTE 13:—OTHER LONG-TERM RECEIVABLE

Composition:

	December 31	
	2011	2010
	NIS in millions	
Prepaid expenses in respect of costs relating to the re-organization of debt[1]	20	—
Deferred marketing expenses	9	8
Employee benefits[2] assets	5	—
	34	8

(1) See Note 20C.

NOTE 13:—OTHER LONG-TERM RECEIVABLE (Continued)

(2) Composition of assets in respect of employee benefits:

	December 31, 2011
	NIS in millions
Liabilities in respect of defined benefits plan	(14)
Fair value of the plan assets	27
	13
Less liability in respect of early retirement grants(*)	(8)
Total net assets	5

(*) In December 2009 Mirs offered an early retirement plan to some 40 employees, who had worked for it for more than 10 years and who were more than 50 years old, in accordance with which in the event that the employment of an employee us brought to an end by Mirs or by voluntary retirement within the defined period of time, the employee will be entitled to an increased early retirement grant. The plan is in force for a period of up to two years from the date of the aforesaid merger. The overall cost of this retirement plan is estimated at NIS 9 million.

NOTE 14:—FIXED ASSETS

A. *Composition and Movement*

For 2011:

	Land (Including Construction Plans)	Communications network Infrastructure	Cables network	Call-center (primarily electronic equipment)	Converters and Modems	Computers and ancillary equipment	Office furniture and equipment	Leasehold Improvements	Motor vehicles	Total
	NIS in millions									
Cost										
Balance as of January 1, 2011	42	—	4,322	981	1,855	159	57	89	3	7,508
Additions for initially consolidated companies	—	582	—	—	—	11	5	42	—	640
Additions during the year	—	32	198	91	178	18	1	4	—	522
Disposals during the year	—	—	—	—	(10)	—	—	—	—	(10)
Balance as of December 31, 2011	42	614	4,520	1,072	2,023	188	63	135	3	8,660
Accumulated depreciation										
Balance as of January 1, 2011	20	—	2,275	636	1,087	136	47	43	1	4,245
Additions during the year	1	4	320	127	182	17	2	7	1	661
Disposals during the year	—	—	—	—	(9)	—	—	—	—	(9)
Balance as of December 31, 2011	21	4	2,595	763	1,260	153	49	50	2	4,897
Depreciated cost as of December 31, 2011	21	610	1,925	309	763	35	14	85	1	3,763

NOTE 14:—FIXED ASSETS (Continued)

For 2010:

	Land (Including Construction Plans)	Cables network	Call-center (primarily electronic equipment)	Converters and Modems	Computers and ancillary equipment	Office furniture and equipment	Leasehold Improvements	Motor vehicles	Total
	NIS in millions								
Cost									
Balance as of January 1, 2010(*)	42	4,139	890	1,531	145	56	86	3	6,892
Additions during the year	—	183	91	346	14	1	3	—	638
Disposals during the year	—	—	—	(22)	—	—	—	—	(22)
Balance as of December 31, 2010	42	4,322	981	1,855	159	57	89	3	7,508
Accumulated depreciation									
Balance as of January 1, 2010(*)	19	1,974	511	941	115	44	34	—	3,638
Additions during the year	1	301	125	168	21	3	9	1	629
Disposals during the year	—	—	—	(22)	—	—	—	—	(22)
Balance as of December 31, 2010	20	2,275	636	1,087	136	47	43	1	4,245
Depreciated cost as of December 31, 2010	22	2,047	345	768	23	10	46	2	3,263

(*) Reclassified.

B. The land assets are assets which are owned by the Company, presented at un-capitalized amounts.

C. HOT Telecom has assets that have been fully depreciated and which are still operative. HOT Telecom is unable to estimate the original cost of the said assets because of the outline of the legal merger (see Note 4). In the year 2011 Hot Telecom eliminated fully depreciated property, plant and equipment which are not being used by the Company in an amount of NIS 26 million.

D. See Note 24B(2) in respect of liabilities in respect of property, plant and equipment.

E. See also Note 2X.

F. See Note 26C in respect of liens.

G. See Note 26B(6) in respect of commitments for the purchase of fixed assets.

NOTE 15:—GOODWILL AND INTANGIBLE ASSETS

2011:

	Software	Customer relationships	Customer relation with a defined contract period	Brand name	Goodwill	Subscription purchase costs	Mirs licenses	Other	Total
	NIS in millions								
Cost									
Balance as of January 1, 2011	212	594	—	55	1,057	146	—	12	2,076
Additions during respect of an initially consolidated company	32	168	86	8	207	49	46	—	596
Additions during the year	71	—	—	—	—	26	1	(1)	97
Balance as of December 31, 2011	315	762	86	63	1,264	221	47	11	2,769
Accumulated amortization									
Balance as of January 1, 2011	147	196	—	20	—	114	—	8	485
Amortization recognized during the year	45	85	2	5	—	46	—	—	183
Balance as of December 31, 2011	192	281	2	25	—	160	—	8	668
Amortized cost as of December 31, 2011	123	481	84	38	1,264	61	47	3	2,101

2010:

	Software	Customer relationships	Brand name	Goodwill	Subscription purchase costs	license	Other	Total
	NIS in millions							
Cost								
Balance as of January 1, 2010	175	594	55	1,057	108	—	12	2,001
Additions during the year	37	—	—	—	38	—	—	75
Balance as of December 31, 2010	212	594	55	1,057	146	—	12	2,076
Accumulated amortization								
Balance as of January 1, 2010	105	119	15	—	85	—	8	332
Amortization recognized during the year	42	77	5	—	29	—	—	153
Balance as of December 31, 2010	147	196	20	—	114	—	8	485
Amortized cost as of December 31, 2010	65	398	35	1,057	32	—	4	1,591

NOTE 15:—GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization Expenses

Amortization of intangible assets are classified in profit or loss in the following manner:

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Under cost of generating revenues	53	41	36
Under and marketing expenses	130	112	110
Under other income (expenses), net	—	—	2
	183	153	148

Impairment in the value of goodwill and intangible assets with a definite useful life

For the purposes of the testing for impairment of goodwill and intangible assets with a definite useful life, the goodwill, brand name and customer relationships have been allocated to the business segments that represent three cash-generating units, as follows:

- In Country fixed-line telecommunications
- Cable television
- Cellular communications

The following are the carrying amount in the financial statements of the said intangible assets, which have been allocated to each of the cash-generating units:

	In Country fixed-line communication		Cable television		Cellular communication segment	Total	
	As of December 31						
	2011	2010	2011	2010	2011	2011	2010
	NIS in millions						
Goodwill	474	474	583	583	207	1,264	1,057
Brand name	14	16	16	19	8	38	35
Customer relation	57	71	258	327	166	481	398
Customer relation with a defined contract period	—	—	—	—	84	84	—

Cellular Communications

Intangible assets that were evaluated within the context of the allocation of the cost of the acquisition of Mirs, see Note 3.

In Country fixed-line telecommunications and cable television

The Group has tested the recoverable amount of the In Country landline communications segment and the cable television segment in accordance with the instructions contained in section 99 of International Accounting Standard 36, based upon the recoverable amounts as of December 31, 2010, as determined by the management with the assistance of an externa appraiser, and this was because:

(1) The assets and the liabilities that comprise the cash-generating units had not changed significantly since the last time at which the recoverable amount was calculated—December 31, 2010;

(2) The last calculation of the recoverable amounts as of December 31, 2010 exceeded the carrying amount by a substantial margin;

NOTE 15:—GOODWILL AND INTANGIBLE ASSETS (Continued)

(3) Based on an analysis of the events that have occurred and the circumstances that have changed since the last calculation of the recoverable amounts as of December 31, 2010, the Company's management's position, is that the likelihood that the recoverable amounts for each segment are lower than their carrying amount is remote.

The following are the principal assumptions that were used in the measurement of the recoverable amounts as of December 31, 2010:

In Country fixed-line telecommunications

The recoverable amount of the In Country fixed-line telecommunications segment was determined on the basis of the value in use, which was calculated in accordance with an estimate of the future cash flows, which are expected for the segment, which were determined in accordance with the budget for the next five years, as of December 31, 2010. The pre-tax discount rate in accordance with which the cash flows were discounted was 10.9%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 1.5%.

Cable television

The recoverable amount of the cable television segment was determined on the basis of the value in use, which was calculated in accordance with an estimate of the future cash flows, which are expected for the segment, which were determined in accordance with the plans for the next five years, as of December 31, 2010. The pre-tax discount rate in accordance with which the cash flows were discounted was 10.9%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 1.5%.

The key assumptions that were used in the calculation of the value in use in respect of the In Country fixed-line telecommunications and cable television fields

The calculation of the value in use, both for the In Country fixed-line telecommunications unit and the cable television unit, is subject to changes in the following assumptions:

- Revenues.
- Operating expenses.
- Selling and marketing expenses.
- Administrative and general expenses.
- Investments.
- The weighted cost of capital.
- Long-term growth.

Revenues—The level of revenues is derived from changes in the number of subscribers and changes in the average revenues per subscriber over the length of the period of the forecast.

Operating expenses—The operating expenses (excluding depreciation expenses) are primarily fixed and semi-fixed, with the most pronounced expenses being content expenses, salary expenses and network maintenance expenses.

Selling and marketing expenses—Selling and marketing expenses primarily include salary expenses and advertizing and marketing expenses, which have been estimated to be in the range of from 7% of the revenues in the cable television segment to 4% of revenues in the In Country fixed-line telecommunications segment for the purposes of the forecast.

Administrative and general expenses—Administrative and general expenses are primarily fixed.

NOTE 15:—GOODWILL AND INTANGIBLE ASSETS (Continued)

The weighted cost of capital—The real post-tax discount rate that has been taken into account is 9.1%, which reflects a pre-tax discount rate of 10.9%. The discount rate reflects capital of approximately 13%, an interest rate of approximately 4% on debt and a gearing rate of approximately 40% of the total assets.

Long-term growth—Average long-term growth is 1.5% per year.

NOTE 16:—SHORT-TERM CREDIT FROM FINANCIAL INSTITUTIONS

A. Composition:

	Interest rate	December 31 2011	December 31 2010
	%	NIS in millions	
Short-term credit from financial institutions	4.15-5.45	295	191
Current maturities of long-term loans from financial institutions (see Note 20)	5.65-6.19	80	58(*)
		375	249

(*) Reclassified, see Note 2X.

B. See Note 20C on the subject of a credit agreement with financial institutions and the financial covenants to which the Company is subject.

C. See Note 26C on the subject of collateral.

D. See Note 22 on the subject of the linkage terms of the credit from financial institutions.

NOTE 17:—TRADE PAYABLES

A. Composition:

	December 31 2011	December 31 2010
	NIS in millions	
Open debts	630	382
Accrued expenses in respect of suppliers	171	170
Checks payable	—	2
	801	554
Including interested parties	21	25

B. Debts to suppliers are non-interest bearing. The average number of days of credit from suppliers is 92 days (as of December 31, 2010—85 days).

C. See Note 22 on the subject of the linkage terms of the trade payables.

NOTE 18:—OTHER PAYABLES

	December 31	
	2011	2010
	NIS in millions	
Liabilities to employees and other liabilities in respect of salaries and wages[1]	122	71
Current maturities of other long-term liabilities (see Note 24)	68	73[*]
Current maturities of revenues from instillations	15	15
Current maturities of a burdensome contract	11	—
Interest payable	31	22
Royalties to the Israeli government	25	17
Income in advance from customers	25	18
Expenses payable	20	5
Others	24	20
	341	241

(*) Reclassified, see Note 2X.

(1) Including the provision for vacation and recuperation pay.

See Note 22 on the subject of the linkage terms of other payables.

NOTE 19:—PROVISION FOR LEGAL CLAIMS

	December 31	
	2011	2010
	NIS in millions	
Balance as of January 1	273	74
Amounts added in respect of an initially consolidated company	1	—
Amounts provided	17	203
Amounts paid	(4)	(4)
Amounts cancelled	(119)	—
Balance as of December 31	168	273

NOTE 20:—LOANS FROM FINANCIAL INSTITUTIONS

A. *Composition*

	Principal amount	Denoted interest rate	Effective interest rate	Balance	Balance less current maturities
	NIS in millions	%	%	NIS in millions	NIS in millions
December 31, 2011					
Loans from financial institutions (unlinked)	712	5.65-6.34	5.94	712	630
Less balance of credit discount expenses	(7)			(7)	(5)
	705			705	625
December 31, 2010					
Loans from financial institutions (unlinked)	2,320	2.99-6.3	4.63	2,320	2,262

NOTE 20:—LOANS FROM FINANCIAL INSTITUTIONS (Continued)

B. Repayment periods after the reporting date:

	December 31	
	2011	2010
	NIS in millions	
In the first year	82	58
In the second year	70	1,544
In the third year	74	683
In the fourth year	78	27
In the fifth year and thereafter	408	8
Less balance of credit discount expenses	(7)	—
	705	2,320

(*) As of December 31 2010, the balance included loans, in respect of which the Company, in accordance with the previous credit agreement, had the right available to it to renew them and to extend their period, amounting to NIS 2,037 million, subject to the terms set in the previous credit agreement.

C. On March 17, 2011 the Company, together with HOT Net Internet Services Ltd. and the HOT Telecom Partnership (hereinafter—the borrowers), signed on an agreement with Bank Hapoalim Ltd. and with Bank Leumi Le'Israel Ltd. (hereinafter—the banks) in connection with the refinancing of the previous bank credit, which had been made available to the Company by a number of financial institutions, including the banks (hereinafter—the new credit agreement). It is stipulated in the new credit agreement that the Company is to operate opposite the banking institutions within the framework of a syndicate, of which Bank Hapoalim Ltd. is the organizer.

On November 28, 2011 the Company signed on an amendment to the credit agreement, inter alia, as part of the Mirs purchase transaction, which includes, inter alia, the agreement of the financing banks for the execution of the purchase transaction (as required under the terms of the credit agreement) and the financing for the payment of its consideration out of the Company's credit facility from the financing banks. The following are the main details of the credit facility, including the main details of the amendment:

1. *The credit facility*

A credit facility of up to NIS 3.4 billion, made up of three credit facilities, as follows:

a) Credit facility A'—in total amount of up to NIS 2.04 billion. This credit facility is available for a period of two years from the time of the signing of the new credit agreement. This credit is to be settled in accordance with a fixed payment type repayment schedule, over the course of the period from the drawing down of the loan and until the final settlement date (The final settlement date, meaning the earlier of : (a) the time at which seven years have passed from the time at which the initial draw down was made from any of the credit facilities; or (b) the time at which seven years and three months have passed from the time of the signing of the credit agreement, in other words March 31, 2018).

As of December 31, 2011 the Company has taken up an amount of NIS 497 million of this credit facility.

b) Credit Facility B'—in total amount of up to NIS 876 million. This credit facility is available for a period of two years from the time of the signing of the new credit agreement. The principal amount of the loans taken up from this facility are to be repaid at the time of the final settlement.

As of December 31, 2011 the Company has taken up loans in an amount of NIS 214 million from this credit facility.

NOTE 20:—LOANS FROM FINANCIAL INSTITUTIONS (Continued)

c) Credit facility C'—in total amount of up to NIS 0.5 billion, which can be used for bank guarantees, futures transactions, short-term loans, the factoring of payments to suppliers, credit card facilities, all of which is to be done in accordance with the new credit agreement. This credit facility is available up to the final settlement date.

As of December 31, 2011 the Company has taken up loans in an amount of NIS 295 million from this credit facility.

2. *Settlement terms for the principal and interest*

The amounts of the principal in respect of each loan that is made available out of facility A' is to be repaid in quarterly payments in accordance with a ''fixed payment type'' repayment schedule. The amounts of the principal in respect of loans taken up from credit facility B' are to be repaid in full at the final settlement date. The amounts that may be paid by a financer under bank guarantees that it has issued and /or a commitment in respect of a future transaction and/or a short-term loan out of credit facility C' are to be repaid to that same financer in accordance with the terms set with that financer in respect of those credits.

Any credit that will be made available under credit facility A' and credit facility B' shall bear interest from the time that it is made available and until the time that it is repaid, at the aforesaid annual interest rate, with the addition of a margin and with the addition of a cost in so far as one shall apply under the provisions of the law. Any credit taken up out of credit facility C' shall bear interest from the time that the credit is made available until the time that it is repaid.

3. *The interest*

The interest in respect of the bank credit in credit facilities A' and B' is to be based on the average of the bases for the determination of interest rates in banks (hereinafter—the banks' credit recruitment cost) with the addition of a margin in accordance with the new credit agreement. The interest in respect of the bank credit in credit facility C' is to be based upon the bank's cost of recruiting and that of the other financing banks, with the addition of a margin that shall not exceed the margin in accordance with the new credit agreement.

4. *The financial covenants*

A number of financial covenants were set in the credit agreement, which the Company is to comply with, on a quarterly basis, including: a debt cover ratio (with and without cash balances), a debt to cash flows ratio, a ratio between the total amount of the financial liabilities less cash balances and the EBITDA and a minimal capital level.

As of December 31, 2011 the Company is in compliance with the required financial covenants.

5. *Immediate repayment*

A series of cases, events and circumstances were set in the credit agreement, in which the banks are entitled to make all of the credit repayable immediately. Among the other cases, the following may be noted: not paying on time; a breach of the agreement; non-compliance with financial ratios; insolvency; liquidation; attachments and so on, the cancellation or expiry of a significant license; a breach of other financial commitments vis-à-vis other parties (other than the banks); a transfer or acquisition of control in the Company in contravention of the provisions of the new credit agreement; a change in the field of activity of any of the borrowers; the exercise of a bank guarantee that has been made available under any of the Group's licenses; if any of the Company's securities that are registered for trade on a stock exchange being removed or suspended from trading (for more than five consecutive trading days); an event or series of events that could, in the opinion of the financial institutions, cause a significant impact in the borrower's ability to fulfill every material aspect of the provisions of the new credit agreement or a significant impact in the borrower's financial position.

NOTE 20:—LOANS FROM FINANCIAL INSTITUTIONS (Continued)

6. *Collateral*

For the purpose of collateralizing the bank credit in accordance with the new credit agreement, first ranking, fixed charges and endorsements by way of a charge in an unlimited amount have been placed, as detailed below:

a) First ranking fixed charges on the rights of the Group companies.

b) Endorsements by way of a charge on the Groups subscription agreements with its subscribers and the supplier numbers of the Group companies with credit companies.

c) Fixed charges on the Group companies' equipment.

d) Fixed charges on the Group companies' land assets.

e) Fixed charges on the Group companies' bank accounts.

f) First ranking floating charges on all of the Group companies' assets and rights.

In addition to the aforesaid, the borrowers have made guarantees available in relation to the other two borrowers within the framework of which they have guaranteed the fill amounts of the liabilities that are guarantees in accordance with the new credit facility.

7. *Distribution*

The Company will be entitled to distribute a dividend to its shareholders, including by way of a capital reduction, subject to the receipt of all of the approvals that are required under the law, and this so long as the Company's shareholders' equity shall not fall below an overall amount of NIS 600 million, a minimal debt cover ratio of 1.25, a debt to cash flow ratio of 5.5 in the year 2011 (and at a reducing rate until 2014) and a minimal annual EBITDA of NIS 1.3 billion (see also Note 27I on the subject of the declaration and distribution of a dividend after the balance sheet date).

8. *Restrictions that apply to the Group in respect of the receipt of credit*

The making available of the bank credit to borrowers is subject to a number of conditions, inter alia, the repayment of the bank credit in accordance with the previous credit agreement to the consortium of banks that are connected to the agreement, the removal of the charges on the Group's assets in accordance with the previous credit agreement and the creation of new charges in accordance with the aforesaid. As of the time of the approval of the financial statements the said conditions are being complied with, except for the non-completion of the recording of the charges, as required in the agreement, since they are still in the process of being recorded.

9. *The amendment of the credit agreement as the result of the acquisition of Mirs*

As aforesaid, as a result of the acquisition of Mirs by the Company, the Company entered into a commitment with the financing banks on November 28, 2011 under an amendment. Within the framework of the amendment, the Company has undertaken, inter alia, as follows:

a) The Company has undertaken to register a first ranking fixed charge and an endorsement by way of a charge in an unlimited amount on all of Mirs' share capital that it owns after the completion of the transaction for the acquisition of Mirs and all of the rights that are attached and/or that derive therefrom, inter alia, on the Company's rights to the repayment of shareholders' loans and rights to the repayment of amounts under capital notes and so on.

b) The minimum EBITDA requirements (within the definition of that term in the amendment to the credit agreement) for the purpose of the distribution of a current dividend by the Company and for the payment of management fees have been increased from NIS 1.2 billion a year to NIS 1.3 billion a year, as aforesaid.

NOTE 20:—LOANS FROM FINANCIAL INSTITUTIONS (Continued)

c) The Company has undertaken to bear a rate of not less than 30 (thirty) percent of the financing of Mirs' investments (within the definition of that term in the amendment to the credit agreement). In addition, the Company has undertaken that as from January 1, 2014 it will bear the following at a rate of not less than 30%: (a) the financing of Mirs' investments; with the addition of (b) the amount of the balance of the bank guarantee that was made available to Mirs as collateral for the commitments that had been given within the framework of the frequencies tender process, as that may be at that time (hereinafter—the frequencies guarantee, see also Note 26C(6)(d) on this matter.

d) Despite the aforesaid, the Company shall not bear the cumulative financing of its investments in Mirs, in an amount that exceeds NIS 0.5, 0.8, 1 and 1.1 billion in the years 2012, 2013, 2014 and 2015 and thereafter, respectively (where for this purpose, inter alia, the amounts that the Company is to pay for the purposes of the frequencies guaranty, are not to be taken into account).

As part of the repayment of the previous bank credit and the signing on the new credit agreement, the Company bore early repayment type and re-organization type commissions in the reporting period as well as consultancy costs in an amount of NIS 57 million, of which NIS 23 million have been reflected under financing expenses in the statement of income and an amount of NIS 34 million has been recorded as a discount from the credit, which has been exploited and partially as a prepaid expenses in respect of the unexploited credit facility.

D. *The Mirs credit agreement*

As part of the transaction for Mirs acquisition by the Company and in order to receive the bank's approval for the execution of the transaction for the acquisition of Mirs, the conditional approval of Mirs' financing bank for the completions of the acquisition was received on November 28, 2011. The bank's approval is subject to compliance with a number of crucial conditions, including the entry into force of the letter of undertaking that was signed by Mirs, which will arrange the commitments vis-à-vis the financing bank, including in connection with the frequencies guarantee (hereinafter -the letter of undertaking). The main points in the letter of undertaking are as follows:

1. Upon the entry of the letter of undertaking into force, Mirs repaid all of the credit that had been made available to it by Bank Hapoalim within the framework of the credit agreement, and all of Mirs shares, which had been charged under the said credit agreement were released and those shares have been charged in favor of the Company's financing banks in accordance with the new credit agreement, which is described above.

2. Mirs has undertaken to the subordination of the shareholders' loans and the capital notes that were sold to the Company within the framework of the transaction for the acquisition of Mirs in relation to the debts to the financing bank and it has also undertaken not to repay the existing and/or future shareholders' loans at any time whatsoever and in any manner (whether in money or in money's worth and including by way of set-off) to any of Mirs' shareholders or to any body that is related to the shareholders, as aforesaid, or to an interested party in the shareholders or to any related body or relative of any of these (all of whom will jointly be called: ''a related party''), so long as Mirs has not repaid its debts to the bank. However, it is clarified that the aforesaid shall not apply in respect of commercial debts, which arise in the ordinary course of Mirs' business.

3. There is a prohibition on Mirs making a loan to a related party and/or to any third party whatsoever.

NOTE 20:—LOANS FROM FINANCIAL INSTITUTIONS (Continued)

4. There is a prohibition on the execution, on a decision to execute, a declaration or an undertaking to make any distribution whatsoever of any receipt whatsoever to a related party, except for management fees in an annual amount that does not exceed an amount of NIS 10 million and additional exceptions, which were set in the letter of undertaking.

5. Financial covenants have been set for Mirs, which include:

   a) 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, in the event of the non-compliance with the radio-telephone market share rate as defined in the agreement.

   b) A minimal ratio between the amounts of the increase in the shareholders' equity and Mirs cumulative free cash flows, as defined in the agreement, as from the time of the completion of the acquisition transaction by the Company and thereafter.

      As of December 31, 2011 Mirs is in compliance with the financial covenants that have been set for it.

   c) A prohibition on a change in control or a change in Mirs structure, or a change in Mirs' ownership, directly and/or indirectly, which does not constitute a change in control however it leads to the financing bank exceeding the restrictions that are placed upon it under the directives and the procedures issued by the Bank of Israel and the Supervisor of Banks in any issue relating to ''a single borrower'', ''a group of borrowers'' or any other restriction that is placed upon the bank and those directives and procedures.

E. See Note 26C in respect of collateral.

F. See Note 22 on the subject of the linkage and interest terms of the loans from financial institutions.

NOTE 21:—DEBENTURES

A. Composition

	December 31, 2011
	NIS in millions
Debentures	1,514
Less—balance of deferred issuance expenses	(14)
	1,500

B. Repayment periods after the reporting date

	December 31, 2011
	NIS in millions
In the first year—current maturities	63
In the second year	126
In the third year	126
In the fourth year	126
In the fifth year and thereafter	1,073
Less — balance of deferred issuance expenses	(14)
	1,500

C. On February 27, 2011 the Company's Board of Directors approved a decision on the subject of the presentation of an application to the Securities Authority and the Tel-Aviv Stock Exchange for a permit for the publication of a shelf prospectus, on the basis of the Company's financial statements as of September 30, 2010, in accordance with which the Company will be entitled to issue shares,

NOTE 21:—DEBENTURES (Continued)

options for shares, debentures and convertible debentures as well as options for debentures, in such extend and under such conditions as may be determined in accordance with the shelf offer reports, if and in so far as they may be published by the Company in the future.

D. On March 29, 2011 the Company announced that it had received all of the permits, approvals and licenses that are required in accordance with the law for the offering of the securities that are being offered in accordance with the shelf offer report, for the issuance and publication of the shelf offer report and in accordance with its offering of debentures to the public.

On March 30, 2011 a tender was held for the purchase of the Company's Series A and Series B debentures. The immediate gross consideration that was received by the Company within the framework of the said issue amounted to NIS 1.5 billion.

E. The Series A' debentures—NIS 825 million par value are linked to the Consumer Prices Index for the month of February, 2011, and bear interest at a rate of 3.9% a year. The debentures are repayable in 13 semi-annual payments commencing on September 30, 2012 and up to September 30, 2018. The debentures are not collateralized by any charge whatsoever.

The gross consideration that was received by the Company in respect of the said debentures amounted to NIS 825 million.

F. The Series B' debentures—NIS 675 million par value bear interest at a fixed rate of 6.9% a year. The debentures are repayable in 13 semi-annual payments commencing on September 30, 2012 and up to September 30, 2018. The debentures are not collateralized by any charge whatsoever.

The gross consideration that was received by the Company in respect of the said debentures amounted to NIS 675 million.

G. On March 29, 2011 and on September 12, 2011, the Company received a rating of A1 with a stable horizon for the Series A and Series B debentures, in an amount of up to NIS 1,500 million par value from the Midroog Ltd. rating company.

The issuance expenses in respect of the said debentures amounted to NIS 15 million (as of December 31, 2011 the issuance expenses amounted to NIS 14 million).

H. Financial covenants were set within the framework of the issue of the debentures, the breach of which, under certain conditions, could lead to the immediate repayment of the debentures, as follows:

1. A debt to EBITDA ratio, which is not to exceed 6 for a period that exceeds two consecutive quarters.
2. A distribution of a dividend at a time at which the Company is exceeding a debt to EBITDA ratio of 5.5.

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

NOTE 22:—FINANCIAL INSTRUMENTS

A. *The classification of the financial assets and the financial liabilities*

The following is the classification of the financial assets and the financial liabilities in the balance sheet by groups of financial instruments in accordance with IAS 39:

	December 31	
	2011	2010
	NIS in millions	
Financial assets		
Financial assets at fair value through profit or loss:		
Financial assets classified as held for trading	25	—
Loans and receivables	494	197
Available for sale financial asset	42	90
Financial liabilities		
Financial liabilities measured at amortized cost	3,790	3,425
Financial liabilities at fair value through profit or loss:		
Financial liabilities designated at the time of initial recognition	360	—
Financial liabilities classified as held for trading	3	18

B. *Financial risk factors*

The Group's activities expose it to various financial risks, such as market risks (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on activities that reduce to a minimum the possible negative impact on the Group's financial performance. The Group utilized derivative financial instruments in order to hedge certain exposures to risks.

The risk management is performed by the Company's Chief Financial Officer, in accordance with policies that have been approved by the Board of Directors. The Company's Chief Financial Officer evaluates and hedges financial risks in cooperation with the Group's operating units. The Board of Directors provides principles for the overall management of the risks.

1. *Market Risks*

a) *Foreign Exchange Risk*

The Group operates with various suppliers across the globe and it is exposed to foreign exchange risk, which derived from the exposure to various currencies, primarily the US Dollar. Exchange rate risk derives from the Company's futures transactions and from liabilities that have been recognized and which are denoted in foreign currency, which is not the functional currency.

The Company's management acts to hedge some of the forecast US Dollar transactions (other than for the purposes of accounting hedging), based on budgetary data, subject to the terms of the credit agreement with the financial institutions.

b) *Consumer Prices Index Risk*

The Group has loans from banking institutions, debentures that have been issued and other long-term liabilities that are linked to Consumer Prices Index in Israel. Furthermore, the Group has deposits and loans that have been extended, which are linked to changes in that index. The net amount of the financial instruments that are linked to the Consumer Prices Index and in respect of which the group has an exposure to changes in the Consumer Prices Index is financial liabilities of NIS 1,235 million as of December 31, 2011.

NOTE 22:—FINANCIAL INSTRUMENTS (Continued)

c) *Interest rate risk*

The Group is exposed to risk in respect of changes in the interest rates in the market that derives from long-term loans that have been received and which bear interest at a variable rate. The mix of the loans at variable rates and/or at fixed rates is partially determined within the framework of the credit agreement with the financial institutions.

The following are details in respect of the type of interest on the Group's interest bearing financial instruments:

	December 31	
	2011	2010
	NIS in millions	
Fixed rate interest instruments		
Financial liabilities	1,765	1,555
Variable interest rate bearing instruments		
Financial liabilities	1,008	1,192

d) *Price risk*

The Group has investments in financial instruments, which are marketable on the Stock Exchange, which have been classified as an available for sale financial asset, in respect of which the Group is exposed to risk in respect of fluctuations in the price of the security, which is determined on the basis quoted of market prices. The balance of these investments as recorded in the financial statements as of December 31, 2011 is NIS 42 million (December 31, 2010—NIS 90 million).

2. *Liquidity risk*

The Group's objective is to maintain the existing ratio between the receipt of continuing financing and the existing flexibility by means of the use of overdrafts and loans from financial institutions. Within the framework of the Company's new credit agreement and the terms of the debentures that the Company has raised (as aforesaid in Note 20 and 21), the Company and Mirs have financial covenants that they have to comply with on a quarterly basis and their breach, as defined in the agreements, may lead to a demand for the immediate repayment of the credit that has been available by the financial institutions and/or with the framework of the debentures.

3. *Credit risk*

The Group has no significant concentrations of credit risk. Credit risk might arise from exposures in respect of commitments under a number of financial instruments with one body or as a result of a commitment with a number of groups or debtors having similar economic characteristics, whose ability to meet their commitments is expected to be affected similarly by changes in the economic or other conditions. Characteristics that might cause a concentration of risk include the significance of the activities in which the debtors are engaged, such as the branch in which they operate, the geographical region in which they operate and the level of their financial stability.

The Group provides services under credit terms of 16 days, 24 days and 96 days on average to its customers in the broadcasting, In Country fixed-line telecommunications and cellular telecommunications fields, respectively. The managements of the Group companies routinely evaluate the credit that has been extended to its customers, whilst checking their financial condition, however it does not demand collateral to secure those receivables. The Company records an allowance for doubtful accounts, based on the factors that affect the credit risk pertaining to specific customers, past experience and other information.

NOTE 22:—FINANCIAL INSTRUMENTS (Continued)

The Group's income derives from customers in Israel. The Group routinely monitors customers' receivables and an allowance for doubtful accounts is recorded in the financial statements, which in the Group's opinion, provides a fair reflection of the loss that is inherent in debts whose collection lies in doubt.

The Group does not have any significant concentrations of credit risk, because of the Group's policy, which ensures that the sales are mostly executed against standing orders or by means of credit cards.

C. *Liquidity Risk Concentration*

The following table presents the maturity profile of the Group's financial liabilities, in accordance with the contractual terms, in non-discounted sums, including payments in respect of interest:

As of December 31, 2011

	Up to 3 Months	From 3 Months Up to One Year	From 1 to 2 Years	From 2 to 3 Years	From 3 to 4 Years	From 4 to 5 Years	Over 5 Years	Total
				NIS in millions				
Credit from banking institutions	295	—	—	—	—	—	—	295
Other payables	192	—	—	—	—	—	—	192
Trade payables	801	—	—	—	—	—	—	801
Long-term loans from banking institutions (including current maturities)	50	80	106	106	106	106	346	900
Debentures (including current maturities)	40	122	199	192	185	178	1,024	1,940
Other long-term liabilities (including current maturities)(*)	23	66	232	152	117	77	40	707
	1,401	268	537	450	408	361	1,410	4,835

As of December 31, 2010

	Up to 3 Months	From 3 Months Up to One Year	From 1 to 2 Years	From 2 to 3 Years	From 3 to 4 Years	From 4 to 5 Years	Over 5 Years	Total
				NIS in millions				
Credit from financial institutions	186	6	—	—	—	—	—	192
Trade payables	554	—	—	—	—	—	—	554
Other payables	124	3	—	—	—	—	—	127
Long-term loans from financial institutions (including current maturities)	27	146	1,600	695	29	9	—	2,506
Other long-term liabilities (including current maturities)	16	44	58	59	60	9	12	258
	907	199	1,658	754	89	18	12	3,637

(*) Payments of NIS 145 million, NIS 77 million, NIS 97 million and NIS 66 million in 2013, 2014, 2015 and 2016, respectively, have been assumed in respect of contingent consideration, based on the most common scenarios that are inherent in the value of the estimated contingent consideration in respect of the acquisition of shares in Mirs (see also Note 3).

NOTE 22:—FINANCIAL INSTRUMENTS (Continued)

D. *The fair value of financial instruments that are presented in the financial statements other than in accordance with their fair values*

	Carrying amount		Fair Value	
	December 31		December 31	
	2011	2010	2011	2010
	NIS in millions			
Financial Liabilities				
Long-term loans from banking institutions at variable interest rates (including current maturities)(*)	713	1,173	720	1,175
Long-term loans from banking institutions at fixed interest rates (including current maturities)(**)	—	1,169	—	1,190
Debentures bearing fixed interest rates (including current maturities)	1,520	—	1,527	—
Liabilities to the government and other long-term liabilities at fixed interest rates (including current maturities)	245	214	247	232
Total	2,478	2,556	2,494	2,597

(*) The balance of long-term loans at variable interest rates includes the amount of interest that has accumulated and has not yet been paid as of the balance sheet date and has been recorded under other payables. The fair value of the long-term loans at variable interest rates is based on a calculation of the present value of the cash flows after updating the amount for which a variable interest rate has been set.

(**) The balance of long-term loans at fixed interest rates includes the amount of interest that has accumulated and has not yet been paid as of December 31, 2011 and has been recorded under other payables. The fair value of the long-term loans at fixed interest rates is based on a calculation of the present value of the cash flows at the generally accepted interest rate for a similar loan.

The fair value is estimated based on recent market transactions between unrelated parties.

The carrying amount of cash and cash equivalents, designated cash, trade receivables, other receivables, credit from financial institutions, trade payables, and other payables in the financial statements accords with or approximates their fair value.

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

The financial instruments that are presented in the balance sheet 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 Company 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).

NOTE 22:—FINANCIAL INSTRUMENTS (Continued)

Financial instruments measured at fair value

	Level 2	Level 3
	NIS in millions	
As of December 31, 2011		
Available for sale financial asset:		
Shares	—	42
Financial assets at fair value through profit or loss:		
Forward contracts in foreign currency that are not defined as accounting hedges	25	—
Financial liabilities at fair value through profit or loss:		
Embedded derivatives	2	—
Interest rate swap contract	1	—
Liability to the Ministry of Communications (see Note 24)	—	19
Payables for the acquisition (see Note 3)	—	341
	22	(318)
As of December 31, 2010		
Available for sale financial asset:		
Shares	—	90
Financial liabilities at fair value through profit or loss:		
Forward contracts in foreign currency that are not defined as accounting hedges	14	—
Interest rate swap contract	4	—
	18	90

During the course of the year 2011 there were no transfers in respect of measurement at fair value of any financial instrument whatsoever between level 1 and level 2, and in addition there were no transfers into or out of level 3 in respect of measurement at fair value of any financial instrument whatsoever.

Movements in financial assets that are classified under level 3

	Available for sale financial assets
	NIS in millions
Balance as of January 1, 2010	96
Total income recognized under other comprehensive income (exclusive of the impact of taxation)	(6)
Balance as of December 31, 2010	90
Addition for newly respect of an initially consolidated company	(359)
Total loss recognized in profit or loss (exclusive of the impact of taxation)	(1)
Total loss recognized under other comprehensive income (loss) (exclusive of the impact of taxation)	(48)
Balance as of December 31, 2011	(318)

F. *Embedded derivatives*

The Group has a commitment under a number of content purchasing agreements and rental agreements that are denoted in a currency (primarily the Dollar), other than the functional currency of any of the parties to the agreements.

NOTE 22:—FINANCIAL INSTRUMENTS (Continued)

G. *Sensitivity tests in respect of changes in market factors:*

1. Sensitivity tests for changes in interest rates:

	Gain (loss) from the change	
	Increase of 0.5% in the interest rate	Decrease of 0.5% in the interest rate
	NIS in millions	
2011	2	(2)

	Gain (loss) from the change	
	Increase of 1.5% in the interest rate	Decrease of 0.5% in the interest rate
	NIS in millions	
2010	(16)	5

2. Sensitivity tests for changes in the exchange rate of the Dollar:

	Gain (loss) from the change	
	Increase of 10% in the exchange rate	Decrease of 10% in the exchange rate
	NIS in millions	
2011	22	(22)
2010	19	(19)

3. Sensitivity tests for changes in the Consumer Prices Index:

	Gain (loss) from the change	
	Increase of 2.5% in the index	Decrease of 2.5% in the index
	NIS in millions	
2011	(29)	29

4. Sensitivity tests for changes in the price of available for sale securities on the Stock Exchange:

	Change in equity before tax	
	Increase of 20% in the security price	Decrease of 20% in the security price
	NIS in millions	
2011	9	(9)

	Change in equity before tax	
	Increase of 10% in the security price	Decrease of 10% in the security price
	NIS in millions	
2010	9	(9)

NOTE 22:—FINANCIAL INSTRUMENTS (Continued)

Sensitivity test and the principal working assumptions

The sensitivity analysis in respect of financial instruments was performed under the assumption that the amount outstanding as of the balance sheet date was outstanding throughout the entire reporting year.

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

The Company has performed sensitivity testing for the main market risk factors that could affect the reported operating results or the financial position. The sensitivity tests present the gain or loss and/or the change in equity (pre-tax) for each financial instrument in respect of the relevant risk variable that has been selected for it as of each reporting date. The testing of the risk factors was executed on the basis of the materiality of the exposure of the operating results or the financial position in respect of each risk factor, taking into account the functional currency and on the assumption that all the other variables remained fixed.

The Group has no exposure in respect of interest risk in respect of long-term loans at fixed interest rates.

In respect of long-term loans at variable interest rates, the sensitivity test for interest risk was only performed in respect of the variable interest component.

In 2011 an annual interest rate of 0%-1.3% was used in respect of forwards transactions opposite the Dollar (2010—0%-1.3%). An annual Shekel interest rate of 2%-2.5% was used for all forward transactions (2010—1.5%-2.5%).

H. *Linkage terms of the monetary balance*

	December 31, 2011				December 31, 2010			
	In foreign currency or linked thereto	Linked to the Consumer Prices Index	Unlinked	Total	In foreign currency or linked thereto	Linked to the Consumer Prices Index	Unlinked	Total
	NIS in million							
Assets								
Cash and cash equivalents	—	—	16	16	—	—	1	1
Designated cash	—	—	—	—	—	—	121	121
Trade receivables	—	—	379	379	—	—	185	185
Other receivables	25	19	8	52	—	1	8	9
Long-term trade receivables	—	—	85	85	—	—	—	—
Long-term loans to affiliated companies	—	3	—	3	—	3	—	3
	25	22	488	535	—	4	315	319
Liabilities								
Short-term credit from banking institutions	—	—	295	295	—	—	191	191
Trade payables	149	—	647	796	113	—	441	554
Other payables	—	12	210	222	14	4	132	150
Loans from banking institutions(*)	—	—	705	705	—	—	2,320	2,320
Debentures	—	831	669	1,500	—	—	—	—
Other long-term liabilities(*)	59	414	162	635	34	27	167	228
	208	1,257	2,688	4,153	161	31	3,251	3,443

(*) Includes current maturities.

NOTE 23:—ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

Defined Benefit Plans

The portion of the severance pay payments that is not covered by deposits as aforesaid, 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 deposit plans, in accordance with section 14 of the 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 deposit 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.

1. *Expenses reflected in the statement of comprehensive income*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Current service cost	19	19	18
Interest expenses in respect of the benefit liabilities	5	5	4
Expected yield in the plan assets	(4)	(4)	(2)
Net actuarial loss (gain), which has been recognized in the year	12	(1)	(1)
Total expenses in respect of employee benefits	32	19	19
Actual yield on the plan assets	4	4	13
The expenses have been presented in the statement of income as follows:			
Other operating expenses	22	14	13
Selling and marketing expenses	5	2	2
Administrative and general expenses	4	2	2
Financing expenses	1	1	2
	32	19	19

2. *The plan assets (liabilities)*

	As of December 31	
	2011	2010
	NIS in millions	
Liabilities in respect of a defined benefit plan	(125)	(117)
Fair value of the plan assets	102	99
Total net liabilities	(23)	(18)

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

NOTE 23:—ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Continued)

3. *Changes in the present value of the liability in respect of a defined benefit plan*

	2011	2010
	NIS in millions	
Balance as of January 1	117	112
Interest expenses	5	5
Current service cost	19	19
Benefits paid	(20)	(18)
Net actuarial loss (profit)	4	(1)
Balance as of December 31	125	117

4. *The plan assets*

a) *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.

b) *The movement in the fair value of the plan assets*

	2011	2010
	NIS in millions	
Balance as of January 1	99	88
Expected yield	4	4
Deposits by the employer into the plan	19	20
Benefits paid	(12)	(13)
Net actuarial loss	(8)	—
Balance as of December 31	102	99

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Actual yield on the plan assets	4	4	13

5. *The principal assumptions in the determination of the liability in respect of a defined benefit plan*

	2011	2010	2009
		%	
The discount rate	4.34	4.6	4.3
Expected yield on the plan assets	4.51	4.8	4.5
Expected rate of salary increases	2 - 4	2 - 4	2 - 4

NOTE 24:—OTHER LONG-TERM PAYABLES

Composition:

	December 31	
	2011	2010
	NIS in millions	
Liability to the government (1)	127	152
Liability for financial leases (2)	105	61
Liability for in respect of financial instruments (3)	3	4
Liability for in respect of senior employees (4)	6	10
Liability for in respect of a marketing agreement (5)	25	—
Liability to the Ministry of Communications (6)	19	—
Payables for in respect of purchase (7)	341	—
Long-term trade payables	10	—
Deposits for in respect of converters	3	5
	639	234
Less current maturities	(84)	(58)
	555	176

(1) On December 31, 2011 and in accordance with the change in the Company management's forecast in respect of the change in the Group's future revenues, the liability to the government was increased by NIS 4 million (year ended December 31, 2010—NIS 11 million).

(2) (a) *Composition*

December 31, 2011

	Principal amount	Denoted interest rate	Effective interest rate	Balance	Balance less current maturities
	NIS in millions	%	%	NIS in millions	NIS in millions
Liability for finance lease	105	0 - 7	2.97	105	84

December 31, 2010

	Principal amount	Denoted interest rate	Effective interest rate	Balance	Balance less current maturities
	NIS in millions	%	%	NIS in millions	NIS in millions
Liability for finance lease	61	1.58 - 3.54	2.01	61	49

(b) *The following is information for finance leasing in accordance with the distribution of the payment times*

	December 31, 2011			December 31, 2010		
	Minimum future lease payments	The interest component	Present value of the minimum lease payments	Minimum future lease payments	The interest component	Present value of the minimum lease payments
	NIS in millions					
In the first year	25	4	21	14	2	12
Second year to fifth year	75	8	67	44	5	39
After the fifth year	20	3	17	12	2	10
	120	15	105	70	9	61

NOTE 24:—OTHER LONG-TERM PAYABLES (Continued)

(c) (1) The Group leases equipment under finance leasing agreements. The agreements enable the Group to purchase the leased equipment at an opportunity price. An arrangement exists within the framework of the leases, which does not meet the legal definition of leasing, but which is treated as a leasing agreement, based upon its terms. The leased equipment serves as collateral for the liabilities under the lease contract. As of December 31, 2011 the net carrying amount of the leased facilities and equipment is NIS 191 million (2010—NIS 181 million).

(2) Mirs has finance leasing in an amount of NIS 18 million, in respect of investments in leasehold improvements in accordance with Mirs' rental contract with the company ''Airport City'' Ltd., which is for a period of 10 years ending in 2019. As of December 31, 2011 the net carrying value of the leasing improvements is NIS 17 million.

(3) The Group has recorded finance leasing in respect of the Bezeq agreement that is described in Note 26B(4). As of December 31, 2011 the finance leasing commitment in respect of the long-term Bezeq rental fees was updated by an amount of NIS 3 million, as a result of additional payments made in respect of the leasing in the reporting period (as of December 31, 2010—NIS 6 million).

(3) In 2008 the Company entered into an IRS (Interest Rates Swap) transaction with a financing institution (hereinafter—the financing institution) in an amount of NIS 100 million, which is expected to expire in 2012, in parallel to the repayment of credit from another financing institution.

As of December 31, 2011 the value of the IRS transaction is NIS 1 million (reported under other payables in an amount of NIS 1 million) (2010—NIS 4 million, reported under other payables in an amount of NIS 3 million). Furthermore, the balance as of December 31, 2011 includes a balance of NIS 2 million of embedded derivatives (stated under other payables in an amount of NIS 1 million).

(4) On May 19, 2008 the Company's Audit Committee and Board of Directors decided upon a phantom options plan (hereinafter—the options) for senior office holders in the Company (hereinafter—the plan). It was determined that the total number of the options that the Company is to make available for the purpose of the exercise of the plan and their allocation to all of the Company's offerss is 1,588,666 options, of which an amount of 1,278,860 options, have been actually allocated.

At the time of the approval, as aforesaid, options were allocated to 13 office holders, and up to the balance sheet date nine office holders, who were within the framework of the plan, have announced that they were leaving the Company and accordingly the grant agreement in respect of them has been cancelled (818,147 options) and the plan remains in place in respect of four office holders, to whom 460,713 options have been allocated.

The options are exercisable into a monetary grant and not into shares of the Company. The phantom grant is a monetary grant in cash in an amount that is equivalent to the difference by which the market price of the Company's shares at the time of the exercise, exceeds the exercise price, as defined in the plan, and this is for each option that may be exercised in accordance with the terms of the plan.

On October 11, 2010, the Company's Audit Committee and Board of Director approved an amendment to the plan and the agreements between the Company and the office holders, such that the exercise period of the options that had been granted and/or that would be granted in accordance with the phantom plan, which was a period of two years after the end of the vesting period for each tranche, was increased to five years after the end of the vesting period, as aforesaid, the exercise price for some of the offerees under the plan was reduced to an amount of NIS 40. Furthermore, at the same time it was decided to make an additional allocation of a further 39,717 options to an offeree to whom options had been allocated in the past. In accordance with the terms of the allocation for the additional 39,717 options, the options will vest in three annual tranches, with an exercise price of NIS 40. The exercise period of the options until expiry is five years from the time of the vesting of the last tranche.

NOTE 24:—OTHER LONG-TERM PAYABLES (Continued)

The economic value of the options (which has been determined in accordance with the binomial model) for all of the option warrants that were in force as of December 31, 2011 and 2010 is NIS 6.3 million and NIS 10.6 million, respectively. The economic value of those option warrants as of December 31, 2011 was determined based on the following main principles: a standard deviation of 34.46%-46.8% (2010—39.5%-44.3%), a risk free interest rate of 2.8%-3.6% (2010—3.6%-4.3%), an average lifetime of 2.7-5.1 years, an exercise price of NIS 40-40.08 per option (2010—NIS 40-40.08) (in accordance with the length of service of each senior employee) and a share price of NIS 47.4 as of December 31, 2011 (2010—NIS 59.7).

In accordance with the provisions of IFRS 2, the fair value of the options has been recorded (proportionately to the vesting period that has passed) as a liability in the Company's financial statements, in parallel to the recording of salary expenses. In the year ended December 31, 2011 a decrease of NIS 3 million was recorded in the expenses, against a parallel decrease in the liability (2010—an increase of NIS 4.8 million in salary expenses against a parallel increase in the liability).

As of December 31, 2011 the said plan applied to four office holders, to whom 500,430 options had been issued and the balance of the options that have not yet been exercised in respect of it is 314,430 options.

(5) Mirs pays fixed and variable amounts in respect of the recruitment of subscribers in respect of a marketing contract that it has with a marketer, which is in force until December 31, 2013.

Within the framework of the transaction for the acquisition of Mirs, a surplus cost was attributed to a liability. The liability in respect of the marketing contract is being amortized over a period of 7 years at variable annual rates in parallel to the period of the commitment in respect of the marketing contract.

(6) In continuation of what is stated in Note 1A(6)(a)(2) on the subject of a conditional guarantee to the Ministry of Communications in connection with the frequency usage license, the fair value of the conditional payment to the Ministry of Communications in respect of the license is estimated at NIS 19 million, based on an expert opinion and in accordance with the scenarios for the accumulation of market share (see also Note 26C(6)(d)).

(7) See Note 3.

NOTE 25:—TAXES ON INCOME

A. *The tax laws that apply to the Group companies*

The merger agreement was signed on May 8, 2006. Within the framework of this agreement it was stipulated that the determining date for the actual execution of the activity involved in the merger would be January 1, 2006. As aforesaid in Note 4, the merger transactions between the cable companies was, in practice, completed on December 31, 2006. Accordingly, all the required reports under the law were furnished to the Income Tax Authority, according to which the determining date for the execution of the activity involved in the merger was also January 1, 2006, which is different from the time of the completion of the transaction, which is to sat December 31, 2006, and their recording in the Company's accounting records.

In accordance with the Company's opinion and its legal advisers, the timing of the tax event as a result of the transfer of the assets in the merger is January 1, 2006, and this is despite the fact that for accounting purposes the activity was recorded on the date of the completion of the transaction, which is to sat December 31, 2006.

In accordance with the outline of the transaction, amounts were allocated out of the cost of the acquisition, which amounted to NIS 4.4 billion, to intangible assets as well as the surplus accounting cost, which was attributed to property, plant and equipment (hereinafter, together—the surplus costs).

NOTE 25:—TAXES ON INCOME (Continued)

In accordance with the provisions of the Income Tax Regulations (The depreciation rate for goodwill)—2003, it was stipulated that the annual depreciation rate for goodwill that was paid for will be 10%, and this is in accordance with the conditions as set in the said regulations.

In the opinion of the Company's management, the surplus costs can be amortized as an expense for tax purposes, and this is in accordance with the provisions of the Income Tax Ordinance and the regulations promulgated thereunder.

As aforesaid, the implications of the merger from the tax perspective include various issues and aspects, in respect of the date of the merger and the manner and the pace of the depreciation of the assets and the liabilities that were acquired and/or transferred within the framework of the merger (including the cables infrastructure) for tax purposes. The Company's management, in consultation with its professional advisers, has recorded a provision within the framework of the deferred tax item, for the sake of conservatism, which in its assessment reflects the Company's exposure in respect of the timing of the allowance of the expenses in connection with the aforesaid issues.

As part of the merger of the cable companies, all of the Group Companies have been registered within the framework of a unification of businesses in the name of the Company.

B. *The Income Tax Law (Inflationary adjustments)—1985*

In accordance with the Law, until the end of the year 2007 the results for tax purposes in Israel were adjusted for the changes in the Israeli Consumer Prices Index.

In February 2008 the'' Knesset'' (Israeli Parliament) passed an Amendment to the Income Taxes Law (Inflationary adjustments)—1985, which limits the scope of the Law from the year 2008 and thereafter. As from the year 2008, the results for tax purposes are measured in nominal values except for certain adjustments in respect of changes in the Israeli Consumer Prices index in the period up to December 31, 2007. Adjustments relating to capital gains, such as in respect of the sale of property (betterment) and securities, continue to apply until the time of the disposal. The amendment of the Law includes, inter alia, the cancellation of the inflationary additions and the additional deduction for depreciation (for depreciable assets purchased after the 2007 tax year) as from the year 2008.

C. *The rates that apply to the Company*

The Israeli corporate tax rate was 26% in the year 2009, 25% in the year 2010 and 24% in the year 2011.

A company is chargeable to taxation on real (non-inflationary) capital gains at the corporate tax rate that applies in the year of the sale. It was determined as a temporary provision for the years 2006 - 2009 that on the sale of an asset other than a quoted security (except for goodwill that was not acquired), which was purchased before January 1, 2003 and sold until December 31, 2009—corporate tax at the rate determined in the Israeli Income Tax Ordinance in the year of the sale will apply to the part of the real capital gain that is linearly attributed to the period up to December 31, 2002 and tax at a rate of 25% will apply to the part of the real capital gain that is linearly attributed to the period from January 1, 2003 and up to the time of the sale.

On December 5, 2011 the Israeli Parliament (the ''Knesset'') passed the Law for Tax Burden Reform (Amendments to legislation)—2011 (hereinafter—the Law). Within the framework of the Law, inter alia, as from the year 2012 the outline for the reduction of the corporate tax rate was cancelled. Furthermore, with the framework of the Law the corporate tax rate was raised to 25% as from the year 2012. In the light of the increasing of the corporate tax rate to 25%, as aforesaid, the tax rate on real capital gains and the tax rate on real betterments in Israel were also increased.

The impact of the said change on the deferred tax balances was to lead to a decrease of approximately NIS 29 million in the deferred tax balances. The updating of the deferred tax balances lead to a reduction of approximately NIS 29 million in the net income for the year 2011, which has

NOTE 25:—TAXES ON INCOME (Continued)

been recorded under taxes on income, to a reduction of approximately NIS 29 million in the overall comprehensive income for the year 2011 and to a reduction of approximately NIS 29 million in shareholders' equity as of December 31, 2011.

D. *Tax assessments*

In December 2009 and in the course of the year 2010, the Company received tax assessments for the 2006-2008 tax years, in accordance with section 145(A)(2)(b) of the Income Tax Ordinance. In accordance with the tax assessments, expenses amounting to approximately NIS 1.1 billion were adjusted for the company for tax purposes as of the end of the year 2008, and this was as a result of a disagreement between the Company 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 the Company in respect of the 2006, 2007 and 2008 tax years is received, the Company will be exposed to a demand for the payment of tax in a cumulative amount of NIS 120 million. Linkage differentials and interest will be added to this amount.

Furthermore, the Company 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 the Company's position.

The Company's management, on the basis of its position in the self-assessments and based upon its professional advisers, has presented an objection against the tax assessments for the years 2006-2008 and in the opinion of the Company's management and its professional advisers, the Company 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 dispute has arisen within the framework of the discussions in relation to 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 has been recorded within the framework of the financial statements in respect of the Company's estimated exposure in respect of the dispute with the tax authorities in respect of open tax years.

The Company 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 section 145, 147 and 152 of the Income Tax Ordinance.

E. *Losses carried forward for tax purposes and other temporary differences*

In accordance with the draft tax reports, which have not yet been presented, for the year 2011, the Company has losses for tax purposes that are available to be carried forward to future years, which in the assessment of the Company's management amounted to approximately NIS 1.1 billion as of

NOTE 25:—TAXES ON INCOME (Continued)

December 31, 2011 (approximately NIS 1.2 billion as of December 31, 2010). Consolidated companies have losses for tax purposes, which in the assessment of the Company's management amounted to approximately NIS 0.3 billion as of that time (approximately NIS 0.3 billion as of December 31, 2010).

As of December 31, 2011 a deferred tax asset, which is estimated at NIS 49 million, has not been recognized in respect of temporary differences in the Group because their utilization in the future is not probable (2010—NIS 80 million).

Composition:

	Balance sheet		Statement of income		
	December 31		For the year ended December 31		
	2011	2010	2011	2010	2009
	NIS in millions				
Deferred tax liabilities					
Depreciable property, plant and equipment	(106)	—			
Intangible assets	(176)	(87)			
Available for sale investments presented at fair value (2)	(10)	(23)			
Others	(137)	(35)			
	(429)	(145)			
Deferred tax assets					
Depreciable property, plant and equipment	172	152			
Allowance for doubtful accounts	21	9			
Provision for claims	8	9			
Other liabilities	35	26			
Employee benefits	11	10			
Deferred taxes was net provided	(49)	(80)			
	198	126			
Deferred tax liabilities, net	(231)	(19)	101	(6)	(8)

(1) The Company records deferred tax assets up to the amount of the deferred tax liability, where there exists an enforceable legal right that enables the setting off of deferred tax assets and deferred tax liabilities and this too up to the level of the deferred tax liabilities in the event that it is expected that their exploitation will be similar or late than the pace of the exploitation of the deferred tax assets. In the event that there is no certainty in respect of the timing of the reversal of the deferred tax liabilities , the Company does not record deferred tax assets in respect of temporary differences, as aforesaid.

(2) Changes in the deferred taxes in respect of available for sale investments that are presented at fair value are reflected in the statement of other comprehensive income and not within the framework of tax expenses and income.

The deferred taxes are presented in the balance sheet as follows:

	December 31	
	2011	2010
	NIS in millions	
Non-current assets	71	39
Non-current liabilities	(302)	(58)
	(231)	(19)

NOTE 25:—TAXES ON INCOME (Continued)

The deferred taxes have been calculated in accordance with an average tax rate of 25% (2010—20.8%) based on the tax rates that are expected to apply upon realization.

Taxes on income that relate to elements of other comprehensive income

The deferred tax amount that have been reflected in comprehensive income in respect of:

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Loss (gain) due to available for sale financial assets	(13)	(1)	5

F. *Taxes on income recorded in the statements of comprehensive income*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Current taxes (current advances for sun plus expenses)	(1)	—	2
Deferred taxes	72	(6)	(8)
Reconciliation of the deferred tax balances following the change in the tax rates	29	—	—
	100	(6)	(6)

G. *Theoretical tax*

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Income before taxes on income	441	100	79
The statutory tax rate	24%	25%	26%
Tax computed at the statutory tax rate	106	25	21
Increase (decrease) in taxes on income as a result of:			
The updating of the deferred tax balances due to changes in the tax rates	29	—	—
Non deductible expenses for tax purposes and exempt income	6	15	(7)
Losses for tax purposes and temporary differences for which deferred taxes have not been recognized, net	(41)	(46)	(20)
Taxes on income (tax benefit)	100	(6)	(6)
The effective tax rate	23%	(6%)	(7%)

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS

A. *Contingent liabilities*

1. Within the framework of the merger of the cable companies, as described in Note 4, the Company has assumed responsibility for the existing claims in the field of activity of the acquired companies (the cable companies in their former format), furthermore, it was determined that the Company is to assume responsibility for any claim that may be filed in the interim period by any of the acquired companies after the time of the completion of the cable companies.

   In addition, the Company has entered into a commitment under an indemnification agreement with each of the three previous holders of the rights in the HOT Gold Partnership (the Tevel Group, the Yedioth Communications and the Fishman Group) in accordance with which the Company has undertaken to fully indemnify the partners in the HOT Gold Partnership, prior to the completion of the merger transaction, so that they will be released from all responsibility, commitment or debt of any sort whatsoever that HOT Gold had on December 31, 2006 or that HOT Gold may have after that date, and which relate to the period prior to the completion of the merger, including in respect of claims and legal proceedings.

2. Lawsuits have been filed and are pending against companies in the Group in the routine course of business and various legal proceedings are outstanding against it (hereinafter—Lawsuits).

   In the opinion of the managements of the Group companies, based, inter alia, on legal opinions in respect of the chances of the lawsuits, appropriate provisions have been recorded in the financial statements as of December 31, 2011 in an amount of NIS 168 million, were provisions are required, to cover the exposure in respect of the said lawsuits.

   In the opinion of the management of the Group companies the additional exposure in an amount of NIS 5.1 billion (over and above the provisions that have been recorded in these financial statements), as of December 31, 2011 in respect of Lawsuits that have been filed against companies in the Group on various issues is as follows:

   a) An amount of approximately NIS 2.9 billion in respect of claims, the chances that they will be accepted, 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 532 million in respect of claims, in respect of which it is not yet possible to make an assessment, the main ones being in connection with the approval of class actions that were presented close to the date of the financial statements.

   c) An amount of approximately NIS 1.7 billion 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%.

   The following is an abbreviated summary of the Group's contingent liabilities effective as of December 31, 2011 in accordance with groupings having similar characteristics:

   a) *Claims by customers*

      As of December 31, 2011 the amount of the additional exposure (over the provisions that have been recorded in these financial statements), in respect of claims by customers amounts to approximately NIS 5 billion. Of the said claims an amount of NIS 529 million relates to claims which it is not possible to assess at this stage and which relate primarily to applications for the approval of class actions, which were presented after the balance sheet date.

      In the opinion of the managements of the companies in the Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 8 million have (including an increase in the net expense by NIS 2 million in the year ended December 31, 2011), and

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of the those claims.

b) *Claims in connection with copyright*

As of December 31, 2011 the amount of the additional exposure (over the provisions that have been recorded in these financial statements) in respect of claims in connection with allegations of breach of copyright and the payment of appropriate royalties by the Group, amounts to NIS 99 million. In the opinion of the managements of the companies in the Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 158 million (including a decrease in the net expense by NIS 93 million in the year ended December 31, 2011), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of those claims. The amount of the provision includes an amount of NIS 115 million in respect of a compromise agreement with Acum and Tali for the years 2003-2010.

In June 2011 the Company signed on a compromise agreement with Tali—The Collecting Society of Film and Television Creators in Israel Ltd., in respect of the payment of royalties in respect of the years 2003 to 2014. The said compromise arrangement did not have a significant impact on the Company's financial statements for the year ended December 31, 2011.

On September 8, 2011 the Company received a judgment that had been passed down by the District Court (Central district) in a claim in an amount of 20 million Dollars, which had been presented on March 28, 2000 against the Company and the other cable companies (which have since been merged into it) by AGICOA—The Association for the International Collective Management of Audiovisual Works (hereinafter—the plaintiff), which is an association that collectively manages copyrights for audio-visual works and which brings together producers from across the globe. The plaintiff alleges that there was a breach of the copyrights of producers who are represented by it within the context of the secondary broadcasts by the cable companies. It was determined in the judgment that the Company is to pay an amount of NIS 10 million to the plaintiffs, with the addition of linkage differentials and interest, as from the date on which the claim was presented as well as the costs of the lawsuit and attorneys' fees amounting to NIS 500 thousand. The plaintiff filed an application for the correction of a typing error in the judgment, according to which the intention had been to hand down a ruling in an amount of 10 million US Dollars. The Court rejected the application. As of the date of this report, the plaintiff has filed an appeal on its behalf and the Company has filed an appeal on the judgment to the Supreme Court and a time has been set for the presentation of the summaries of the parties' claims in the appeals.

In the Company's assessment, based on the opinion of its legal advisers, the Company has recorded a provision that reflects the provisions of the judgment.

On July 19, 2010, the Company received a ruling by an arbitrator which was handed down within the framework of arbitration proceedings that were being conducted between the Company and Acum—The Association for Composers, lyricists, and music publishers in Israel Ltd. (Acum) in connection with the setting of a mechanism for the setting of the annual royalties in respect of the use of works, the rights to which are protected by Acum. The arbitration ruling accepted the outline for the model for the purpose of calculating the royalties, which was presented by Acum in the Statement of Claim in principle, and this was done with the exception of certain changes.

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

It was further determined that the said calculation model was also to apply in respect of the issue of the payment of differentials on royalties in respect of previous years, commencing as from January 1, 2003, and that the calculation of the differences was to be conducted between the parties in an agreed manner. In accordance with the arbitration agreement that was signed between the Company and Acum and the right of appeal that is available to the Company thereunder, on November 4, 2010 an appeal was filed against the arbitration ruling on the Company's behalf.

On December 13, 2011 the Company and Acum signed on a compromise agreement, within the framework of which all of Acum's claims vis-à-vis HOT in respect of the years 2003 to 2010 were arranged. Furthermore, the annual royalty rates for the years 2011 to 2016 were agreed upon.

The impact of the results of the compromise agreement on the Company's financial statements for the year 2011 in respect of the reduction of the amount of the provision in respect of the compromise agreement with Acum is NIS 87 million, net of tax.

It should be clarified that in tandem with the signing on the said compromise agreement, the parties signed on an agreement, within the framework of which the Company received a license from Acum for the broadcasting of works, in respect of which Acum holds the copyright (hereinafter—the Acum repertoire) within the framework of the Company's television and internet broadcasts. The said agreement determines the formula for the calculation of the royalties that will be due to Acum in respect of the use of the Acum repertoire by the Company, including in respect of the use thereof within the framework of the internet broadcasts and the cellular applications, and it places a duty on the Company to make reports to Acum in respect of the extent of the use of the Acum Repertoire by the Company in its broadcasts. The agreement will apply retrospectively from the beginning of 2011 and is in force until December 31, 2016, and Acum has the right to cancel the agreement in exceptional circumstances (the dissolution of the Company, a stay of execution, the cancellation of the Company's broadcasting license and an arrangement with creditors that could affect the Company's ability to meet its commitments to pay royalties).

c) *Claims by suppliers and communications providers*

As of December 31, 2011 the amount of the additional exposure (over the provisions that have been recorded in these financial statements) in respect of claims by suppliers and communications providers, amounts to NIS 39 million. In the opinion of the managements of the companies in the Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 2 million (including an increase of NIS 2 million in the net expense in the year ended December 31, 2011), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of those claims.

d) *Claims by employees*

As of December 31, 2011 the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by employees amounts to NIS 5 million, and it relates primarily to individual claims. In the opinion of the managements of the companies in the Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 349 thousand (unchanged in the year ended December 31, 2011), where provisions are required to cover the exposure as the result of the claims.

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

B. *Commitments*

1. *Royalties to the Ministry of Communications and other payments to the government*

a) The Company 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 royalties 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 cellular telephone companies Pelephone, Partner and Cellcom as well as by the Bezeq company.

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 the Company 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.

b) In accordance with the Telecommunications Regulations (Telecommunications and Services) (Royalties)—2001 (hereinafter—the Royalties Regulations), Mirs is required to pay royalties to the State each quarter, as a percentage of its income from radio telephone

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

services, less the payments that Mirs 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 began to provide In Country roaming services; (b) a holder of another license as a virtual operator (MVNO) has began 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.

c) In July 2001 the cables companies, including the Company, 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 the Company 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

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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 the Company as an merged company.

d) 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).

e) 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.

2. *Other royalties*

a) 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 (see also section A(2)(b) above).

b) 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. The Company 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.

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 the Company, 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 the Company complied with the investment rate that is required, as aforesaid. See also Note 1A(4)(b)(5)(b).

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 the Bezeq company (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 the Bezeq company'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 the Bezeq company with the base equipment (as defined in the agreement) that

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

comprises the cables network and the Bezeq company 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 the Bezeq company conducts the routine maintenance of the cables network and also provides missfunction 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. The Bezeq company 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 the Bezeq company’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 the Bezeq company 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 the Bezeq company 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.

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:

	NIS in millions
2011	136
2012	106
2013	70
2014	48
2015 and thereafter	54
	414

6. On July 19, 2011 the Company’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

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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 the Company , 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 the company 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.

7. 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 are 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 from Motorola alone 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.

8. 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.

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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.

9. 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.

10. 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 52 million Dollars. The overall consideration in the agreement for all of the services up to the year 2017 is approximately 120 million US Dollars, according to Mirs assessment.

11. *Commitment with main customer*

    Mirs supplies a range of services to the Ministry of Defense: cellular telephones, data telecommunications and PTT services. The company'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 cellular telephones, the tender for which was won by the company 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).

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

On December 28, 2011 the Ministry of Defense published a tender for the supply of cellular 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.

12. *Capitalized leasing rights on land from the Israel Lands Authority*

Capitalized leasing rights on land from the Israel Lands Authority over n 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. See also Note 2L. The lease periods end in the years 2021-2045.

13. *Commitments between companies in the Group*

a) There is a mutual agreement for the provision of services between HOT Telecom and the Company, which has been in force since January 1, 2007. Within the framework of the agreement the Company has undertaken to supply HOT Telecom with services in various fields, including the fields of purchasing and marketing. The said services are provided primarily by the employees of the Company and of HOT Telecom, as the case may be. It was stipulated that the consideration for the provision of the services, to which each party will be entitled, will be an amount that is equivalent to the cost of the provision of the services, which will be determined by the parties by agreement, from time to time.

In May 2008 the Company's Board of Directors and HOT Telecom's Board of Directors approved the updating of the mutual charging mechanism between the Company and HOT Telecom retrospectively as from January 1, 2008.

b) As from January 1, 2007, there has been an agreement in force between HOT Telecom and the Company, in accordance with which HOT Telecom will provide the Company with cable broadcasting distribution services and broadcasting center services. The agreement cannot be cancelled unilaterally by one of the parties but rather solely by a final judgment by an authorized court, or if a party to the agreement has received approval from the Council or the Ministry of Communications that the other party has ceased to provide its services in accordance with the license. Despite the aforesaid, the Company is entitled to announce the termination of this agreement at the end of a period of ten years from the date of its signing, or at the end of the period of validity of the broadcasting license, or at the end of any extension period of the broadcasting license. The services will be performed by employees of HOT Telecom.

Under the force of the national operator license, HOT Telecom has been given the exclusive right to use the cables network, to operate it, to develop it, to improve it and the execute any activity on it in accordance with the national operator license and in accordance with the law. As from January 1, 2007 HOT Telecom has been charging the Company for the services in accordance with the amounts that are determined by the parties agreement, based on the formula that was set in a decision by the Minister of Communications on August 23, 2007 on the issue of the transmission fee to be paid by a special license holder to HOT Telecom in respect of the transmission of its broadcasts on HOT Telecom's infrastructure.

At the time of the approval of the Company's financial statements of December 31, 2009 the Company's Board of Directors and HOT Telecom's Board of Directors approved a mechanism for the transmission fees between the Company and HOT Telecom such that

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

the consideration that will be paid for the services that are supplied in connection with the analogical channels, is to be reduced in accordance with the average number of analogical subscribers in that calendar year, except for the year 2009 in which a maximum discount of 7% would be given.

At the time of the approval of the partnership's financial statements of December 31, 2011 the parent company's Board of Directors and the partnership's Board of Directors approved the updating of the mechanism for the transmission fees between the parent company and the partnership such that as from the year 2012 a discount will be given in accordance with the number of channels that are transmitted on the partnership's infrastructure in accordance with a graded scale.

During the course of the years 2011, 2010 and 2009 HOT Telecom charged the Company the amounts of NIS 987 million, NIS 974 million and NIS 950 million, respectively.

c) As from January 1, 2007 the Company's operating, marketing, selling, administrative and general expenses are loaded on the Company and the Company's subsidiary companies, in accordance with the ratio of the income of each company, which properly reflects the services that have been provided by the Company.

d) On April 14, 2011 the Company's Audit Committee approved a transaction with Mirs for the purchase of text message sending services from Mirs: in accordance with the transactions, Mirs will supply the Company with text message sending services (SMS). The volume of the services will be as may be required from time to time by the Company.

In accordance with the Company's current volume of text message sending activity, the annual consideration that will be paid to Mirs in respect of these services stands at NIS 2.5 million.

e) On July 17 and 19, 2011 the Company's Audit Committee and Board of Directors, respectively, approved a commitment by the Company under a transaction for the supply of infrastructure services with Mirs. In accordance with the transaction that was approved, HOT Telecom will connect Mirs cellular communications sites to its communications centers, by means of the cables infrastructure. The transaction that was approved is for the connection of at least 550 communications sites (the completion of the connection of which is expected to take place by the end of 2014), with the consideration in respect of each site being determined in accordance with the technical requirements and the band width that is required. The commitment in connection with each site is for a period of ten years.

In accordance with the Company's assessment, at this stage, the overall amount of the consideration that is expected for the said consideration could reach NIS 250 million, and will not fall below NIS 150 million.

f) The Company is entitled to receive management fees at a rate of 1% of Mirs annual income.

C. *Guarantees and liens*

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

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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

   a) First ranking fixed charges on the rights of the companies in the Group.

   b) 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 the Company.

   c) Fixed charges on the equipment of companies in the Group.

   d) Fixed charges on the land assets of companies in the Group.

   e) Fixed charges on the bank accounts of companies in the Group.

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

4. As collateral for the commitments of the Company, 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.

5. As collateral for the Company's commitments in respect of the royalties agreement, as set forth in section B(1) above, a second ranking floating charge has been placed in favor of the State.

6. 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:

   a) Bank guarantees to the Ministry of Communications, in respect of the national operator license that was granted to HOT Telecom amounting to 8.4 million Dollars, in force until June 2012, December 2012 and December 2025.

   b) 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.

   c) A bank guarantee in an amount of 2 million Dollars to the Director in respect of the Company's compliance with the terms of the merger as determined by the Director, which are in force until December 2012.

   d) 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 the company waives and is prevented from raising any claim against the bank in connection with the wording of the said

NOTE 26:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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 the Company's commitments vis-à-vis the Ministry of Communications within the context of the Company's win in a frequencies tender for the setting up of a third generation cellular 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, the Company 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.

7. The Group has extended a number of bank guarantees to various bodies in an overall amount of NIS 15.5 million.

8. *Guarantees to HOT Telecom*

    a) The Group has given guarantees in a cumulative amount of 16 million Dollars as collateral for payments by HOT Telecom to the Cisco company.

    b) 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.

9. There exist mutual guarantees between the Company 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.

NOTE 27:—EQUITY

A. *The Composition of the share capital*

	December 31, 2011		December 31, 2010	
	Registered	Issued and paid-up	Registered	Issued and paid-up
Ordinary shares of NIS 1 par value each	150,000,000	77,672,126	150,000,000	76,149,214

NOTE 27:—EQUITY (Continued)

B. *Movements in the Share capital*

	Number of shares and NIS 1 Par value
Balance at January 1, 2010	76,071,562
Exercise of employees' options into shares	77,652
Balance at December 31, 2010	76,149,214
Private allocation	1,521,883
Exercise of employees' options into shares	1,029
Balance at December 31, 2011	77,672,126

C. The Company's shares are registered for trade on the Tel-Aviv Stock Exchange (hereinafter—The Stock Exchange).

D. On June 27, 2006 the Company's general meeting approved, inter alia, the increasing of the Company's registered share capital by an additional 50 million ordinary shares of NIS 1 par value each.

On December 31, 2006, within the framework of the completion of the merger of the cable companies, the Company allocated shares to holders of shares and of rights in the other cable companies (hereinafter—the holders of the rights). Within this context, the Company allocated approximately 45,649 thousand shares to the holders of the rights.

See also Note 26C(4) on the subject of a charge on the Company's unpaid share capital.

E. During the course of the year 2009 the ownership structure in the Company was changed as the result of a number of transactions that were executed by former related parties in the Company—Bank Leumi Le'Israel Ltd., The First International Bank of Israel Ltd., Bank Hapoalim Ltd. and the Delek Group Ltd., and also as a result of the special purchase offer to the Company's shareholders. Within the context of the said transactions, Cool, which is controlled by Mr. Patrick Drahi through companies that he controls, acquired 34,050,864 shares in the Company, which as of the time of the said transaction constituted 44.76% of the Company's share capital. 9,779,682 of these shares were acquired within the framework of the special purchase offer at a price of NIS 35 a share. On October 27, 2010 Cool Holdings Ltd. (hereinafter—Cool) announced to the Company that it had entered into two agreements, with the Fishman Group, which as of the time of the announcement held approximately 12.61% of the shares in the Company and with Yedioth Communications Ltd. (hereinafter—Yedioth Communications), which as of the time of the announcement held approximately 16.79% of the shares in the Company. The said agreements were made conditional, inter alia, on the execution of a private allocation in accordance with the provisions of section 328 of the Companies Law, which was intended to afford Cool a holding of more than 45% of the Company's issued share capital.

1. On March 16, 2011, following the completion of the private allocation to Cool, as detailed above, Cool completed the acquisition of 4,565,493 shares in the Company from the Fishman Group at a price of NIS 54.5 per share (with the addition of interest at an annual rate of 5% from December 31, 2010 to March 16, 2011), under the force of an agreement between the parties (hereinafter—the Fishman agreement).

2. On November 28, 2011, Cool completed the purchase of 10,012,003 ordinary shares in the Company from Yedioth Communications, for a consideration reflecting an amount of NIS 65.099 per share (a price of NIS 65 per share in accordance with the agreement with the addition of interest, as aforesaid), in accordance with an option agreement between the parties (hereinafter—the Yedioth Communications agreement).

NOTE 27:—EQUITY (Continued)

Within the framework of the Yedioth Communications agreement, various provisions were set that relate to the period until the time of the execution and thereafter. Cool gave an undertaking, so long as Yedioth holds more than 2.5% and less than 5% of the shares in the Company not to carry out any activity or execute any transaction as a result of which the public's holding rate would fall below 20%. In addition, Cool gave an undertaking on its part that until the earlier of: (a) the time at which Yedioth Communication's holding would be less than 2.5% of the shares in the Company; or (b) 3 years from the time of the completion of the transaction between them, it would not take any action that would cause the Company to become a private company or the removal of its shares from the registration for trading on the Stock Exchange. In addition, Yedioth Communications has granted Cool the right of first refusal in respect of the other shares that Yedioth Communications would hold after the completion of the transaction with it and the right to make an enforced sale of the shares in the Company that it holds (Drag Along) and against this Cool awarded Yedioth Communications the right to join in a sale of shares in the Company (Tag Along).

To the best of the Company's knowledge, as from the time of the completion of the Yedioth Communications agreement and the Fishman agreement, Yedioth Communications ceased to be an related party in the Company whereas the Fishman Group is an related party in the Company as a result of its holding of 6.47% of the Company's issued and paid up share capital and of 6.19% of the Company's issued and paid up share capital at full dilution.

3. On March 16, 2011 a private allocation of 1,521,883 shares in the Company to Cool (constituting approximately 2% of the Company's issued share capital, prior to the execution of the private allocation and approximately 1.97% of the Company's issued share capital after the execution of the private allocation), for an overall consideration of NIS 83 million, reflecting a share price starting at approximately NIS 54.5 (with the addition of interest at a rate of 5% a year from December 31, 2010 to March 16, 2011) (a weighted price of NIS 55.06 a share).

   With the completion of the private allocation, at a number that is equivalent to 2% of the Company's issued share capital (prior to the allocation) and the completion of the agreements that are detailed in section 1 and 2 above, Cool holds approximately 64.57% of the shares in the Company.

F. *The allocation of options to senior employees*

   1. Options for the Chief Executive Officer

   On November 4, 2008 and on November 5, 2008, the Company's Audit Committee and Board of Directors, respectively, approved the appointment of Mr. Herzl Ozer as Chief Executive Officer of the Company and the terms of his employment. The employment agreement between the Company and the Company's CEO (hereinafter—the employment agreement) entered force on December 1, 2008. The employment agreement includes the fixing of the CEO's monthly salary, his entitlement to an annual grant based upon the increase in the EBITDA, as set forth in the employment agreement and the granting of option warrants, as set forth below.

   The granting of 1,064,664 option warrants, constituting approximately 1.4% of the issued and paid up share capital of the Company (hereinafter—the option warrants), which will be granted to a trustee for him in accordance with section 102 of the Income Tax Ordinance on an income from labor path, and which will be exercisable (in accordance with the cashless method) into shares of the Company, subject to adjustments.

   The option warrants can be exercised in consideration for an additional payment on the exercise of approximately NIS 38.5 per option warrant, subject to certain adjustments. In accordance with this plan the option warrants will be exercisable at five different vesting times over the length of the period of the CEO's employment in the Company, as detailed below, at the end of a period of two years from the time of the start of his work in the Company 25% of the

NOTE 27:—EQUITY (Continued)

quantity of the options will vest. Thereafter he will be entitled to exercise a further 18.75% of the quantity of the options each six months, as from the middle of the third year of his work in the Company and until he becomes entitled to the full amount at the end of the fourth year of his work in the Company. Each tranche, as aforesaid, will be exercisable for a period of two years from the time at which it vested, unless the options or some of them have expired before the end of the exercise period in accordance with the provisions of the grant agreement. This includes a provision that the all of the options that have vested prior to the time at which his employment with the Company ends will expire at the end of a period 90 days from the said time.

In any case in which the options are exercised, the Company's Board of Directors will be entitled to convert his right to shares in the Company in respect of the options that have been exercised (hereinafter—the exercise shares) with a cash grant, and this in such manner that he will receive a monetary grant instead of the exercise shares, in the amount of the value of the exercise shares, in accordance with their price on the Stock Exchange at the time of the exercise (a phantom grant). As of the time of the approval of the financial statements, the Board of Directors has not made a decision in respect of the conversion of the right to shares in the Company into a monetary grant.

The average economic value of the said option warrants (which has been determined in accordance with the binomial model) as of the date of the grant is approximately NIS 3.94 for each option warrant, which was determined on the basis of the following principles: the additional amount payable on exercise, as detailed above, a standard deviation at a rate of 31.34%—32.63%, a risk free interest rate of 5.29%-5.98%, an average lifetime of 4-6 years and a share price at the date of the grant of NIS 21.84.

The exercise price was set at the time of the approval of the transaction with the Company's CEO by the Board of Directors on November 5, 2008. The exercise price, which is significantly higher than the Company's Share price on the Stock Exchange as of the date of the grant (NIS 21.84), was set in negotiations between the Company and the Company's CEO and is NIS 38.5.

In February 2010 the Company's Audit Committee and Board of Directors approved the updating of the terms of employment of the CEO who holds office, and these included, inter alia, the terms of the option warrants that had been granted to him, such that from the times of the vesting of the option warrants that had been allocated to him within the framework of the terms of the original employment agreement were updated, such that a third of the option warrants, which had been allocated to him would vest on December 1, 2010 two years after the start of his period of office, an additional third would vest on December 1, 2011 and an additional third, constituting the balance of the option warrants, on December 1, 2012.

The Company has measured the impact of the change in the terms of the option warrants on their fair value and it has included a cumulative additional expense of NIS 0.2 million in its financial statements, as from the first quarter of 2010 (in respect of all of the option warrants and for all of the vesting periods), which reflects the amount of the additional benefit that the CEO in office received as a result of the said change in the terms.

On October 11, 2010 the Company's Audit Committee and Board of Directors approved the updating of the terms of employment of the Company's CEO such that the exercise period of the options that had stood at two years from the date of the vesting of each tranche of option warrants, was extended, such that the CEO will be entitled to exercise the options as from the vesting time of each tranche and up to the end of a period of five years from the vesting time of that tranche. The value of the benefit deriving from the extension of the vesting period of the option warrants, as aforesaid, amounts to NIS 3.5 million, in accordance with the binomial model.

NOTE 27:—EQUITY (Continued)

On December 23, 2010 the Company's CEO exercised 150,000 option warrants and their balance, as of December 31, 2011 is 914,664 option warrants.

2. *Additional options for employees and office holders*

On October 11, 2010, the Company's Audit Committee and Board of Directors approved a plan for the granting of options in the Company to 59 employees and office holders of the Company and of entities that it controls. This was up to an overall number of 1,530,541 option warrants, which are exercisable into 1,530,541 ordinary shares of NIS 1 par value each in the Company.

The option warrants that will be allocated within the framework of this plan will be granted to a trustee for the employees and office holders, in accordance with section 102 of the Income Tax Ordinance on an income from labor path, and which will be exercisable (in accordance with the cashless method) into shares of the Company, subject to adjustments.

Furthermore, subject to the provisions of the law and/or the agreement, the Company will have a preferential right to purchase any share that derives from the exercise of those options from the offerees to whom options have been allocated in accordance with the said plan.

In accordance with the abovementioned plan, the following options have been allocated:

(a) Up to December 31, 2010, 786,391 options had been allocated. On March 9, 2011 an additional 600,000 options were allocated. Furthermore, at the same time approval was given for bringing forward the exercise date for the first tranche of the options to January 1, 2012.

The option warrants are exercisable for an additional consideration on exercise of approximately NIS 40 for each option warrant, subject to certain adjustments. In accordance with this plan, the option warrants will be exercisable at 3-4 different vesting dates (different vesting dates for different employees) over the length of the period of the employment of the employees and the office holders, at the end of a period of five years from the said vesting date.

The average economic value of the said option warrants (which has been determined in accordance with the binomial model) as of the date of the grant is NIS 27 million. The economic value of these options was determined on the basis of the following principles: the additional amount payable on exercise, as detailed above, a standard deviation at a rate of 38.5%-39.8%, a risk free interest rate of 3.86%-4.37%, an average lifetime of 5.89-8.89 years and a share price at the date of the grant of NIS 42.85.

b) On May 4, 2011 the Options Committee of the Company's Board of Directors approved an allocation of 47,500 non-marketable options in the Company to a trustee for four employees (hereinafter—the offerees).

The option warrants are exercisable for an additional consideration on exercise of approximately NIS 45 for one offeree and NIS 60 for three offerees for each option warrant, subject to certain adjustments. In accordance with this plan, the option warrants will be exercisable at 4 different vesting dates (different vesting dates for different employees) over the length of the period of the employment of the employees and the office holders, at the end of a period of five years from the said vesting date.

The average economic value of the said option warrants (which has been determined in accordance with the binomial model) as of the date of the grant is NIS 1.5 million. The economic value of these options was determined on the basis of the following principles: the additional amount payable on exercise, as detailed above, a standard deviation at a rate of 37.83%-38.8%, a risk free interest rate of 4.82%-5.25%, an average lifetime of 5.66-9 years and a share price at the date of the grant of NIS 60.96.

NOTE 27:—EQUITY (Continued)

(c) On December 19, 2011 the Options Committee of the Company's Board of Directors approved an allocation of 206,650 non-marketable options in the Company to a trustee for six employees (hereinafter—the offerees).

The option warrants are exercisable for an additional consideration on exercise of NIS 65 for each option warrant, subject to certain adjustments. In accordance with this plan, the option warrants will be exercisable at 4 different vesting dates over the length of the period of the employment of the employees and the office holders, at the end of a period of five years from the said vesting date.

The average economic value of the said option warrants (which has been determined in accordance with the binomial model) as of the date of the grant is NIS 3.7 million. The economic value of these options was determined on the basis of the following principles: the additional amount payable on exercise, as detailed above, a standard deviation at a rate of 37.82%-39.42%, a risk free interest rate of 3.81%-4.43%, an average lifetime of 6.01-9.04 years and a share price at the date of the grant of NIS 46.63.

3. *The terms of employment of the Chairman of the Board of Directors*

On March 27 and 28, 2011 the Company's Audit Committee and Board of Directors approved the terms of office of Ms. Stella Handler as the active Chairwoman of the Company's Board of Directors (hereinafter—the Chairwoman of the Board of Directors). On May 3, 2011 the terms of the Chairwoman of the Board of Directors' office were approved by a special general meeting of the Company's shareholders, with effect from May 1, 2011. The employment agreement includes the setting of the Chairwoman of the Board of Directors' monthly salary, her entitlement to social benefits, annual grants in accordance with economic parameters and in accordance with the judgment of the Board of Directors at an amount that may not exceed twice the annual salary and the granting of option warrants, as described below.

The grant of 1,165,066 option warrants, constituting approximately 1.48% of the Company's issued and paid up share capital (hereinafter- the option warrants) which will be granted to a trustee for her, in accordance with section 102 of the Income Tax Ordinance on an income from labor path, and which will be exercisable (in accordance with the cashless method) into shares of the Company, subject to adjustments.

The option warrants can be exercised in consideration for an additional payment on the exercise of approximately NIS 65 per option warrant, subject to certain adjustments. In accordance with this plan the option warrants will be exercisable at four different vesting dates: one year, two years, three years and four years as from the date of the grant. Each tranche, as aforesaid, will be exercisable for a period of three years from the date at which it vested, unless the options or some of them have expired before the end of the exercise period in accordance with the provisions of the grant agreement. This includes a provision that the all of the options that have vested prior to the time at which his employment with the Company ends will expire at the end of a period 90 days from the said date.

The average economic value of the said option warrants (which has been determined in accordance with the binomial model) as of the date of the grant is NIS 32.8 million. The economic value of these options was determined on the basis of the following principles: the additional amount payable on exercise, as detailed above, a standard deviation at a rate of 39.54%-47.16%, a risk free interest rate of 4.46%-5.2%, an average lifetime of 4-7 years and a share price of NIS 63.63.

NOTE 27:—EQUITY (Continued)

G. *Expenses that have been recognized in the financial statements*

The expenses that have been recognized in the Company's financial statements in respect of services that have been received from its employees are presented in the following table:

	For the year ended December 31		
	2011	2010	2009
	NIS millions		
Equity-settled share based payment plans(*)>	22	8	1

(*) Includes expenses in respect of options to related parties in the amounts of NIS 17 million, NIS 8 million and NIS 1 million in the years ended December 31, 2011, 2010 and 2009, respectively.

H. *Movements in the course of the year*

The following table contains the number of options for shares, their weighted average exercise price and modification in the options plan for employees during the course of the current year:

	For the year ended December 31, 2011		For the year ended December 31, 2010		For the year ended December 31, 2009	
	Number of options	Weighted average exercise price (NIS)	Number of options	Weighted average exercise price (NIS)	Number of options	Weighted average exercise price (NIS)
Share options outstanding at the beginning of the year	1,703,056	39.18	1,173,202	38.35	2,362,765	36.77
Share options that were granted during the year(3)	2,006,714	57.31	786,391	40.00	—	—
Share options that were forfeited during the year	(220,197)	40.00	—	—	(288,445)	35.35
Share options that were exercised during the year(1)	(2,000)	31.32	(256,537)	37.85	(901,118)	35.17
Share options outstanding at the end of the year(1)	3,487,573	49.57	1,703,056	39.18	1,173,202	38.35
Share options that are exercisable at the end of the year	710,700	38.82	206,888	38.43	108,538	36.83

(1) The weighted average share price on the date of the exercise of the options that were exercised in the years 2011, 2010 and 2009 is NIS 63.15, NIS 52.84 and NIS 36.95, respectively.

(2) The weighted average remaining contractual life for the share options outstanding as of December 31, 2011 is 5.52 years (2010—5.76 years).

(3) The fair value of the share options that were granted in the course of 2011 is NIS 11.33 (2010—NIS 19).

I. On January 31, 2012 the Company declared a dividend in the amount of NIS 365 million to the Company's shareholders, with the determining date for the dividend being set for February 7, 2012. The dividend per share is NIS 4.699.

As of the reporting date, the dividend the dividend was paid on February 19, 2012.

NOTE 28:—ADDITIONAL INFORMATION ON COMPONENTS OF THE STATEMENT OF INCOME

A. *Revenues*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Cable television	2,299	2,226	2,198
Cellular communications	66	—	—
In Country landline telephony	420	507	474
Broadband internet access services	519	465	410
Transmission services	1,065	1,038	1,005
	4,369	4,236	4,087
Inter-segmental revenues	(995)	(982)	(958)
	3,374	3,254	3,129

B. *Other operating expenses*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Payroll and related expeses	426	437	452
Royalties and other payments to the Israeli government	56	35	45
Programs and other broadcasts	639	662	669
Expenses involved in completing a call	118	218	201
Subscriber, infrastructure and network maintenance	251	237	240
Rent and office maintenance	51	47	48
External service center	15	9	10
Frequencies	2	—	—
Others	63	54	63
	1,621	1,699	1,728

NOTE 28:—ADDITIONAL INFORMATION ON COMPONENTS OF THE STATEMENT OF INCOME (Continued)

C. *Sales, marketing, general and administrative expenses*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Sales and marketing expenses			
Payroll and related expenses	91	78	82
Advertising and sales promotion	96	94	70
Rent and office maintenance	15	15	16
Marketers' commissions	18	5	4
Sales and external retention call center	11	10	8
Others	13	2	3
	244	204	183
General and Administrative expenses			
Payroll and related expenses	71	62	51
Rent and office maintenance	8	9	12
Professional consultancy and legal consulting	18	18	13
Doubtful and bad accounts expenses	4	9	11
Recruiting and placement	12	8	12
Wellbeing	10	9	8
Others	11	14	18
	134	129	125

D. *Financing income (expenses)*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Financing income			
Change in fair value of financial derivatives, net	26	—	—
Refund of commissions from subscribers	3	4	5
Exchange differences, net	—	3	—
Other financing income	2	3	2
	31	10	7
Financing expenses			
Financing expenses on short-term credit	—	9	14
Changes in the fair value of financial derivatives, net	—	20	14
Financing expenses in respect of bank charges and credit card company commissions	77	32	32
Financing expenses on long-term loans	46	109	117
Financing expenses on bonds	75	—	—
Exchange differences, net	6	—	—
Other financing expenses	26	31	25
	230	201	202

NOTE 28:—ADDITIONAL INFORMATION ON COMPONENTS OF THE STATEMENT OF INCOME (Continued)

E. *Other income (expenses)*

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
Updating the liabilities to the government and others	(4)	(13)	18
Updating the provision for contingencies and for the settlement of claims	110	(167)	1
Dividends received	6	25	9
Transaction costs in respect of the purchase of shares in MIRS	(7)	—	—
Others	(2)	1	10
	103	(154)	38

NOTE 29:—NET EARNINGS PER SHARE

Details of the number of shares and the net income used in the calculation of the net earnings per regular share

	For the year ended December 31					
	2011		2010		2009	
	Weighted number of shares	Net income	Weighted number of shares	Net income	Weighted number of shares	Net income
	Millions	NIS in millions	Millions	NIS in millions	Millions	NIS in millions
Number of shares and net income for the purpose of the calculation of the basic net earnings per share	77	341	76	106	76	85
Number of shares and net income for the purpose of the calculation of the diluted net earnings per share	78	341	76	106	76	85

NOTE 30:—OPERATING SEGMENTS

General

The operating segments have been determined based on information that is reviewed by the Chief Operating Decision Maker (''CODM'') for the purpose of making decisions in respect of the allocation of resources and the evaluation of performance. Accordingly, for management purposes, the Group is organized into operating segments, based on the services provided by three principal operating segments, as follows:

In Country fixed-line telecommunications segment — This segment provides the Company, via HOT Telecom, with In Country landline telecommunications services.

Cable television segment — This segment provides the Company and its subsidiary companies with multi-channel cable television broadcasts to subscribers.

Cellular telecommunications segment — This segment provides the Company, via Mirs, with telephony, wireless connection (PPT) and data transfer services.

The accounting policies of the operating segments are identical to that presented in Note 2.

NOTE 30:—OPERATING SEGMENTS (Continued)

The segment results that are reported to the CODM include items that relate directly to the segment and items that can reasonably be attributed to it. Unallocated items, financing costs (including financing income and expenses) and taxes on income are managed on a group basis.

Segmental assets do not include deferred taxes and cash and cash equivalents since those assets are managed on a Group basis.

The segmental liabilities do not include deferred taxes and short-term and long-term credit, including interest payable, since those liabilities are managed on a Group basis.

Capital investments include purchases of property, plant and equipment and intangible assets.

See Note 26B(13) on the subject of the mechanism by which Hot Telecom charges the Company for the use of the cable infrastructure, terminal equipment and the other operational property, plant and equipment that are held by HOT Telecom.

	For the year ended December 31, 2011					
	Cellular communications(**)	In Country fixed-line telecommunications	Cable television	Other	Inter-segmental income(*)	Total Consolidated
	NIS in millions					
External revenues	66	2,004	2,299	—	(995)	3,374
Segment income (loss)	(6)	496	152	(8)	—	634
Unattributed other income, net						6
Operating income						640
Financing expenses, net						(199)
Income before taxes on income						441

(*) Revenues attributed primarily to the In Country landline telecommunications segment.

(**) As from November 28, 2011.

	December 31, 2011				
	Cellular telecommunications segment	In Country landline telecommunications segment	Cable television segment	Other	Total consolidated
	NIS in millions				
Additional Information					
Segmental assets	1,572	3,654	1,254	4	6,484
Assets not allocated to segments					179
Total consolidated assets					6,663
Segment liabilities	290	530	735	—	1,555
Liabilities not allocated to segments					3,177
Total consolidated liabilities					4,732
Capital investments	38	481	99	1	619
Depreciation and amortization	13	656	174	1	844

NOTE 30:—OPERATING SEGMENTS (Continued)

	For the year ended December 31, 2010				
	In Country landline telecommunications segment	Cable television segment	Other	Inter-segmental income	Total consolidated
	NIS millions				
External revenues	2,010	2,226	—	(982)(*)	3,254
Segment income (loss)	438	(171)	(1)	—	266
Other unassigned revenues					25
Operating profit					291
Net financing expenses					(191)
Profit before taxes on income					100

(*) Revenues attributed to the In Country landline telecommunications segment.

	December 31, 2010			
	In Country landline telecommunications segment	Cable television segment	Other	Total consolidated
	NIS in millions			
Additional Information				
Segmental assets	3,837	1,298	3	5,138
Assets not allocated to segments				251
Total consolidated assets				5,389
Segment liabilities	467	792	—	1,259
Liabilities not allocated to segments				2,609
Total consolidated liabilities				3,868
Capital investments	636	74	3	713
Depreciation and amortization	620	162	—	782

	For the year ended December 31, 2009			
	In Country landline telecommunications segment	Cable television segment	Inter-segmental income	Total consolidated
	NIS in millions			
External revenues	1,889	2,198	(958)(*)	3,129
Segment earnings (losses)	275	(10)	—	265
Other unassigned revenues				9
Operating profit				274
Net financing expenses				(195)
Profit before taxes on income				79

(*) Revenues attributed to the In Country landline telecommunications segment.

	As of December 31, 2009			
	In Country landline telecommunications segment	Cable television segment	Other	Total consolidated
	NIS in millions			
Additional Information				
Capital investments	597	83	—	680
Depreciation and amortization	774	90	—	864

NOTE 31:—BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. *Balances with related parties*

	As of December 31	
	2011	2010
	NIS in millions	
Trade receivables	1	1
Trade payables and expenses payable	21	25
	22	26

	For the year ended December 31		
	2011	2010	2009
	NIS in millions		
B. *Salaries and profit participation grants*			
1. *To directors who are not employed by the Company*			
Payments in NIS millions	2	2	2
Number of directors	11	12	12
2. *To related parties who are employed by the Company* (see Note 27F)			
Cost of salaries in NIS millions	8	3	4
Number of recipients	2	1	1
C. *Revenues*	2	3	1
D. *Expenses*			
Purchases and receipt of services from suppliers	72	75	85
Professional services	2	2	3
E. *Financing income*	—	—	—
F. *Financing expenses*	—	—	40
G. *Purchase of property, plant and equipment*	—	—	—
H. *Benefits for key management personnel*			
Short-term benefits	5	12	9
Post-employment benefits	—	—	—
Other long-term benefits	—	—	1
Other benefits in respect of capital instruments	17	4	1

I. *An insignificant transactions*

On August 30, 2010 the Company's Board of Directors decided to adopt guidelines and principles for the classification of a transaction by the Company or by its affiliated company with an interested party as well as transaction by the Company with a controlling interest therein or with a person in whom a controlling interest has a personal interest (hereinafter—a related party transaction) as an insignificant transaction, within the definition of that term in Regulation 41 of the Securities Regulations (Annual financial statements)—2010.

These principles and guidelines are also to be used for the testing of the extent of the disclosure in the periodic report and in a prospectus (including the shelf offer reports) in respect of a transaction with the controlling interest or in which the controlling interest has a personal interest in its approval, as determined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports)—

NOTE 31:—BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (Continued)

1970 (hereinafter—the reporting regulations) and in Regulation 54 of the Securities Regulations (Details in a Prospectus and in a Draft Prospectus—Structure and Form)—1969 as well as for the testing of the need to deliver an immediate report in respect of such a transactions, as determined in Regulation 37(A)(6) of the reporting regulations.

On February 27, 2011 the Company's Board of Directors decided to update the guidelines and principles for the classification of a transaction with an related party as an insignificant transaction.

The Company's Board of Directors determined that in the absence of especial qualitative considerations arising from the range of the circumstances of the case, a transaction with an ralated party will be considered to be an ''insignificant transaction'' if (a) the transactions is executed in the ordinary course of the Company's business, including but not exclusively, co-operations with other telecommunications companies, the purchase of services and equipment; as well as (b) the transaction is at market terms and its terms are customary in the relevant market; and (c) the relevant criterion for the transaction is at a rate of less than 0.2% (on the basis of the parameters that will be detailed below) and also the annual volume of the transaction does not exceed NIS 1 million (which amount is linked to the Consumer Prices Index for the month of January 2011), whether this is one commitment or a series of commitments on the same matter in the course of that year, in every transaction with an related party that is being tested for classification as an ''insignificant transaction''.

In every transaction with an related party that is tested for classification as an insignificant transaction, one or more of the following criteria, which is relevant for the specific transaction, on the basis of the Company's audited consolidated financial statements for the last reporting year: (a) the ratio of the asset being purchased to the total of the assets; (b) the ratio of the monetary liability as compared with the overall amount of the liabilities; (c) the ratio of the income from the transaction as compared with the overall income; (d) the ratio of the expense in the transaction to the overall amount of the operating expenses (less salary expenses and depreciation expenses). Thus for example, a transaction for the purchase of services, will be considered as insignificant if the volume of the expense for the Company in the transaction is less than 0.2% of the overall operating expenses (less salary expenses and depreciation expenses) in accordance with the Company's consolidated financial statements for that reporting year and less than NIS 1 million (which amount is linked to the Consumer Prices Index for the month of January 2011). In relation to multi-annual transactions, the volume of the transaction is to be taken on an annual basis for the purpose of testing for insignificance.

For this purpose—in the event that in a specific transaction the Company does not have all of the rights and the duties in the transaction, the transaction is to be tested in accordance with the Company's relative share in the transaction.

In cases in which, in accordance with the Company's judgment, any of the criteria that are mentioned above is not relevant for the testing of the insignificance of a transaction with an interested party, the transaction shall be considered to be an insignificant transaction, in accordance with another relevant criterion, which shall be determined by the Company alone, and solely that the relevant criteria that is calculated for the transaction shall be at a rate of not more than 0.2% and also the annual volume of the transaction shall be less than NIS 1 million (which amount is linked to the Consumer Prices Index for the month of January 2011).

However, the testing of quantitative consideration for a transaction with an interested party may lead to a contradiction with the assumption that is stipulated above on the subject of the insignificance of the transaction. Thus for example and solely for illustrative purposes, a transaction with an interested party will not generally be considered to be an insignificant transaction, if it is perceived as significant by the Company's management and serves as the basis for managerial decision making, or if within the framework of the transaction the interested party is expected to receive benefits which it is important that a report thereon be furnished to the public.

NOTE 32:—MATERIAL EVENTS POST BALANCE SHEET DATE EVENTS

A. On January 31, 2012 HOT Haifa entered into a commitment with K.D. Kahiri Assets and Investments Ltd. (hereinafter—the Seller) under an agreement for the purchase of the building in Beersheba that Group Companies leased from the seller, including all of the seller's rights and/or commitments in respect of the land and all that is built thereon, for an overall consideration of NIS 36.3 million (with the addition of VAT).

B. See Note 1A(4)(b)(1) on the subject of the approval of the Finance Committee of the Knesset for the second and third readings of the draft Distribution of broadcasts via digital broadcasting stations Law in January 2012.

C. See Note 1A(5)(b)(2) on the subject of the publication of the Communications Regulations (Telecommunications and Broadcasts) (Consultative committee) (Temporary directive, 2011).

D. See Note 1A(7) on the subject of the starting of the provision of ISP services to private subscribers by HOT Net on February 15, 2012.

E. See Note 1(A)8 on the subject of a letter that was received by the Company from the Ministry of Communications on the subject of packages of services on February 14, 2012, and on the subject of an approach from the Ministry of Communications on the subject of a breach of a duty of structural separation.

F. See Note 1A(9) on the subject of an approach made by Mirs to the Ministry of Communications applying for a general license for the provision of international telecommunications services.

G. See Note 26B(1)(a) on the subject of an amendment to the Telecommunications Regulations (Concessions) on the matter of the royalties rate paid by cable broadcast license holders.

H. See Note 26B(1)(b) on the subject of a draft amendment to the Communications Regulations (Telecommunications and Services) (Royalties—2001), which was presented to the Finance Committee of the Knesset for approval.

I. See Note 26B(2)(b) on the subject of a draft Copyright and Performers Law (Judicial authority concerning royalties)—2012.

J. See Note 27I on the subject of the distribution of a dividend that was approved by the Company's Board of Directors on January 31, 2012.

HOT—Telecommunication Systems Ltd.

Appendix to the Consolidated Financial Statements

List of Principal Investee Companies
December 31, 2011

Name of the Company	Ownership and holding rate	
HOT Cable Telecommunication Systems Haifa—Hadera Ltd.	100%	Consolidated
HOT Net Internet Services Ltd. (formerly HOT Investments and Finance Ltd.)	100%	Consolidated
HOT Properties Ltd.	100%	Consolidated
HOT Vision Ltd.	100%	Consolidated
Non-Stop Ventures Ltd.	50%	affiliated
HOT Telecom Limited Partnership	100%	Consolidated
Drom Hasharon Telecommunications (1990) Ltd.	100%	Consolidated
Isracable Ltd.	100%	Consolidated
HOT T.L.M. Subscriber Television Ltd.	100%	Consolidated
HOT Edom Ltd.	100%	Consolidated
HOT Idan Cable Systems (Holdings) 1987 Ltd.	100%	Consolidated
HOT Idan Cable Systems Israel Ltd.	100%	Consolidated
HOT Gold & Co.	100%	Consolidated
HOT Net Limited Partnership	100%	Consolidated
MIRS Communications Ltd	100%	Consolidated

COOL HOLDING LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2012

NIS IN MILLIONS

UNAUDITED

INDEX

	Page
Consolidated Balance Sheets	F-157–F-158
Consolidated Statements of Comprehensive Income	F-159–F-160
Consolidated Statements of Changes in Equity	F-161–F-165
Consolidated Statements of Cash Flows	F-166–F-169
Notes to Interim Consolidated Financial Statements	F-170–F-184

COOL HOLDING LTD.
CONSOLIDATED BALANCE SHEETS

	September 30, 2012	September 30, 2011	December 31, 2011
	Unaudited	Unaudited	Audited
	NIS in millions		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	7	122	17
Restricted cash	65	—	203
Trade receivables	487	170	361
Other receivables	66	57	79
Inventory	30	—	24
	655	349	684
NON-CURRENT ASSETS:			
Long-term trade receivables	90	—	85
Investment in available for sale financial asset	27	45	42
Loan granted to related party	—	530	—
Other long-term receivables	117	107	103
Fixed assets, net	4,365	3,299	4,014
Intangible assets, net	1,772	1,589	1,918
Goodwill	2,560	2,957	3,164
Deferred taxes	63	70	81
	8,994	8,597	9,407
	9,649	8,946	10,091

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.
CONSOLIDATED BALANCE SHEETS (Continued)

	September 30, 2012	September 30, 2011	December 31, 2011
	Unaudited	Unaudited	Audited
	NIS in millions		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from financial institutions and current maturities of debentures	448	330	778
Trade payables	1,137	555	816
Other payables	478	766	338
Provision for legal claims	123	337	187
	2,186	1,988	2,119
NON-CURRENT LIABILITIES:			
Loans from financial institutions and debentures	3,509	2,482	2,872
Subordinated loan from controlling shareholders	1,202	1,131	1,096
Other long-term liabilities	379	297	553
Advanced received for installation fees	55	38	42
Employee benefit liability, net	28	22	23
Deferred taxes	602	338	600
	5,775	4,308	5,186
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	6	6	6
Capital reserve from transaction with a controlling shareholders	453	297	452
Capital reserve from available for sale financial assets	3	—	—
Capital reserve from transaction with non-controlling interests	72	—	—
Retained earnings (Accumulated loss)	(45)	618	576
	489	921	1,034
Non-controlling interests	1,199	1,729	1,752
Total equity	1,688	2,650	2,786
	9,649	8,946	10,091

November 11, 2012		
Date of approval of the financial statements	Jeremie Bonnin Director	Laurent Godineau Director

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Revenues	3,126	1,660	1,067	836	2,552
Depreciation and amortization	881	433	323	225	671
Operating expenses	1,651	789	601	402	1,226
Selling and marketing expenses	238	117	75	64	194
General and administrative expenses	133	75	46	36	122
Other expenses (income), net and network establishments costs (see Note 2c and Note5j)	596	15	582	20	(113)
Operating income (loss)	(373)	231	(560)	89	452
Finance income	25	43	4	40	52
Finance expenses	(449)	(314)	(149)	(152)	(438)
Gain from obtaining control over subsidiary	—	662	—	—	662
Group share of earnings of an associate	—	58(*)	—	—	58(**)
Income (loss) before taxes on income	(797)	680	(705)	(23)	786
Taxes on income (Tax benefit)	14	30	(1)	14	166
Net income (loss)	(811)	650	(704)	(37)	620

(*) Includes an amount of approximately NIS 20 million on behalf of profit which was provided after achieving initial control.

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Continued)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Other comprehensive loss (net of tax effect):					
Change in fair value of available for sale financial asset, net	5	1	5	14	1
Total other comprehensive income	5	1	5	14	1
Total comprehensive income (loss)	(806)	651	(699)	(23)	621
Net income (loss) attributable to:					
Equity holders of the Company	(621)	619	(509)	(40)	577
Non-controlling interests	(190)	31	(195)	3	43
	(811)	650	(704)	(37)	620
Total comprehensive income (loss) attributable to:					
Equity holders of the Company	(618)	620	(506)	(31)	578
Non-controlling interests	(188)	31	(193)	8	43
	(806)	651	(699)	(23)	621

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Capital reserve from transaction with controlling shareholder	Reserve from available-for-sale financial assets	Capital reserve from transaction with non-controlling interest	Retained earnings (Accumulated losses)	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions							
Nine months ended September 30, 2012:								
Balance at January 1, 2012 (audited)	6	452	—	—	576	1,034	1,752	2,786
Loss	—	—	—	—	(621)	(621)	(190)	(811)
Other comprehensive income, net of tax	—	—	3	—	—	3	2	5
Total comprehensive income (loss)	—	—	3	—	(621)	(618)	(188)	(806)
Share-based payment in a subsidiary company	—	—	—	—	—	—	20	20
Dividend to non-controlling interests	—	—	—	—	—	—	(129)	(129)
Equity contribution on transaction with controlling shareholder	—	1	—	—	—	1	—	1
Acquisition of non-controlling interests	—	—	—	72	—	72	(256)	(184)
Balance at September 30, 2012	6	453	3	72	(45)	489	1,199	1,688

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company						
	Share capital	Capital reserve from transaction with controlling shareholder	Reserve from available-for-sale financial assets	Retained earnings (Accumulated losses)	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions						
Nine months ended September 30, 2011:							
Balance at January 1, 2011 (audited)	6	297	(1)	(1)	301	—	301
Net income	—	—	—	619	619	31	650
Other comprehensive income, net of tax	—	—	1	—	1	—	1
Total comprehensive income	—	—	1	619	620	31	651
Share-based payment in a subsidiary company	—	—	—	—	—	22	22
Recognition of non-controlling interests in initially consolidated company	—	—	—	—	—	1,676	1,676
Balance at September 30, 2011	6	297	—	618	921	1,729	2,650

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company							
	Share capital	Capital reserve from transaction with controlling shareholder	Reserve from available-for-sale financial assets	Capital reserve from transaction with non-controlling interest	Retained earnings (Accumulated losses)	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions							
Three months ended September 30, 2012:								
Balance at July 1, 2012	6	452	—	72	464	994	1,384	2,378
Loss	—	—	—	—	(509)	(509)	(195)	(704)
Other comprehensive income, net of tax	—	—	3	—	—	3	2	5
Total comprehensive income (loss)	—	—	3	—	(509)	(506)	(193)	(699)
Share-based payment in a subsidiary company	—	—	—	—	—	—	8	8
Equity contribution on transaction with controlling shareholder	—	1	—	—	—	1	—	1
Balance at September 30, 2012	6	453	3	72	(45)	489	1,199	1,688

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company						
	Share capital	Capital reserve from transaction with controlling shareholder	Reserve from available-for-sale financial assets	Retained earnings (Accumulated losses)	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions						
Three months ended September 30, 2011:							
Balance at July 1, 2011 (unaudited)	6	297	(9)	658	952	1,711	2,663
Net income (loss)	—	—	—	(40)	(40)	3	(37)
Other comprehensive loss, net of tax	—	—	9	—	9	5	14
Total comprehensive income (loss)	—	—	9	(40)	(31)	8	(23)
Share-based payment in a subsidiary company	—	—	—	—	—	10	10
Balance at September 30, 2011	6	297	—	618	921	1,729	2,650

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company						
	Share capital	Capital reserve from transaction with controlling shareholder	Reserve from available-for-sale financial assets	Retained earnings (Accumulated losses)	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions						
Balance at January 1, 2011	6	297	(1)	(1)	301	—	301
Net income	—	—	—	577	577	43	620
Other comprehensive income, net of tax	—	—	1	—	1	—	1
Total comprehensive income	—	—	1	577	578	43	621
Share-based payment in a subsidiary company	—	—	—	—	—	33	33
Non-controlling interests in initially consolidated company	—	—	—	—	—	1,676	1,676
Equity contribution on transaction with controlling shareholder	—	155	—	—	155	—	155
Balance at December 31, 2011	6	452	—	576	1,034	1,752	2,786

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Cash flows from operating activities:					
Net income (loss)	(811)	650	(704)	(37)	620
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	881	433	323	225	671
Impairment of goodwill	604	—	604	—	—
Gain from fixed assets disposal	(1)	—	(1)	—	—
Gain from obtaining control in consolidated company	—	(662)	—	—	(662)
Deferred taxes, net	18	32	(3)	21	163
Impairment of available for sale financial assets	22	28	22	28	32
Revaluation liability to the government and other long term liability	15	37	—	2	16
Linkage differences on behalf of other long term liabilities	39	7	18	30	15
Interest on loan from controlling shareholder	116	105	41	41	135
Group share of earnings of an associate	—	(58)*	—	—	(58)*
Share based payment	20	22	8	10	33
Employee benefit liability, net	5	1	2	1	2
	1,719	(55)	1,014	358	347
Changes in asset and liability items:					
Increase in trade receivables	(126)	(3)	(49)	(4)	(8)
Decrease (Increase) in other accounts receivable and other long-term receivables	(9)	(26)	17	(14)	(25)
Decrease (increase) in inventory	(6)	—	5	—	1
Decrease (increase) in long term trade receivables	(5)	—	1	—	(6)
Increase in cost of subscriber acquisition costs and fees paid to subcontractors	(76)	(14)	(29)	(4)	(15)
Increase in trade payables	114	25	79	5	51
Increase (decrease) in other accounts payables and other long term payables	(45)	33	(47)	11	54
Increase (decrease) in provision for legal claims	(64)	20	(55)	19	(130)
Increase in advances received for installation fees and deposits for converter, net	13	—	10	1	3
	(204)	35	(68)	14	(75)
Net cash provided by operating activities	704	630	242	335	892

* Includes an amount of approximately NIS 20 million on behalf of profit which was provided after achieving initial control.

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
		Unaudited			Audited
			NIS in millions		
Cash flows from investing activities:					
Purchase of fixed and intangible assets	(752)	(222)	(175)	(88)	(394)
Proceeds from sale of fixed assets	2	—		—	—
Loan granted to related party, net	—	(530)	—	(288)	—
Repayment (investment) in restricted cash	138	37	—	—	(166)
Acquisition of newly consolidated companies (a), (b)	—	(333)	—	—	(813)
Net cash used in investing activities	(612)	(1,048)	(175)	(376)	(1,373)
Cash flows from financing activities:					
Repayment of long-term loans from financial institutions	(195)	(355)	(131)	—	(968)
Receipt of long-term loans from financial institutions	950	1,244	250	294	2,097
Short-term bank credit, net	(480)	(320)	(200)	(125)	(51)
Repayment of liability to the government and others	(57)	(29)	(19)	(12)	(44)
Receiving of loan from controlling shareholders	—	7	—	4	90
Repayment of loan from controlling shareholders	(9)	(7)	(9)	—	(8)
Decrease in long term liabilities	2	—	1	—	3
Dividend payment to non-controlling interests	(129)	—	—	—	—
Transaction with non-controlling interests	(184)	—	—	—	—
Repayment of contingent consideration	—	—	—	—	(621)
Net cash provided by (used in) financing activities	(102)	540	(108)	161	498
Increase (decrease) in cash and cash equivalents	(10)	122	(41)	120	17
Cash and cash equivalents at beginning of period	17	—	48	2	—
Cash and cash equivalents at end of period	7	122	7	122	17

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(a) *Acquisition of newly consolidated company:*

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Working capital (excluding cash and cash equivalents)	—	1,139	—	—	1,139
Long-term liabilities	—	2,158	—	—	2,158
Property, plant and equipment	—	(3,383)	—	—	(3,383)
Intangible assets	—	(1,688)	—	—	(1,688)
Goodwill	—	(2,957)	—	—	(2,957)
Other long-term property, plant and equipment	—	(184)	—	—	(184)
Deferred tax, net	—	244	—	—	244
Gain from obtaining control in a newly consolidated company	—	662	—	—	662
Investment in investee, prior to the acquisition	—	1,379	—	—	1,379
Contingent consideration for shares in consolidated company, short and long term	—	621	—	—	621
Non-controlling interests	—	1,676	—	—	1,676
	—	(333)	—	—	(333)

(b) *Acquisition of newly consolidated company by a subsidiary:*

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Working capital (excluding cash and cash equivalents)	—	—	—	—	316
Long-term liabilities	—	—	—	—	403
Property, plant and equipment	—	—	—	—	(640)
Intangible assets	—	—	—	—	(389)
Goodwill	—	—	—	—	(207)
Other long-term property, plant and equipment	—	—	—	—	(83)
Deferred tax, net	—	—	—	—	120
	—	—	—	—	(480)

(c) *Material non-cash activities:*

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Acquisition of fixed assets on deferred terms	448	153	448	153	241
Acquisition of fixed assets under finance leasing	49	15	49	15	34

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(d) *Cash paid during the period for:*

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Interest paid	118	85	17	11	143

(e) *Cash received during the period for:*

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Interest received	11	1	4	—	6
Dividends received	236	3	—	—	6

The accompanying notes are an integral part of the interim consolidated financial statements.

COOL HOLDING LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:—GENERAL

These financial statements have been prepared in a condensed format as of September 30, 2012 and for the nine and three months periods then ended (''interim consolidated financial statements''). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2011 and for the year then ended (''annual financial statements'').

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim consolidated financial statements

a. The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, ''Interim Financial Reporting''.

   The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.

b. As mentioned in Note 3 of the consolidated annual financial statements, HOT MOBILE Communications Ltd. (hereinafter—HOT MOBILE) was consolidated commencing November 28, 2011. Accordingly, the statement of comprehensive income for the nine and three months ended on September 30, 2012 includes HOT MOBILE results for the same periods, while the comparative figures do not include HOT MOBILE results (except for the period from November 28, 2011 till December 31, 2011 which was included in the annual financial statement of the company). In addition, the balance sheet as of September 30, 2012 and December 31, 2011 includes the consolidation of HOT MOBILE while the comparative figures as of September 30, 2011 do not include HOT MOBILE'S balances.

c. *Network establishment costs*

   Costs relating to the advanced cellular services on a 3.9 Generation GSM network, which was launched by Hot Mobile in May 2012, which include other operating costs, administrative and general expenses and selling and marketing expenses, for the period of nine months ending on September 30, 2012 and for the period of November 28, 2011 until December 31, 2011, costs relating to the setting up of the network in the amounts of approximately NIS 11 million, and NIS 1 million, respectively have been recorded under other expenses.

NOTE 3:—CONTINGENT LIABILITIES

During the routine course of business, legal claims have been filed against HOT Group companies and various legal proceedings are outstanding against it (hereinafter—''The legal claims'').

In the opinion of HOT Group management, based, inter alia, on legal opinions in respect of the chances of the legal claims, a fair provision of NIS 123 million has been recorded in the financial statements as of September 30, 2012, in cases where provisions are required, in order to cover the exposure as the result of the legal claims.

In the opinion of Hot Group managements, the amount of the additional exposure, in an amount of approximately NIS 7.4 billion (an amount of NIS 2.9 billion in respect of claims that were filed after the balance sheet date) (over and above the provisions that have been recorded in these financial statements), as of September 30, 2012 as a result of legal claims that have been filed against Hot Group on various matters, is as follows:

a. An amount of approximately NIS 1.8 billion in respect of claims, in respect of which in the assessment of the management of Hot Group companies, 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 3.7 billion (an amount of NIS 2.9 billion in respect of claims that were filed after the balance sheet date) in respect of claims, in respect of which it is not yet possible

NOTE 3:—CONTINGENT LIABILITIES (Continued)

to make an assessment, the main ones being in connection with the approval of class actions that were presented close to the date of the financial statements.

c. An amount of approximately NIS 1.9 billion in respect of claims which, in the assessment of the Hot's management, in reliance upon the opinions of its legal advisors, their chances of being accepted exceed 50%.

The following is an abbreviated summary of Hot Group's contingent liabilities effective as of September 30, 2012 in accordance with groupings having similar characteristics:

a. *Claims by customers*

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by customers amounts to approximately NIS 6.6 billion. Of the said claims an amount of NIS 2.9 billion relates to claims which it is not possible to assess at this stage and which relate primarily to applications for the approval of class actions, which were presented after the balance sheet date.

In the opinion of the management of Hot Group companies, based, inter alia on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 12.2 million (which in the periods of nine months and three months ended September 30, 2012, includes increases in the net liability by the amounts of NIS 5.4 million and NIS 1.4 million respectively), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of those claims.

b. *Claims in connection with copyright*

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims in connection with allegations of breach of copyright and the payment of appropriate royalties by Hot Group, amounts to NIS 121 million. In the opinion of the management of the companies in Hot Group, based, inter alia on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 88.65 million (which in the periods of nine months and three months ended September 30, 2012, includes increases in the net liability by an amount of NIS 1.3 million and NIS 0.5 million, respectively), where provisions are required to cover the exposure as the result of the claims.

The amount of the provision includes an amount of NIS 63 million in respect of compromise agreements with a number of copyright organizations.

c. *Claims by suppliers and communications providers*

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by suppliers and communications providers amounts to NIS 710 million. In the opinion of the management of the companies in Hot Group, based, inter alia on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 9.6 million (which in the periods of nine months ended September 30, 2012 includes an increase in the net liability by an amount of NIS 7.3 million), where provisions are required to cover the exposure as the result of the claims.

d. *Claims by employees*

As of September 30, 2012, the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by employees amounts to NIS 4 million, and it relates primarily to individual claims. In the opinion of the managements of the companies in Hot Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements, where provisions are required to cover the exposure as the result of the claims.

NOTE 4:—LEGISLATIVE AND REGULATORY DEVELOPMENTS

a. Hot Group is subject to a broad range of legislation, which organizes the activity in the communications market in Israel, including the Communication Law (Telecommunications and Broadcasting)—1982, (hereinafter—''The Communication Law'') and the regulations and directives promulgated thereunder, the provisions of the broadcasting license and the Fixed-line Operator license.

The following are the main developments accrued in the regulatory field compared to the annual consolidated financial statements. These developments have been published in the relevant official gazettes:

1. On March 21, 2012 the Knesset passed an Amendment to the Communication Law in respect of the placing of a prohibition on a license holder from making a connection between the commitment of a subscriber to receive mobile telephone services and the commitment by that same subscriber to rent, borrow or lease terminal equipment. The Amendment will apply as from January 1, 2013. The Minister of Communications has been given the possibility of deferring that time by six months. In addition, the Knesset passed an Amendment to the Communications Law in respect of the placing of a prohibition on the collection of an exit fee as from November 1, 2011 and thereafter, on the cancellation of an agreement as from the time of the entry into force of the amendment to the law.
2. On May 2, 2012 the Ministry of Communications approved a final policy document based on the recommendations of the Hayek Committee, relating to the creation of a wholesale market in the landline market.
3. On May 3, 2012 the Ministry of Communications and the Committee for the Selection of an Investor for a Communications Company announced its decision to make changes in the course of the selection, which would significantly improve the feasibility of a communications venture of the Electricity Corporation.
4. On June 26, 2012, the Ministry of Communications published a hearing on the subject of Gigabit Ethernet Connections (GBE) to ISP suppliers.
5. On July 3, 2012, the Ministry of Communications announced the amendment of the licenses held by Bezeq and its subsidiary companies, in such manner that will enable them to market joint bundles of services to the business sector as well.
6. On July 10, 2012, the Finance Committee approved the amendment to the Communications Regulations (Telecommunications and Broadcasting) (Royalties) (Temporary Provisions)—2012, and the wording of the amendment was published in the Official Gazette on August 1, 2012.
7. In July 2012, the Supreme Court gave instructions for the extension for a limited period of the temporary order that prohibits the setting up of wireless access facilities with an exemption from a building permit, in relation to HOT Mobile and Golan Telecom until January 31, 2013. An additional hearing has been set in the Case. On July 17, 2012, the Interior and Environmental Committee of the Knesset approved the Un-ionized Radiation Bill (Amendment No. 3) (Safety and the maximum level for a source of radiation in radio frequencies) for its first reading. The bill contains significant restrictions that relate to the placement and operation of wireless access instillations.
8. On July 24, 2012, the Knesset approved an amendment to the Telecommunications Law, on the subject of financial penalties, which was published in the Official Gazette on August 5, 2012.
9. On September 27, 2102 the Council for Cable TV and Satellite Broadcasting announced that it had decided to require the cable and satellite companies to offer subscribers a reduced package of channels (''the narrow package''), and that this is in obligation to their duty to offer a basic package of channels. Hot will be given time until December 1, 2012 to get organized for this decision.

NOTE 4:—LEGISLATIVE AND REGULATORY DEVELOPMENTS (Continued)

10. On September 11, 2012, the Ministry of Communications announced that the blocking or restriction of the use of terminal equipment as ''a hot spot'' that distributes radio signals (Wifi) in a manner that enables additional nearby equipment to use the subscriber's cellular internet is a contravention of the law and that it is to be discontinued and avoided.

Hot is studying the said developments. In Hot's assessment, some of the regulatory restrictions and the developments in the field may cause changes in the patterns of consumption of Hot Group's subscribers, to a significant reduction in Hot's income and as a result of this a significant negative impact may arise on the Group's business and on its business results in the future. Hot's management assesses that as of the time of the report, no significant worsening has occurred Hot's business and its current business results.

b. In accordance with the Un-ionized Radiation Law—2006 (hereinafter—''The Radiation Law''), the Supervisor of Radiation has authority to direct the cessation and/or the removal of a source of radiation that is operated other than in accordance with the provisions of the Law. In addition, the construction or the operation of a source of radiation other than in accordance with the provisions of the Law constitutes an offense that could lead to fines and other punishments in accordance with what is set forth in the Law. All of HOT Mobile's sites on the UMTS network were constructed in accordance with construction permits from the Ministry of the Environment, as is required under the Radiation Law, which were granted in November 2011 and are in force for one year. As from the time of the receipt of the construction permit the holder of the permit is authorized to operate the sites that are the subject of the operating permit for a period of three months, following which it must receive an operating permit. As from May 2012, Hot has begun the construction of sites in accordance with the construction permits that it has received.

During the course of August 2012, HOT Mobile presented applications to the Ministry of the Environment for the receipt of permits for the operation of sites, in accordance with the Radiation Law.

In continuation, and in accordance with HOT Mobile's request, in November 2012 Hot had begun to receive site operation permits. A requirement has been set in the permits for connection to the Ministry of the Environment's monitoring system by February 5, 2013.

NOTE 5:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD

a) On May 21, 2012, Mirs Communications Ltd., the Registrar of companies approved the changing of Mirs Communications Ltd.'s name to ''Hot Mobile Ltd.'' (hereinafter—''Hot Mobile''). In continuation of the purchase of Hot Mobile on November 28, 2011, on May 14, 2012 the Group launched advanced cellular services on a 3.9 Generation GSM network. In parallel, the company Golan Telecom Ltd. launched its UMTS network. In March 12, 2012, the Ministry of Communications determined that the prefix 053 would be allocated for use by Hot Mobile. The vacation of the prefix 057 will be done gradually.

b) On May 30, 2012, ''Mirs International Communications Ltd.'' received a general license for the provision of international communications services. In August 2012 Mirs International Communications Ltd.'s name was changes to ''Hot Mobile International Communications Ltd''.

c) On June 28, 2012 the Hot's Board of Directors approved a program for the buy-back (by Hot or by its wholly owned subsidiary company) of debentures (Series A) and debentures (Series B) of Hot, which are traded on Tel-Aviv Stock Exchange. As of the date of the approval of the financial statement, the Company has not re-purchased any debentures.

d) In continuation of what is stated in Note 1g(1)(b)(6) to the Consolidated Annual Financial Statements, in connection with the Council's decision on the matter of the manner of the collection of payments from Hot's customers, Hot has began to gradually transfer the subscription charge from a payment for services in respect of the current month to a payment for services in respect of

NOTE 5:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

the previous month. In accordance with the Council's decision, Hot is required to complete the transition of the charge for all of the subscribers by December 31, 2012.

e) For details regarding Hot dividend distribution see note 7e.

f) On May 31, 2012 HOT published a private purchase offer for the purchase of 4,842,105 ordinary shares of par value NIS 1, which constitute 6.23% of HOT's issued and paid-up capital and of its voting rights (5.95% of the capital at full dilution), which are held by HOT shareholders, at a price of NIS 38 per share. The final amount of the consideration for the purchase of the shares amounted to NIS 184 million. HOT completed the purchase of the shares on June 19, 2012.

Therefore, the company now holds 68.86% of HOT shares and as a result the company recorded an amount of NIS 72 million as a reserve transaction with non-controlling interests.

g) On August 26, 2012 Hot announced that it had received an approach from the Company, the controlling shareholder in Hot, within the framework of which the Company would like to acquire all of current outstanding shares of Hot which are not held by the Company, and which would be performed by way of the triangle reverse statutory merger (hereinafter—''the transaction'').

On September 28, 2012 Hot entered into a merger agreement with companies which are owned by her controlling shareholder. Within the framework of the merger, all of Hot's shares will be acquired (except for shares which are held by the controlling shareholder and shares of Hot which are held by Hot (treasury shares)), constituting approximately 31% of Hot's issued and outstanding share capital, such that following the merger the controlling shareholder, will hold, directly and indirectly, 100% of Hot's issued share capital. Hot's shares will be delisted from trading on Tel-Aviv Stock Exchange and it will become a private company under the Companies Law—1999, but will continue being a ''reporting company'' under the Securities Law—1968. The consideration in the merger that was set in the merger agreement was NIS 38 per share (see below in respect of the updating of the price per share).

The Completion of the merger transaction is subject to various conditions, which include, inter alia: (1) the receipt of the approval of a general meeting of Hot's shareholders with the majority that is required under the Companies Law. The general meeting of Hot is scheduled for November 25, 2012, (2) The receipt of approval from the Ministry of Communications and the Cable Broadcasting Council, (3) The receipt of all third party consents which are required in connection with the completion of the merger, including the agreement of the financial institutions which granted financing available to Hot. After the balance sheet date the Company and Hot received the consents of the relevant financial intuitions for the execution of the transaction in accordance with the terms that were set with them. In addition the Company signed an agreement with its lender, in which it agreed to repay the Company's loans subject to the completion of the transaction. In accordance with the agreement, in case of the prepayment of the Company's loans, the Company will pay the principal amount of the loans (linked in accordance with the loans terms), the interests accrued upon of the completion, the sum of NIS 55 million and additional amount on behalf of loan costs.

On November 11, 2012, the Ministry of Communications announced the granting of approval for HOT Telecom in connection with the transfer of means of control in Hot and through it in HOT Telecom, within the framework of the transaction, as defined above, subject to the conditions that were detailed in the approval.

The completion of the merger (closing) will take place shortly after all of the conditions for the merger, which are required to be met prior to the time of the closing, shall have been met. In case of non completion of the agreement after 180 days following signing, the agreement can be cancelled by any of the parties, subject to the conditions that were stipulated therein.

On November 1, 2012 an approach was received from the controlling shareholder in Hot in respect of the updating of the consideration per share that was set forth in the merger agreement, such that the consideration will be NIS 41 per share instead of NIS 38 per share, as aforesaid.

NOTE 5:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

On November 5, 2012 the Company entered into separate agreements with two shareholders of Hot (Yedioth Communications Ltd. (''Yedioth) and companies from the Fishman Group (collectively, ''Fishman'' and, together with Yedioth, the ''interested shareholders'')), pursuant to which the Company agreed to acquire from each of the interested shareholders its full holdings in Hot in consideration for a payment of NIS 41 per share, which is identical to the share price in the merger transaction described above. The purchase of the shares from the interested shareholders will be consummated at such time as the Company determines, but not later than on April 30, 2013.

Each interested shareholder will waive the obligation of the Company towards such interested shareholder (under an agreement between the Company and such interested party dated October 2010 (hereinafter—the ''original agreement'')), not to , until the earlier of (1) the date on which Yedioth or Fishman will hold less than 2.5% of the Hot shares and or (2) the date that is three years from the date of the Company's acquisition of Hot shares from the interested shareholders in 2011, take any action which will cause Hot to became a private company or cause its shares to be delisted from the Tel Aviv Stock Exchange, without receiving the consent of each interested shareholder (hereinafter- ''the obligation'').

As consideration for the waiver of the obligation, the Company agreed to grant each interested shareholder the right to purchase from the Company, at a price per share equal to NIS 48, or NIS 41 if the merger is not completed and Hot remains a public company (hereinafter- ''the call consideration''), during the 24-month period commencing on the first anniversary of the date of the acquisition by the Company of the Hot shares from each interested party, the acquired shares, all or partially (hereinafter- ''the call option'').

The agreements also include certain rights that will be available to the interested shareholders as well as certain drag along and tag along rights of the Company and the interested shareholders, respectively.

The Company is examining the above agreements impact on its future financial statements.

h) On August 23, 2012 the Company entered into a bridge facilities agreement (hereinafter- ''the agreement'') as the guarantor, together with Altice Finco S.A. (hereinafter- ''Holdco'') and Altice Financing S.A. (hereinafter- ''the borrower''), both are direct or indirect subsidiaries of the parent company of the Company, with certain financial institutions.

The agreements include availability of provides for three credit facilities which in accordance in an aggregate amount of the three facilities together is the lesser of approximately USD 562.4 million or the USD equivalent of NIS 2,150 million as of the date of the utilization request for each facility (calculated using the spot rate).

All facilities, if any are drawn, shall be repaid in full on the termination date which is the earlier of: (1) the date that is 12 months following the first utilization date of facilities; or (2) December 31, 2013.

The agreement also includes customary provisions relating to mandatory and voluntarily prepayment.

The Company is a guarantor to the Borrower obligations under the agreement, and is thus guaranteeing the performance of each obligor thereunder (the borrower and guarantor), its obligation as a guarantor is, inter alia, to undertake any amount which was due and unpaid, and shall only apply after the first utilization of any of the facilities. It was also determined that the obligations of the guarantor will not exceed: (1) the aggregate amount of the outstanding intercompany loans to the Company or its subsidiaries by an obligor which have been funded directly by the facilities as part of the agreement; increased by (2) the greater of: (a) 90% of the Company's own funds and subordinated debt as of the date of execution of the above agreement, or (b) 90% of the Company's own funds and subordinated debt as at the date on which a demand is made under the above agreement, or (c) 90% of the net assets of the Company calculated on the basis of the fair market value of the assets and liabilities of the Company as at the date of the

NOTE 5:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

execution of the above agreement, or (d) 90% of the net assets of the Company calculated on the basis of the fair market value of the assets and liabilities of the Company as at the date on which a demand is made under the above agreement.

The agreement contains customary representations covenants and undertakings, including certain financial covenants both for the Borrower and the Company, on consolidated basis.

As of the date of the approval of the financial statements, the Company did not utilize any of the credit facilities under the bridge facilities agreement.

i) Following Note 13 to the annual financial statements of the Company and section g above in connection with the special general meeting invitation of HOT to approve the transaction, and due to the external valuation (hereinafter- ''HOTs' valuation'') that HOT received for the purpose of examining the fairness and reasonable of the tender offer of HOT shares from its shareholders, excluding the Company, the Company tested the different cash generating units for impairment.

The Company has determined the value in use of each cash generating unit, with the assistance of an external appraiser, and as a result of this valuation the Company concluded that the recoverable amount of the in-country fixed line communication segment is lower than its carrying amount and accordingly recorded in the reporting period an impairment of approximately NIS 604 million which was recorded as part of section ''other expenses'' (NIS 418 million is allocated to equity holders of the Company). For the other two cash generating units no impairment was recorded.

The following are the main assumptions that were used in the measurement of the recoverable amounts as of September 30, 2012:

In Country fixed-line telecommunications

The recoverable amount of the In Country fixed-line telecommunications segment was determined based on the value in use, which was calculated in accordance with the estimated future cash flows, which are expected from the cash generating unit, which were determined in accordance with the plans for the next five years, as of September 30, 2012. The weighted cost of capital (WACC) was 10%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 1.5%.

Cable television

The recoverable amount of the cable television cash generating unit was determined based on the value in use, which was calculated in accordance with the estimated future cash flows, which are expected for the segment, which were determined in accordance with the plans for the next five years, as of September 30, 2012. The weighted cost of capital (WACC) was 10%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 1%.

Cellular communication

The recoverable amount of the cellular communication cash generating unit was determined based on the value in use, which was calculated in accordance with the estimated future cash flows, which are expected for the segment, which were determined in accordance with the plans for the next five years, as of September 30, 2012. The weighted cost of capital (WACC) was 11%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 2%.

NOTE 5:—SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD (Continued)

The key assumptions that were used in the calculation of the value in use in each cash generating unit

The calculation of the value in use, for the In Country fixed-line telecommunications, the cable television and the cellular communication unit, is subject to changes in the following assumptions:

- Revenues.
- Operating expenses.
- Selling and marketing expenses.
- Administrative and general expenses.
- Investments.
- The weighted cost of capital.
- Long-term growth.

Revenues – The level of revenues is derived from changes in the number of subscribers and changes in the average revenues per subscriber over the length of the period of the forecast.

Operating expenses – The operating expenses (excluding depreciation expenses) are primarily fixed and semi-fixed, with the most pronounced expenses being content expenses, salary expenses and network maintenance expenses.

Selling and marketing expenses – Selling and marketing expenses primarily include salary expenses and advertizing and marketing expenses.

Administrative and general expenses – Administrative and general expenses are primarily fixed.

The weighted cost of capital – The real capitalization rate used in the In Country fixed-line telecommunications and the Cable television segments is 10% after tax and in the Cellular communication segment is 11% after tax. The capitalization rate reflects equity of 8.8% and 11.8%, respectively, interest rate on the debt of 6% and 7%, respectively, and leverage rate of 23% and 59%, respectively.

Long-term growth – Average long term growth for the three cash generating units is 1.5% per year.

j) In continuation of Note 24 to the annual financial, during the reporting period Hot's management updated its forecast in respect of the amount of the contingent consideration on the purchase of the shares in HOT Mobile, which was done as the result of the updating of its forecasts for the EBITDA targets and the market share target in the years from 2013 to 2016, inclusive, such that in Hot's assessment, which is based, inter alia, on an external evaluation, the fair value of the liability in respect of the contingent consideration as of September 30, 2012 is NIS 336 million. As a result of this Hot recognized a gain in an amount of NIS 21 million in the third quarter of 2012 under other income.

k) On November 11, 2012, Hot's Board of Directors approved the extension of a guarantee to HOT Telecom, as collateral for all of the payments that HOT Telecom owes or that it may owe in the future to Techicolor, under the agreement.

l) As of the balance sheet date, the working capital is approximately (NIS 1,553 million), as of December 31, 2011 approximately (NIS 1,435 million).

The Group's management estimates that upon the date when financial statements are authorized for issue it has sufficient resources to cover the deficit on its working capital and for its continuing operations, inter alia, by means of unused credit lines.

NOTE 6:—OPERATING SEGMENTS

As mentioned in the company's annual financial statements, the company operates in three main business segments: Cable television, Telecom (internet and telephone) and Cellular communications.

	Nine months ended September 30, 2012					
	Cellular	Telecom	Cable television	Others	Adjustments(*)	Total
	Unaudited NIS in millions					
Total revenues	619	1,502	1,714	7	(716)	3,126
Segment income (loss)	(128)	(376)	108	(5)	(2)	(403)
Unattributed other income, net						30
Operating loss						(373)
Financial Expenses, Net						(424)
Loss before taxes on income						(797)

(*) Adjustments attributed mainly to the telecom segment.

	Three months ended September 30, 2012					
	Cellular	Telecom	Cable television	Others	Adjustments(*)	Total
	Unaudited NIS in millions					
Total revenues	237	505	565	3	(243)	1,067
Segment income (loss)	(83)	(538)	39	(2)	—	(584)
Unattributed other income, net						24
Operating loss						(560)
Financial Expenses, Net						(145)
Loss before taxes on income						(705)

(*) Adjustments attributed mainly to the telecom segment.

NOTE 6:—OPERATING SEGMENTS (Continued)

	Nine months ended September 30, 2011			
	National landline telecommunication	Cable TV	Adjustments(*)	Total-consolidated
	Unaudited NIS in millions			
Segment revenues	1,009	1,153	(502)(*)	1,660
Segment income	209	27	—	236
Other unallocated income				2
Unallocated expenses				(7)
Operating income				231
Finance expenses, net				(271)
Loss before gain from achieving control, Company's share of earnings of a company accounted for at equity and taxes on income				(40)

(*) Adjustments attributed mainly to the telecom segment.

	Three months ended September 30, 2011			
	National landline telecommunication	Cable TV	Adjustments(*)	Total-consolidated
	Unaudited NIS in millions			
Segment revenues	508	581	(253)	836
Segment income	93	(4)	—	89
Other unallocated income				—
Unallocated expenses				—
Operating income				89
Finance expenses, net				(112)
Loss before taxes on income				(23)

(*) Adjustments attributed mainly to the telecom segment.

	Year Ended December 31, 2011					
	Cellular(**)	Telecom	Cable television	Others	Adjustments(*)	Total
	Audited NIS in millions					
Total revenues	66	1,503	1,728	—	(745)	2,552
Segment income (loss)	(6)	301	160	(8)	—	447
Unattributed other income, net						5
Operating income						452
Financial expenses, Net						(386)
Income before gain from achieving control, Company's share of earnings of a company accounted for at equity and taxes on income						66

(*) Adjustments attributed mainly to the telecom segment.

NOTE 6:—OPERATING SEGMENTS (Continued)

(**) Effective since November 28, 2011.

NOTE 7:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY ("SOLO")

a. Consolidated Balance Sheet

	September 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
	NIS in millions		
CURRENT ASSETS			
Cash and cash equivalents	—	2	1
Restricted cash	65	1	203
	65	3	204
NON-CURRENT ASSETS			
Investment in investee	2,206	2,206	2,206
Loan to third party	—	530	—
	2,206	2,736	2,206
	2,271	2,739	2,410
CURRENT LIABILITIES			
Credit from financial institutions	42	223	343
Trade payables	1	1	2
Other accounts payable	23	493	9
Loan from controlling shareholders	—	1,131	—
	66	1,848	354
NON-CURRENT LIABILITIES			
Loans from financial institutions	803	669	808
Subordinated loan from controlling shareholders	1,202	—	1,096
Other long term liability	—	150	—
	2,005	819	1,904
	2,071	2,667	2,258
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	6	6	6
Reserve for transaction with controlling shareholder	453	297	452
Accumulated losses	(259)	(231)	(306)
Total equity	200	72	152
	2,271	2,739	2,410

NOTE 7:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (“SOLO”) (Continued)

b. Statements of comprehensive income

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31, 2011
	2012	2011	2012	2011	2011
			Unaudited		Audited
			NIS in millions		
General and administrative expenses	(2)	(6)	(1)	(1)	(8)
Operating loss	(2)	(6)	(1)	(1)	(8)
Other income(*)	236	—	—	—	—
Finance income	2	9	—	8	15
Finance expenses	(189)	(145)	(64)	(56)	(224)
Net income (loss)	47	(142)	(65)	(49)	(217)
Total comprehensive income (loss)	47	(142)	(65)	(49)	(217)

(*) See Note 7e.

c. statements of changes in equity

	Attributable to equity holders of the Company			
	Share capital	Capital reserve for transaction with controlling shareholder	Retained loss	Total
		Unaudited		
		NIS in million		
Balance at January 1, 2012 (audited)	6	452	(306)	152
Total comprehensive income	—	—	47	47
Equity contribution on transaction with controlling shareholder	—	1	—	1
Balance at September 30, 2012	6	453	(259)	200

	Attributable to equity holders of the Company			
	Share capital	Capital reserve for transaction with controlling shareholder	Retained earnings (loss)	Total
		Unaudited		
		NIS in million		
Nine months ended September 30, 2011:				
Balance at January 1, 2011 (audited)	6	297	(89)	214
Total comprehensive loss	—	—	(142)	(142)
Balance at September 30, 2011	6	297	(231)	72

NOTE 7:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY ("SOLO") (Continued)

	Attributable to equity holders of the Company			
	Share capital	Capital reserve for transaction with controlling shareholder	Retained loss	Total
	Unaudited NIS in million			
Balance at July 1, 2012	6	452	(194)	264
Total comprehensive loss	—	—	(65)	(65)
Equity contribution on transaction with controlling shareholder	—	1	—	1
Balance at September 30, 2012	6	453	(259)	200

	Attributable to equity holders of the Company			
	Share capital	Capital reserve for transaction with controlling shareholder	Retained loss	Total
	Unaudited NIS in million			
Three months ended September 30, 2011:				
Balance at July 1, 2011	6	297	(182)	121
Total comprehensive loss	—	—	(49)	(49)
Balance at September 30, 2011	6	297	(231)	72

	Attributable to equity holders of the Company			
	Share capital	Capital reserve for transaction with controlling shareholder	Retained loss	Total
	Audited NIS in millions			
Balance at January 1, 2011	6	297	(89)	214
Total comprehensive loss	—	—	(217)	(217)
Equity contribution on transaction with controlling shareholder	—	155	—	155
Balance at December 31, 2011	6	452	(306)	152

NOTE 7:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (“SOLO”) (Continued)

d. Consolidated statements of cash flows

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Cash flows from operating activities:					
Net income (loss)	47	(142)	(65)	(49)	(217)
Adjustments required in order to present cash flows from operating activities:					
Adjustments to the profit or loss items:					
Linkage differences on behalf of other long term liabilities	16	23	7	19	—
Interest on loan from controlling shareholders	116	105	41	41	135
Other income	(236)	—	—	—	—
	(104)	128	48	60	135
Changes in asset and liability items:					
Increase (decrease) in trade payables	(1)	1	—	(1)	2
Increase (decrease) in other accounts payable	14	(1)	16	(7)	7
Increase in other accounts receivable	—	(1)	—	—	—
	13	(1)	16	(8)	9
Cash received during the period for:					
Dividend received	236	—	—	—	—
Net cash provided by (used in) operating activities	192	(15)	(1)	3	(73)
Cash flows from investing activities:					
Loan granted to related party, net	—	(530)	—	(288)	—
Repayment (investment) in restricted cash	138	—	—	—	(203)
Acquisition of companies	—	(335)	—	—	(954)
Net cash provided by (used in) investing activities	138	(865)	—	(288)	(1,157)

NOTE 7:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (“SOLO”) (Continued)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in millions				
Cash flows from financing activities:					
Short-term bank credit, net from bank commission	(301)	(2)	—	(3)	299
Receipt of long-term loans from financial institutions	—	1,242	—	292	1,800
Repayment of long-term loans from financial institutions	(21)	(350)	—	—	(950)
Repayment of loan from controlling shareholder	(9)	(10)	(9)	(4)	(8)
Receipt of loan from controlling shareholder	—	2	—	—	90
Net cash provided by (used in) financing activities	(331)	882	(9)	285	1,231
Increase (decrease) in cash and cash equivalents	(1)	2	(10)	—	1
Cash and cash equivalents at the beginning of the period	1	—	10	2	—
Cash and cash equivalents at the end of the period	—	2	—	2	1

e. The accounting policies applied in the above condensed data are identical to those applied in the consolidated financial statements as detailed in note 2, except:

- The accounting treatment of investments in shares of investees pursuant to IAS 27:

  When presenting the data from the separate financial statements of the parent company (‘‘solo’’), investment in shares of subsidiary is accounted for at cost or at fair value in accordance with IAS 39 and not at equity. The Company has elected to account for said investment at cost and, accordingly, the investment in shares of HOT is presented at cost.

  On February 19, 2012 HOT distributed a dividend of NIS 365 million. As a result of this distribution, the company received NIS 236 million as a cash dividend which has been classified as other income in the solo financial statement of the company.

- As of September 30, 2012 the company tested its investment in investee for impairment and concluded that since the recoverable amount exceeds the carrying amount of the investment, no impairment should be recorded.

COOL HOLDING LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

NIS IN MILLIONS

INDEX

	Page
Auditor's Report	F-186
Consolidated Statements of Financial Position	F-187–F-188
Consolidated Statements of Comprehensive Income	F-189
Consolidated Statements of Changes in Equity	F-190
Consolidated Statements of Cash Flows	F-191–F-193
Notes to Consolidated Financial Statements	F-194–F-305
Appendix to the Financial Statements—List of the Principal Investee Companies	F-306

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AUDITOR'S REPORT

To the Equity holders of

COOL HOLDING LTD.

As detailed in an engagement letter signed on March 20, 2012 in Luxemburg, we were engaged to provide an audit report on the financial statements of Cool Holding Ltd. We have audited the accompanying consolidated statements of financial position of Cool Holding Ltd. (''the Company'') as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended on December 31, 2011, 2010 and 2009. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations, changes in its equity and cash flows for each of the years ended on December 31, 2011, 2010 and 2009, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Without qualifying our above opinion, we hereby draw attention to Note 1(g) and 23A to the consolidated financial statements regarding claims filed against the subsidiary—HOT Telecommunication Systems Ltd., the applicable legislative and regulatory restrictions of HOT Telecommunication Systems Ltd. and its subsidiary MIRS Communication Ltd.

Tel-Aviv, Israel
November 11, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2011	December 31, 2010
		NIS in millions	
Current Assets			
Cash and cash equivalents	4	17	—
Restricted cash	4	203	—
Trade receivables	5	361	—
Other receivables	6	79	—
Inventory	7	24	—
		684	—
Non-current assets			
long-term trade receivables	8	85	—
Investment in available for sale financial asset	9	42	—
Investment in company accounted for using the equity method	10	—	1,341
Other long-term receivables	11	103	—
Fixed assets, net	12	4,014	—
Intangible assets, net	13	1,918	—
Goodwill	13	3,164	—
Deferred taxes	22	81	—
		9,407	1,341
		10,091	1,341

The accompanying notes are an integral part of the consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

	Note	December 31, 2011	December 31, 2010
		NIS in millions	
Current liabilities			
Credit from financial institutions and current maturity of debentures	14	778	2
Trade payables	15	816	—
Other payables	16	338	4
Loan received from controlling shareholders	27	—	1,034
Provision for legal claims	17	187	—
		2,119	1,040
Non-current liabilities			
Loans from financial institutions and debentures	18	2,872	—
Subordinated loan from controlling shareholders	27	1,096	—
Other long-term liabilities	21	553	—
Advanced received for installation fees		42	—
Employee benefit liability, net	20	23	—
Deferred taxes	22	600	—
		5,186	—
Equity attributed to the equity holders of the Company	24		
Share capital		6	6
Capital reserve on transaction with a controlling shareholder		452	297
Capital reserve from available for sale financial assets		—	(1)
Retained earnings (losses)		576	(1)
		1,034	301
Non-controlling interests		1,752	—
Total equity		2,786	301
		10,091	1,341

November 11, 2012		
Date of approval of the financial statements	Laurent Godineau Director	Jeremie Bonnin Director

The accompanying notes are an integral part of the consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,		
		2011	2010	2009
		NIS in millions		
Revenues	25	2,552	—	—
Depreciation and amortization		671	—	—
Operating expenses	25	1,226	—	—
Selling and marketing expenses		194		
General and administrative expenses		122	1	—
Other expenses (income), net and network establishments costs		(113)	—	—
Operating income (loss)		452	(1)	—
Finance income	25	52	108	24
Finance expenses	25	(438)	(161)	(59)
Gain from the re-measurement of previously accounted for available for sale financial asset		—	—	45
Gain from obtaining control over subsidiary	3	662	—	—
Group share of earnings of an associate	3	58*	34	11
Income (loss) before taxes on income		786	(20)	21
Taxes on income	22	166	2	—
Net income (loss)		620	(22)	21
Other comprehensive income (loss) (net of tax effect):				
Change in fair value of available for sale financial asset	9	1	(2)	1
Total other comprehensive income (loss)		1	(2)	1
Total comprehensive income (loss)		621	(24)	22
Net income (loss) attributable to:				
Equity holders of the Company		577	(22)	21
Non-controlling interests		43	—	—
		620	(22)	21
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		578	(24)	22
Non-controlling interests		43	—	—
		621	(24)	22

* Includes an amount of approximately NIS 20 million on behalf of profit which was provided after achieving initial control.

The accompanying notes are an integral part of the consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital	Capital reserve for transaction with controlling shareholder	Reserve from available-for-sale financial assets	Retained earnings (deficit)	Total	Non-controlling interests	Total equity
	NIS in millions						
Balance at April 26, 2009[**]	—	—	—	—	—	—	—
Loss	—	—	—	(24)	(24)	—	(24)
Other comprehensive income, net of tax	—	—	1	—	1	—	1
Total comprehensive income (loss) for the period	—	—	1	(24)	(23)	—	(23)
Issue of share capital	—[*]	—	—	—	—	—	—
Gain on available-for-sale financial asset	—	—	45	—	45	—	45
Transfer to the statement of income for available-for-sale financial assets	—	—	(45)	45	—	—	—
Equity contribution on transaction with controlling shareholder	—	152	—	—	152	—	152
Balance at December 31, 2009	—	152	1	21	174	—	174
Loss	—	—	—	(22)	(22)	—	(22)
Other comprehensive loss, net of tax	—	—	(2)	—	(2)	—	(2)
Total comprehensive income	—	—	(2)	(22)	(24)	—	(24)
Issue of share capital	6	—	—	—	6	—	6
Equity contribution on transaction with controlling shareholder	—	145	—	—	145	—	145
Balance at December 31, 2010	6	297	(1)	(1)	301	—	301
Net income	—	—	—	577	577	43	620
Other comprehensive loss, net of tax	—	—	1	—	1	—	1
Total comprehensive income (loss)	—	—	1	577	578	43	621
Share-based payment in a consolidated company	—	—	—	—	—	33	33
Non-controlling interests in initially consolidated company	—	—	—	—	—	1,676	1,676
Equity contribution on transaction with controlling shareholder	—	155	—	—	155	—	155
Balance at December 31, 2011	6	452	—	576	1,034	1,752	2,786

(*) Represents an amount lower than NIS 1 million.

(**) The Company commenced its operations on April 26, 2009.

The accompanying notes are an integral part of the consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
Cash flows from operating activities:			
Net income (loss)	620	(22)	21
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	671	—	—
Gain from obtaining control in consolidated company	(662)	—	—
Deferred taxes, net	163	1	—
Impairment of available for sale financial assets	32	—	—
Linkage differences on behalf of other long term liabilities	15	—	—
Revaluation liability to the government and other long term liability	16	—	—
Interest on loan from controlling shareholder	135	158	45
Finance income from loan from controlling shareholders	—	(108)	(16)
Gain on the re-measurement of the investment in an available for sale financial asset that became an affiliate company	—	—	(45)
Group share of earnings of an associate	(58)(*)	(34)	(11)
Share based payment	33	—	—
Employee benefit liability, net	2	—	—
	347	17	(27)
Changes in asset and liability items:			
Increase in trade receivables	(8)	—	—
Increase in other accounts receivable and other long-term receivables	(25)	—	—
Decrease in inventory	1	—	—
Increase in long term trade receivables	(6)	—	—
Increase in cost of subscriber acquisition cost and fees paid to subcontractors	(15)	—	—
Increase in trade payables	51	—	—
Increase in other accounts payables	54	1	1
Decrease in Provision for legal claims	(130)	—	—
Increase in advances received for installation fees and deposits for converter, net	3	—	—
	(75)	1	1
Net cash provided by (used in) operating activities	892	(4)	(5)

(*) Includes an amount of approximately NIS 20 million on behalf of profit which was provided after achieving initial control.

The accompanying notes are an integral part of the consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
Cash flows from investing activities:			
Purchase of fixed and intangible assets	(394)	—	—
Investment in restricted cash	(166)	—	—
Acquisition of newly consolidated companies (a)	(333)		—
Acquisition of newly consolidated company by a subsidiary (b)	(480)	—	1,252
Net cash used in investing activities	(1,373)	—	1,252
Cash flows from financing activities:			
Repayment of long-term loans financial institutions	(968)	—	(63)
Receipt of long-term loans from financial institutions	2,097	—	1,321
Short-term bank credit, net	(51)	3	—
Repayment of liability to the government and others	(44)	—	—
Receiving of loan from controlling shareholder	90	—	—
Repayment of loan from controlling shareholder	(8)	—	—
Decrease in long term liabilities	3	—	—
Repayment of contingent consideration	(621)	—	—
Net cash provided by financing activities	498	3	1,258
Increase (decrease) in cash and cash equivalents	17	(1)	1
Cash and cash equivalents at beginning of period	—	1	—
Cash and cash equivalents at end of period	17	—	1
(a) *Acquisition of newly consolidated company:*			
Working capital (excluding cash and cash equivalents)	1,139	—	—
Long-term liabilities	2,158	—	—
Fixed assets	(3,383)	—	—
Intangible assets	(1,688)	—	—
Goodwill	(2,957)	—	—
Other long-term fixed assets	(184)	—	—
Deferred tax, net	244	—	—
Gain from obtaining control in a newly consolidated company	662	—	—
Investment in investee, prior to the acquisition	1,379	—	—
Contingent consideration for shares in consolidated company, short and long term	621	—	—
Non-controlling interests	1,676	—	—
	(333)	—	—

The accompanying notes are an integral part of the consolidated financial statements.

COOL HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
(b) *Acquisition of newly consolidated company by a subsidiary:*			
Working capital (excluding cash and cash equivalents)	316	—	—
Long-term liabilities	403	—	—
Fixed assets	(640)	—	—
Intangible assets	(389)	—	—
Goodwill	(207)	—	—
Other long-term fixed assets	(83)	—	—
Deferred tax, net	120	—	—
	(480)	—	—
(c) *Material non-cash activities*			
Acquisition of fixed assets on supplier credit	241	6	—
Acquisition of fixed assets under finance leasing	34	—	—
(d) *Cash paid during the period for:*			
Interest paid	143	—	—
(e) *Cash received during the period for:*			
Interest received	6	—	—
Dividends received	6	—	—

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:—GENERAL

a. General description of the Group and its activities:

Cool Holding Ltd. (''the Company'') was incorporated in Israel on April 26, 2009 and registered with the Israeli corporate registrar as an Israeli company. On April 2, 2010, the general meeting of the Company's equity holders approved the Company's registration as a Luxembourg company, in effect retroactively and as from the date of its incorporation, the Company is managed and operated from Luxembourg.

The Company's shares are wholly owned by Altice VII Sarl (''Altice''), a Luxembourg Company. The Company was incorporated for the purpose of holding the shares of HOT for Altice, as described below.

As of the date of this report, the Company is managed and controlled outside of Israel. The Company has confirmation of residence from the Luxembourg Authorities, according to which it is a company that is resident in Luxembourg in accordance with the provisions of Luxembourg's internal law. In accordance with the law that applies in Luxembourg, the Company is also subject to Luxembourgian law.

As of the date of the approval of the financial statements, the Company's entire activity consists of holding HOT Telecommunication Systems Ltd. (''HOT'') shares.

HOT operates, independently and through wholly-owned subsidiaries and consolidated partnerships, in four main areas:

1) Providing multi-channel television broadcasting services to subscribers.
2) Providing in country landline telecommunication services.
3) Providing Cellular telecommunication services—beginning from November 28, 2011.
4) Providing ISP services—as of December 31, 2011 an immaterial service.

b. In 2009, the Company purchased 34,050,864 shares of HOT in return for NIS 1,252 million, representing 44.77% of HOT's share capital as of the date of the transaction. HOT is an Israeli publicly traded company on the Tel-Aviv Stock Exchange.

c. Agreements with interested parties in HOT signed in 2010:

On October 26, 2010, the Company entered into two agreements with two of HOT's shareholders, the Fishman Group and the Yediot Communications Ltd. Group, which as of the date of said agreements held about 12.61% and 16.79% of HOT shares, respectively:

1. Agreement with the Fishman Group:

On October 26, 2010, an agreement was signed between the Company and the Fishman Group whereby the Company will acquire from the Fishman Group a total of 4,565,493 Ordinary shares of HOT.

On March 16, 2011, the Fishman agreement was consummated after all the prerequisites had been met. The final price determined in the transaction per HOT share, after interest accumulated on the share price was NIS 55.06 per share (total proceeds amounted to approximately NIS 251 million).

2. Agreement with the Yediot Communications Ltd. Group:

On October 26, 2010, an agreement was signed between the Company and Yediot Communications whereby the Company granted Yediot Communications a Put option to obligate the Company to purchase from Yediot Communications 10,012,003 Ordinary shares of HOT (''the option shares''), representing as of the date of the financial statements about 13.2% of HOT issued share capital.

NOTE 1:—GENERAL (Continued)

On November 28, 2011 the transaction was consummated. The final price determined in the transaction per HOT share, after interest accumulated is NIS 65.099 per share (total proceeds amounted to approximately NIS 652 million). As of the date of approving the financial statements, an amount of NIS 652 million had been paid in consideration for Yediot shares. No further payments are due on the Yediot shares.

3. Private placement in HOT:

On March 16, 2011, the private placement was completed after all the prerequisites had been met.

Following the completion of the private placement of shares representing 2% of HOT issued share capital (before the issuance) and the consummation of the agreement detailed in 1 and 2 above, the Company holds about 64.57% of HOT's shares.

d. Until March 16, 2011, the Company held about 44.72% 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 Company consolidates the accounts of HOT and the Company elected to measure the non-controlling interests in the acquire at fair value at the date when control had been achieved.

e. The Company has recognized the fair value of the assets which were acquired and the liabilities that were taken on within the framework of the business combination. The fair value had been determined by management with the assistance of an independent valuation firm. As of the date of the approval of the financial statements, final evaluation has been received. The carrying amount before achieving control, under the equity method, as above, was revalued by reference to the share price on such date (NIS 59.97), accordingly, gain from revaluation of previously investment in associate of approximately NIS 662 million was recognized in the financial statements as of December 31, 2011.

f. *The legal merger of the cable companies*

On May 8, 2006 the merger agreement between the cable companies, within the framework of which Hot gave an undertaking to purchase the operations of the other cable companies in the broadcasting and the telecommunications fields, in consideration for the allocation of shares in Hot to the selling parties or to the holders of the rights therein and the endorsement of the debts of the selling parties to Hot, was signed.

On December 31, 2006 the merger transaction was completed and as a result, directly and indirectly, all of the operations of the other cable companies in the broadcasting and the telecommunications fields were transferred to Hot, including all of the commitments, the assets and the liabilities (whether by means of the purchase of rights and whether by means of the acquisition of operations). In continuation thereof, all of the operations in the telecommunications field have been condensed in HOT Telecom.

g. Legislative and regulatory restrictions in the HOT Group:

1. *Multi channel television broadcasts*

In this field, HOT, operating by itself and through subsidiary companies that are wholly owned by it, directly and indirectly, supplies multi channel cable television broadcasts for subscribers with a countrywide dispersal. The services in this field are delivered through a national network of cables and under a general, non-exclusive cable-broadcasting license, which applies to all regions of the country, under a general, non-exclusive cable broadcasting license, which applies to Judaea and Samaria and under a special license to operate a broadcasting center, which is owned by HOT Telecom.

NOTE 1:—GENERAL (Continued)

The multi-channel television services include a variety of content, including series, movies, sports broadcasts, children's programs, enrichment, entertainment and leisure, music, culture, science, foreign languages and international news, using digital and analogical broadcasting (in this connection, it should be noted that in July 2009 the Cable And Satellite Broadcasting Council (hereinafter—the Council) gave its approval to HOT to begin with the process of reducing the analogical broadcasts until they are completely discontinued).

The transmission of the multi-channel television services via the digital infrastructure enables HOT to offer dozens of channels as well as special services, such as inter-active services. Furthermore, the cables network in its updated format enables HOT to provide view on demand services (HOT VOD) as well as technology content and channels using HD technology—innovative technology that enables a broadcast viewing experience with better picture resolution and sound (The sharpness of the color and sound).

With in addition, Hot's Group offers Personal Video Recorder (PVR) services to its digital subscribers through a converter that is marketed under the ''Hot Magic'' commercial name, which in addition to the recording of the regular broadcasts, enables the recording of broadcasts in accordance with the subscriber's decision, the editing of the broadcasts and control over the timing of the broadcasts. In addition, during the course of the year 2011 HOT launched, in a combined format, the PVR services as well as the high definition quality viewing services (the HD-PVR converter).

Within the framework of the broadcasting operations, as aforesaid, HOT holds, directly and indirectly, 100% of HOT Vision Ltd. (hereinafter—HOT Vision), which is engaged in the preparation of content for screening and broadcasting by the cable companies, and in addition it purchases content and produce original productions for HOT and the consolidated companies. The said activity is conducted by HOT through HOT Vision.

a) *Licenses in the broadcasting field*

1) A general cable broadcasting license, which applies to all regions of the country (hereinafter—the broadcasting license). The broadcasting license that has been granted to HOT is for a period of 15 years, starting on April 30, 2002 and it can be extended with the approval of the Council for additional periods of ten years each.

2) A license for the provision of cable television broadcasts (hereinafter—the license), which was granted by the Head of the Civil Administration to HOT in June 2006, in a number of settlements in Judaea and Samaria. The license is in force until April 30, 2017 and it can be extended for additional periods of ten years each, each time, subject to the conditions that were stipulated in the license. HOT supplies cable television broadcasting services in the said settlements under the license, in a similar format to that supplied under HOT's general cable television broadcasting license.

b) *Legislation and supervision*

HOT's operations in the broadcasting field are subject to a wide range of legislation that arranges the activity in the telecommunications market in Israel, including the Telecommunications Law and the rules thereunder as well as the provisions of the broadcasting license.

HOT's operations in the broadcasting fields are also subject to specific legislation applicable to television broadcasting such as the Classification, Marking and Prohibition of Harmful Broadcasts Law, 2001 (under which commitment have been placed upon HOT on the subject to the classification of the marking of certain television broadcasts) and the Television Broadcasting (Subtitles and Sign Language Translation) Law, 2005 (under which commitments have been placed upon HOT on the subject of television broadcasts

NOTE 1:—GENERAL (Continued)

that relate to the provision of subtitles and sign language translation for certain television programs that are broadcasted by it).

HOT's broadcasting activity is also subject to supervision by the Ministry of Communications and the Council for Cable and Satellite Television Broadcasting (hereinafter—the Council), inter alia, in connection with the pricing of analog services, broadcasting content, agreements with subscribers, the introduction of new broadcasting channels and the termination of broadcasting channels. HOT has been declared to be a monopoly in the multi-channel television for subscribers broadcasting field and accordingly, the Anti-trust Director (hereinafter—the Director) is entitled to issue directives to it in accordance with the Anti-trust Law.

1) *The setting up of live digital broadcasting stations—The Digital Terrestrial Transmission (DTT) (and the expansion of their activity)*

In the light of the amendment to the Second Authority for Television and Radio Law, the Second Authority was obligated to plan, set up and operate, by itself or through others, digital terrestrial television channels for free public reception and distribution of television broadcasts (The DDT broadcasts). In August 2009, the Second Authority launched these broadcasts nationwide, allowing the free public distribution of the television channels of the Israel Broadcasting Authority (''IBA'') (Channels 1 and 33), the commercial television channels (Channels 2 and 10) and the Israeli Knesset Channel (Channel 99). The establishment of the digital broadcasting stations, as aforesaid, allows customers to watch each of the above five channels for a non-recurring fee for the purchase of broadcast reception equipment and for no additional fees whatsoever.

In January 2012 the Finance Committee of the Knesset (Israeli parliament) approved the Draft Distribution of Broadcasts Via Digital Stations Bill—2011 (hereinafter—the Draft Law) for its second and third readings. In accordance with the Draft Law, inter alia, the DTT system will be expanded within two years from the earlier of the date of the publication of the Law or December 31, 2013, such that there will be added to it, inter alia, a radio channel, which is to includes the regional and national radio channel, the educational television channel if it should so request, a designated channel if this has been requested by it, an additional IBA channel that has been dubbed using HD technology—if this has been asked for by it (where as of today there are two designated channels—a designated Russian language channel and a designated Israeli and Mediterranean music channel, to which a designated Arabic language channel will be added). However, the broadcast of a designated channel over the five channels, is subject to the existence of available capacity for this purpose.

The attachment of any of the said channels will be done at its request and in consideration for the payment of a distribution fee.

The distribution fees will be set by the Minister of Communications and the Minister of Finance and will be calculated in accordance with the payments and the costs that are involved in the operation and maintenance of the DTT system and any other operational payment, which is involved in the distribution of the broadcast, except for set-up costs.

The Draft Law includes, inter alia, a prohibition on the collection of any payment whatsoever from the public for the receipt of the broadcasts that are distributed using the digital broadcasting stations in accordance with the Draft Law.

It is also proposed that the Minister of Communications, after consultation with the Minister of Finance, the Second Channel Authority and the Council will be entitled to give instructions for the attachment of additional channels that have asked to join the

NOTE 1:—GENERAL (Continued)

DTT system and its operations, and this in consideration for the payment of distribution fees, as aforesaid.

In addition, in accordance with the draft law, as from January 1, 2014, the DTT system will be transferred from the Second Authority to a public body, a statutory entity or a government company, which are not broadcasters and which are not supervisors of television or radio programs, which will be appointed by the Minster of Communications and the Minister of Finance with the Government's approval.

The draft law, which includes the expansion of the DTT system will be presented for its second and third readings in the Knesset with the attachment of qualifications from the Ministry of Finance.

Hot's assessment, the DTT broadcasting and in particular the addition of additional channels to the existing broadcasting system may cause changes in the viewing habits of multi-channel television subscribers, resulting in a significant reduction in the Hot's revenues and as a result of this, having a significant adverse impact on Hot's business and future business results. In Hot's management's assessment, as of the date of the financial statements, there has been no material deterioration in Hot's business or in its current operating results as a result of the DTT broadcasts in their current format.

2) *The commercial television channels—The transition from the concessions method to a licenses method*

Within the framework of the Amendment to the Second Authority for Television and Radio (Amendment No. 33) (Transition from Franchises to Licenses in Television Broadcasting) Law, 2010, whose legislative proceedings were completed in February 2011 (hereinafter—the Amendment), it is proposed that the scope of the content that is broadcast on the commercial television channels be increased by way of a change in the system that arranges the commercial television broadcasts by means of transition from the current system of (exclusive) concessions to a system of licenses that would be granted to entities that meet the threshold conditions that are set in the Amendment and which will be in force for a longer period by comparison with the current concessions.

In accordance with the Amendment, 2013 is the designated year for the transition from a system of concessions to a system of licenses and every commercial license holder will be entitled to be included within the framework of the DTT broadcasts. Furthermore, the Amendment stipulates that changes will take place in the channel numbers of the existing channels as may be determined by the authorized bodies (the Council, The Second Television and Radio Authority and the Minister of Communications).

In Hot's assessment, the transition from a system of concessions to a system of licenses could cause changes in the viewing habits of the multi-channel television subscribers, to a significant decline in Hot's and as a result in the Hot's revenues and as a result of this, there could be a significant negative impact of Hot's business and on its future business results.

3) *VOD services and broadcasting via the internet network*

The Video on Demand (VOD) service is an interactive service for the broadcasting of content to the television converter, with which the customer can view a range of content such as movies, series, shows, educational content, content for children and teenagers and adult content, by ordering it personally, as they choose.

NOTE 1:—GENERAL (Continued)

In August 2007, the Telecommunications Law was amended so as to enable additional suppliers of content to provide content supply services on demand, on a broadband access network using IP technology. Furthermore, the Council was empowered to grant licenses for on demand broadcasts, which are transmitted via broadband infrastructure, and which are provided at the assured quality and quality of service that is generally acceptable for broadcasts using the digital method. It was further determined that in a case in which an application for the receipt of a license for on demand broadcasting has been presented to the Council, the Council is entitled to decide that for the purposes of the broadcasting it is necessary to receive a general cable television broadcasting license, taking note, inter alia, of the characteristics of the broadcasts, their nature and the volume. As of the date of the financial statements, no special licenses for on demand broadcasting have been given under the said Amendment.

Hot is taking action in order to improve and to promote its VOD services by means of broadcasting additional sorts of content in a manner that will enable every user to view their preferred content. It should be noted in this connection that during the course of the year 2010, Yes began to supply VOD services to its subscribers by means of converters on the internet network, and as from that time the Hot is no longer the sole supplier of this service.

Furthermore, additional players in the field of activity, for example, those that hold a commercial television concession, also offer similar services, which constitute competition in this field of activity.

With the development of the swift internet networks, the use of technology that enables broadcasting and the transmission of video content using broadband internet infrastructures may well expand. This trend could also affect the broadcasting field by way of a change in the viewing habits of the final users.

4) *The amendment of the Telecommunications Law on the subject of the supply of a basic basket of broadcasts in consideration for access fees (hereinafter—the narrow package)*

Over the course of recent years, a proposal for the Amendment of the Communications Law has been on the Knesset's agenda, within the framework of which it is proposed, inter alia, that a holder of a general cable broadcasting license will be entitled to demand payment from its subscribers for connecting their homes to its broadcasting center; the payment is to be based on the cost of the connection to the center with the addition of a reasonable margin (hereinafter—the access fee).

Furthermore, the broadcasting license holder is required to enable the subscriber who pays access fees to purchase a broadcasting channel in accordance with the subscriber's demand or any other broadcast that is offered to subscribers for purchase, separately, without conditioning the purchase of one channel on the purchase of the other.

In accordance with the proposed Amendment, the owner of a general cable broadcasting license is to provide all of its subscribers the Knesset Channel, the IBA's channels (Channels 1 and 33), Channel 2 and Channel 10 without collecting any fee apart from the access fee. In the event that the certain channels are provided by an owner of a special cable-broadcasting license or by an independent channel producer through the owner of a general cable-broadcasting license, the latter will not be entitled to collect any fee for the channels besides the access fee collected from the final customers.

NOTE 1:—GENERAL (Continued)

In accordance with the above, the owner of a cable-broadcasting license will be entitled to include commercials in its broadcasts in consideration for a payment that it sets, subject to the rules that will be set in the law. In May 2010, the Government withdrew this draft Amendment.

On July 5, 2012, the Council announced that it has decided to publish an additional hearing in accordance with which the rules will be amended in such manner that the cable and satellite companies will be required to offer subscribers a limited package of channels (hereinafter—the narrow package), and that this is in parallel to their duty to offer a basic package of channels (a basic package).

In accordance with the said amendment, the companies will be required to offer subscribers channels, within the framework of the narrow package, which are to included in addition to the channels that they are required to deliver in accordance with the law, at least a further four channels, which include, sport, children and youth, series and movies and global news. The amendment of the rules, which the Council proposed was also intended to organize the requirements that the license holders must invest in local productions of various sorts, on the channels that they choose to broadcast in the reduced package of channels. In addition, rules have been set in relation to sports broadcasts, which are included within the framework of the narrow package of channels.

In accordance with what is stated in the hearing, the public was given the possibility of presenting their responses until July 25, 2012, where the amendment that is passed will be in force for a period of half a year. The Council will revisit the decision towards the end of the period, on the basis of the data that is received from the license holders. HOT has presented its response to the hearing.

Following the said hearing, on September 27, 2012, the Council has confirmed its resolution to obligate HOT and the satellite company to offer a ''narrow package'' to their subscribers, in accordance with the guidelines as described above. In accordance with the said resolution, HOT and the satellite company will be given a preparation time until December 1, 2012, and will be obligated to apply for the Council's approval with respect to the proposed list of channels and various marketing offers of the narrow package, no later than 10 working days prior to their offer to the subscribers.

In Hot's assessment in so far as it may be required in the future to provide a basic broadcasting package under a similar format to the aforesaid, its business results may be adversely affected.

5) *The impact on content and the specifications of the broadcasts*

a) Hot's main activity in broadcasting field consists of broadcasting the various channels under its multi-channel television services. Hot is subject to regulatory restrictions in connection with the ownership and production of channels, among other things, as prescribed in the Communications Law and in the Telecommunication and Broadcasting Rules (Owner of Broadcasting License), 1987 (hereinafter—''the telecommunication rules'').

According to the provisions of the Communications Law, as of the date of the approval of the financial statements, Hot is subject to restrictions regarding the number of channels that it may produce by itself or in conjunction with another owner of a broadcasting license, such that this number does not exceed two fifths of the number of independent channels (as defined in the Communications Law) which are broadcast by Hot Group. Similarly, in the telecommunication rules and in accordance with the decision of the Council approving the merger, additional

NOTE 1:—GENERAL (Continued)

restrictions were imposed in this respect. In addition, the telecommunication rules determine that the number of channels, which are produced by Hot, shall not exceed at any time 20% of the number of its own channels broadcast by it. In addition, Hot is allowed to hold means of control in additional channels whose number may not exceed 4% of the number of its own channels, provided that Hot is not a controlling interest in those channels. Furthermore, in accordance with the decision of the Director approving the merger, Hot Group may hold means of control in Channel HOT 3 and HOT Movies (formerly: Channel 3 and Channel 4) as well as in only four other channels (unless the Director gives approval otherwise) and additional restrictions have also been placed on connections with channels.

b) In accordance with the provisions of the Telecommunications Law, the telecommunications rules and the Council decisions, Hot is required, inter alia, to invest in local productions at a rate of 8% of its annual revenues from subscription fees. In the course of the years 2009, 2010 and 2011 Hot complied with the investment rate that is required, as aforesaid. In this connection, it should be noted that the Telecommunications Law empowers the Council to set the rate of investment that is required, and solely that it not exceed 12% and it shall not be less than 8% of the annual revenues from subscription fees.

In this connection, in October 2011 the Council announced to Hot that as from the year 2012 it would see its income from subscription fees, which constitute the basis for the calculation of the duty to produce original content, as including all of the payments that are paid by its subscribers for the purpose of receiving their broadcasts and receiving their services, including income from terminal equipment and its instillation, and this was despite the fact that in accordance with the policy that the Council has implemented up to now on the matter of the inclusion of the income from terminal equipment for the purpose of calculating the duty to produce original productions, was made conditional upon a mechanism that was based on the profitability of this component of income, and in previous years income from terminal equipment and its instillation has not been included in the basis for the calculation of the original production requirement. In response to Hot's claims, which were delivered to the Council on January 12, 2012, the Council determined that Hot would be entitled to complete the amount of the additional investment for the year 2012 over a period of three years of investment, in equal amounts for each of the years 2012 to 2014. In Hot's assessment, it is expected that there will be a significant increase in the amount of the annual investment in original productions that Hot will be required to make as from the year 2012.

c) The Council is entitled to grant a special cable-broadcasting license, and the holders of the broadcasting license are required to transmit the broadcasts of the special license holders, as aforesaid, and solely that the capacity that is available to the holders of the general broadcasting licenses is not to be less than five sixths. Furthermore, in accordance with the Telecommunications Law, the Council is entitled to grant special licenses for designated channels with the intention of bringing about an increase in the number of parties who are involved in broadcasting to the public. In accordance with the conditions set by the Council for the merger of the cable companies and in accordance with the terms set by the Director for the merger of the cable companies, Hot is to reserve a minimal capacity for holders of special licenses. In accordance with a decision by the Minister of Communications on the subject of the setting of the transmission fees, dated August 23, 2007, Hot is entitled to collect transmission fees for the

NOTE 1:—GENERAL (Continued)

transmission of the broadcasts of a holder of a special license in accordance with the mechanism set in the decision. In accordance with Amendment 44 to the Telecommunications Law as from July 2010, the designated channels will be exempted from the payment of transmission fees for the transmission of their broadcasts (it should be clarified that there is nothing in the said Amendment that detracts from the other contractual authorities between Hot and the owners of the designated channels).

d) *The amendment of the Council's policy on the subject of the conditions for the granting of special licenses*

On September 10, 2009, the Council made a decision to amend its existing policy on the subject of the conditions for the grant of special licenses, the main points of which are: (a) the cancellation of the prohibition in the policy to grant special licenses for movie channels. In this connection, it was determined that the Council would, within six months from the date of its decision, examine whether to cancel the prohibition in the policy regarding the grant of special licenses to series channels; (b) the examination of the cancellation of the restriction in the policy in respect of the number of licenses to be granted to one body, which was to be done within six months from the time of the said decision; (c) the imposition of certain restrictions on original productions in certain cases where more than one license is requested.

As of the date of the financial statements, no special broadcast licenses have been issued yet in accordance with the said Amendment.

6) *The Council's decision on the subject of the manner of the collection of payment from Hot's customers*

On September 22, 2011 the Council passed a decision in accordance with which Hot's broadcasting licenses will be amended such that Hot may collect payment from its suppliers for Hot's services solely and exclusively in respect of the month that has passed and not in respect of the current month. In accordance with the letter from the Chairman of the Council dated October 26, 2011, the Amendment will enter force and will apply to new subscribers as well as to customers whose period of commitment has ended and who have chosen to renew the subscription agreement from the time of the decision, on December 1, 2011. In addition, in accordance with what is stated in the decision, at the end of a period of 12 months from the time of the decision, the Amendment will apply to all of Hot's subscribers.

HOT has begun to gradually transfer the charges for its subscribers from a payment for the services in respect of the current month to payment for the services in respect of the previous month. In accordance with the Council's decision, HOT is required to complete the transfer of the charging for all of its subscribers to a charge in respect of the previous month by December 31, 2012.

In Hot's assessment, the Council's decision is likely to cause a worsening of Hot's business results and primarily a non-recurring worsening of the Group's cash flows.

NOTE 1:—GENERAL (Continued)

7) *The amendment of the Telecommunications Law (Amendment No. 50)—2011*

On July 27, 2011, the Knesset passed an Amendment to the Telecommunications Law (Amendment No. 50)—2011 at the second and third reading (in this section—and amendment to the law). The main points of Amendment to the Law are as follows:

a) A license holder will not be entitled to collect any payments whatsoever from a subscriber, who has entered into a commitment with it after the entry of the Amendment to the Law into force, who cancels the commitment agreement with it, and it will not be entitled to prevent them from receiving a benefit that they would receive were it not for the cancellation; despite the aforesaid, the license holder will be entitled to collect the balance of the payments for the terminal equipment that was purchased by the subscriber and the debts that the subscriber has accumulated.

b) A license holder who has agreed with a subscriber that has purchased terminal equipment from it that the subscriber will pay for the equipment in installment payments, will not be entitled to make the balance of the subscriber's payments for the terminal equipment payable immediately, in the event that the subscriber cancels the commitment agreement.

c) In relation to existing subscribers, who entered into a commitment with the license holder before the entry of the Amendment to the Law into force, the payment that the license holder is entitled to collect from a subscriber, who cancels the commitment agreement with them during the course of the period of the commitment, may not exceed 8% of the subscriber's average monthly bill for services from the license holder, which the consumer had during the course of the period of the agreement until it was cancelled, multiplied by the number of months remaining until the end of the period of the commitment (hereinafter—the ceiling amount). The ceiling amount does not include a payment for the purchase of terminal equipment. Furthermore, the ceiling amount is not to include a payment that has been made by the subscriber for rental or borrowing services in respect of terminal equipment from the license holder. This provision will apply at the end of a period of three months from the time of the entry of the Amendment to the Law into force and thereafter.

d) The Amendment will not apply to a subscriber, whose average monthly bill for services from the license holder up to the time of the cancellation exceeds NIS 5,000.

In accordance with the Amendment to the Law, the Minister of Communications is entitled: (1) to defer the date on which a certain type of license starts for a period that shall not exceed six months, if he is satisfied that there exists fear of material damage to the regular course of business of the holders of the licenses of that sort; (2) determine, with the approval of the Finance Committee of the Knesset, that the amount determined in the definition of ''a subscriber'' within the framework of the Amendment to the Law, shall be different in respect of a certain type of licenses. A determination, as aforesaid, shall be for a period not exceeding one year.

The Minister is entitled to return and extend the said period for additional periods, which may not exceed one year each time.

Hot begun to implement the provisions of the Amendment to the Law in respect of new subscribers in August 2011 and as from the beginning of November 2011, in respect of existing subscribers. In Hot's assessment, a significant negative impact on the Group's business and on its future business results may arise as a result of the Amendment to the Law.

NOTE 1:—GENERAL (Continued)

8) *The entry of new competitors into the broadcasting field, via the internet and cellular services*

During 2009, an invitation was published by the Council and the Ministry of Communications to present positions on the question of the arrangement of broadcasting on new platforms and technologies, with the objective of examining whether there is a need for regulatory arrangement of video content being transmitted via the internet network. During the course of September 2009, a hearing was held on the subject, within the framework of which positions were heard from various parties, with Hot among them. It should further be noted that Hot made an approach to the Minister of Communications and the Council and it presented its position, according to which the internet broadcasting activity of telecommunications companies that compete with Hot is ''cable broadcasts'' as defined in the Law and that accordingly any entity that transmits these broadcasts should comply with all of the requirements in the Law and in the Regulations, including the duty of structural separation, as those apply to Hot.

On October 11, 2011 the recommendation of a joint team of the Council and the Ministry of Communications on the subject of the distribution of content to the public at large via electronic telecommunications networks (hereinafter—the contract services) was published. The central recommendation is to arrange the contract services on electronic networks, such as the internet, in so far as they meet certain tests, which were detailed within the framework of the recommendations.

An additional possible platform for the transmission of content is the cellular infrastructure.

As of the date of these financial statements, the Minister of Communications has not yet made a decision in respect of the said recommendations.

In Hot's assessment, the entry of new competitors into the broadcasting via the internet field, as aforesaid, and especially if those competitors are not made subject to the regulations to which Hot is subject, will have a significant impact on the character of the competition in the field, which is expected to increase. In Hot's assessment, the aforesaid may have an extremely negative impact on the Group business in the broadcasting field.

9) *Government committees for examining the broadcasting field*

In March 2008, the Grunau Committee (a public committee appointed to formulate detailed recommendations regarding policy and rules of competition in the Israeli communications market) published its conclusions, including recommendations relating to the multi-channel broadcasting sector. Inter alia, the Committee recommended: the offering of ''a narrow basic package of channels'' comprising five to ten channels; the removal of the restrictions that apply to competitors in respect of content; the need for the reexamination of the price that a special license holder is to pay to the holder of a general license for transmission of their broadcasts. On August 13, 2008, the Minister of Communications published a press release on the subject of the adoption of the recommendations of the Grunau Committee and on the subject of the organization of the multi-channel television market, the Minister of Communications decided to carry out a comprehensive examination of all levels of the broadcasting field and to appoint a committee for this purpose, to formulate recommendations with regards to the policy and rules of competition in the multi-channel television and the commercial television fields. Such a committee, as noted, was not appointed, in the light of the appointment of an inter-ministerial committee

NOTE 1:—GENERAL (Continued)

(hereinafter—the Mordechai Committee) to examine the implications of a change in the method by which the commercial television broadcasting field is organized.

Beside the recommendations of the Mordechai Committee in 2009, in connection with the commercial television broadcasting field (including, inter alia, the transition from the concessions method to licensing and the expansion of the range of channels in the DTT broadcasts), recommendations were also made in the multi-channel television broadcasting field, inter alia, as follows: (1) the duty to offer a narrow package of channels in consideration for the payment of an access fee; (2) the deferral of the time for the broadcast of advertizing by a license holder to January 2012; (3) the distribution of special channel broadcasts without collecting payment over and above the access fee and as part of the narrow basic channel of channels.

In February 2010 the Ministry of Communications announced that the Minister of Finance and the Minister of Communications has appointed a committee that was to be headed by the Director General of the Ministry of Industry and Trade, Mr. Amir Hayek (hereinafter the Hayek Committee), which would examine two main subjects and make recommendations on their behalf: (a) a new arrangement for charge rates for the Bezeq company, with the arrangement being adapted for the changing environment in the telecommunications sector and the policy of competition; and (b) the determination of charge rate for various section, which relate to the supply of services in the wholesale market in the landline segment by the owners of the universal infrastructure and the setting of charge rates for the completion of conversations on the fixed-line networks. On March 3, 2011, the Hayek Committee published recommendation on the structural issues, which were presented for comments by the public. For details in respect of the final recommendations of the Hayek Committee, see section 2b(6) below.

2. *The in country landline telecommunications field*

HOT Telecom, a partnership that is wholly owned, directly and indirectly, by Hot, is engaged in the provision of in country landline telecommunications services on the cables infrastructure. The services in this field are provided under a general license for the provision of in country landline telecommunications services (hereinafter—a national operator license). The national operator license that was granted to HOT Telecom permits, inter alia, the provision of access service to fast internet providers (transmission) on the cables infrastructure, the provision of in country landline telephony services, data communications services and digital and optical transmission in a range of speeds and band widths, as well as internet protocol virtual private line data transmission services (IPVPN). In addition, as of the time of the report, the Group's telecommunications network allows the provision of transmission services on optical fibers using Synchronous Digital Hierarchy (SDH) or Internet Protocol (IP) technology.

a) *Licenses in the in country landline telecommunications field*

1) HOT Telecom operates in accordance with a national operator license, which was granted to it by the Ministry of Communications in November 2003 (hereinafter—the national operator license).

The said national operator license was given for a period of twenty years and it can be extended with the approval of the Minister of Communications, for additional periods of ten years each.

2) In June 2006 the Head of the Civil Administration granted HOT Telecom a license for the provision of telecommunications services in a number of settlements in Judaea and Samaria.

NOTE 1:—GENERAL (Continued)

The license that was granted is in place until November 30, 2023 and it can be extended for an additional period of 10 years each time, subject to the conditions that were stipulated in the license. HOT Telecom provides telecommunication services under the license, in a similar format to that which it provides under the national operator license, in a number of settlements in Judaea and Samaria.

3) In September 2007 HOT Telecom was awarded a special license by the Ministry of Communications, for the operation of broadcasting centers, which replaced the previous licenses that Hot and the other cable companies held prior to the merger transaction. The special license will remain in force so long as the broadcasting license, which has been granted to Hot is in force, but no later than August 31, 2012, unless it has been extended with the approval of the Director.

b) *Legislation and supervision*

HOT Telecom's operations in the communications field are subject to the supervision of the Minister of Communications and the Ministry of Communications, who are empowered to arrange and to permit the provision of services in the telecommunications field. The policy of the Minister of Communications and the Ministry of Communications has a significant impact on HOT Telecom's operation in this field.

In addition, HOT Telecom's operations in the telecommunications field are subject to the national operator license, which stipulates conditions and restrictions on a wide range of aspects.

1) *Restrictions on the operations of the Bezeq Company, which constitutes a monopoly in the field*

In May 2010, with the decline in Bezeq's market share in the landline telephony field to less than 85%, the Ministry of Communications announced the amendment of the license of the Bezeq company and of its subsidiary companies, in respect of the possibility of marketing joint baskets of services. In July 2010 the Ministry of Communications announced that in continuation of the amendment of the licenses, as aforesaid, Bezeq would start to offer a basket of services in co-operation with the subsidiary companies in its group. As of the time of these financial statements, to the best of Hot's knowledge, Bezeq markets two telecommunications baskets, which include: (1) internet infrastructure services (ADSL) as well as the ISP services of its subsidiary company—Bezeq International; and (2) internet infrastructure services (ADSL), the ISP services of its subsidiary company—Bezeq International and fixed-line telephony services. On February 3, 2011 the Ministry of Communications published a hearing for Bezeq and its subsidiary companies, in accordance with which the Ministry intended to amend their licenses in the wake of the decline of Bezeq's market share below 85%, in the business sector as well, in a manner that would enable Bezeq and its subsidiary companies to market joint baskets of services to business customers as well. HOT Telecom has presented its position in connection with the hearing.

On July 3, 2012 the Ministry of Communications announced the amendment of the licenses held by Bezeq and its subsidiary companies, such that they will be permitted to market joint bundles of services to the business sector as well.

In Hot's assessment, the amendment to the licenses of Bezeq and its subsidiary companies and the marketing of joint baskets of services could lead to a significant decrease in the Group's revenues, having a negative impact on the Group's business results. As of the time of these financial statements, the said impact is not yet apparent.

NOTE 1:—GENERAL (Continued)

2) *The obligation to provide service*

HOT Telecom is committed to provide service to anyone who requests it in the entire region covered by the license. The requirement to provide the service in certain cases causes a situation in which HOT Telecom is committed to provide service where this is not economically feasible and Hot has made approaches to the Ministry of Communications requesting an exemption from the requirement to provide service to various people who have requested it. In accordance with the provisions of national operator license, it is stipulated that the Minister of Communications is to appoint an exceptions committee, which is to deal with applications for an exemption from the holder of a license. On January 23, 2012 the Telecommunications Regulations (Telecommunications and Services) (Consultative Committee) (Temporary Directive)—2011 was published (hereinafter in this section—the Regulations).

The regulation contain provisions in respect of the appointment of a consultative council (in this section—the Council), whose role is to consider applications that have been presented by holders of a national license, with the objective of restricting the requirement to provide service that applies to them under Regulation 18(C)(3) of the Telecommunications Regulations (Telecommunications and Broadcasts) (procedures and conditions for the receipt of a general license for the provision of in country landline telecommunications services)—2000, or under the provisions of the national operator license that was granted to them, which commits them to providing service to anyone who requests it.

In addition, the Committee is to consider applications that have been presented by a company that holds a license with the objective of restricting the requirement to provide the service, which applies to it under Regulations 26 and 27 of the Telecommunications Regulations (Instillation, operation and maintenance)—1985, or under the provisions of the general license that has been granted to it, which require Hot to provide its services to anyone who asks for them. The Regulations contain provisions relating to the composition of the Committee, the arrangements for its work, the considerations that it is to take into account when it comes to consider an application and in respect of its recommendations.

In continuation to the publication of the Regulations, on November 17, 2011 the Minister of Communications appointed a consultative committee, which has five members, in accordance with Regulation 2 of the Regulations. HOT Telecom has presented applications to the Committee, in respect of the demands to receive service, which had been presented to it immediately before the entry into force of the Regulations.

It should be noted that in accordance with the provisions of the national operator license, the non-compliance with the requirement to connect, as aforesaid, could, inter alia, lead to the cancellation of the license or be grounds for the non-extension of the period of the license, as well as creating an exposure to lawsuits from citizens who have not been connected to the cables infrastructure. It should be noted in this connection that in past an application for recognition as a class action was filed against Hot in respect of the non-connection of settlements to the cables network, which were turned down and the applicant has filed an appeal against the turning down of the action. Furthermore, on January 3, 2011, Hot received an application for the approval of a further class action on the allegations that Hot has breached the provisions of the national operator license in that it has avoided connection settlements on the periphery to its infrastructure.

NOTE 1:—GENERAL (Continued)

3) *The provision of broadband telephony services (VOB)*

In January 2007, the Ministry of Communications published its policy for the regulation and licensing of the provision of telephony services via the broadband internet infrastructure—Voice over Broadband (VOB). Within the framework of the policy decision, it was stipulated that the provision of in country landline VOB services was to be organized within the framework of a designated in country operator license that would be given in accordance with the provisions of the Telecommunications Regulations (Telecommunications and Broadcasting) (Proceedings and conditions for receipt of a designated general license), 2004. In accordance with the said license, the provision of telephony services using VoIP technology would be permitted using the broadband access service of a national operator that holds a general national operator's license (as of the date of the approval of the financial statements, HOT Telecom or Bezeq).

This policy enables a sort of virtual ''unbundling'', with the supply of the service making use of sections of the access network, but without making payment to the owner of the network for its use and whilst competing with it in the provision of telephone services, except for a reciprocal connection fee.

It was further decided that the payment arrangement in respect of the reciprocal connection fee was to be examined by the Ministry of Communications no later than by February 1, 2009. Despite the fact that this date has passed, the arrangement remains in place, which means that the reciprocal connection fee in respect of a conversation that ends on a VOB operator network is charged at an identical rate as the reciprocal connection fee to the general national operator network. As of the date of the financial statements, a number of companies are providing VOB services in accordance with the Ministry of Communications' policy on this matter, under designated domestic operator licenses that have been issued to them.

4) *The use of the Israel Electricity Corporation's infrastructure for the provision of telecommunications services*

In January 2010, the Ministry of Communications announced that in light of its desire to exploit the existing infrastructure of the Israel Electricity Corporation Ltd. (IEC) with the objective of increasing the level of competition in the telephony and broadband internet field, it intends to grant a communications company, which would be set up for this purpose (in which the IEC would hold no more than 49% of the means of control and which it would not control) a license to provide various communications services including, inter alia, transmission services and broadband internet services to subscribers. In June 2010, the Ministry of Communications announced that the IEC had presented the Ministry with the results of a technological trial for the provision of high-speed internet services on its existing infrastructure, which was conducted in Kiryat Shmona. In July 2010, the government reached a decision in accordance with which, inter alia, the Electricity Sector Law and the Communications Law would be amended so that a communications company, as aforesaid, which is related to the IEC would be permitted to operate in the communications market, subject to certain conditions. As at the date of these financial statements, the Law has not yet been amended as aforesaid. Hot has expressed its opposition to the granting of a license for the provision of communications services on the IEC's infrastructure to the Ministry of Communications.

In accordance with the announcement by the Ministry of Communications on March 6, 2011, the Government has approved the establishment of a new telecommunications infrastructure company (hereinafter—the telecommunications company) in which

NOTE 1:—GENERAL (Continued)

51% of the shares will be held by a private external investor (hereinafter—the partner) and 49% of the shares will be held by the IEC.

On July 10, 2011 the Ministry of Communications announced its intention to publish a tender for the selection of an external company (hereinafter—the investor), which will cooperate with a subsidiary company of the IEC (hereinafter—the telecommunications company), which will receive a license for the provision of various telecommunications services with the objective of exploiting the IEC's existing infrastructure, in order to increase the level of competition in the telephony and broadband internet field.

On October 9, 2011 the Ministry of Communications, the Treasury and the Ministry of National Infrastructures announced the setting up of a joint committee of the government and the IEC, whose objective is to select the investor in the telecommunications company, in a process that is supposed to last about six months. It should be noted that on October 25, 2011 an amendment to the Telecommunications Regulations (Telecommunications and Broadcasting) (Processes and conditions for the receipt of a general license for the provisions of in country landline telecommunications services)—2011, which sets conditions for the granting of a national infrastructure operator license.

On May 3, 2012, the Ministry of Communications and the Committee for the selection of an investor for the communications company announced their decision to make changes in the selection process, which should significantly improve the profitability of the Electricity Corporation's communications venture.

5) See section 1b(7) above on the subject of the amendment of the Telecommunications Law (Amendment No. 50) – 2011.

6) *Government committees for examining the telecommunications field*

a) In continuation of the recommendations of the Grunau Committee, in February 2010 the Ministry of Communications announced that the Minister of Finance and the Minister of Communications had appointed a committee headed by the former Director General of the Ministry of Industry, Trade and Employment, Mr. Amir Hayek (hereinafter—the Hayek Committee), which will examine and make recommendations on their behalf in respect of two key issues: (a) a new charge rate arrangement for Bezeq, which has been adapted to the variable charge rates in the telecommunications sector and the policy of the level of competition; and (b) the setting of charge rates for various sections, which relate to the provision of services in the wholesale market in the landline segment by the owners of the universal infrastructure, and the setting of charge rates for the completion of a conversation on the landline networks.

It should be noted in this connection that it was stipulated in the Committee's letter of appointment that it will be entitled, but not bound, to make a recommendation on any issue that is required in order to formulate its recommendations that were the subject of the letter of appointment, subject to the holding of a public hearing.

On March 3, 2011 the Hayek Committee published its recommendations on the structural issues that were presented for the receipt of comments from the public. The Committee clarified that the structural recommendations constitutes as aforesaid a condition for the implementation of the detailed arrangements that would be formulated by it later on. The Committee's recommendations relate, inter alia, to the following subjects: (a) the cancellation of the requirement of structural separation in the landline field and in other fields in the

NOTE 1:—GENERAL (Continued)

telecommunications sector, except for the multi-channel television field, which will be cancelled after the operation of the television market on the internet becomes possible; (b) the supervision of the retail price of the Bezeq company will be under a method for determining the maximum price and not under a method by which a fixed price is set in accordance with section 15(A) of the Telecommunications Law, which is to be done without delay and independently of any other subject in accordance with the letter of recommendations; (c) holders of general national operator licenses are to provide service and are to enable use of all of the infrastructure that is required in order to enable the operations of the other license holders who supply services to terminal customers, which includes, inter alia, that broadband internet access service is to be provided immediately in a manner that will enable operation and control by a service provider, who does not own the infrastructure, who can manage the service; (d) the holders of national operator licenses are to routinely make public to the other license holders in the telecommunications field the deployment of the existing infrastructure in accordance with demands from the body that organizes the subject; (e) holders of national operator licenses are to reach agreements with the other license holders for the use of the types of infrastructure that are detailed above, which are to be passed on to the organizing body and which are to be published for review by the public; (f) in parallel, the Committee will formulate detailed arrangements for the various sections that relate to the assurance of the possibility of supplying the types of wholesale services that are detailed in the document. These arrangements, or any other specific involvement by the regulator, will be put into operation, if the regulator learns that the wholesale market has not developed as required within six months of the publication of the Committee's final recommendations, and within three months in respect of broadband access services; (g) the Committee attaches considerable importance to the promotion of the communications company's operations using the IEC's infrastructure, in accordance with the Government's decision, and believes that the authority that will be established in this context should be subject to the same regulations with respect to the provision of wholesale services as apply to the other general national operator license holders, with the necessary regulatory adaptations.

On the subject of the cancellation of the structural separation requirement, the Committee recommended that this is to apply immediately once the following conditions are met: (a) on the adoption of the Committee's recommendations, as detailed above; (b) at the earlier of six months from the date of the signing of the agreements with the other license holders for the provision of wholesale services, or from the date on which the provision of the services commences; (c) the holders of general national operator licenses are to provide autonomous bank guarantees of hundreds of millions of NIS as collateral for the maintenance of a wholesale market; (d) non-compliance with any of the above conditions will result, inter alia, in a regime of strict supervision over the holders of general licenses, the forfeiture of the bank guarantees, the imposition of personal accountability on the directors of the companies that own the general national operator licenses and the consideration of the imposition of structural separation between the general national operator license holder's infrastructure and the services that are provided to the final users.

On October 4, 2011 the Hayek Committee presented a report on the examination of the Bezeq company's charge rates and their updating and the setting of the charge rates for wholesale services in the landline telecommunications field.

NOTE 1:—GENERAL (Continued)

1) On May 2, 2012 the Ministry published the final policy document on the subject of the expansion of the level of competition in the fixed line communications field—the wholesale market, which primarily adopts the recommendations made by the Committee for the examination of the charge structure in the Bezeq company and the updating thereof and for determining wholesale services charges in the fixed line communications field (hereinafter—''the Hayek Committee'').

   The main points of the policy document are as follows:

   (a) The owners of the national fixed line infrastructure, who provide retails communications services (hereinafter—the ''Owners of the Infrastructure), will be required to sell wholesale services to the holders of communications licenses, who will provide services on their infrastructure (hereinafter—the service providers), including Bitstream access, the leasing of access segments (unbundling), and the leasing of dark fibers and the leasing of pipes and transmission services (hereinafter—''the Wholesale Services''), on the basis of non-discriminatory terms.

   (b) A services provider will be entitled to approach the Owners of the Infrastructure and request to make use of segments of their network, including in the provision of Wholesale Services. The service providers and the Owners of the Infrastructure are to conduct negotiations in order to formulate a usage agreement or an agreement for the supply of services, as aforesaid, and immediately upon the signing of an agreement, as described above, every owner of infrastructure is to publish a shelf offer, which is to include both the services that are included in the agreement, as aforesaid, and also the other Wholesale Services in accordance with a list that will be published by the Ministry of Communications from time to time, including the price offered for each service. An owner of infrastructure will not be entitled to grant a quantity discount to a supplier of services.

   (c) The shelf offer is to be offered to any part that asks for it, under terms that are equal and non-discriminatory, it is to be available for review by any party that requests to do so and it is to be shown on the internet sites of the owner of the infrastructure and the Ministry of Communications.

   (d) The Minister of Communications (hereinafter—''The Minister''), will be entitled to intervene in the determination of the terms or the price for the provision of Wholesale Services that have been agreed or that is demanded by an owner of infrastructure, if he should see that the same price is either unreasonable, or could harm the competition or the interests of the public or of any supplier of services, and provided that an agreement has been signed or six months have passed since the publication of the document, whichever is earlier.

   (e) The Owners of the Infrastructures are to routinely deliver to the providers of services the existing deployment of the infrastructure in accordance with demands made by the Ministry.

   (f) With the publication of the shelf offer, entities that have a relation to an owner of infrastructure will be entitled to purchase Wholesale Services from it, and provided that the Wholesale Services, as aforesaid are to be provided without discrimination to any party that requires them. With the publication of the shelf offer by the Bezeq company, it will be given the

NOTE 1:—GENERAL (Continued)

possibility of providing telephony services to its subsidiary companies in a wholesale format, under terms that are parallel for any party requesting them, without discrimination.

(g) Within nine months from the publication of the shelf offer, the Minister is to give instructions for the cancellation of the structural separation between an owner of infrastructure and a provider of services that has a relation to it, subject to the qualifications that have been determined in the document. Furthermore, if the Minister has determined that the development of the wholesale market and the level of competition permit this, the Minister will consider approving the cancellation of the structural separation between and owner of infrastructure and a mobile radio-telephone operator with a relation to it.

(h) The Minister will consider the detachability of the television broadcasting services, which are included in the joint packages of services, which also include telecommunications services (fixed line or mobile) or broadband access services. The cancellation of the structural separation between the Owners of the Infrastructure and the multi-channel television field is to be done if there is a reasonable possibility for the supply of a basic package of television channels via the internet network by suppliers who do not have national fixed line infrastructures.

(i) If the wholesale market does not develop in a proper and appropriate manner in accordance with the criteria that will be set for that, within 24 months from the publication of the policy document, the Minister will act to implement a structural separation between the infrastructure of a general domestic fixed-line operator and the services that are provided by it to the end customers.

(j) Within six months of the publication of the shelf offer, the Minister will act to change the method of supervision over the charge rates of the Bezeq company, such that the supervision will be exercised by means of the determination of a maximum charge rate.

(k) The Ministry will form an arrangement within nine months, which objective is to increase the level of investment in fixed line communications infrastructure in Israel and to upgrade it.

b) Following the publication of the policy document, on May 28, 2012, the Ministry of Communications initiated the setting up of an engineering forum on the issue of the wholesale services, with the participation of the relevant telecommunications operators, which as of the time of this report has held a number of meetings.

In tandem, Hot is conducting negotiations with various operators.

As of the date of this report, the policy of the wholesale market has not been implemented yet.

At this stage Hot is not able to assess the impact of the policy document on its future business results.

7) *Structural separation*

Provisions are stipulated in the national operator license in respect of the existence of an structural separation between Hot as the holder of a broadcasting license, and Hot Telecom as the holder of a national operator license and its general partner, in a similar manner to the provisions set in the broadcasting license, inter alia, in accordance with what is detailed as follows: (1) At least half of the members of Hot's Board of Directors are not to hold office in the

NOTE 1:—GENERAL (Continued)

Board of Directors of the general partner of HOT Telecom, and at least one of the members of Hot's Board of Directors must not be an related party in Hot or an office holder in an related party in Hot; (2) There is to be structural separation between the management of Hot and the management of HOT Telecom and the general partner of HOT Telecom, including on all matters relating to the business system, the financial system and the marketing set up; and in addition there is a requirement to separate the assets, and there is to be a mutual prohibition on the employment of employees. Despite the requirement for separation, as aforesaid, HOT Telecom is permitted to sell a basket of services that includes the services of HOT Telecom and broadcasting services that are provided by Hot, and to perform the collection activities that are involved in that, and solely that HOT Telecom only transfers commercial information to Hot that it need in order to market a basket of services and to make collections as aforesaid.

In accordance with the amendment to the national operator license in August 2009, qualification and reliefs were determined in respect of the requirement for structural separation as set from the outset in the national operator license. It was also determined in the amendment, inter alia, that HOT Telecom is entitled to make use of Hot's management, operational and information systems maintenance, billing and collection services, in consideration for a reasonable payment and within the restrictions that have been placed on access to information, in accordance with the conditions that have been set in the amendment. In addition, it was stipulated that HOT Telecom and Hot will be entitled to make use of the assets in which the other entity has property rights in consideration for a reasonable payment. HOT Telecom is further permitted to make use of manpower services that are provided by Hot in consideration for a reasonable payment, and to pass financial information to Hot's Chief Financial Officer in respect of HOT Telecom, and solely that the information is required for the purpose of monitoring the provisions of the financing agreement that was signed between Hot and the banks in December 2006 (and which was most recently amended in November 2011).

8) On September 11, 2012, the Ministry of Communications announced that the blocking or restriction of the use of terminal equipment as ''a hot spot'' that distributes radio signals in a manner that enables additional nearby equipment to use the subscriber's cellular internet is a contravention of the law and that it is to be discontinued and avoided.

3. *The cellular telecommunications field*

Mirs, the purchase of whose entire share capital was completed by Hot in November 2011 (see Note 3), operates in the cellular telecommunications field.

Mirs provides cellular telecommunications services to its customers using designated technology (iDEN), which include: Walky-talky services (Push to Talk), telephone conversations, data transfer, content services, added value services, text message sending, cellular oversees roaming services, as well as the sale and maintenance of terminal equipment. The iDEN technology is cellular technology that permits a combination of personal and group walky-talky conversations with telephone conversations, data transfer and message transfer (SMS).

In addition, Mirs provides its customers with selling and maintenance services for terminal equipment, which also includes the sale of ancillary equipment for mobile telephones such as hands free sets, pouches and so on.

a) *Licenses in the cellular telecommunications field*

1) Mirs received a special license from the Ministry of Communications for a multi-wave, multi-frequency access business, using iDEN technology, which was developed by the Motorola Solutions company (formerly Motorola Inc.), which is the technology that is used by Mirs as of the date of these financial statements (hereinafter—the special

NOTE 1:—GENERAL (Continued)

license). On February 5, 2001 the Ministry of Communications converted the special license into a general license for the provision of radio, mobile telephone services in Israel and on February 11, 2003 that license was extended by 15 years until 2016.

2) In April 2011 Mirs won a tender that was published by the Ministry of Communications for the allocation of frequencies, which enable the setting up of a generation 3.9 network (UMTS). Within the framework of the tender, Mirs gave an undertaking to supply national coverage (at an extent of 90%) by means of the new infrastructure within seven years of the receipt of the new radio, mobile telephone license, part of which was to be provided by means of Mirs existing sites, which would be converted to the new broadcasting frequencies, and some of which by means of new sites to be set up by Mirs. Till the completion of the coverage as required in the radio cellular telephone license of Mirs, Mirs can expand the coverage by means of the use of in country roaming services.

The version of the license that was received in 2001 was amended in September 2011 in order to adapt it to the terms of the frequencies tender that was won by Mirs (hereinafter—the expansion of the license). Within the framework of the expansion of the license, it was stipulated that the license would be in force for a period of twenty years, as from September 26, 2011. However, it is stipulated in the license that on the matter of the use of frequencies, Mirs will be entitled to make use of the frequencies that have been allocated to it in the course of 2001 until February 4, 2016.

Within the framework of the tender, Mirs gave an undertaking to provide countrywide cover by means of the new network during the course of the seven years that follow the receipt of the license at an extent of 20% inside two years, an extent of 40% within four years, an extent of 55% within five years, an extent of 75% within six years and an extent of 90% within seven years.

In accordance with the results of the frequency tender, the license fees were set at an amount of NIS 705 million (hereinafter—the license fees). Mirs paid an amount of NIS 10 million on the receipt of the license and it is to pay an additional amount of NIS 695 million after a period of five years commencing on September 26, 2011 (hereinafter—the time of the expansion of the license), in the wake of its win in the frequencies tender (hereinafter—the balance). Mirs has made a bank guarantee in an amount of NIS 695 million available in respect of the balance. However, the license contains a mechanism for the reduction of the balance, as follows: the entitlement to the reduction of the license fee will be examined in accordance with the market share that Mirs accumulated in the private sector at two times that have been set for the examination—two years from the time of the expansion of the license and at the end of a period of five years from the time of the expansion of the license (hereinafter—the market share).

The market share will be calculated as the regular average of (a) the ratio between the number of Mirs private subscribers and the overall number of subscribers in the private sector; (b) the ratio between the number of outgoing minutes that are initiated by Mirs private subscribers and the overall number of outgoing minutes (including minutes within networks) in the market that are initiated by the generality of subscribers in the private sector; (c) the ratio between the volume of revenues from Mirs private subscribers and the volume of revenues from subscribers in the private sector as a whole. In accordance with the key for the reduction, the balance of the license fee will be reduced by a seventh for each 1% of market share that has been accumulated by Mirs.

At the end of a period of five years and three months from the date of the granting of the license, Mirs will pay the lower of the balance, which has reduced in accordance

NOTE 1:—GENERAL (Continued)

with the market share that it has accumulated up to the time of the second check, or the balance, which has reduced in accordance with the market share that it had accumulated up to the time of the first check.

As of the time of the signing of these financial statements, Mirs is engaged in the setting up of the new network and is making preparations for the start of its commercial operations. In accordance with its assessment and its forecasts, inter alia on the basis of the assumption that regulation will exist that will enable the construction of instillations or that will give an exemption from the need to construct instillations. The new network is expected to begin to operate during the course of the year 2012. Costs in connection with the new network, which have been incurred after the time of its win and which can be attributed directly to bringing the network to its current state in a manner that it can operate in the manner in which management intended, have been recorded as part of the cost of the fixed assets that are attributed to the network.

b) *Legislation and supervision*

Mirs' operations in the field of activity are subject to the supervision of the Ministry of Communications, which is empowered to organize and to permit the provision of the services in the telecommunications field.

1) *Mobile Virtual Network Operators (MVNO)*

On January 19, 2012 the Ministry of Communications published regulations, which enable telecommunications companies to present an application for the granting of a virtual operator license in accordance with the conditions that are set in the regulations. To the best of Mirs' knowledge, as of the date of the financial statements, a number of companies have presented applications to receive a virtual operator license, of which eight companies have received the said license. On November 17, 2010 the Ministry of Communications announced that the Director General of the Ministry has made an approach to the cellular companies and the companies that hold an MNVO license, asking to receive details on the question of whether negotiations were being held on the terms of the commitment between the cellular companies and the virtual operators in accordance with the provisions of the Telecommunications Law, and the stage at which the negotiations were situation, in so far as they had started.

On December 23, 2010 the Bezeq company announced that its subsidiary company, Pelephone Communications Ltd. (hereinafter—Pelephone) had entered into a commitment under an agreement in accordance with which Pelephone would allow a virtual network operator to use sections of its network for the purpose of providing cellular services to the public. To the best of Mirs' knowledge, during the course of the year 2011 the virtual network operator began to operate in the field of mobile telephony services.

The entry of MVNO operators into the cellular telecommunications field as well as the issuing of licenses to virtual operators who will operate under the VOIP method will increase the competition in the field and could impact on Mirs' profitability rates.

2) *The Telecommunications Law*

The Telecommunications Law and the Regulations that have been promulgated thereunder are the main legislation that organizes the field of telephony services in Israel. The Telecommunications Law prohibits any person from providing Bezeq services without have received an appropriate permit or license from the Minister of Communications. In addition, the Law empowers the Minister of Communications to

NOTE 1:—GENERAL (Continued)

impose significant monetary sanctions on license holders who breach its provisions and/or who have caused significant damage to the public or to its competitors.

On December 14, 2011, a draft of the Telecommunications Law (Bezeq and broadcasting) (Amendment No. 52) (The prohibition of payment and the loss of a benefit as the result of the cancellation of an agreement for the provision of radio, mobile telephone services)—2011 (hereinafter—the draft law) was published in the official gazette. Within the framework of the draft law, it is proposed that the collection of payments and the prevention of benefits from a subscriber of a radio, mobile telephone license holder, who seeks to cancel the commitment agreement with the holder of the license be absolutely forbidden, except for the collection of the balance of the payments for the terminal equipment that the subscriber purchased from the license holder, in accordance with the provisions of section 51B of the Telecommunications Law. The proposed amendment will apply to subscribers who entered into a commitment under an agreement with a holder of a radio, mobile telephone license as from November 1, 2011 (except in relation to customers who have 100 or more subscriptions). Furthermore, in accordance with this proposal, as from January 1, 2013 it will not be possible to make a connection between a transaction for the purchase of terminal equipment and a transaction for the provision of services.

In this connection, on March 5, 2011 the Finance Committee of the Knesset (hereinafter—the Committee), approved a draft law within the framework of its preparation in advance of the second and third readings. The law is expected to reach the Knesset Plenum for second and third readings and to be published in the official gazette in April 2012.

In Mirs' assessment, the said change is likely to further reduce the barriers to transferring between the competitors in the cellular market and this to ease the acquisition of market share by new competitors, including Mirs.

However, as of the time of these financial statements, Mirs is unable to quantify the degree to which this will impact on its business, inter alia, since the transition provisions on the matter of the amendment of the Law, in the event that it is passed, have not yet been clarified.

3) *The Non-ionized Radiation Law*

During the course of January 2006 the Non-ionized Radiation Law (in this section—the Law) was passed, within the framework of which the Planning and Construction Law—1965 (hereinafter—the Planning and Construction Law) was also amended. The main provisions of the Law entered force at the beginning of 2008. The amendment determines, inter alia, that as a condition for the issuance of a license for the construction of a broadcasting facility, a letter of indemnification against claims for compensation under section 197 of the Planning and Construction Law, in respect of impairment in the value of land is to be demanded by the planning institution, which gives the permit (hereinafter—the letter of indemnification), in accordance with the directives issued by the National Council. These directives will remain in force until a change is made in National Outline Plan 36. At the beginning of January 2006 official directives from the National Planning and Construction Council, in which a duty of indemnification at a rate of 100% was set, were published. The deliverer of a letter of indemnification will be given the possibility of conducting the legal proceedings opposite a claim that is presented, as aforesaid.

Following the legislation of the Law, Mirs has delivered 215 letters of indemnification as a condition for the receipt of building permits at various sites across the country.

NOTE 1:—GENERAL (Continued)

Up to the date of the financial statements, no claims have been filed against Mirs under the letters of indemnification and in accordance with an announcement by the Attorney General, no claims will be recognized under the letters of indemnification, which are presented after one year has passed since the time of the receipt of the building permit.

In July 2012, the Supreme Court gave instructions for the extension for a limited period of the temporary order that prohibits the setting up of wireless access facilities with an exemption from a building permit, in relation to HOT Mobile and Golan Telecom until January 31, 2013. An additional hearing has been set in the Case. On July 17, 2012, the Interior and Environmental Committee of the Knesset approved the Un-ionized Radiation Bill (Amendment No. 3) (Safety and the maximum level for a source of radiation in radio frequencies) for its first reading. The bill contains significant restrictions that relate to the placement and operation of wireless access instillations.

4) *Structural separation*

In accordance with the terms of the license, Mirs is to maintain structural separation between itself and Hot and HOT Telecom, as detailed below: (a) full separation between Mirs' management and the managements of Hot and of HOT Telecom, including in all matters relating to the business system, the financial system and the marketing system; (b) full separation between Mirs' assets and the assets of Hot and of HOT Telecom; (c) Mirs is not to employ Hot's employees, nor is it to employ HOT Telecom's employees, and it is not to cause in any way, whether by act or by omission, for Hot or HOT Telecom to employee its employees; (d) conditions exist in relation to the maintenance of the confidentiality of commercial information, its receipt and its transfer to Hot and to HOT Telecom.

5) On March 21, 2012 the Knesset passes an Amendment to the Communications Law, in the following manner:

(a) The placing of a prohibition on a holder of a license from making the connection between the commitment of a subscriber for the receipt of mobile radio telephone services and the commitment of the same subscriber, with it or with another, for the rental, borrowing or leasing of CPE, whether in one agreement and whether in separate agreements, including by way of the giving of a discount or any other benefit whatsoever, in one commitment as a result of the second commitment. The amendment will apply as from January 1, 2013. The Minister of Communications has the possibility of deferring this time by six months.

(b) The placing of a prohibition on the collection of exit fees in respect of a subscriber (as defined in section 51A(a) of the Communications Law), who has entered into a commitment under an agreement with a license holder as from November 1, 2011 and thereafter, who has cancelled the agreement from the day on which the amendment to the law entered force.

6) Mirs has approached the Ministry of Communications with a request to replace its current prefix (057) to another prefix (053). In continuation of this, and after a hearing that was held, on March 12, 2012, the Ministry of Communications determined that the prefix 053 would be allocated for use by Mirs with immediate effect. The vacation of the 057 prefix will be done gradually and there will be an overlapping period in which use will be made of both prefixes. At the end of the process, all of the numbers with a 057 prefix will be changed to identical numbers with a 053 prefix. The Ministry further determined that Mirs is to bear the direct engineering costs of all of the communications license holders, which are involved in the implementation of the transfer to the new prefix and the replacement of the old prefix.

NOTE 1:—GENERAL (Continued)

c) On May 14, 2012 Mirs launched the sale of advanced cellular services on 3.9 generation GSM network.

d) On May 21, 2012 the Registrar of Companies approved the changing Mirs name to ''Hot Mobile Ltd.''.

e) On September 11, 2012 the Ministry of Communications published its position on the subject of the blocking or restriction of the use of hand-set equipment as ''a hot spot'' that distributed radio signals (Wi-Fi) in a manner that enables additional nearby equipment (such as a computer) to use the subscriber's cellular internet. The ministry determined, within the framework of the document, that such blocking or restriction is a contravention of the law and that it is to be discontinued and avoided.

f) On July 17, 2012, the Interior and Environmental Committee of the Knesset discussed the Un-ionized Radiation Bill (Amendment No. 3) (Safety and the Maximum Level of Exposure to a Source of Radiation in Radio Frequencies) and approved it for its first reading. The bill contains two significant restrictions that relate to the placement and operation of wireless access facilities: (a) the cancellation of section 266C of the Planning and Construction Law—1965, which deals with the issue of an exemption for wireless access facilities and (b) a prohibition on the placement of access facilities on roof balconies and in residential apartments. With regards to facilities that have been installed to date, the bill determines that they may continue to operate until the end of the period of the permit for operation that was afforded them. The said bill has not yet been discussed in a first reading in the Knesset plenum. In the light of the bringing forward of the elections to January 22, 2013 and the dispersal of the Knesset there will be no continuity in the said bill and it will not be passed on to the next Knesset unless a special hearing is heard for it during the period until the elections and it is approved in a first reading in the plenum.

4. *The internet supply services—ISP services field*

In 2008 Hot Group made an approach to the Ministry of Communications requesting a license for ISP services. On December 5, 2010 it was decided to grant a license for the provision of ISP services to a subsidiary company of Hot (hereinafter—the decision), subject to arrangements that were stipulated in the decision, including the amendment of certain provisions in HOT Telecom's national operator license and Hot's broadcasting license (hereinafter—the amendments to the national operator license and the broadcasting license).

In continuation of the decision, on December 14, 2010 the Ministry of Communications granted a special license to HOT Investments and Finance Ltd., which changed its name to Hot Net Internet Services Ltd. (hereinafter—HOT Net), a subsidiary company of Hot (hereinafter—the internet provider) to carry out Bezeq activities and to provide Bezeq services—internet access services (hereinafter—the ISP license). On February 15, 2012, HOT Net began to supply ISP services to private subscribers. As of the date of these financial statements, this activity of Hot Group is not on a significant filed, and therefore it is not reported as a reportable segment.

The details of the ISP license are presented below:

a) *Services under the license*

The license affords the internet supplier authorization to provide various Bezeq services, including: internet access services, e-mail services, the setting up and maintenance of a data transfer network, electronic data interchange (EDI), processing activities, management and routing of messages and system management services (including the monitoring and handling of malfunctions, information security, information systems and information compression, the security of access to the computer of the recipient of the service).

NOTE 1:—GENERAL (Continued)

b) *The period of the license*

The ISP license has been given for a period starting at the time of the granting of the license and ending on December 31, 2015. Towards the end of the period of the license the internet provider will be entitled to present an application for the renewal of the license for an additional period.

The ISP license contains provisions on the subject of a prohibition on the transfer of the license as well as any right or duty thereunder, except with the approval of the Minister of Communications, as well as restrictions on a charge on the means of control in the license holder or in a related party therein, as well as restrictions on a charge on the license assets. Despite the aforesaid, the internet supplier is entitled to charge any of the license assets in favor of a banking entity that lawfully operates in Israel, for the purpose of receiving bank credit and solely that the charge agreement is to include a terms that the exercise of the rights is not to harm the provision of the services in accordance with the license.

c) *The requirement for structural separation*

The provisions of the ISP license require HOT Net to maintain structural separation between HOT Net, Hot and HOT Telecomm which includes a requirement to separate the managements of the entities, including on all matters relating to the business system, the financial system and the marketing system, the separation of assets of Hot and a prohibition on employing the employees of another entity. Furthermore, HOT Net is to have a separate CEO appointed. The amendments to the national operator license and the broadcasting license add a prohibition on Hot and on HOT Telecom from transferring commercial information that they possess to HOT Net, including information on subscribers and marketing plans, unless this is required for the purpose of supplying a joint basket of services as described in section (e) below.

d) *The duty to provide service without discrimination*

The internet supplier will be required to provide its services to any random subscriber or recipient of service or holder of an ISP license, including subscribers of other holders of a national operator license or a radio, mobile telephone license, and this is to be done without discrimination and under egalitarian terms.

e) *The marketing of a joint basket of services*

In accordance with the provisions of the ISP license and the amendments to the national operator and the broadcasting licenses, each of the following entities: HOT Net, Hot and Hot Telecom will be entitled to market a basket of services, which includes, inter alia, Hot's broadcasting services, Bezeq services that are provided by HOT Telecom, in whole or in part, together with HOT Net's ISP services, and to carry out the collection activities that are involved therewith, subject to compliance with certain conditions that were set in the license.

f) On June 26, 2012 the Ministry of Communications (hereinafter—''The Ministry'') announced a hearing on the subject of Gigabit Ethernet (GBE) connections for ISP providers (hereinafter—''The Gigas''). In accordance with the hearing, in the light of the expectation that the use of the television broadcasting services via the open internet network (OTT) will increase and in order to ease the entry of additional players into the broadcasting field, the Ministry is considering instructing, inter alia, as follows:

1) The service files, which were determined for the ''Broad Band Access for Internet Providers'' service (by Hot Telecom's cable modem) and for the ''fast rate access via an internet provider'' service (the Bezeq company's XDSL service), shall be amended such that those services are to include all of the components that are require in order to provide the surfing speeds for the purchasers of the service, including the carrying

NOTE 1:—GENERAL (Continued)

of traffic on the access and core networks, whilst cancelling the payments that are currently levied by Hot Telecom and Bezeq (hereinafter—''The Owners of the Infrastructure'') on the ISPs for the Gigas, subject to what is stated in section 2 below, in relation to the transmission from point-to-point segment, which connects between the networks of the Owners of the Infrastructure and the facilities of the ISPs (hereinafter—''the Transmission Segment'').

2) In accordance with the proposed regulations, the Owners of the Infrastructure are to cost the entire internet access services from end-users, including the Gigas segment, subject to the provisions of section 17 of the Communications Law and except for the Transmission Segment, which is to be costed separately as detailed in section 5 below.

3) The Owners of the Infrastructure are to maintain at least two connection points with each of the ISPs in each of the geographical regions in the country—North, Central, South, both on the Bezeq network and also on the Hot Telecom network, and they are to enable the ISPs to select a connection in at least two of the said geographical regions. These connection points are to be approved by the Ministry of Communications.

   The existing connection points for the large ISPs (Netvision 013, Bezeq International and 012 Smile) will continue to constitute connection points for selection by the ISPs, and they will come in addition to the connection points that have been noted above.

4) The Owners of the Infrastructure will be required to provide Giga connections at a rate that will be derived from the ''loading ratio'' as may be determined from time to time by the Ministry, and the ISPs will be required to install Giga connections at a rate that will be derived from the ''loading ratio'' as aforesaid. The Ministry is satisfied at present that ''the loading ratio'' that is appropriate is 5%, in other words, the Owners of the Infrastructure will be required to provide each ISP with Giga connections at an extent of 5% of the aggregate connection rate that has been ordered by the subscribers of that ISP.

5) The ISPs will be entitles to reach the said connection points by means of transmissions that they may purchase from the Owners of the Infrastructure or from one of the other appropriate license holders, who provide Gigabit Ethernet transmissions.

g) On August 8, 2012 Hot Telecom presented its comments to the hearing. In accordance with Hot Telecom's position, inter alia, there is no justification for the interference by the Ministry in the commercial agreements that exist between it and the ISP providers, and in so far as in the Ministry's opinion such interference is required, then in accordance with the provisions in the law, the said prices are to be determined on the basis of cost plus a reasonable profit. Hot Telecom also claims, based on an economic opinion that has been presented on its behalf, that the outline that is proposed in the hearing could cause economic distortions and harm Hot Telecom and the consumers.

5. On February 14, 2012, Hot received a letter from the Ministry of Communications, in connection with a demand for data in respect of the packages of services that Hot Group intends to market to the public. In this connection, because of the fact that the packages that are offered to the public by Hot Group offer significant discount rates, Hot was requested to present data and details to the Ministry of Communications in respect of the terms of the packages being offered by it. As of the date of these financial statements, Hot has provided the Ministry of Communications with the data that was requested.

   On February 22, 2012, Hot received a letter from the Ministry of Communications, according to which Hot, HOT Telecom and HOT Net had purportedly breached provisions in their licenses,

NOTE 1:—GENERAL (Continued)

which stipulated a requirement for structural separation, because of the joint marketing of HOT Net's services with other services provided by Hot Group (hereinafter—the approach). In response to the approach, the Companies in Hot Group informed the Ministry of Communications, that from their perspective the marketing activities were undertaken in conformity with their licenses. In continuation the companies announced that the marketing format in Hot had been adapted so as to accord with the approach taken by the Ministry of Communications. On March 20, 2012 Hot received a letter from the Ministry of Communications, according to which it had noted Hot's announcement, and making it clear that if Hot was interested in marketing a basket of joint services, within the framework of which HOT Net's services would be marketed, it was to present an application for the approval of the director and that the application would be considered properly.

6. *International operator license*

On March 18, 2008 Hot Group made an approach to the Ministry of Communications with a request to receive an international operator license in order to provide international calling services (hereinafter—the international operator license). Hot Group requested that such a license should also include international VOB services, in accordance with the policy of the Ministry of Communications as issued in January 2007. On February 2, 2012 Mirs International Telecommunications Ltd., a wholly owned subsidiary of Mirs' made an approach to the Ministry of Communications requesting to receive a general license for the provision of international telecommunications services. At this stage it is not possible to assess if and when an international operator license will be granted and what the volume of activity will be in this field, if Hot Group operates in it or what its implications will be for the Group's operations.

On May 30, 2012, ''Mirs International Communications Ltd.'' received a general license of the provision of international telecommunications services.

On July 3, 2012 an administrative directive was issued by the Ministry of Communications, according to which by no later than July 18, 2012 the general domestic fixed-line license holders operators who are noted in the directive (herein ''Operator'') are to complete the engineering interconnections between their systems and Mirs International Communications Ltd., in such manner that every subscriber, who is not a prepaid subscriber of any Operator can call abroad via Mirs International Communications Ltd., by means of the 017 prefix, and no later than August 1, 2012 an Operator subscriber who is not a prepaid subscriber is also to be able to call. It was further determined in the directive that Mirs International Communications Ltd. will be solely responsible for charging and collecting from its customers until the completion of the IT interfaces and that no later than September 3, 2012, all involved parties are to complete the IT interfaces that are required for their operations. Up to that time, Mirs International Communications Ltd. is required to complete the interconnections and its IT interfaces with all of the mobile radio-telephone license holders and all of the remaining unique domestic fixed-line license holders.

In June 2012 Mirs International Communications Ltd. changed its name to ''Hot Mobile International Communications Ltd.''.

7. *The Group's working capital deficit*

As of the balance sheet date the Group has a working capital deficit of NIS 1,435 million (as of December 31, 2010—NIS 1,040 million).

In Hot's management's assessment, as of the time of the approval of the financial statements, it has sufficient sources of funds to repay the deficit in its working capital and to continue its operations.

NOTE 1:—GENERAL (Continued)

h. Definitions:

In these financial statements:

The Company/Cool	—	Cool Holdings Ltd. S.a.r.l
The Group	—	The Company and its investee companies, which are noted in the attached list.
Hot	—	Hot telecommunication systems Ltd. And its subsidiaries.
Consolidated company	—	A company over which the Company has control (as defined in IAS 27 (2008)) and whose financial statements are consolidated with the Company's financial statements.
Affiliated company	—	A company over which the Company has significant influence and that is not a Consolidated company, and the company's investment in which is recorded in the company's consolidated financial statements under the equity method.
Investee companies	—	A consolidated company and associate company.
The parent company/Altice	—	Altice VII S.A.R.L
Related parties	—	As defined in IAS 24.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

Measurement basis

The financial statements have been prepared on the cost basis, except for the liability for cash settled share based payment transaction, derivatives and financial instruments at fair value through profit and loss, available for sale financial assets, deferred tax assets and deferred tax liabilities, and liabilities in respect of employee benefits liabilities and provisions.

The Company has elected to present profit or loss items using the function of activities method.

Basis preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter—IFRS Standards). These standards include:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. Interpretations issued by the IFRIC and by the SIC.

Consistent accounting policies

The accounting policies that have been applied consistently in the financial statements have been implemented in a consistent manner in all of the periods that are presented, except as described below.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies in view of the adoption of new standards:

IFRS 7—Financial Instruments: Disclosure:

The amendment to IFRS 7 (''the Amendment'') clarifies the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. The Amendment also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk.

The retrospective application of the Amendment did not have a material effect on the Company's financial statements.

b. Significant accounting judgments, Estimates and assumptions used in the preparation of the financial statements:

1. Judgments:

In the process of applying the significant accounting policies, the Group (the Company and the subsidiary company, including HOT's subsidiary companies) has exercised its judgment and has taken considerations into account in respect of the matters which have the most significant effect on the amounts recognized in the financial statements.

– *Classification of leases*

In order to determine whether to classify a lease as a finance lease or an operating lease, Hot Group evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, Hot Group evaluates such criteria as the existence of a ''bargain'' purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

– *Recognizing revenue on a gross or net basis*

In cases in which the Group acts as an agent or as a broker without bearing any of the risks and the reward derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis.

2. Estimates and assumptions:

The preparation of the financial statements requires, HOT management and, as a result, the Company, 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 of the change in estimate.

The key assumptions made in the financial statements of the company concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

– Transactions with a controlling shareholder

The Company received a loan from a controlling shareholder that is not at market terms and for which no repayment date has been set. The Company accounts for these transactions as including an equity benefit. Accordingly, they are recorded at fair value pursuant to IAS 39 and the amount of the benefit that is recorded in equity reflects the

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

difference between the fair value as above and the terms of the transaction. In determining the equity benefit, the Company is required to evaluate the market conditions that existed on the date of the transaction had it been provided by a third party.

– Legal claims

In assessing the chances of legal claims filed against the HOT Group, the HOT Group and the company has relied on the opinion of its legal advisers and on the work done to attribute the excess cost, which was performed within the framework of the acquisition of HOT in the years 2009 - 2011. 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 various issues, as well as on the basis of past data for the purpose of the calculation of the excess cost within the framework of the acquisition of HOT by the Company. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

– Impairment of goodwill

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. Further details are given in p.

– Deferred tax assets

Deferred tax assets are recognized for unused carry forward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level and source of expected taxable profits together with tax planning strategies. Further details are given in q.

– 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.

c. Consolidated financial statements:

Effective from January 1, 2010, the date of adoption of IFRS 3 (Revised) and IAS 27 (2008), the Group applies the accounting policy required by these Standards for business combinations and transactions with non-controlling interests.

The consolidated financial statements include the financial statements of the Company and the companies in which it has control (subsidiary companies). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intra-group balances and profits and losses deriving from transactions between Group companies have been eliminated in full in the consolidated financial statements.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements of the Company and the consolidated companies have been prepared as of the same date and for identical periods. The accounting policies in the financial statements of the consolidated companies have been implemented in a uniform manner to the implementation in the Company's financial statements.

d. Functional and foreign currency:

1. The functional currency and the presentation currency:

The presentation currency of the financial statements is the New Israeli Shekel (NIS).

The functional currency, which is the currency that best reflects the economic environment in which the Company 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.

The Company's functional currency is the NIS.

2. Transactions, assets and liabilities in foreign currency:

Transactions that are denoted in foreign currency (a currency that is different from the functional currency) are recorded at the time that they are initially recognized in accordance with the exchange rate as of that time. Following the initial recognition, the financial assets and liabilities that are denoted in foreign currency are translated at each balance sheet date into the functional currency in accordance with the exchange rate at that time. Exchange differences, are recognized in profit or loss. Non-monetary assets and liabilities, which are presented at cost, are retranslated in accordance with the exchange rate at the time of the transaction.

3. Index-linked financial items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index (''Israeli CPI'') are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above are recognized in profit or loss.

The following data on exchange rates of various currencies relevant to the group and the Consumer Price Index.

	December 31	
	2010	2011
CPI in points	211.7	216.3
Exchange rates (in NIS):		
U.S dollar	3.55	3.82
Euro	4.74	4.94

	Year ended December 31	
	2010	2011
	%	%
Rates of changes in the year ended:		
CPI	2.67	2.17
U.S dollar	(6.08)	7.61
Euro	(12.87)	4.22

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Cash equivalents:

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.

f. Restricted cash:

Restricted cash is considered to be cash that is designated for the repayment of the Company's liabilities to financial institutions in accordance with the Company's credit agreement.

g. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts where Hot's management believes that their collection is doubtful. Moreover, the Group has recognized a provision in respect of groups of customers who are evaluated collectively in respect of impairment in value based on their credit risk characteristics. The debts of customers where an impairment of value has occurred, derecognized at the time that it is determined that those debts cannot be collected.

h. 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.

i. The operating cycle:

The Group's regular operating cycle is one year, as a result of this the current assets and the current liabilities include items that are intended and expected to be realized within the Group's regular operating cycle.

j. Financial instruments:

Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment for investments in financial assets is based on their classification into one of the following three categories:

- Financial assets at fair value through profit or loss.
- Loans and receivables.
- Available for sale financial assets.

1. Financial assets at fair value through profit or loss:

   The Group has financial assets at fair value through profit or loss, which include financial assets that are held for trading.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets that are classified as held for trading are a derivative that is not designated as a hedging instrument.

Financial assets are classified as held for if they are derivatives not designated as hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss.

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

The Group assesses whether embedded derivatives are required to be separated 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.

2. Loans and receivables:

The group has loans and receivables, which are (non-derivative) financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, the loans and receivables are measured in accordance with their terms at amortized cost using the effective interest method, while taking directly attributable transactions costs into account, if any that have been incurred. Short-term receivables are measured based on their terms, and generally at its face value.

3. Available for sale financial assets:

The HOT Group has available for sale financial assets that are financial assets (which are non-derivative), which have been designated as available for sale. After the initial recognition, the available for sale financial assets are measured at fair value. Gains or losses as the result of the adjustment of fair value, are recognized directly in equity as other comprehensive income (losses) and recorded in an equity reserve in respect of available for sale financial assets. At the time of the disposal of the investment or in the event of impairment in value, the other comprehensive income (loss) is recognized in profit or loss.

Financial liabilities

1. Financial liabilities at amortized cost:

Loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 separated embedded derivatives, are classified as held for trading. 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 separated 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.

3. Fair value:

   The fair value of financial instruments that are traded in an actively traded in organized financial market is determined by reference to market prices at the end of the reporting period. For financial instruments for which there is no active market, fair value is determined by the use of valuation techniques. Such techniques include using arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

4. Offsetting financial instruments:

   Financial assets and financial liabilities are offset and their net amount is presented in the balance sheet, if a legally enforceable right to set-off the amounts that have been recognized and there is an intention either to settle the asset and the liability on a net basis or to realize the asset and to settle the liability in parallel.

5. Derecognition of financial instruments

   Financial assets
   A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset have expired or when the Group has transferred the contractual rights to receive cash flows from the financial asset or when it has taken upon itself a commitment to pay the cash flows that have been received in full to a third party, without any significant delay, and in addition, it has substantially transferred all of the rights and the benefits that are connected to the asset or it has not transferred nor retained substantially all of the risks and the benefits that are connected to the asset, but has transferred control over the asset.

   Financial liabilities

   A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or has expired. A financial liability is extinguished where the debtor (the Group):

   - Discharges the liability by a cash payment, by means of other financial assets, by means of goods or services, or
   - Is legally released from the liability.

   When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Group takes into account both quantitative and qualitative considerations.

6. Impairment in the value of financial assets:

   The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

   1. Financial assets carried at amortized cost:

      There is objective evidence of impairment of loans and receivables carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (see allowance for doubtful accounts above). In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

   2. Available for sale financial assets:

      In respect of available for sale financial assets, which are equity instruments, objective evidence includes a significant or continuing impairment in the fair value of the asset to beneath its costs as well as the examination of changes in the technological, economic, legal or market environment in which the company that has issued the instrument operates. The examination of a significant or a continuing impairment is dependent on the circumstances at each balance sheet date, where within the framework of the examination, historical volatility in the fair value as well as the decline in the fair value are taken into account. Where there is evidence of impairment, the cumulative loss—measured as the difference between the acquisitions cost (less any previous impairment losses) and the fair value—is reclassified from other comprehensive income and recognized as an impairment loss in profit or loss. In following periods, any reversal of the impairment loss is not recognized in profit or loss but recognized in other comprehensive income.

k. Leases:

   The testing for classification as finance leasing or operating leasing is based on the substance of the agreements and is made at the inception of the lease in accordance with the following principles determined in IAS 17.

   The group as a Lessee

   1. *Financing leasing*

      Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease liability using the effective interest method.

After initial recognition, the leased asset is accounted for according to the accounting policy applicable for this type of asset.

2. *Operating leasing*

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

l. Business combinations and goodwill:

Effective from January 1, 2010, following the expansion of the definition of a ''business'' pursuant to IFRS 3 (Revised), the Company also accounts for activities and assets as a business even when they are not conducted as such as long as the seller is capable of operating them as a business.

Business combinations are treated using the acquisition method of accounting. Under this method, the assets and the liabilities of the acquired company are identified in accordance with their fair value at the time of the acquisition. The cost of the acquisition is the cumulative fair value at the time of the acquisition of the assets that have been given, the liabilities that have been assumed and the equity interest that have been issued by the acquirer.

For business combinations that occurred on or after January 1, 2010, direct acquisition costs relating to the business combination are recognized as an expense in profit or loss and are not part of the acquisition cost.

The amendment to IFRS 3 (Revised) has been applied retrospectively from the date of the original adoption of IFRS 3 (Revised). The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the recognized amounts of the acquirer's identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that are present ownership interests and entitle their holders to a pro rata share of the acquirer's net assets in the event of liquidation (usually shares). In contrast, for other types of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available, and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2.

On the acquisition date, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, except for lease contracts that have not been modified on the acquisition date and whose classification as a finance or operating lease is therefore not reconsidered.

Starting from January 1, 2010, in a business combination achieved in stages, equity interests in the acquire that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value and included in the acquisition consideration while recognizing gain or loss resulting from the fair value measurement, including realization of amounts recorded in other comprehensive income.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed as measured on the acquisition date.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following the initial recognition, the goodwill is measured at cost less accumulated provisions for impairment in value, if any. The goodwill is not amortized systematically. See section O below in respect of the testing for impairment in the value of goodwill.

For business combinations that occurred on or after January 1, 2010, contingent consideration is recognized at fair value on the acquisition date. If the contingent consideration is classified as a financial liability in accordance with IAS 39, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Effective from January 1, 2010, an adjustment to the deferred tax asset balance in respect of acquired temporary differences which did not meet the recognition criteria at acquisition date is recorded in profit or loss and not as an adjustment to goodwill.

m. Investments in affiliated company—up to March 16, 2011:

An affiliated company is company in which the Company has significant influence over its financial and operating policies, but not control.

The investment in affiliated company is presented under the equity method of accounting. The investment in affiliated company is presented in the balance sheet at cost with the addition of post-acquisition changes in the Group's share of the net assets, including the other comprehensive income (loss) of the affiliated company. The equity method of accounting is implemented up to the time that significant influence is lost or the investment is classified as an investment that is held for sale.

Goodwill in respect of the acquisition of affiliated company was initially measured as the difference between the cost of acquisition and the Group's share of the net fair value of the identifiable assets, the identifiable liabilities and the contingent liabilities of the affiliated company. Following the initial recognition, the goodwill is measured at cost and is not amortized systematically. Goodwill is tested for impairment in value as part of the investment in the affiliated company, in its entirety.

The statement of other comprehensive income reflects the Group's share of the operating results of the affiliated company within the framework of the Group's share of the profits (losses) of affiliated companies and in addition the Group's share of the other comprehensive income (losses) net that is attributed to the affiliated company is reflected as other comprehensive income (loss) under the appropriate element of the Company's equity.

The financial statements of the Company and of the affiliated company is prepared for the same dates and periods. The accounting policies in the financial statements of the affiliated company have been implemented uniformly and consistently with those that have been implemented in the Group's financial statements.

n. Fixed assets:

Fixed assets items are measured at cost with the addition of direct purchase costs and less accumulated depreciation and accumulated losses on impairment and any related investment grants 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 equipment.

The cost of the Fixed assets items at the time of the business combination was determined in accordance with their fair value as of that time, based on an independent external expert evaluation.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	%
Buildings	2 - 4 (primarily 2%)
Cables network	5 - 25
Call center (primarily electronic equipment)	11 - 20
Converters and modems	14
Computers and ancillary equipment	15 - 33
Office furniture and equipment	6 - 15
Leasehold improvements	10
Communication network infrastructure	6 - 15

Leasehold improvements are depreciated in accordance with the straight line method over the shorter of the period of the rental (including the option period for an extension by the Group, which it intends to exercise) or the expected life of the improvement.

Elements of a fixed assets item, having a cost that is significant by comparison with the overall cost of the item, are depreciated separately, using the elements method. The depreciation is calculated in accordance with the straight line method at annual rates that are considered to be sufficient to depreciate the assets over the useful life of the part.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of fixed assets, see P below.

The depreciation of assets is discontinued at the earlier of the date at which the asset is classified as held for sale and the date at which the asset is derecognized. An asset is derecognized on disposal or when no further economic benefit is expected to derive from the use of the asset. The gain or loss on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset in the financial statements) is included in profit or loss in the period in which the asset is derecognition.

o. Intangible assets:

Intangible assets acquired separately are measured 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 at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and less any accumulated impairment losses.

In management's opinion, the intangible assets have defined useful lives. The assets are amortized over their useful lives using the straight line method and assessed for impairment signs exist that indicates 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 by way of from here onwards. The amortization expenses in respect of intangible assets with finite useful lives are recognized in profit or loss.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The useful lives of the intangible assets are as follows:

	Years
Software	3
Customer relations	7 - 14
Mirs license	5
Brand name	5-15
Customer relations with a defined contractual term	3
Backlog of contracts	4
Subscriber purchase costs	1.5 - 3
Rights to broadcast films and programs(**)	

(**) Rights to screen films and programs:

The costs includes the amounts of the commitments with suppliers of the rights to screen films and programs on the television, with the addition of the direct costs expensed for the purpose of adapting the films and the programs for screening in Israel. Content usage rights are recorded under this item. The rights are amortized on the basis of the actual screenings, whilst giving a relatively higher weighting to the initial screening.

On an original production, 65% of the asset is amortized on the first screening (which includes the screenings that take place in the following 72 hours), and the balance is amortized over the balance of the screenings in accordance with the agreement. The rights to screen films and programs from overseas suppliers are amortized by 65% on the initial screening and by 35% on a straight line over the balance of the screenings under the agreement.

Goodwill

Represents the excess of the cost of the acquisition over the estimated fair value of the tangible and the intangible assets, after deducting the fair value of the liabilities, that were acquired by the Company.

Customer relationships

Customer relations—this intangible asset was evaluated on the basis of the fair value of the existing customers in accordance with the contacts with them, in accordance with the excess earnings method for multiple periods. The amortization period for customer contacts is 7 - 14 years under the straight line method, as detailed above.

Customer relationships with a defined contractual term

This intangible asset was estimated under the purchase of Mirs shares based on the cash flows expected from existing orders or signed agreements of existing customers according to the excess earning method for multiple periods. The amortization period for this asset is 3 years according to the capitalized estimated number of years, based on the existing agreements data.

Brand name

The ''HOT'' brand and ''Mirs'' brand—this intangible asset was evaluated in accordance with the relief ''exempt from royalties'' method, which constituted the implementation of the income approach in the evaluation of the fair value of the assets. The amortization period for the brand name is 15 years under the straight line method for HOT and 5 years for Mirs.

Backlog of contracts

Backlog of contracts—this intangible asset was evaluated within the framework of the business combination that took place on March 16, 2011 on the basis of the cash flows that are expected as the result of the acquisition, which derive from orders that existed of signed contracts, with the

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

addition of an appropriate profit margin, in accordance with the excess earnings method for multiple periods.

Subscriber acquisition 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 is exist according to the obligation. The expenses relating to the amortization of the purchase of the subscribers are recorded in the statement of comprehensive income over the length of the period of the subscribers' average contractual commitment.

During the reporting period, as a result of the amendment of the Telecommunications Law, and the change in the level of the maximum fine in respect of a breach of the customers' commitment, the amortization of the asset was accelerated so as to reflect the maximum fine that exists in respect of the HOT Group's customers' commitment.

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, is classified as fixed assets. By contrast, licenses from stand-alone software which add additional functionalities for the hardware are classified as intangible assets.

Mirs license

Mirs has a general license to provide cellular phone services in a cellular network. In February 2003, the license period was updated and extended for 15 years. The license is amortized using the straight line method over its useful lives under the license period set forth in the agreement.

p. Impairment in value of non-financial assets:

The group assesses the need for the examination of the impairment in the carrying amount of non-financial assets (fixed assets and intangible assets except goodwill) when there are signs, as the result of events or changes in the circumstances that indicate that the carrying amount in the financial statements is not recoverable. In cases where the carrying amount in the financial statements of the non-financial assets exceed their recoverable amount, the assets are written down to their recoverable value. The recoverable amount is the higher of the fair value less costs of sale and the value in use. In assessing value in use, the estimated future cash flows are discounted to using a pre-tax discount rate that reflected the risks that are specific to each asset. For assets that do not generate independent cash flows, the recoverable amount for the cash generating unit to which the asset belongs is determined. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are used in the assessing impairment of the following specific assets:

Goodwill in respect of subsidiaries

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company reviews goodwill for impairment once a year as of December 31 or more frequently if events or changes in circumstances indicate that there is impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

Effective from January 1, 2010, each unit or group of units to which the goodwill is allocated shall not be larger than an operating segment determined in accordance with IFRS 8, ''Operating Segments'', prior to aggregation for reporting purposes.

q. Taxes on income:

Taxes on income in the profit or loss 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 other comprehensive income or in equity, in these cases the tax effect is reflected under the relevant item.

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. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, ''taxes on income''.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have been taken into account in computing deferred taxes, since the distribution of dividends may involve an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the balance sheet as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in balance sheet if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. Share-based payment transactions:

Hot'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 Hot's share price.

Equity settlement transactions

The cost of equity settled transactions with employees is measured in accordance with the fair value that have been granted at the time of the grant and in respect of options that existed at the time of the business combination that took place on March 16, 2011, in accordance with their value at that time. The fair value is determined using a generally acceptable pricing model, see note 24.

The cost of equity settled transactions is recognized in the profit or loss together with the parallel increase in equity over the length of the period in which the service terms are met and ending at the time at which the relevant employees are entitled to the award (hereinafter—the vesting period). The cumulative expenses that have been recognized in respect of equity settled transactions at the end of each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate in respect of the number of equity instruments that will ultimately vest. The expense or the income profit or loss reflects the change between the cumulative expense that has been recognized as at the end of the reporting period and the cumulative expense that has been recognized at the end of the previous reporting period.

No expense is recognized in respect of awards that do not ultimately vest.

If the Group modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described in the previous paragraph.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value on the grant date using a standard option pricing model. The fair value is recognized as an expense over the vesting period and a corresponding liability is recognized. The liability is re-measured at each reporting date until settled at fair value with any changes in fair value recognized in profit or loss.

s. Employee benefits liabilities:

There are number of sorts of employees' benefits in the Group:

1. Short-term employee benefits:

Short-term benefits for employees include salaries, paid annual leave, paid sick leave, recuperation pay and social security contributions and are recognized as an expense when the services are provided. A liability in respect of a cash bonus or a profits sharing scheme is recognized where the Group has a legal or constructive obligation 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. Post-employment benefits:

The Group operates a defined benefits plan in respect of severance pay in accordance with the Severance Pay Law. According to the Law, employees are entitled to receive severance pay if

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 credit 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 expected future cash flows using a discount rate determined by reference to yield on government bonds, with a term that matches the estimated term of the benefit obligation.

The Group deposits monies in respect of its liabilities to pay severance pay to some of its employees, in a routine manner, in pension funds and with insurance companies (hereinafter—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 they cannot be returned directly to the Group.

The liability in respect of employee benefits that is presented in the balance sheet represents the present value of the defined benefits obligation less the fair value of the plan assets, less the past service costs. Actuarial gains or losses are reflected profit or loss in the period in which they arise, as part of the salary costs.

As from the year 2011, the Group has defined contribution plans pursuant to Section 14 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.

3. Other long-term employee benefits:

The Group's employees are entitled to jubilee 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 in respect of 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.

4. Termination benefits:

Severance pay for employees is reflected as an expense when the Group has committed, with no real possibility of withdrawal, to terminate 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 are reflected where 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.

t. Revenue recognition in the HOT Group:

The HOT Group was consolidated for the first time in the Company's financial statements on March 16, 2011. As from that time the Company has been accumulating HOT's income and expenses under the time ''the Company's share of the profits of an investee company, net'' and this in the light of the close proximity of the date of the business combination and March 31, 2011.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Revenues from credit sales transactions that include a financing element are recorded at present value such that the difference between the fair value of the consideration had credit not been provided and the nominal amount of the consideration is recognized in profit or loss as finance income using the effective interest method.

The following are the specific criteria in respect of the recognition of income in respect of the following types of income:

Revenue from the provision of services

Income from the provision of cables, internet, telephony and mobile radio telephone network in a cellular network are recognized in accordance with the stage of completion of the transaction as of the reporting date. In accordance with this method, the income is recognized in the reporting period in which the services are provided. Prepaid revenues are recognized from selling calling cards according to the actual use of the customers or upon their expiration, whichever is earlier.

Revenues from the sale of goods

Revenues from the sale of goods are including sale of mobile devices and related equipment.

Revenues from the sale recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

The charge for the end equipment is done separately from the monthly charge for services and according to a stated amount included in a separate invoice reflecting the fair value of the end equipment that is not subsidized by the group. In view of the above, the group recognized revenues from selling instruments upon transfer of title on such instruments to its customers. Revenue is recognized on the first day according to its fair value for that day and the difference between the fair value and the stated amount of the consideration is recognized as financial income during the payment period.

Revenues from credit arrangements

Revenues from long term credit arrangements (such as sale of instruments in payments) are recorded based on the present value of future cash flows (against long term trade receivables) and are capitalized according to interest rates. The difference between the original amount of the credit and the present value, as above, is spread over the credit period and recorded as interest income over the credit period.

Interest income

Interest income on financial assets is recognized as it accrues using the effective interest method.

The reporting of revenues on the gross basis or on the net basis

In cases in which the Group operates as an agent or as a broker, without bearing the risks and the rewards that are derived from the transaction, its revenues are presented on a net basis. As of the balance sheet date, the Group has revenues that are presented on the net basis in respect of the connection fees of international telecommunications operators. By contrast, in cases in which the

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group operates as the main supplier and bears the risks and the rewards that are derived from the transaction, its revenues are presented on a gross basis.

Income in respect of fees for installation in customer's homes

In accordance with the provisions of IAS 18, since the transaction in respect of the connection of a customer to Hot Group's services is connected to a services arrangement, in such manner that the services arrangement will only have a commercial effect in relation to both of the transactions together (the connection and the services), the income from installation/ connection fees is recognized over the length of the expected period of the commitment between the customer and Hot, in accordance with the services arrangement, as aforesaid.

Customer discounts

Current customer discounts are recognized in the financial statements when granted and are deducted from sales.

Arrangements with multiple elements

Revenues from sale agreements that do not contain a general right of return and that are composed of multiple elements such as equipment services and technical support are allocated to the various accounting units and recognized for each accounting unit separately. An element constitutes a separate accounting unit if and only if it has a separate value to the customer. Furthermore, this only applies if there is objective and reliable evidence as to the fair value of each element in the agreement or as to the fair value of undelivered elements. Elements that have not been separated into accounting units because they do not comply with the above criteria are grouped as a single accounting unit. Revenue from the various accounting units is recognized when the criteria for revenue recognition regarding the elements of that accounting unit have been met according to their type and only to the extent of the consideration that is not contingent upon completion or performance of the remaining elements in the contract.

Finance income and expenses

Finance income comprises interest income on amounts invested (including available-for-sale financial assets), revenues from dividends, gains from sale of financial assets classified as available-for-sale, changes in fair value of financial assets at fair value through profit or loss, exchange rate gains and gains on hedges recognized in profit or loss. Interest income is recognized as it accrues using the effective interest method. Revenues from dividends are recognized when the Group's right to receive the payment is established. If the dividend is received on quoted shares, the Group recognizes dividend revenue on the ex-date.

Changes in fair value of financial assets at fair value through profit or loss include interest and dividend income.

Finance expenses comprise interest expense on borrowings, changes in the time value of provisions, dividends paid on preferred shares classified as a liability, changes in the fair value of financial assets at fair value through profit or loss, impairment losses of financial assets and losses on hedges recognized in profit or loss. Borrowing costs that are not capitalized to qualifying assets are recognized in profit or loss using the effective interest method.

Gains and losses on exchange rate differences are reported on a net basis.

u. Operating segments:

An operating segment is a component of the Group that meets the following three criteria:

1. Is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intragroup transactions;

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

3. For which separate financial information is available.

v. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has an obligation in the present (legal or constructive) as the result of a past event, it is probable that an outflow of resources embodying economic benefits will be required in order to settle the obligation and reliable estimate can be made of the amount of the obligation.

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

Legal claims:

A provision in respect of claims is recognized where the Group has a legal commitment in the present or an implicit commitment as the result of an event that occurred in the past, where it is more likely than not that the Group will be required to expend economic resources in order to clear the commitment and it is possible to estimate it reliably. Where the effect of time is significant, the provision is measured in accordance with the present value.

A provision for legal claims that was recorded within the framework of a business combination is measured in accordance with its fair value, in accordance with the provisions of IFRS 3 (R).

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.

w. Advertising expenses:

Expenses in respect of advertising activities, sales promotion and marketing such as production of catalogs and promotional pamphlets. are recognized as an expense at the time at which the Group has access to the advertising products or where the service in respect of those activities is provided to the Group.

x. Presentation of statement of comprehensive income:

The Group has elected to present a single statement of comprehensive income, which contains items relating the statement of income as well as items relating to other comprehensive income.

y. Disclosure of new IFRSs in the period prior to their adoption

IAS 19 (Revised)—Employee benefits

In June 2011 the IASB published IAS 19 (Revised) (hereinafter—the standard). The principal amendments included in the standard are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not recorded in profit or loss.
- The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Past service cost arising from changes in the plan will be recognized immediately. The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted. Hot is evaluating the possible impact of the adoption of the Standard but is presently unable to assess the effects, if any, on its financial statements.

IAS 32—Financial instruments: Presentation and IFRS 7—Financial instruments: Disclosure

In December 2011, the IASB issued amendments to IAS 32 (''the amendments to IAS 32'') regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of ''currently has a legally enforceable right of set-off'' (''the right of set-off''). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

Simultaneously in December 2011, the IASB issued amendments to IFRS 7 (''the amendments to IFRS 7'') regarding the offsetting of financial assets and liabilities. According to the amendments to IFRS 7, the Company is required, among others, to provide disclosure of rights of set-off and related arrangements (such as collateral agreements), the composition of amounts that are set off, and amounts subject to enforceable master netting arrangements that do not meet the offsetting criteria of IAS 32.

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2014, or thereafter. Earlier application is permitted, but disclosure of early adoption is required as well as the disclosures required by the amendments to IFRS 7 as described above. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2013, or thereafter.

The Group estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the G's financial statements.

IFRS 7—Financial instruments: Disclosure

The amendment to IFRS 7 (''the Amendment'') provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The objective of the Amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Company's financial position. The Amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The Amendment is to be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The appropriate disclosures will be included in the Group's financial statements.

IFRS 9—Financial instruments

1. In November 2009, the IASB issued IFRS 9, ''Financial Instruments'', the first part of Phase 1 of a project to replace IAS 39, ''Financial Instruments: Recognition and Measurement''. IFRS 9 (''the Standard'') focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

– The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency (''accounting mismatch'') that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard is effective commencing from January 1, 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the Standard.

2. In October 2010, the IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

   The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

   Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

   The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group is evaluating the possible impact of the Standard but is presently unable to assess its effect, if any, on the financial statements.

IFRS 10, IFRS 11, IFRS 12, IFRS 13 - Consolidated financial statements, Joint arrangements, Disclosure of interest in other entities, Fair value measurement.

In May 2011, the IASB issued four new Standards: IFRS 10, ''Consolidated Financial Statements'', IFRS 11, ''Joint Arrangements'', IFRS 12, ''Disclosure of Interests in Other Entities'' (''the new Standards'') and IFRS 13, ''Fair Value Measurement'', and amended two existing Standards, IAS 27R (Revised 2011), ''Separate Financial Statements'', and IAS 28R (Revised 2011), ''Investments in Associates and Joint Ventures''.

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

The main provisions of the Standards and their expected effects on the Company are as follows:

IFRS 10—Consolidated financial statements

IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, ''Consolidation—Special Purpose Entities''.

IFRS 10 does not prescribe changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management's intentions and financial ability to exercise such rights.

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models—the de facto control model and the legal control model.

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Group believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements.

IAS 27 R—Separate financial statements

IAS 27R supersedes IAS 27 and only addresses separate financial statements. The existing guidance for separate financial statements has remained unchanged in IAS 27R.

IFRS 12—Disclosure of interests in other entities

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Group's financial statements upon initial adoption of IFRS 12.

IFRS 13—Fair Value Measurement

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Group's financial statements upon initial adoption of IFRS 13.

The Group is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on its financial statements.

NOTE 3:—BUSINESS COMBINATION

a. Business combination in the reporting period:

Up to March 16, 2011 the Company had a holding of approximately 44.72% of HOT's share capital, which up to that time was treated as an investment in an affiliated company, under the equity method of accounting.

As from March 16, 2011, the Company consolidates HOT's financial statements and the Company has elected to measure the non-controlling interests in the acquired entity in accordance with their fair value as of the time achieving control, which was based on the share price as of the said date.

The Company 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 management with the assistance of an independent valuation firm. As of the time of the approval of the financial statements a final evaluation has been received. The amount of the investment prior

NOTE 3:—BUSINESS COMBINATION (Continued)

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 NIS 59.97), such that in 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 NIS 662 million.

Financing the acquisition:

The Company received a loan from Israeli bank of approximately NIS 350 million in respect of the acquisition of the shares from Fishman and the financing of the private allocation in HOT.

In respect of the acquisition of shares in 2009 (where the investment was treated under the equity method of accounting), the financing of the acquisition was executed by means of a loan from the Company's shareholders, Altice, which bore no interest bearing and which was converted from a Euro loan into a Shekel denoted loan on November 3, 2010. The principal of the loan was approximately NIS 1,138 million as of March 31, 2011.

Purchase price allocation:

The purchase price was determined by management with the assistance of an independent valuation firm.

The purchase price has been allocated to the tangible and intangible assets of the HOT Group and to the liabilities assumed in accordance with their fair values. The excess of the purchase price over the fair value of the net identifiable assets has been recorded as goodwill.

The total purchase price amounted to approximately NIS 4,648 million, including revaluation of the previously held investment in Hot, the fair value of the non-controlling interests and the value of the obligation to purchase the shares in HOT from Yedi'oth, in an amount of approximately NIS 2,271 million (as aforesaid in Note 1 c 2).

As aforesaid, based on management evaluation, which was performed, the purchase price was allocated to HOT's assets and liabilities as follows:

1. The ''HOT'' brand name (which was evaluated at approximately NIS 125 million (100%)—in accordance with the ''relief from royalties'' approach, a method that constitutes the implementation of the income approach in the evaluation fair value of the brand name.
2. Customer relationships (which was evaluated at approximately NIS 1,196 million (100%)—were evaluated on the basis of the fair value of the existing customers and in accordance with the relationship with them in accordance with the excess earnings method for multiple periods.
3. Backlog (which was evaluated at approximately NIS 265 million (100%))—were evaluated on the basis of the cash flows that are expected as the result of the acquisition, which derive from existing orders or from signed contracts, including additional appropriate profit margin, and this in accordance with the excess earnings method for multiple periods.
4. Goodwill represents the surplus of the cost of the acquisition over the estimated fair value of the tangible assets and the intangible assets after the deduction of the fair value of the liabilities that were acquired by the Company.
5. The value of the fixed assets (approximately NIS 3,383 million (100%)—was determined in accordance with the depreciated replacement cost method that would have derived where the Cable network and the other equipment had to be repurchased, and taking into account amortization representing technological and economic depreciation.
6. The adjustment in respect capital employee benefits—the reconciliation between the balance as carried in HOT's accounting records, which is presented in accordance with the balance of the value of the options that have not yet been exercised, in accordance with the fair value that

NOTE 3:—BUSINESS COMBINATION (Continued)

was determined on the date of the grant, and the fair value as calculated at the time of each relevant acquisition.

7. Financial liabilities and provision for claims were measured at fair value.

8. Deferred taxes were recorded based on the difference between the fair value and carrying amount of each asset and liability (expect for goodwill).

Details of the purchase price allocation to the assets and liabilities of Hot:

	March 16, 2011
	100% Fair value
	NIS in million
Current assets	256
Fixed assets	3,383
Customer relationships	1,196
Backlog	265
HOT Brand name	125
Other intangible assets	103
Deferred taxes	121
Other non-current assets	185
	5,634
Current liabilities	1,435
Other non-current liabilities	2,117
Deferred taxes	342
Options	26
	3,920
Net, identified assets	1,714
Goodwill deriving from the acquisition	2,934
Total purchase price	4,648
The cost of the acquisition	
Cash paid	335
Deferred consideration(*)	621
Fair value previously investment in subsidiary	2,042
Non-controlling interests	1,650
Total acquisition cost	4,648

(*) Approximately NIS 475 million under other payables and approximately NIS 146 million under liabilities to the government and non-current liabilities.

Cash generated (absorbed) by the acquisition	
Cash and cash equivalents in the acquired company at the time of the acquisition	2
Cash paid	(335)
Net cash	(333)

Direct acquisition costs of approximately NIS 2 million, which have been attributed to the transaction have been recorded as an expenses under general and administrative expenses line item.

As from the date of obtaining, HOT has contributed NIS 20 million to the consolidated net profit. HOT's results for the period from March 16, 2011 to March 31, 2011 have been reflected under the Company's share in the profits of a company that is treated under the equity method of accounting

NOTE 3:—BUSINESS COMBINATION (Continued)

and have not been fully consolidated, in the light of the short time gap between the time of achieving control and the balance sheet date it's immaterial results of Hot for the aforesaid period. Hot's results, include the effect of recurring expenses that HOT incurred in the period from March 16, 2011 to March 31, 2011.

The goodwill arising on the acquisition has been attributed to the forecast benefits deriving from the synergies in the integration of the activities of the Company and of the acquired company.

b. Investments in 2009:

1. The consideration for the acquisition:

In 2009, the Company gradually acquired 34,050,864 shares in HOT and approximately 44.76% of HOT's share capital on a cumulative basis.

The shares purchased by July 23, 2009 (inclusive—2.58% to approximately 19.91% of HOT's share capital on a cumulative basis) were accounted for by the Company at fair value, as available-for-sale financial assets whose revaluation (according to the quoted market price of HOT share on the Tel-Aviv Stock Exchange) was carried until that date to other comprehensive income. On the date of achieving significant influence, October 18, 2009, the accumulated reserve recorded in other comprehensive income was released to profit and loss, based on the quoted market price of the share on the date of achieving significant influence (NIS 36.52 per share).

The total consideration cost paid in cash amounted to approximately NIS 744 million. In addition, the fair value of the previous investment in Hot upon obtaining significant influence was NIS 550 million which lead to a total consideration amounting NIS 1,297 million.

2. The financing of the acquisition:

The acquisition was financed using an interest-free loan from equity Altice. On November 3, 2010, the loan was converted from Euros into NIS. The loan principal as of December 31, 2011 and December 31, 2010 was NIS 1,227 million and NIS 1,145 million, respectively. For additional details in respect of the terms of the loan, see Note 27.

c. HOT's Investments in MIRS:

On November 28, 2011 the acquisition of the entire rights of Altice Securities S.A.r.l (hereinafter—''Altice''), a company that is controlled by Altice VII S.A.r.l., which is the sole shareholder in the controlling interest in Hot and of a third party that is not related to Hot (hereinafter—''Migad'') in Mirs was completed by Hot, which includes: (1) 33,162,309 regular shares of par value NIS 1.00 each in Mirs, constituting 100% of Mirs' issued and paid up share capital; (2) shareholders' loans in an amount of NIS 69 million, which has been made available to Mirs by Altice and Migad; as well as (3) a capital note in an amount of NIS 200 million, which had been issued to Mirs by Altice and Migad. The overall consideration for the business combination amounted to up to NIS 1.2 billion.

As from the date of the completion of the transaction, Hot (and therefore the Company) has been consolidating Mirs financial statements.

Hot and the Company 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. The fair value had been determined by management with the assistance of an independent valuation firm. As of the time of the approval of the financial statements, final evaluation has been received.

NOTE 3:—BUSINESS COMBINATION (Continued)

Consideration

The total consideration for the acquisition of Mirs has been calculated in accordance with the value of the Mirs which evaluated to approximately NIS 1.2 billion, which is based upon the cash payment and the contingent consideration on behalf of future performance, as detailed below:

1. An amount of NIS 750 million in deduction of the amount of the net debt as defined in the purchase agreement (as of June 30, 2011—an amount of NIS 264 million, which was paid on the date of closing).
2. Additional consideration, in an amount of NIS 450 million, which is subject to future performance, and will be paid in payments, as detailed below:
   a) Contingent future payment upon achievement of Hot's and Mirs' EBITDA targets—an amount of up to NIS 225 million is to be paid in four equal payments of NIS 56.25 million each, which are conditional upon the achievement of accounting EBITDA targets in accordance with the consolidated financial statements of Hot (including Mirs) for the years 2013 to 2016 inclusive, as defined in the agreement.
   b) Contingent future payment upon the achievement of Mirs' market share—an amount of up to NIS 225 million is to be paid in end of the increasing of Mirs' ''market share'', as defined in Mirs' license, up to the year 2016 at a rate of 7% of the overall Israeli market, and this over and above its existing market share.

In accordance to the purchase agreement a mechanism for future payments was determined in relation with EBITDA and/or market share targets are met at earlier stages and/or in the amount of the EBITDA that is achieved in the years prior to 2016 in accordance with the EBITDA target for the year 2016. Furthermore, a mechanism was determined for a case in which Mirs may be charged with payments to the State in respect of the non-compliance with the market share targets in accordance with the license that was granted, those payments are to be deducted from the future payment that is to be made to the sellers in accordance with section 2(b).

As of the date of the purchase, the fair value of the contingent consideration was estimated at NIS 340 million.

Financing the acquisition

Hot financed the acquisition by means of Hot's existing credit facilities, which had been extended by Bank Hapoalim Ltd. and Bank Leumi Ltd., less the cash balance that was available to it at that time (hereinafter—''The financing banks'').

On November 28, 2011 Hot signed on an amendment to Hot's existing credit agreement, which inter alia included the agreement of the financing banks for the execution of the acquisition and the financing for the payment of its consideration, from Hot's credit facilities with the financing banks (see also Note 18c(9) on this matter).

Allocation of the acquisition price

The acquisition cost is determined by management with the assistance of an independent valuation firm.

The acquisition cost has been allocated to Mirs' tangible and intangible assets as well as to the liabilities that were taken up in accordance with their assessed fair value. The excess of the acquisition cost over the fair value of the identified tangible assets and intangible assets and less the fair value of the liabilities taken up has been recorded as goodwill.

The overall purchase price amounted to NIS 826 million.

NOTE 3:—BUSINESS COMBINATION (Continued)

As aforesaid, based on management evaluation, which was performed, the acquisition cost was allocated to Mirs' assets and liabilities, as follows:

a) The ''Mirs'' brand name (which was evaluated at NIS 8 million) was evaluated in accordance with the ''exemption from royalties'' approach, a method that constitutes the implementation of the income approach in the evaluation of the value of assets.

b) Customer relationships (which were evaluated at NIS 168 million) were evaluated on the basis of the fair value of the existing customers and in accordance with the relationship with them in accordance with the excess earnings method for multiple periods.

c) Customer relationships with defined periods (which were evaluated at NIS 86 million) were evaluated on the basis of the cash flows that are expected to be received during the period of the signed contracts.

d) Goodwill represents the surplus of the cost of the acquisition over the estimated fair value of the tangible and intangible assets after the deducting of the fair value of the liabilities that were acquired by Hot.

e) The fair value of the fixed assets (approximately NIS 640 million, including an excess cost of NIS 237 million) was determined in accordance with the actual current cost that would have derived where the cable network and other equipment had to be repurchased, and taking into account amortization representing technological and economic depreciation.

f) The liability in respect of the marketing contract as a result of its adjustment to fair value (which was estimated at approximately NIS 26 million) has been evaluated using the excess earning method, on the basis of the amounts that are expected to be paid in the course of the period of the marketing contract and the amounts that are expected to be paid under the parallel services contract at market prices.

g) Deferred taxes have been attributed in respect of the said surplus costs (except for goodwill).

Details of the total acquisition cost and the fair value of the assets acquired and liabilities assumed:

	November 30 2011
	100% Fair value
	NIS in million
Current assets	238
Fixed assets	640
Customer relationships, including with a defined contractual period	254
The MIRS Brand	8
Other intangible assets	127
Other non-current assets	83
	1,350
Current liabilities	550
Other non-current liabilities	61
Deferred taxes	120
	731
Identified assets, net	619
Goodwill deriving from the acquisition	207
Total acquisition cost	826

NOTE 3:—BUSINESS COMBINATION (Continued)

The cost of the acquisition

	NIS in millions
Cash paid, including the repayment of a loan to the previous shareholder	486
Payables in respect of the acquisition (presented under other long-term liabilities)	340
Total acquisition cost	826
Cash absorbed by the acquisition	
Cash and cash equivalents in the acquired company at the time of the acquisition	6
Cash paid	486
Net cash	(480)

The total cost of the business combination amounted to NIS 826 million and included a cash payment of NIS 486 million, including in respect of the repayment of a loan due from Mirs to the seller.

Direct acquisition costs, which have been attributed to the transaction, in an amount of approximately NIS 7 million have been reflected as expenses and recorded under other expenses (income), net.

Beginning from the date of the acquisition, Mirs has increased the consolidated revenue by NIS 66 million and reduced the consolidated net income by NIS 42 million (in respect of the period in which it has been consolidated into Hot's financial statements). Under the assumption that Mirs would have been initially consolidated as from January 1, 2011, Mirs would have increased the consolidated revenue by NIS 829 million and reduced the consolidated net income by NIS 56 million.

The goodwill arising on the acquisition has been attributed to the forecast benefits deriving from the synergies in the integration of the activities of Hot and of the acquire deriving company.

NOTE 4:—CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	December 31, 2011
	NIS in millions
a. *Cash and cash equivalents*	
Cash for immediate withdrawal	17
b. *Restricted cash*	203

The restricted cash has been deposited in financial institutions and as of the balance sheet date it bears interest based on the interest rate on daily bank deposits.

NOTE 5:—TRADE RECEIVABLES

a. Comprise:

	December 31, 2011
	NIS in millions
Open debts	334
Trade receivable	36
Credit cards	84
Checks collectable	4
Current maturities of long term receivables	(3)
	455
Less: allowance for doubtful accounts	94
Trade receivables, net	361
Including related parties in HOT	1

b. Additional details:

1. See Note 19 in respect of the linkage terms for the customers.
2. The debts of Mirs' customers, which are in arrears, are interest bearing.
3. Impairment in the value of customers' debts is treated by means of the recording of an allowance for doubtful accounts.

c. The movement in the allowance for doubtful accounts is as follows:

	Total
	NIS in millions
Balance at January 1, 2011	—
Amounts added for newly consolidated companies	90
Charge for the year	9
De-recognition of bad debts	(5)
Balance at December 31, 2011	94

d. The following is an analysis of customers' balances (open debts and income receivables) in respect of which no full impairment in value (provision for doubtful debts) has been recorded, net trade receivables by period of arrears in collection as of the balance sheet date:

	Trade receivables settlement date has not yet been reached	30-90 days	90 days or more	Total
	NIS in millions			
December 31, 2011	226	20	48	294

NOTE 6:—OTHER RECEIVABLES

a. Comprise:

	December 31, 2011
	NIS in millions
Governmental Institutions	18
Prepaid expenses	18
Derivative instruments	21
Trade receivable	8
Advances to suppliers	9
Others	5
	79

b. See Note 19 in respect of the linkage terms for the other receivables.

NOTE 7:—INVENTORY

	December 31, 2011
	NIS in millions
Mobile Phones	26
Accessories	4
Spare parts	3
	33
Less: provision for inventories Impairment	(9)
	24

NOTE 8:—LONG-TERM TRADE RECEIVABLES

The balance represents the debts in respect of selling mobile phones with deferred consideration. The balance is presented at its present value discounted using interest rate of 5% for a period of 36 months net of current maturities which is presented under trade receivables (as of December 31, 2011—NIS 42 million).

NOTE 9:—INVESTMENTS IN AVAILABLE FOR SALE FINANCIAL ASSET

Additional details:

a. A subsidiary company of Hot, operating through HOT Net Internet Services Ltd. (formerly HOT Investments and Financing Ltd. (hereinafter—HOT Net) holds 1,454,663 regular shares in an Israeli company Partner Communications Ltd. (hereinafter—Partner), constituting approximately 0.9% of Partner's share capital, as of December 31, 2011, which is engaged in the provision of cellular communications services and whose shares are traded on stock exchanges in the United States, in London 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.

b. Hot Net presents its investment in Partner as an investment in an available for sale financial asset, which is measured at fair value less a reasonable discount. Gains or losses as the result of the adjustment of fair value, are reflected under equity as other comprehensive income (losses) and recorded in an equity reserve in respect of available for sale financial assets. At the time of the disposal of the investment or in the event of impairment in value, the other comprehensive income (loss) is recognized in profit or loss. In the reported period the company recorded an impairment amount of NIS 42 million as finance expense and an amount of NIS 10 million as tax benefit.

NOTE 10:—INVESTMENTS IN COMPANY ACCOUNTED FOR USING THE EQUITY METHOD

	December 31, 2011	December 31, 2010
	NIS in millions	
Details of previous investments (directly held by the Company):		
Shares	2,206	1,252
Revaluation of the investment following achieving significant influence control	662	45
Non-controlling interests	1,752	—
	4,620	1,297
Goodwill recorded	2,957	722

NOTE 11:—OTHER LONG-TERM RECEIVABLES

	December 31, 2011	December 31, 2010
	NIS in millions	
Right to broadcast film and programs[(1)]	69	—
Prepaid expenses	20	—
Deferred marketing expense	9	—
Employee benefit assets, net[(2)]	5	—
	103	—

(1) Composition of assets in respect of employee benefits:

	December 31, 2011
	NIS in millions
Balance at January 1, 2011	—
Amounts added for newly consolidated company	65
Purchases	80
Disposals	(4)
Depreciation	(72)
Balance at December 31, 2011	69

(2) Composition of assets in respect of employee benefits:

	December 31, 2011
	NIS in millions
Liabilities in respect of defined benefits plan	(14)
Fair value of the plan assets	27
	13
Less liability in respect of early retirement grants[(*)]	(8)
Total net assets	5

(*) In December 2009 Mirs offered an early retirement plan to some 40 employees, who had worked for it for more than 10 years and who were more than 50 years old, in accordance with which in the event that the employment of an employee us brought to an end by Mirs or by voluntary retirement within the defined period of time, the employee will be entitled to an increased early retirement grant. The plan is in force for a period of up to two years from the date of the aforesaid merger. The overall cost of this retirement plan is estimated at NIS 9 million.

NOTE 12:—FIXED ASSETS

	vehicle	Leasehold improvements	Office furniture and equipment	Computers and ancillary equipment	Converters and modems	Call center (primarily electronic equipment	Communication and Cables network infrastructure	Buildings	Total
					NIS in million				
Cost									
Balance at January 1, 2011	—	—	—	—	—	—	—	—	—
Addition for newly consolidated companies	3	90	13	30	709	309	2,849	21	4,024
Additions during the year	—	3	1	17	146	70	188	—	425
Disposals during the year	—	—	—	—	(10)	—	—	—	(10)
Balance at December 31, 2011	3	93	14	47	845	379	3,037	21	4,439
Accumulated depreciation									
Balance at January 1, 2011	—	—	—	—	—	—	—	—	—
Additions during the year	(1)	(13)	(1)	(9)	(119)	(63)	(227)	(1)	(434)
Disposals during the year	—	—	—	—	9	—	—	—	9
Balance at December 31, 2011	(1)	(13)	(1)	(9)	(110)	(63)	(227)	(1)	(425)
Depreciated cost at December 31, 2011	2	80	13	38	735	316	2,810	20	4,014

NOTE 13:—INTANGIBLE ASSETS

	Software	Customer relations	Mirs license	Brand name	Backlog of contracts	Subscriber purchase costs	Goodwill	Leases	Other	Total
					NIS in million					
Cost										
Balance at January 1, 2011	—	—	—	—	—	—	—	—		—
Addition for newly consolidated companies	94	1,364	46	133	351	85	3,164	2	2	5,241
Additions during the year	63	—	1	—	—	14	—	—	—	78
Disposals during the year	—	—	—	—	—		—	—	(1)	(1)
Balance at December 31, 2011	157	1,364	47	133	351	99	3,164	2	1	5,318
Accumulated depreciation										
Balance at January 1, 2011	—	—	—	—	—	—	—	—	—	—
Additions during the year	(34)	(82)	—	(7)	(74)	(39)	—	—	—	(236)
Balance at December 31, 2011	(34)	(82)	—	(7)	(74)	(39)	—	—	—	(236)
Depreciated cost at December 31, 2011	123	1,282	47	126	277	60	3,164	2	1	5,082

Amortization of intangible assets are classified in the statements of comprehensive income as follows:

	Year ended on December 31
	2011
	NIS in millions
Under cost of revenues	115
Under selling and marketing expenses	121
	236

Impairment of goodwill and intangible assets with a definite useful life:

In order to test the impairment of goodwill and intangible assets with a definite useful life, the goodwill, brand name, customer relationships and customer relationships were allocated to operating segments that represent three cash-generating units as follows:

- In-country fixed line communications.
- Cable television.
- Cellular communications.

NOTE 13:—INTANGIBLE ASSETS (Continued)

As of December 31, 2011, the carrying amount of the intangible assets allocated to each cash-generating unit as above (each representing an operating segment) is as follows:

	Cellular communication segment	The in-country fixed line communications	Cable television	Total
		NIS in millions		
Goodwill	207	2,353	604	3,164
Brand name	8	79	39	126
Customer relations	166	842	274	1,282
Customer relationships with defined contractual period	84	151	42	277

Cellular communications

Intangible assets that were identified during the allocation purchase price allocation on MIRS acquisition (see note 3).

The in-country fixed line communications

The recoverable amount of the in country fixed line communications cash generating unit was determined based on the value in use which is calculated at the expected estimated future cash flows from this cash-generating unit, as determined according to the Hot's budget for the next five years. The after-tax discount rate of the cash flows used is 10% The projected cash flows for the period exceeding five years was estimated using a fixed growth rate of 1.5% per year representing the long-term average growth rate as customary in the segment.

Cable television

The recoverable amount of the cable television cash generating unit was determined based on the value in use which is calculated at the expected estimated future cash flows from this cash-generating unit, as determined according Hot's budget for the next five years. The after-tax discount rate of the cash flows used 10% The projected cash flows for the period exceeding five years will be estimated using a fixed growth rate of 1% per year representing the long-term average growth rate as customary in the segment.

Key assumptions used in calculating the use value in respect of the segments—in-country fixed line communications and Cable television.

The calculation of use value for in-country fixed line communications unit and Cable television unit is subject to changes in the following assumptions:

- Revenues
- EBITDA
- Investments
- WACC
- Long term growth

WACC – the real capitalization rate used is 10% after tax; the capitalization rate reflects equity of 8.92%, interest rate on the debt of 3.9% and leverage rate of 29% of total assets.

Long term growth – average long term growth is 1.1% per year.

NOTE 14:—CREDIT FROM FINANCIAL INSTITUTIONS

a. Comprise:

		December 31	
		2011	2010
	Interest %	NIS in millions	
Short-term credit from financial institutions	4.15-7.25	595	2
Current maturities of long-term loans	5.65-7.25	122	—
Current maturities of debentures	3.9-6.9	61	—
		778	2

b. See note 18 regarding the group loans agreements with banks and covenants which the Group is subject to.

c. See Note 19 in respect of the linkage terms for the Short-term credit from financial institutions.

d. See Note 18 for additional information regarding the group loans and finance agreement and the Hot's debentures.

NOTE 15:—TRADE PAYABLES

a. Composition:

	December 31 2011
	NIS in millions
Open debts	645
Accrued expenses in respect of suppliers	171
	816
Including related parties	21

b. Obligations to suppliers are non-interest bearing. The average credit period extended by the suppliers is 92 days.

c. See Note 19 in respect of the linkage terms for the trade payables.

NOTE 16:—OTHER PAYABLES

Composition:

	December 31	
	2011	2010
	NIS in millions	
Liabilities to employees and other liabilities for salaries and wages	122	—
Current maturities of liabilities to the government and other long-term liabilities	68	—
Current maturity with supplier agreements	11	—
Current maturity of deferred installation fees	15	—
Interest payable	39	—
Royalties to the Israeli government	7	—
Advances from customers	25	—
Governmental institutions	18	3
Accrued expenses	7	1
Others (customers' credit balances)	26	—
	338	4

NOTE 16:—OTHER PAYABLES (Continued)

See Note 19 in respect of the linkage terms for the other payables.

NOTE 17:—PROVISION FOR LEGAL CLAIMS

	December 31, 2011
	NIS in millions
Balance at January 1	—
Amounts added for newly consolidated companies	318
Amounts provided	1
Amounts paid	(4)
Amounts cancelled	(128)
Balance at December 31	187

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES

a. *Loans from financial institutions*

Composition:

	As of December 31, 2011				
	Amount of principal	Dominated interest rate	Effective interest rate	Balance	Balance less current maturities
	NIS in millions	%	%	NIS in millions	
Loans from financial institutions (unlinked)	1,555	5.65-7.25	6.52	1,555	1,433

The repayment schedule after the balance sheet date as of December 31, 2011:

	In the first year	In the second year	In the third year	In the fourth year	In the fifth year and thereafter	Total
	NIS in millions					
Loans from financial institutions	125	113	159	205	960	1,562
Discount						(7)
Total						1,555

*) See also c-f below.

b. *Debentures*

Composition:

	December 31, 2011
	NIS in millions
Debentures	1,514
Less- balance of deferred issuance expenses	(14)
Less- current maturities	(61)
	1,439

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES (Continued)

Repayment periods after the reporting date:

	December 31, 2011
	NIS in millions
During the first year—current maturities	63
During the second year	126
During the third year	126
During the fourth year	126
During the fifth year and thereafter	1,073
Less- balance of deferred issuance expenses	(14)
	1,500

*) See also g below.

c. On November 28, 2011 the Company engaged with new finance agreement with Mizrahi Tfahot Bank Ltd and other lenders, also as part of a bridge loan as mentioned below (hereinafter- the banks), which in accordance the loan will be as follows:

1) An amount of NIS 850 million for immediate drawn by the Company;

2) An amount up to NIS 300 million as an additional loan, as was stipulated in the finance agreement. This loan is a bridge loan with maturity of 6 months.

The final maturity date of the loan in an amount of NIS 850 million will be November 26, 2018, payments will be done on behalf of the loan beginning on May 2012 and every 6 months, in 14 payments.

The finance agreement determines that the Company can prepay as an early repayment of the loan, at any time but on the last day of an interest period, in the whole amount of the loan or partially (but in a minimum amount of NIS 30 million), with no penalties or repayment fees of earlier repayment. Also the agreement determines several cases of mandatory repayment, with no penalties, including, inter alia: (1) receipts by borrower- distributions on behalf of HOT shares; (2) sale proceeds of HOT shares, under certain circumstances; (3) payments from Altice Securities as was determined in the agreement.

Also, the finance agreement determines that a deed of pledge from the Company in favor of the bank or other lenders under the finance agreement, pursuant to which the Company shall have granted certain fixed and floating charges.

The finance agreement also includes certain default scenarios like (including but not limited to):

1. Insolvency of the Company or insolvency proceedings or equivalent,
2. Cessation of the business of the Company,
3. Ilegality,
4. Change of control,
5. Material adverse effect,
6. Delisting or suspension of HOT shares'
7. Certain financial covenants- loan to value ratio exceeds 75%, and at the end of any calendar quarter the net debt to EBITDA ratio, as was stipulated in the finance agreement, of the Company exceeds 5.0.

As of December 31, 2011 the company complies with the financial covenants.

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES (Continued)

d. During the years 2011and 2010 the company was involved in different loan agreements:

1. On December 23, 2010 the company signed a loan agreement with Bank Hapoalim for a total amount of NIS 350 million, which was fully repaid during June 2011.

2. On June 23, 2011 the company signed a loan agreement with Bank Discount for a total amount of NIS 900 million, which was fully repaid during November 2011.

e. On March 17, 2011 Hot, together with HOT Net Internet Services Ltd. and the HOT Telecom Partnership (hereinafter—the borrowers), signed on an agreement with Bank Hapoalim Ltd. and with Bank Leumi Le'Israel Ltd. (hereinafter—the banks) in connection with the refinancing of the previous bank credit, which had been made available to Hot by a number of financial institutions, including the banks (hereinafter—the new credit agreement). It is stipulated in the new credit agreement that Hot is to operate opposite the banking institutions within the framework of a syndicate, of which Bank Hapoalim Ltd. is the organizer.

On November 28, 2011 Hot signed on an amendment to the credit agreement, inter alia, as part of the Mirs purchase transaction, which includes, inter alia, the agreement of the financing banks for the execution of the purchase transaction (as

required under the terms of the credit agreement) and the financing for the payment of its consideration out of Hot's credit facility from the financing banks. The following are the main details of the credit facility, including the main details of the amendment:

1. *The credit facility*

A credit facility of up to NIS 3.4 billion, made up of three credit facilities, as follows:

a) Credit facility A'—in total amount of up to NIS 2.04 billion. This credit facility is available for a period of two years from the time of the signing of the new credit agreement. This credit is to be settled in accordance with a fixed payment type repayment schedule, over the course of the period from the drawing down of the loan and until the final settlement date (The final settlement date, meaning the earlier of : (a) the time at which seven years have passed from the time at which the initial draw down was made from any of the credit facilities; or (b) the time at which seven years and three months have passed from the time of the signing of the credit agreement, in other words March 31, 2018).

As of December 31, 2011 Hot has taken up an amount of NIS 497 million of this credit facility.

b) Credit Facility B'—in total amount of up to NIS 876 million. This credit facility is available for a period of two years from the time of the signing of the new credit agreement. The principal amount of the loans taken up from this facility are to be repaid at the time of the final settlement.

As of December 31, 2011 Hot has taken up loans in an amount of NIS 214 million from this credit facility.

c) Credit facility C'—in total amount of up to NIS 0.5 billion, which can be used for bank guarantees, futures transactions, short-term loans, the factoring of payments to suppliers, credit card facilities, all of which is to be done in accordance with the new credit agreement. This credit facility is available up to the final settlement date.

As of December 31, 2011 Hot has taken up loans in an amount of NIS 295 million from this credit facility.

2. *Settlement terms for the principal and interest*

The amounts of the principal in respect of each loan that is made available out of facility A' is to be repaid in quarterly payments in accordance with a ''fixed payment type'' repayment

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES (Continued)

schedule. The amounts of the principal in respect of loans taken up from credit facility B' are to be repaid in full at the final settlement date. The amounts that may be paid by a financer under bank guarantees that it has issued and /or a commitment in respect of a future transaction and/or a short-term loan out of credit facility C' are to be repaid to that same financer in accordance with the terms set with that financer in respect of those credits.

Any credit that will be made available under credit facility A' and credit facility B' shall bear interest from the time that it is made available and until the time that it is repaid, at the aforesaid annual interest rate, with the addition of a margin and with the addition of a cost in so far as one shall apply under the provisions of the law.

Any credit taken up out of credit facility C' shall bear interest from the time that the credit is made available until the time that it is repaid.

3. *The interest*

The interest in respect of the bank credit in credit facilities A' and B' is to be based on the average of the bases for the determination of interest rates in banks (hereinafter—the banks' credit recruitment cost) with the addition of a margin in accordance with the new credit agreement. The interest in respect of the bank credit in credit facility C' is to be based upon the bank's cost of recruiting and that of the other financing banks, with the addition of a margin that shall not exceed the margin in accordance with the new credit agreement.

4. *The financial covenants*

A number of financial covenants were set in the credit agreement, which Hot is to comply with, on a quarterly basis, including: a debt cover ratio (with and without cash balances), a debt to cash flows ratio, a ratio between the total amount of the financial liabilities less cash balances and the EBITDA and a minimal capital level.

As of December 31, 2011 Hot is in compliance with the required financial covenants.

5. *Immediate repayment*

A series of cases, events and circumstances were set in the credit agreement, in which the banks are entitled to make all of the credit repayable immediately. Among the other cases, the following may be noted: not paying on time; a breach of the agreement; non-compliance with financial ratios; insolvency; liquidation; attachments and so on, the cancellation or expiry of a significant license; a breach of other financial commitments vis-à-vis other parties (other than the banks); a transfer or acquisition of control in Hot in contravention of the provisions of the new credit agreement; a change in the field of activity of any of the borrowers; the exercise of a bank guarantee that has been made available under any of Hot Group's licenses; if any of Hot's securities that are registered for trade on a stock exchange being removed or suspended from trading (for more than five consecutive trading days); an event or series of events that could, in the opinion of the financial institutions, cause a significant impact in the borrower's ability to fulfill every material aspect of the provisions of the new credit agreement or a significant impact in the borrower's financial position.

6. *Collateral*

For the purpose of collateralizing the bank credit in accordance with the new credit agreement, first ranking, fixed charges and endorsements by way of a charge in an unlimited amount have been placed, as detailed below:

a) First ranking fixed charges on the rights of Hot Group companies.

b) Endorsements by way of a charge on Hot's Group subscription agreements with its subscribers and the supplier numbers of the Group companies with credit companies.

c) Fixed charges on Hot's Group companies' equipment.

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES (Continued)

d) Fixed charges on Hot's Group companies' land assets.

e) Fixed charges on Hot's Group companies' bank accounts.

f) First ranking floating charges on all of Hot's Group companies' assets and rights.

In addition to the aforesaid, the borrowers have made guarantees available in relation to the other two borrowers within the framework of which they have guaranteed the fill amounts of the liabilities that are guarantees in accordance with the new credit facility.

7. *Distribution*

Hot will be entitled to distribute a dividend to its shareholders, including by way of a capital reduction, subject to the receipt of all of the approvals that are required under the law, and this so long as Hot's shareholders' equity shall not fall below an overall amount of NIS 600 million, a minimal debt cover ratio of 1.25, a debt to cash flow ratio of 5.5 in the year 2011 (and at a reducing rate until 2014) and a minimal annual EBITDA of NIS 1.3 billion (see also Note 28 on the subject of the declaration and distribution of a dividend after the balance sheet date).

8. *Restrictions that apply to Hot's Group in respect of the receipt of credit*

The making available of the bank credit to borrowers is subject to a number of conditions, inter alia, the repayment of the bank credit in accordance with the previous credit agreement to the consortium of banks that are connected to the agreement, the removal of the charges on Hot's Group assets in accordance with the previous credit agreement and the creation of new charges in accordance with the aforesaid. As of the time of the approval of the financial statements the said conditions are being complied with, except for the non-completion of the recording of the charges, as required in the agreement, since they are still in the process of being recorded.

9. *The amendment of the credit agreement as the result of the acquisition of Mirs*

As aforesaid, as a result of the acquisition of Mirs by Hot, Hot entered into a commitment with the financing banks on November 28, 2011 under an amendment. Within the framework of the amendment, Hot has undertaken, inter alia, as follows:

a) Hot has undertaken to register a first ranking fixed charge and an endorsement by way of a charge in an unlimited amount on all of Mirs' share capital that it owns after the completion of the transaction for the acquisition of Mirs and all of the rights that are attached and/or that derive therefrom, inter alia, on Hot's rights to the repayment of shareholders' loans and rights to the repayment of amounts under capital notes and so on.

b) The minimum EBITDA requirements (within the definition of that term in the amendment to the credit agreement) for the purpose of the distribution of a current dividend by Hot and for the payment of management fees have been increased from NIS 1.2 billion a year to NIS 1.3 billion a year, as aforesaid.

c) Hot has undertaken to bear a rate of not less than 30 (thirty) percent of the financing of Mirs' investments (within the definition of that term in the amendment to the credit agreement). In addition, Hot has undertaken that as from January 1, 2014 it will bear the following at a rate of not less than 30%: (a) the financing of Mirs' investments; with the addition of (b) the amount of the balance of the bank guarantee that was made available to Mirs as collateral for the commitments that had been given within the framework of the frequencies tender process, as that may be at that time (hereinafter—the frequencies guarantee, see also Note 23c(6)(d) on this matter.

d) Despite the aforesaid, Hot shall not bear the cumulative financing of its investments in Mirs, in an amount that exceeds NIS 0.5, 0.8, 1 and 1.1 billion in the years 2012, 2013, 2014 and

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES (Continued)

2015 and thereafter, respectively (where for this purpose, inter alia, the amounts that Hot is to pay for the purposes of the frequencies guaranty, are not to be taken into account).

As part of the repayment of the previous bank credit and the signing on the new credit agreement, Hot bore early repayment type and re-organization type commissions in the reporting period as well as consultancy costs in an amount of NIS 57 million, of which NIS 23 million have been reflected under financing expenses in the statement of income and an amount of NIS 34 million has been recorded as a discount from the credit, which has been exploited and partially as a prepaid expenses in respect of the unexploited credit facility.

f. *The Mirs credit agreement*

As part of the transaction for Mirs acquisition by the Hot and in order to receive the bank's approval for the execution of the transaction for the acquisition of Mirs, the conditional approval of Mirs' financing bank for the completions of the acquisition was received on November 28, 2011. The bank's approval is subject to compliance with a number of crucial conditions, including the entry into force of the letter of undertaking that was signed by Mirs, which will arrange the commitments vis-à-vis the financing bank, including in connection with the frequencies guarantee (hereinafter -the letter of undertaking). The main points in the letter of undertaking are as follows:

1. Upon the entry of the letter of undertaking into force, Mirs repaid all of the credit that had been made available to it by Bank Hapoalim within the framework of the credit agreement, and all of Mirs shares, which had been charged under the said credit agreement were released and those shares have been charged in favor of Hot's financing banks in accordance with the new credit agreement, which is described above.
2. Mirs has undertaken to the subordination of the shareholders' loans and the capital notes that were sold to Hot within the framework of the transaction for the acquisition of Mirs in relation to the debts to the financing bank and it has also undertaken not to repay the existing and/or future shareholders' loans at any time whatsoever and in any manner (whether in money or in money's worth and including by way of set-off) to any of Mirs' shareholders or to any body that is related to the shareholders, as aforesaid, or to an interested party in the shareholders or to any related body or relative of any of these (all of whom will jointly be called: ''a related party''), so long as Mirs has not repaid its debts to the bank. However, it is clarified that the aforesaid shall not apply in respect of commercial debts, which arise in the ordinary course of Mirs' business.
3. There is a prohibition on Mirs making a loan to a related party and/or to any third party whatsoever.
4. There is a prohibition on the execution, on a decision to execute, a declaration or an undertaking to make any distribution whatsoever of any receipt whatsoever to a related party, except for management fees in an annual amount that does not exceed an amount of NIS 10 million and additional exceptions, which were set in the letter of undertaking.
5. Financial covenants have been set for Mirs, which include:
    a) The making available of a fixed charge on a NIS deposit, in favor of the banks, in accordance with a formula that was detailed in the letter of undertaking, in the event of the non-compliance with the radio-telephone market share rate as defined in the agreement.
    b) A minimal ratio between the amounts of the increase in the shareholders' equity and Mirs cumulative free cash flows, as defined in the agreement, as from the time of the completion of the acquisition transaction by Hot and thereafter.

    As of December 31, 20111 Mirs is in compliance with the financial covenants that have been set for it.

NOTE 18:—LOANS FROM FINANCIAL INSTITUTIONS AND DEBENTURES (Continued)

c) A prohibition on a change in control or a change in Mirs structure, or a change in Mirs' ownership, directly and/or indirectly, which does not constitute a change in control however it leads to the financing bank exceeding the restrictions that are placed upon it under the directives and the procedures issued by the Bank of Israel and the Supervisor of Banks in any issue relating to ''a single borrower'', ''a group of borrowers'' or any other restriction that is placed upon the bank and those directives and procedures.

g. 1. On February 27, 2011 Hot's Board of Directors approved a decision on the subject of the presentation of an application to the Securities Authority and the Tel-Aviv Stock Exchange for a permit for the publication of a shelf prospectus, on the basis of Hot's financial statements as of September 30, 2010, in accordance with which Hot will be entitled to issue shares, options for shares, debentures and convertible debentures as well as options for debentures, in such extend and under such conditions as may be determined in accordance with the shelf offer reports, if and in so far as they may be published by Hot in the future.

2. On March 29, 2011 Hot announced that it had received all of the permits, approvals and licenses that are required in accordance with the law for the offering of the securities that are being offered in accordance with the shelf offer report, for the issuance and publication of the shelf offer report and in accordance with its offering of debentures to the public.

On March 30, 2011 a tender was held for the purchase of Hot's Series A and Series B debentures. The immediate gross consideration that was received by Hot within the framework of the said issue amounted to NIS 1.5 billion.

3. The Series A' debentures—NIS 825 million par value are linked to the Consumer Prices Index for the month of February, 2011, and bear interest at a rate of 3.9% a year. The debentures are repayable in 13 semi-annual payments commencing on September 30, 2012 and up to September 30, 2018. The debentures are not collateralized by any charge whatsoever.

The gross consideration that was received by Hot in respect of the said debentures amounted to NIS 825 million.

4. The Series B' debentures—NIS 675 million par value bear interest at a fixed rate of 6.9% a year. The debentures are repayable in 13 semi-annual payments commencing on September 30, 2012 and up to September 30, 2018. The debentures are not collateralized by any charge whatsoever.

The gross consideration that was received by Hot in respect of the said debentures amounted to NIS 675 million.

5. On March 29, 2011 and on September 12, 2011, Hot received a rating of A1 with a stable horizon for the Series A and Series B debentures, in an amount of up to NIS 1,500 million par value from the Midroog Ltd. rating company.

The issuance expenses in respect of the said debentures amounted to NIS 15 million (as of December 31, 2011 the issuance expenses amounted to NIS 14 million).

6. Financial covenants were set within the framework of the issue of the debentures, the breach of which, under certain conditions, could lead to the immediate repayment of the debentures, as follows:

a. A debt to EBITDA ratio, which is not to exceed 6 for a period that exceeds two consecutive quarters.

b. A distribution of a dividend at a time at which Hot is exceeding a debt to EBITDA ratio of 5.5

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

h. See Note 19 in respect of the linkage and interest terms of loans from financial institutions and debentures.

NOTE 19:—FINANCIAL INSTRUMENTS

a. The classification of the financial assets and the financial liabilities:

The following is the classification of the financial assets and the financial liabilities in the balance sheet for the groups of financial instruments, in accordance with IAS 39:

	December 31	
	2011	2010
	NIS in millions	
Financial assets		
Financial assets at fair value through profit or loss:		
Classified as held for trading	25	—
Loans and receivables	494	—
Available for sale financial asset	42	—
Financial liabilities		
Financial liabilities that are measured at amortized cost	6,036	1,036
Financial liabilities at fair value through profit or loss:		
Designated as such upon initial recognition	360	—
Financial liabilities that are classified as held for trade	3	—

b. Financial risk factors:

The activities of the Company, the consolidated company—HOT and its consolidated companies expose it to risks that are connected to various financial instruments, such as market risk (currency risk, interest risk and price risk), credit risk and cash flow risk. The Group's overall risks management program focuses on activities to reduce to a minimum the possible adverse effects on the financial performance of the Group. The consolidated company—HOT uses derivative financial instruments in order to hedge certain exposures to risks.

The management of Hot's risks is carried out by the Board of Directors. The management of HOT's risks is carried out by Hot's Chief Financial Officer in accordance with policies that have been approved by HOT's Board of Directors. HOT's Chief Financial Officer assesses and defines the financial risks in cooperation with the Group's operational units. The Board of Directors provides the principles for the overall management of the risks.

Market risks:

1. Exchange rate risk:

The HOT Group operates with various suppliers across the globe and it is exposed to exchange rate risk, which derived from the exposure to various currencies, primarily the US Dollar, The exchange rate risk derives from HOT's futures transactions and from liabilities that have been recognized and which are denoted in foreign currency, which is not the functional currency.

HOT's management takes measures to hedge some of the futures transactions in US Dollars (other than for the purposes of accounting hedging), based on budgetary data, and this subject to the terms of the agreements with the financial institutions.

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 NIS 2,385 million as of December 31, 2011.

NOTE 19:—FINANCIAL INSTRUMENTS (Continued)

3. Interest risk:

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.

The mix of the loans at variable and/or fixed interest rates is determined in part within the framework of HOT's credit agreement with financial institutions.

The following are details in respect of the types of interest of the Group's interest-bearing financial instruments:

	Year ended December 31	
	2011	2010
	NIS in millions	
Fixed interest instruments		
Financial liabilities	4,009	1,058
Variable interest instruments		
Financial liabilities	1,002	2

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 NIS 42 million.

5. Liquidity risk:

The Group's objective is to maintain the existing ratio between the receipt of on-going financing and flexible financing that exists by means of the use of overdrafts and loans from financial institutions. Within the framework of the agreement with a banking entity, HOT's new credit agreement and the terms of the debentures that have been issued by HOT, financial criteria have been set for the Company and HOT, which they are to comply with on a quarterly basis and their breach, as defined in agreements, may lead to a demand for an immediate repayment of the credit that was made available by the financial institutions and/or within the framework of the debentures.

The company is based, among other, on cash sources that will be derived from a dividend distribution by HOT. Dividend distribution, as mentioned above, is subject to the loan agreement and the bridge loan agreement limitation as detailed in note 18.

6. 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 that includes 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.

HOT provided 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 cellular communication field, respectively. HOT routinely evaluates the credit that is

NOTE 19:—FINANCIAL INSTRUMENTS (Continued)

provided to its customers, while checking their financial situations; however it does not demand collateral for those debts. HOT records a provision for doubtful debts, based on the factors that affect the credit risks of certain customers, past experience and other information.

The HOT Group's income derives from customers in Israel. The HOT Group routinely monitors its customers' debts and provisions for doubtful debts are recorded in the financial statements, which provide a fair value, in HOT's assessment, of the loss that is inherent in debts whose collection lies in doubt.

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

c. Concentration of liquidity risk:

The following table presents the repayment times of the Group's financial liabilities in accordance with their contractual terms in non-discounted numbers:

	Up to 3 months	From 3 months to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
	NIS in millions							
As of December 31, 2011								
Credit from financial institutions	295	302	—	—	—	—	—	597
Other payables	192	—	—	—	—	—	—	192
Trade payables	803	—	—	—	—	—	—	803
Loans from financial institutions	50	183	206	245	281	271	712	1,948
Debentures	40	122	199	192	185	178	1,024	1,940
Other long term payables	23	66	232	152	117	77	40	707
Subordinated loan from controlling shareholders(*)	—	1,096	—	—	—	—	—	1,096
	1,403	1,769	637	589	583	526	1,776	7,283
As of December 31, 2010								
Credit from financial institutions	2	—	—	—	—	—	—	2
Other payables	1	3	—	—	—	—	—	4
Loan from controlling shareholders(*)	—	1,034	—	—	—	—	—	1,034
	3	1,037	—	—	—	—	—	1,040

(*) No repayment date has been set, see Note 27.

NOTE 19:—FINANCIAL INSTRUMENTS (Continued)

d. The fair value of financial instruments that are presented in the financial statements other than in accordance with their fair values:

	Balance	Fair value
	December 31, 2011	December 31, 2011
	NIS in millions	
Financial liabilities		
Short-term loans from other providers at fixed rate interest	300	302
Debentures at fixed rate interest	1,520	1,527
Long-term loans from financial institutions at variable rate interest (including current maturities)(*)	713	720
Long-term loans from other providers at fixed rate interest (including current maturities)	850	856
Liability to the government and other long-term liabilities (including current maturities)	242	244
Loan from controlling shareholders	1,096	1,072
Total	4,721	4,721

(*) The balance of long-term loans at variable rate interest in the financial statements includes an amount for accumulated interest that has not yet been paid as of the balance sheet date, which is recorded under other payables. The fair value of the long-term loans at variable rate interest is based on the present value of the cash flows after updating the fixed amount with variable rate interest.

The fair value has been estimated based on recent transactions in the market that took place between non-related parties.

The balances of cash and cash equivalents, restricted cash, trade receivables, other receivables, credit from financial institutions, trade payables and other payables in the financial statements, accords with or is close to their fair values.

e. The classification of financial instruments in accordance with a rating scale for fair value. The financial instruments that are presented in the balance sheet 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 data 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 does not have any financial assets or liabilities that meet the definition of Level 1.

Level 2—Data other than quoted prices that are included in level 1, which can be viewed directly or indirectly.

Level 3—Data that is not based on viewable market information (an evaluation technique that does not use viewable market data).

NOTE 19:—FINANCIAL INSTRUMENTS (Continued)

Financial assets that are measured at fair value:

	Level 2	Level 3
	NIS in millions	
December 31, 2011		
Available for sale financial assets :		
Shares	—	42
Financial assets at fair value through profit or loss:		
Forward contract in foreign currency from grades that are not recognized for accounting purposes	25	—
Financial liabilities at fair value through profit or loss:		
Imbedded derivatives	2	—
Interest rate swap contract (Swap)	1	—
Liability to the ministry of communications	—	19
Liability on behalf of MIRS share acquisition	—	341
	22	(318)

During the course of the year 2011 there were no transfers in respect of the measurement of the fair value of any financial instrument whatsoever, between Level 1 and Level 2, and neither were their transfers into or out of Level 3 in respect of the measurement of the fair value of any financial instrument, whatsoever.

Movement in financial assets classified in level 3

	Available for sale financial assets
	NIS in millions
Balance at January 1, 2011	—
Addition for newly consolidated companies	(277)
Total loss recognized in profit or loss (net of tax effect)	(41)
Balance at December 31, 2011	(318)

f. Embedded derivatives:

Hot entered into a number of agreements for the purchase of content, which are denoted in foreign currency (including the Dollar), which is not the functional currency of either of the parties to the agreement.

NOTE 19:—FINANCIAL INSTRUMENTS (Continued)

g. Sensitivity tests in respect of a change in market factors:

	December 31, 2011
	NIS in millions
Sensitivity test to changes in interest rates:	
Gain (loss) from the change:	
Increase of 0.5% in interest	2
Decrease of 0.5% in interest	(2)
Sensitivity test to changes in the Israeli CPI:	
Gain (loss) from the change:	
Increase of 2.5% in Israeli CPI	(1)
Decrease of 2.5% in Israeli CPI	29
Sensitivity test to changes in the U.S. dollar exchange rate:	
Gain (loss) from the change:	
Increase of 10% in exchange rate	22
Decrease of 10% in exchange rate	(22)
Sensitivity test to changes in the market price of listed securities:	
The change in equity:	
Increase of 20% in market price	9
Decrease of 20% in market price	(9)

The sensitivity analysis in respect of financial instruments was performed under the assumption that the amount that was in force as of the balance sheet 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.

The Group has carried out sensitivity testing for the main market risk factors that might affect the operating results or the financial position that are reported. The sensitivity tests represent the profit or the loss and/or the change in equity (before tax), for each financial instrument in respect of the relevant risk variable that has been selected for it as of each reporting date. The testing of the risk factors has been done on the basis of the significance of the exposure of the results of the operations or the financial position in respect of each risk factor in relation to the functional currency and on the assumption that all of the other variables remain constant.

On long-term loans at fixed rate interest the Group has no exposure in respect of interest risk.

On long-term loans at variable rate interest, the sensitivity test for interest risk is only performed for the variable element of the interest.

NOTE 19:—FINANCIAL INSTRUMENTS

h. The linkage terms of the monetary balances:

	December 31, 2011			
	In foreign currency or linked thereto	Linked to the Consumer Prices Index	Unlinked	Total
	NIS in millions			
Assets				
Cash and cash equivalents	1	—	16	17
Restricted cash	—	—	203	203
Trade receivables	—	—	379	379
Other receivables	25	19	8	52
Long-term loans to affiliates	—	3	—	3
long-term trade receivables	—	—	85	85
	26	22	691	739
Liabilities				
Short-term credit from financial institutions and other providers of credit	—	300	295	595
Trade payables	150	1	647	798
Other payables	—	38	210	248
Loans from financial institutions	—	850	705	1,555
Debentures	—	831	669	1,500
Other long-term liabilities	59	414	162	635
Subordinated loan from controlling shareholders	—	—	1,096	1,096
	209	2,434	3,784	6,427

	December 31, 2010			
	In foreign currency or linked thereto	Linked to the Consumer Prices Index	Unlinked	Total
	NIS in millions			
Liabilities				
Short-term credit from financial institutions	2	—	—	2
Other payables	—	—	1	1
Short term liability from controlling shareholders	—	—	1,034	1,034
	2	—	1,035	1,037

NOTE 20:—ASSETS AND LIABILITIES IN RESEPCT OF EMPLOYEE BENEFITS

Defined benefits plan:

The element of the severance pay payments that is not covered by deposits as aforesaid, is treated by the HOT Group as a defined benefits plan in accordance with which a liability has been recorded in respect of employee benefits and in respect of which the Group deposits amounts in Central Severance Pay Funds, and in appropriate insurance policies.

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made.

NOTE 20:—ASSETS AND LIABILITIES IN RESEPCT OF EMPLOYEE BENEFITS (Continued)

1. *The plan assets (liabilities)*

	As of December 31 2011
	NIS in millions
Liabilities in respect of a defined benefit plan	(125)
Fair value of the plan assets	102
Total net liabilities	(23)

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

2. *The principal assumptions in the determination of the liability in respect of a defined benefit plan*

	% 2011
The discount rate	4.34
Expected yield on the plan assets	4.51
Expected rate of salary increases	2 - 4

NOTE 21:—OTHER LONG-TERM LIABILITIES

Composition:

	December 31, 2011
	NIS in millions
Liability to the Israel government (1)	125
Liability for financial leases (2)	105
Deriative instruments (3)	3
Liability for seniors (4)	6
Liability due to marketing agreement (5)	25
Liability to the Ministry of Communications (6)	19
Payables for purchase (7)	341
Long term trade payables	10
Deposits for converters	3
	637
Less—current maturities	(84)
	553

(1) On December 31, 2011 and in accordance with the change in Hot management's forecast in respect of the change in Hot Group's future revenues, the liability to the government was increased by NIS 4 million (year ended December 31, 2010- NIS 11 million).

(2) *As of December 31, 2011*

	Principal amount	Interest rate	Effective interest rate	Balance	Balance net of current maturities
	NIS in millions	%	%	NIS in millions	NIS in millions
Liability for financial lease	105	0-7	2.97	105	84

NOTE 21:—OTHER LONG-TERM LIABILITIES (Continued)

The following is an information on liability for financial lease according to maturity dates:

	December 31, 2011		
	Future minimal lease payments	Interest component	Present value future minimal lease payments
		NIS in millions	
First year	25	4	21
second year up to the fifth year	75	8	67
After the fifth year	20	3	17
	120	15	105

(3) In 2008 Hot entered into an IRS (Interest Rates Swap) transaction with a financing institution (hereinafter—the financing institution) in an amount of NIS 100 million, which is expected to expire in 2012, in parallel to the repayment of credit from another financing institution.

As of December 31, 2011 the value of the IRS transaction is NIS 1 million (reported under other payables in an amount of NIS 1 million) (2010—NIS 4 million, reported under other payables in an amount of NIS 3 million). Furthermore, the balance as of December 31, 2011 includes a balance of NIS 2 million of embedded derivatives (stated under other payables in an amount of NIS 1 million).

(4) On May 19, 2008 Hot's Audit Committee and Board of Directors decided upon a phantom options plan (hereinafter—the options) for senior office holders in Hot (hereinafter—the plan). It was determined that the total number of the options that Hot is to make available for the purpose of the exercise of the plan and their allocation to all of Hot's offerees is 1,588,666 options, of which an amount of 1,278,860 options, have been actually allocated.

At the time of the approval, as aforesaid, options were allocated to 13 office holders, and up to the balance sheet date nine office holders, who were within the framework of the plan, have announced that they were leaving Hot and accordingly the grant agreement in respect of them has been cancelled (818,147 options) and the plan remains in place in respect of four office holders, to whom 460,713 options have been allocated.

The options are exercisable into a monetary grant and not into shares of Hot. The phantom grant is a monetary grant in cash in an amount that is equivalent to the difference by which the market price of Hot's shares at the time of the exercise, exceeds the exercise price, as defined in the plan, and this is for each option that may be exercised in accordance with the terms of the plan.

On October 11, 2010, Hot's Audit Committee and Board of Director approved an amendment to the plan and the agreements between Hot and the office holders, such that the exercise period of the options that had been granted and/or that would be granted in accordance with the phantom plan, which was a period of two years after the end of the vesting period for each tranche, was increased to five years after the end of the vesting period, as aforesaid, the exercise price for some of the offerees under the plan was reduced to an amount of NIS 40. Furthermore, at the same time it was decided to make an additional allocation of a further 39,717 options to an offeree to whom options had been allocated in the past. In accordance with the terms of the allocation for the additional 39,717 options, the options will vest in three annual tranches, with an exercise price of NIS 40. The exercise period of the options until expiry is five years from the time of the vesting of the last tranche.

The economic value of the options (which has been determined in accordance with the binomial model) for all of the option warrants that were in force as of December 31, 2011 and 2010 is NIS 6.3 million and NIS 10.6 million, respectively. The economic value of those option warrants as of December 31, 2011 was determined based on the following main principles: a standard deviation of 34.46%—46.8% (2010—39.5%—44.3%), a risk free interest rate of 2.8%—3.6% (2010—3.6%—4.3%), an average lifetime of 2.7 - 5.1 years, an exercise price of NIS 40 - 40.08 per option (2010—

NOTE 21:—OTHER LONG-TERM LIABILITIES (Continued)

NIS 40 - 40.08) (in accordance with the length of service of each senior employee) and a share price of NIS 47.4 as of December 31, 2011 (2010—NIS 59.7).

In accordance with the provisions of IFRS 2, the fair value of the options has been recorded (proportionately to the vesting period that has passed) as a liability in Hot's financial statements, in parallel to the recording of salary expenses. In the year ended December 31, 2011 a decrease of NIS 3 million was recorded in the expenses, against a parallel decrease in the liability (2010—an increase of NIS 4.8 million in salary expenses against a parallel increase in the liability).

As of December 31, 2011 the said plan applied to four office holders, to whom 500,430 options had been issued and the balance of the options that have not yet been exercised in respect of it is 314, 430 options.

(5) Mirs pays fixed and variable amounts in respect of the recruitment of subscribers in respect of a marketing contract that it has with a marketer, which is in force until December 31, 2013.

Within the framework of the transaction for the acquisition of Mirs, a surplus cost was attributed to a liability. The liability in respect of the marketing contract is being amortized over a period of 7 years at variable annual rates in parallel to the period of the commitment in respect of the marketing contract.

(6) In continuation of what is stated in Note 1(g)(3)(a)(2) on the subject of a conditional guarantee to the Ministry of Communications in connection with the frequency usage license, the fair value of the conditional payment to the Ministry of Communications in respect of the license is estimated at NIS 19 million, based on an expert opinion and in accordance with the scenarios for the accumulation of market share (see also Note 23c(6)(d)).

(7) See Note 3.

NOTE 22:—TAXES ON INCOME

a. Tax laws that apply to the Group:

The company

Since the Company is incorporated in Israel and registered as a Luxembourgian company, the Company is subject to the tax laws that apply in Israel and also in Luxembourg.

Hot's Group

The merger agreement between the cable companies was signed on May 8, 2006. Within the framework of this agreement it was stipulated that the determining date for the actual execution of the activity involved in the merger would be January 1, 2006. As aforesaid in Note 1(f), the merger transactions between the cable companies was, in practice, completed on December 31, 2006. Accordingly, all the required reports under the law were furnished to the Income Tax Authority, according to which the determining date for the execution of the activity involved in the merger was also January 1, 2006, which is different from the time of the completion of the transaction, which is to sat December 31, 2006, and their recording in Hot's accounting records.

In accordance with Hot's opinion and its legal advisers, the timing of the tax event as a result of the transfer of the assets in the merger is January 1, 2006, and this is despite the fact that for accounting purposes the activity was recorded on the date of the completion of the transaction, which is to sat December 31, 2006.

In accordance with the outline of the transaction, amounts were allocated out of the cost of the acquisition, which amounted to NIS 4.4 billion, to intangible assets as well as the surplus accounting cost, which was attributed to fixed assets (hereinafter, together—the surplus costs).

NOTE 22:—TAXES ON INCOME (Continued)

In accordance with the provisions of the Income Tax Regulations (The depreciation rate for goodwill)—2003, it was stipulated that the annual depreciation rate for goodwill that was paid for will be 10%, and this is in accordance with the conditions as set in the said regulations.

In the opinion of Hot's management, the surplus costs can be amortized as an expense for tax purposes, and this is in accordance with the provisions of the Income Tax Ordinance and the regulations promulgated thereunder.

As aforesaid, the implications of the merger from the tax perspective include various issues and aspects, in respect of the date of the merger and the manner and the pace of the depreciation of the assets and the liabilities that were acquired and/or transferred within the framework of the merger (including the cables infrastructure) for tax purposes. Hot's management, in consultation with its professional advisers, has recorded a provision within the framework of the deferred tax item, for the sake of conservatism, which in its assessment reflects Hot's exposure in respect of the timing of the allowance of the expenses in connection with the aforesaid issues.

As part of the merger of the cable companies, all of Hot Group Companies have been registered within the framework of a unification of businesses in the name of Hot.

b. Tax assessments:

The company

The Company has not received final tax assessments since its incorporation.

Hot's Group

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 accordance with the tax assessments, expenses amounting to approximately NIS 1.1 billion were adjusted for the company 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. When 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 NIS 120 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 professional advisers, has presented an objection against the tax assessments for the years 2006 - 2008 and in the opinion of 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 dispute has arisen within the framework of the discussions in relation to 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 has been recorded within the framework of Hot's financial statements in respect of Hot's estimated exposure in respect of the dispute with the tax authorities in respect of open tax years.

NOTE 22:—TAXES ON INCOME (Continued)

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. Hot's 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 section 145, 147 and 152 of the Income Tax Ordinance.

c. Accumulated loss for tax purposes and other timing differences

The company

The Company records a tax provision for the Company's share of the operating profits of an investee company in respect of the duty to withhold tax at a rate of 5% which could apply to the Company in the event of a distribution of dividends by HOT.

Hot's Group

In accordance with the draft tax reports, which have not yet been presented, for the year 2011, Hot has losses for tax purposes that are available to be carried forward to future years, which in the assessment of Hot's management amounted to approximately NIS 1.1 billion as of December 31, 2011 (approximately NIS 1.2 billion as of December 31, 2010). Hot's Consolidated companies have losses for tax purposes, which in the assessment of Hot's management amounted to approximately NIS 0.3 billion as of that time (approximately NIS 0.3 billion as of December 31, 2010).

As of December 31, 2011 a deferred tax asset, which is estimated at NIS 49 million, has not been recorded in respect of timing differences in the Group in the absence of the expectation that it might be exploited in the foreseeable future (2010—NIS 80 million).

d. Deferred taxes:

Composition:

1. Within the framework of the business combination that took place on March 16, 2011 the Group also created a deferred tax asset in respect of timing differences in respect of which no attribution of deferred taxes was performed by HOT. HOT has recorded deferred taxes up to the amount of the deferred tax liabilities, where there is a legal and enforceable rights that enables the setting off of deferred tax assets against deferred tax liabilities and also up to the level of the deferred tax liabilities in the event that it is expected that the utilization will be similar or later than the utilization of the deferred tax assets. In the event that no certainty exists in respect of the timing of the reversal of the deferred tax liability, HOT does not create deferred tax assets in respect of temporary difference as aforesaid (see also section a above).
2. Changes in respect of deferred taxes in respect of available for sale investments that are presented at fair value are reflected under other comprehensive income and not as tax income and expenses.

The deferred taxes have been calculated in accordance with the tax rates that are expected to apply at the time that they are exploited.

NOTE 22:—TAXES ON INCOME (Continued)

Deferred taxes

Composition:

	Balance sheet
	December 31, 2011
	NIS in millions
Deferred tax liabilities	
Depreciable fixed assets	(106)
Intangible assets	(467)
Available for sale investments that are presented at fair value (2)	(10)
Others	(145)
	(728)
Deferred tax assets	
Depreciable fixed assets	178
Provision for doubtful debts	21
Provision for claims	12
Other liabilities	35
Employee benefits	11
Deferred taxes was not provided	(48)
Net, deferred tax liabilities	209

(1) The Group provides for deferred tax assets up to the liability amount of deferred taxes when there is an enforceable legal right that enables to offset deferred tax assets from deferred tax liabilities up to the liability amount for deferred taxes if the utilization is expected and similar to the utilization rate of deferred tax assets. If the reversal dates of liability for deferred taxes are uncertain, the Group does not provide for deferred tax assets for the above temporary differences.

(2) Changes in respect of deferred taxes in respect of available for sale investments that are presented at fair value are reflected under other comprehensive income and not as tax income and expenses. In case of impairment the changes are reflected in profit or loss.

(3) On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 (''the Law'') which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

The effect of the abovementioned changes increased deferred tax liability by approximately NIS 81 millions.

(4) The deferred taxes are presented in the balance sheet as follows:

	December 31, 2011
	NIS in millions
Non-current assets	81
Long-term liabilities	(600)
	519

Deferred taxes are calculated according to an average tax rate of 25% based on the tax rates expected to apply upon realization.

NOTE 22:—TAXES ON INCOME

Taxes on income included in the statements of other comprehensive income:

	Year ended December 31
	2011
	NIS in millions
Current taxes (current advances for surplus expenses)	(1)
Deferred taxes	86
Reconciliation of deferred tax balances following the change in tax rates	81
	166

Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,
	2011
	NIS in millions
Income before taxes on income	829
Statutory tax rate	24%
Tax computed at the statutory tax rate	199
Increase (decrease) in taxes on income resulting from the following factors:	
Adjustment to of deferred tax balances due to changes in tax rates	81
Non-deductible expenses for tax purposes and tax exempt income	(101)
Loss for tax purposes and temporary differences which no deferred taxes were recorded of behalf on it, net	(13)
Taxes on income	166

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS

a. *Contingent liabilities*

1. Within the framework of the merger of the cable companies, as described in Note 1(f), Hot has assumed responsibility for the existing claims in the field of activity of the acquired companies (the cable companies in their former format), furthermore, it was determined that Hot is to assume responsibility for any claim that may be filed in the interim period by any of the acquired companies after the time of the completion of the cable companies.

   In addition, Hot has entered into a commitment under an indemnification agreement with each of the three previous holders of the rights in the HOT Gold Partnership (the Tevel Group, the Yedioth Communications and the Fishman Group) in accordance with which Hot has undertaken to fully indemnify the partners in the HOT Gold Partnership, prior to the completion of the merger transaction, so that they will be released from all responsibility, commitment or debt of any sort whatsoever that HOT Gold had on December 31, 2006 or that HOT Gold may have after that date, and which relate to the period prior to the completion of the merger, including in respect of claims and legal proceedings.

2. Lawsuits have been filed and are pending against companies in Hot's Group in the routine course of business and various legal proceedings are outstanding against it (hereinafter—Lawsuits).

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

In the opinion of the managements of Hot Group companies, based, inter alia, on legal opinions in respect of the chances of the lawsuits, appropriate provisions have been recorded in the financial statements as of December 31, 2011 in an amount of NIS 168 million, were provisions are required, to cover the exposure in respect of the said lawsuits.

In the opinion of the management of Hot Group companies the additional exposure in an amount of NIS 5.1 billion (over and above the provisions that have been recorded in these financial statements), as of December 31, 2011 in respect of Lawsuits that have been filed against companies in Hot's Group on various issues is as follows:

a) An amount of approximately NIS 2.9 billion in respect of claims, which in the assessment of the Hot'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 532 million in respect of claims, in respect of which it is not yet possible to make an assessment, the main ones being in connection with the approval of class actions that were presented close to the date of the financial statements.

c) An amount of approximately NIS 1.7 billion in respect of claims which, in the assessment of the Hot's management, in reliance upon the opinions of its legal advisors, their chances of being accepted exceed 50%.

The following is an abbreviated summary of the Group's contingent liabilities effective as of December 31, 2011 in accordance with groupings having similar characteristics:

a) *Claims by customers*

As of December 31, 2011 the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by customers amounts to approximately NIS 5 billion. Of the said claims an amount of NIS 529 million relates to claims which it is not possible to assess at this stage and which relate primarily to applications for the approval of class actions, which were presented after the balance sheet date.

In the opinion of the managements of the companies in Hot Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 8 million have (including an increase in the net expense by NIS 2 million in the year ended December 31, 2011), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of the those claims.

b) *Claims in connection with copyright*

As of December 31, 2011 the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements) in respect of claims in connection with allegations of breach of copyright and the payment of appropriate royalties by Hot's Group, amounts to NIS 99 million. In the opinion of the managements of the companies in Hot Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 158 million (including a decrease in the net expense by NIS 93 million in the year ended December 31, 2011), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of those claims. The amount of the provision includes an amount of NIS 115 million in respect of a compromise agreement with Acum and Tali for the years 2003 - 2010.

In June 2011 Hot signed on a compromise agreement with Tali—The Collecting Society of Film and Television Creators in Israel Ltd., in respect of the payment of royalties in respect

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

of the years 2003 to 2014. The said compromise arrangement did not have a significant impact on Hot's financial statements for the year ended December 31, 2011.

On September 8, 2011 Hot received a judgment that had been passed down by the District Court (Central district) in a claim in an amount of 20 million Dollars, which had been presented on March 28, 2000 against Hot and the other cable companies (which have since been merged into it) by AGICOA—The Association for the International Collective Management of Audiovisual Works (hereinafter—the plaintiff), which is an association that collectively manages copyrights for audio-visual works and which brings together producers from across the globe. The lawsuit alleges that there was a breach of the copyrights of producers who are represented by the association within the context of the secondary broadcasts by the cable companies. It was determined in the judgment that Hot is to pay an amount of NIS 10 million to the plaintiffs, with the addition of linkage differentials and interest, as from the date on which the claim was presented as well as the costs of the lawsuit and attorneys' fees amounting to NIS 500 thousand. The plaintiff filed an application for the correction of a typing error in the judgment, according to which the intention had been to hand down a ruling in an amount of 10 million US Dollars. The Court rejected the application. As of the date of this report, the plaintiff has filed an appeal on its behalf and Hot has filed an appeal on the judgment to the Supreme Court and a time has been set for the presentation of the summaries of the parties' claims in the appeals.

In Hot's assessment, based on the opinion of its legal advisers, Hot has recorded a provision that reflects the provisions of the judgment.

On July 19, 2010, Hot received a ruling by an arbitrator which was handed down within the framework of arbitration proceedings that were being conducted between Hot and Acum—The Association for Composers, lyricists, and music publishers in Israel Ltd. (Acum) in connection with the setting of a mechanism for the setting of the annual royalties in respect of the use of works, the rights to which are protected by Acum. The arbitration ruling accepted the outline for the model for the purpose of calculating the royalties, which was presented by Acum in the Statement of Claim in principle, and this was done with the exception of certain changes.

It was further determined that the said calculation model was also to apply in respect of the issue of the payment of differentials on royalties in respect of previous years, commencing as from January 1, 2003, and that the calculation of the differences was to be conducted between the parties in an agreed manner. In accordance with the arbitration agreement that was signed between Hot and Acum and the right of appeal that is available to Hot thereunder, on November 4, 2010 an appeal was filed against the arbitration ruling on Hot's behalf.

On December 13, 2011 Hot and Acum signed on a compromise agreement, within the framework of which all of Acum's claims vis-à-vis HOT in respect of the years 2003 to 2010 were arranged. Furthermore, the annual royalty rates for the years 2011 to 2016 were agreed upon.

The impact of the results of the compromise agreement on Hot's financial statements for the year 2011 in respect of the reduction of the amount of the provision in respect of the compromise agreement with Acum is NIS 87 million, net of tax.

It should be clarified that in tandem with the signing on the said compromise agreement, the parties signed on an agreement, within the framework of which Hot received a license from Acum for the broadcasting of works, in respect of which Acum holds the copyright (hereinafter—the Acum repertoire) within the framework of Hot's television and internet broadcasts. The said agreement determines the formula for the calculation of the royalties

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

that will be due to Acum in respect of the use of the Acum repertoire by Hot, including in respect of the use thereof within the framework of the internet broadcasts and the cellular applications, and it places a duty on Hot to make reports to Acum in respect of the extent of the use of the Acum Repertoire by Hot in its broadcasts. The agreement will apply retrospectively from the beginning of 2011 and is in force until December 31, 2016, and Acum has the right to cancel the agreement in exceptional circumstances (the dissolution of Hot, a stay of execution, the cancellation of Hot's broadcasting license and an arrangement with creditors that could affect Hot's ability to meet its commitments to pay royalties).

c) *Claims by suppliers and communications providers*

As of December 31, 2011 the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements) in respect of claims by suppliers and communications providers, amounts to NIS 39 million. In the opinion of the managements of the companies in Hot Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 2 million (including an increase of NIS 2 million in the net expense in the year ended December 31, 2011), and this in connection with proceedings in relation to which provisions have been required in order to cover the exposure as the result of those claims.

d) *Claims by employees*

As of December, 2011 the amount of the additional exposure (over and above the provisions that have been recorded in these financial statements), in respect of claims by employees amounts to NIS 5 million, and it relates primarily to individual claims. In the opinion of the managements of the companies in Hot Group, based, inter alia, on legal opinions in respect of the chances of the claims, appropriate provisions have been recorded in the financial statements in an amount of NIS 349 thousand (unchanged in the year ended December 31, 2011), where provisions are required to cover the exposure as the result of the claims.

b. *Commitments*

1. *Royalties to the Ministry of Communications and other payments to the government*

a) 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.

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

On June 13, 2011 the Finance Committee approved an amendment to the Concession Regulations, according to which the royalties 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 cellular telephone companies Pelephone, Partner and Cellcom as well as by the Bezeq company.

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 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.

On July 10, 2012 the Finance Committee approved the Temporary Provisions and the amended version was published in the Official Gazette on August 1, 2012. In accordance with the temporary provisions, the royalty rate for the period from January 1, 2012 to July 31, 2012 will stand at 2.5% and it will stand at 0.7% for the period from August 1, 2012 to December 31, 2012, and provided that the annual royalty rate for the year 2012 is to stand at 1.75%. Following the amendment of the Regulations, on August 19, 2012, the Supreme Court instructed that the appeal to the Supreme Court, which had been presented by HOT Telecom, in connection with the previous decision by the Ministry of Communications to increase the royalties' rate, as described in the Periodic Report, be canceled.

b) In accordance with the Telecommunications Regulations (Telecommunications and Services) (Royalties)—2001 (hereinafter—the Royalties Regulations), Mirs is required to pay royalties to the State each quarter, as a percentage of its income from radio telephone services, less the payments that Mirs 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 began to provide In Country roaming services; (b) a holder of another license as a virtual operator (MVNO) has began to

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

operate, and the market share of all of the virtual radio telephone operators is at least 5%. After one of the two 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.

The Finance Committee of the Knesset has approved the amendment of the Royalties Regulations, in such manner that as from August 1, 2012 a holder of a mobile radio telephone license is to pay royalties to the State in respect of its chargeable income (except for VAT) at a rate of 0.29% and solely that in an annual calculation the royalty rate is to stand at 1.3%. It was further determined that the royalties rate in the year 2013 will be zero.

c) 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 an merged company.

d) 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

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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).

e) 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.

2. *Other royalties*

a) Within the framework of Hot Group's routine operations in the field of broadcasting, Hot's Group entered into commitments under arrangements and agreements under which Hot's Group pays royalties to various authors' organizations. The amounts of the royalties that have been reflected by the Hot's Group within this context in the years 2011, 2010 and 2009 amounted to NIS 40 million, NIS 51 million and NIS 29 million respectively (see also section a(2)(b) above).

b) 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 the Group business results.

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. See also Note 1g(1)(b)(5)(b).

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 the Bezeq company (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 the Bezeq company'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 the Bezeq company with the base equipment (as defined in the agreement) that comprises the cables network and the Bezeq company 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 the Bezeq company conducts the routine maintenance of the cables network and also provides missfunction 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.

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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. The Bezeq company 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 the Bezeq company'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 the Bezeq company 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 the Bezeq company 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.

5. *Commitments to lease assets*

Hot has a commitment 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:

	NIS in millions
2011	136
2012	106
2013	70
2014	48
2015 and thereafter	54
	414

6. 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

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

is expected to arrive as a result of the increased use of applications that require a considerable band width.

7. 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 are 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 from Motorola alone 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.

8. 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.

9. 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

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

statements, Mirs is conducting negotiations in advance of signing agreements with additional suppliers.

10. 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, Hot's Group will pay the supplier an amount of 52 million Dollars. The total consideration in the agreement for all of the services up to the year 2017 is approximately 120 million US Dollars, according to Mirs assessment.

11. *Commitment with main customer*

    Mirs supplies a range of services to the Ministry of Defense: cellular telephones, data telecommunications and PTT services. Hot's total 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 cellular 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 cellular 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.

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

12. *Capitalized leasing rights on land from the Israel Lands Authority*

    Capitalized leasing rights on land from the Israel Lands Authority over n area of 14,296 square meters on which Hot's Group 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. See also Note 2K. The lease periods end in the years 2021-2045.

13. *Commitments between companies in Hot Group*

    a) There is a mutual agreement for the provision of services between HOT Telecom and Hot, which has been in force since January 1, 2007. Within the framework of the agreement Hot has undertaken to supply HOT Telecom with services in various fields, including the fields of purchasing and marketing. The said services are provided primarily by the employees of Hot and of HOT Telecom, as the case may be. It was stipulated that the consideration for the provision of the services, to which each party will be entitled, will be an amount that is equivalent to the cost of the provision of the services, which will be determined by the parties by agreement, from time to time.

       In May 2008 Hot's Board of Directors and HOT Telecom's Board of Directors approved the updating of the mutual charging mechanism between Hot and HOT Telecom retrospectively as from January 1, 2008.

    b) As from January 1, 2007, there has been an agreement in force between HOT Telecom and Hot, in accordance with which HOT Telecom will provide Hot with cable broadcasting distribution services and broadcasting center services. The agreement cannot be cancelled unilaterally by one of the parties but rather solely by a final judgment by an authorized court, or if a party to the agreement has received approval from the Council or the Ministry of Communications that the other party has ceased to provide its services in accordance with the license. Despite the aforesaid, Hot is entitled to announce the termination of this agreement at the end of a period of ten years from the date of its signing, or at the end of the period of validity of the broadcasting license, or at the end of any extension period of the broadcasting license. The services will be performed by employees of HOT Telecom.

       Under the force of the national operator license, HOT Telecom has been given the exclusive right to use the cables network, to operate it, to develop it, to improve it and the execute any activity on it in accordance with the national operator license and in accordance with the law. As from January 1, 2007 HOT Telecom has been charging Hot for the services in accordance with the amounts that are determined by the parties agreement, based on the formula that was set in a decision by the Minister of Communications on August 23, 2007 on the issue of the transmission fee to be paid by a special license holder to HOT Telecom in respect of the transmission of its broadcasts on HOT Telecom's infrastructure.

       At the time of the approval of the Group's financial statements of December 31, 2009 the HOT's Board of Directors and HOT Telecom's Board of Directors approved a mechanism for the transmission fees between HOT and HOT Telecom such that the consideration that will be paid for the services that are supplied in connection with the analogical channels, is to be reduced in accordance with the average number of analogical subscribers in that calendar year, except for the year 2009 in which a maximum discount of 7% would be given.

       At the time of the approval of the Hot Telecom financial statements of December 31, 2011 Hot's Board of Directors and Hot Telecom Board of Directors approved the updating of the mechanism for the transmission fees between Hot and Hot Telecom such that as from

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

the year 2012 a discount will be given in accordance with the number of channels that are transmitted on Hot Telecom infrastructure in accordance with a graded scale.

During the course of year 2011 HOT Telecom charged Hot the amounts of NIS 987 million.

c) As from January 1, 2007 Hot's operating, marketing, selling, administrative and general expenses are divided by on Hot and the Hot's subsidiary companies, in accordance with the ratio of the income of each company, which properly reflects the services that have been provided by Hot.

d) On April 14, 2011 the Hot's Audit Committee approved a transaction with Mirs for the purchase of text message sending services from Mirs: in accordance with the transactions, Mirs will supply Hot with text message sending services (SMS). The volume of the services will be as may be required from time to time by Hot.

In accordance with Hot's current volume of text message sending activity, the annual consideration that will be paid to Mirs in respect of these services stands at NIS 2.5 million.

e) On July 17 and 19, 2011 Hot's Audit Committee and Board of Directors, respectively, approved a commitment by Hot under a transaction for the supply of infrastructure services with Mirs. In accordance with the transaction that was approved, HOT Telecom will connect Mirs cellular communications sites to its communications centers, by means of the cables infrastructure. The transaction that was approved is for the connection of at least 550 communications sites (the completion of the connection of which is expected to take place by the end of 2014), with the consideration in respect of each site being determined in accordance with the technical requirements and the band width that is required. The commitment in connection with each site is for a period of ten years.

In accordance with Hot's assessment, at this stage, the total amount of the expected consideration for the said transaction could reach NIS 250 million, and will not fall below NIS 150 million.

f) Hot is entitled to receive management fees at a rate of 1% of Mirs annual income.

c. *Guarantees and liens*

1. As collateral for Hot's liabilities, HOT Telecom and Hot's subsidiary company—HOT Net vis-à-vis banking 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.

2. As collateral for the commitments of Hot and HOT Telecom and Hot's subsidiary company—HOT Net, Hot and Hot Telecom given guarantees for the payment of their liabilities in unrestricted guarantees.

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

   a) First ranking fixed charges on the rights of the companies in Hot's Group.

   b) Endorsements by way of a charge on:

      (1) Hot's Group's subscription agreements with its subscribers.

      (2) The supplier numbers of companies in Hot's Group with credit card companies.

      (3) Rights under the agreement for the provision of services between HOT Telecom and Hot.

   c) Fixed charges on the equipment of companies in Hot's Group.

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS

d) Fixed charges on the real estate assets of companies in the Hot's Group.

e) Fixed charges on the bank accounts of companies in the Hot's 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.

4. As collateral for the commitments of Hot, HOT Telecom and the 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 Hot's Group and a fixed charge on the goodwill and the unpaid share capital of the Companies in Hot's Group

5. As collateral for Hot's commitments in respect of the royalties agreement, as set forth in section B(1) above, a second ranking floating charge has been placed in favor of the State.

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

a) Bank guarantees to the Ministry of Communications, in respect of the national operator license that was granted to HOT Telecom amounting to 8.4 million Dollars, in force until June 2012, December 2012 and December 2025.

b) 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.

c) A bank guarantee in an amount of 2 million Dollars 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.

d) 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 Mirs' commitments vis-à-vis the Ministry of Communications within the context of Mirs' win in a frequencies tender for the setting up of a third generation cellular 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

NOTE 23:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS (Continued)

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.

7. Hot's Group has extended a number of bank guarantees to various bodies in an total amount of NIS 15.5 million.
8. *Guarantees to HOT Telecom*
   a) Hot's Group has given guarantees in a cumulative amount of US Dollars 16 million Dollars as collateral for payments by HOT Telecom to the Cisco company.
   b) Hot's 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.
9. There exist mutual guarantees between Hot and companies in Hot's Group, in unrestricted amounts, in favor of financial institutions as collateral for the repayment of Hot's Group's liabilities to those banking institutions.
10. On November 11, 2012, Hot's Board of Directors approved the extension of a guarantee to HOT Telecom, as collateral for all of the payments that HOT Telecom owes or that it may owe in the future to Techicolor, under the agreement.

NOTE 24:—EQUITY

The composition of the share capital:

	December 31, 2011		December 31, 2010	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
Ordinary shares of NIS 1 par value each	10,000,000	6,147,567	10,000,000	6,147,567

As of December 31, 2009, the Company's authorized share capital amounted to NIS 0.1 thousand (€ 0.02 thousand).

On April 2, 2010, an extraordinary general meeting of equity holders gave its approval for the par value of the shares being denoted in Euros instead of Shekels, such that it would stand at 0.02 thousand Euros (instead NIS 0.1 thousand).

On the same date, the general meeting approved the increasing of the Company's authorized share capital by 14,980 Ordinary shares of € 1 par value each, so that the Company's overall share capital amounted to € 15 thousand as of that date.

On November 3, 2010, the extraordinary general meeting of equity holders approved to increase the Company's authorized share capital by € 1,200 thousand, so that the Company's overall share capital totaled € 1,215 thousand on that date (8,100 shares).

On the same date, the extraordinary general meeting of equity holders approved to convert the value of the Company's shares to NIS instead of Euro based on the exchange rate of 5.0598 NIS/Euro. As a result of the above, the Company's overall share capital was updated to 6,148 thousand shares of NIS 1 par value each.

NOTE 24:—EQUITY (Continued)

Compulsory capital reserve:

Companies that are subject to the laws in Luxembourg are obligated to allocate a minimum compulsory capital reserve of 5% of the annual income until this reserve amounts to 10% of the share capital. The reserve can not be distributed.

Capital reserve for transaction with controlling shareholder:

A liability in respect of which the Company and the controlling shareholder performed transactions was recognized at fair value at the date of each transaction. The difference between the fair value and the agreed consideration for each transaction was carried to equity. The Company derived a positive difference for a beneficiary loan at non-market conditions from a controlling shareholder. The positive difference represents, in substance, an owner investment and, accordingly, it is recognized in a separate line item in equity as ''reserve for transaction with controlling shareholder''.

Share options in Hot Group:

The allocation of options to senior employees

1. *Options for the Chief Executive Officer of Hot*

   On November 4, 2008 and on November 5, 2008, Hot's Audit Committee and Board of Directors, respectively, approved the appointment of Mr. Herzl Ozer as Chief Executive Officer of Hot and the terms of his employment. The employment agreement between Hot and Hot's CEO (hereinafter—the employment agreement) entered force on December 1, 2008.

   The granting of 1,064,664 option warrants, constituting approximately 1.4% of the issued and paid up share capital of Hot (hereinafter—the option warrants), which will be granted to a trustee for him in accordance with section 102 of the Income Tax Ordinance on an income from labor path, and which will be exercisable (in accordance with the cashless method) into shares in Hot, subject to adjustments.

   The option warrants can be exercised in consideration for an additional payment on the exercise of approximately NIS 38.5 per option, subject to certain adjustments. In accordance with this plan the option warrants will be exercisable at five different vesting times over the length of the period of the CEO's employment in Hot, as detailed below, at the end of a period of two years from the time of the start of his work in Hot 25% of the quantity of the options will vest. Thereafter he will be entitled to exercise a further 18.75% of the quantity of the options each six months, as from the middle of the third year of his work in Hot and until he becomes entitled to the full amount at the end of the fourth year of his work in Hot. Each tranche, as aforesaid, will be exercisable for a period of two years from the time at which it vested, unless the options or some of them have expired before the end of the exercise period in accordance with the provisions of the grant agreement. This includes a provision that the all of the options that have vested prior to the time at which his employment with Hot ends will expire at the end of a period 90 days from the said time.

   In any case in which the options are exercised, Hot's Board of Directors will be entitled to convert his right to shares in Hot in respect of the options that have been exercised (hereinafter—the exercise shares) with a cash grant, and this in such manner that he will receive a monetary grant instead of the exercise shares, in the amount of the value of the exercise shares, in accordance with their price on the Stock Exchange at the time of the exercise (a phantom grant). As of the time of the approval of the financial statements, Hot's Board of Directors has not made a decision in respect of the conversion of the right to shares in Hot into a monetary grant.

   In February 2010 Hot's Audit Committee and Board of Directors approved the updating of the terms of employment of the CEO who holds office, and these included, inter alia, the terms of

NOTE 24:—EQUITY (Continued)

the option warrants that had been granted to him, such that from the times of the vesting of the option warrants that had been allocated to him within the framework of the terms of the original employment agreement were updated, such that a third of the option warrants, which had been allocated to him would vest on December 1, 2010 two years after the start of his period of office, an additional third would vest on December 1, 2011 and an additional third, constituting the balance of the option warrants, on December 1, 2012.

On October 11, 2010 Hot's Audit Committee and Board of Directors approved the updating of the terms of employment of Hot's CEO such that the exercise period of the options that had stood at two years from the time of the vesting of each tranche of option warrants, was extended, such that the CEO will be entitled to exercise the options as from the vesting time of each tranche and up to the end of a period of five years from the vesting time of that tranche.

As of December 31, 2011 is 914,664 option warrants were still not exercised.

2. *Additional options for employees and office holders in Hot*

On October 11, 2010, Hot's Audit Committee and Board of Directors approved a plan for the granting of options in Hot to 59 employees and office holders of Hot and of entities that it controls by her. This was up to an overall number of 1,530,541 option warrants, which are exercisable into 1,530,541 regular shares of par value NIS 1 each in Hot.

The option warrants that will be allocated within the framework of this plan will be granted to a trustee for the employees and office holders, in accordance with section 102 of the Income Tax Ordinance on an income from labor path, and which will be exercisable (in accordance with the cashless method) into shares in Hot, subject to adjustments.

Furthermore, subject to the provisions of the law and/or the agreement, Hot will have a preferential right to purchase any share that derives from the exercise of those options from the offerees to whom options have been allocated in accordance with the said plan.

In accordance with the abovementioned plan, the following options have been allocated:

a) Up to December 31, 2010, 786,391 options had been allocated. On March 9, 2011 an additional 600,000 options were allocated. Furthermore, at the same time approval was given for bringing forward the exercise time for the first tranche of the options to January 1, 2012.

The option warrants are exercisable for an additional consideration on exercise of approximately NIS 40 for each option warrant, subject to certain adjustments. In accordance with this plan, the option warrants will be exercisable at 3- 4 different vesting times (different vesting times for different employees) over the length of the period of the employment of the employees and the office holders, at the end of a period of five years from the said vesting time.

b) On May 4, 2011 the Options Committee of Hot's Board of Directors approved an allocation of 47,500 non-marketable options in Hot to a trustee for four employees (hereinafter—the offerees).

The option warrants are exercisable for an additional consideration on exercise of approximately NIS 45 for one offeree and NIS 60 for three offerees for each option warrant, subject to certain adjustments. In accordance with this plan, the option warrants will be exercisable at 4 different vesting times (different vesting times for different employees) over the length of the period of the employment of the employees and the office holders, at the end of a period of five years from the said vesting time.

c) On December 19, 2011 the Options Committee of Hot's Board of Directors approved an allocation of 206,650 non-marketable options in Hot to a trustee for six employees (hereinafter—the offerees).

NOTE 24:—EQUITY (Continued)

The option warrants are exercisable for an additional consideration on exercise of NIS 65 for each option warrant, subject to certain adjustments. In accordance with this plan, the option warrants will be exercisable at 4 different vesting times over the length of the period of the employment of the employees and the office holders, at the end of a period of five years from the said vesting time.

3. *The terms of employment of Hot's Chairman of the Board of Directors of Hot*

On March 27 and 28, 2011 Hot's Audit Committee and Board of Directors approved the terms of office of Ms. Stella Handler as the active Chairwoman of Hot's Board of Directors (hereinafter—the Chairwoman of the Board of Directors). On May 3, 2011 the terms of the Chairwoman of the Board of Directors' office were approved by a special general meeting of Hot's shareholders, with effect from May 1, 2011.

The grant of 1,165,066 option warrants, constituting approximately 1.48% of Hot's issued and paid up share capital (hereinafter- the option warrants) which will be granted to a trustee for her, in accordance with section 102 of the Income Tax Ordinance on an income from labor path, and which will be exercisable (in accordance with the cashless method) into shares in Hot, subject to adjustments.

The option warrants can be exercised in consideration for an additional payment on the exercise of approximately NIS 65 per option warrant, subject to certain adjustments. In accordance with this plan the option warrants will be exercisable at four different vesting times: one year, two years, three years and four years as from the time of the grant. Each tranche, as aforesaid, will be exercisable for a period of three years from the time at which it vested, unless the options or some of them have expired before the end of the exercise period in accordance with the provisions of the grant agreement. This includes a provision that the all of the options that have vested prior to the time at which his employment with Hot ends will expire at the end of a period 90 days from the said time.

The average economic value of the said option warrants (which has been determined in accordance with the binomial model) as of the time of the grant is NIS 32.8 million. The economic value of these options was determined on the basis of the following principles: the additional amount payable on exercise, as detailed above, a standard deviation at a rate of 39.54%-47.16%, a risk free interest rate of 4.46%-5.2%, an average lifetime of 4 - 7 years and a share price of NIS 63.63.

NOTE 25:—ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
Revenues			
cable TV	1,728	—	—
Cellular communications	66	—	—
In-country fixed line	313	—	—
Access services to fast internet	392	—	—
Transmission services	798	—	—
	3,297	—	—
Inter segment revenues	(745)	—	—
	2,552	—	—
Other operating expenses			
Payroll and related expenses	319	—	—
Royalties and other payments to the government of Israel	42	—	—
Programs and other broadcasts	480	—	—
Maintenance of subscribers, infrastructure and network	281	—	—
Rental fees and office maintenance	38	—	—
External service center	12	—	—
Others	54	—	—
	1,226	—	—
Selling, marketing general and administrative expenses			
Selling and marketing expenses			
Payroll and related expenses	72	—	—
Advertising and sales promotion	77	—	—
Rental fees and office maintenance	10	—	—
Marketers' commissions	17	—	—
External sales and retention center	8	—	—
Others	10	—	—
	194	—	—
General and administrative expenses			
Payroll and related expenses	67	—	—
Rental fees and office maintenance	6	—	—
Professional and legal consulting	23	1	—
Doubtful and bad accounts expenses	4	—	—
Recruiting and placement	10	—	—
Wellbeing	8	—	—
Others	4	—	—
	122	1	—

NOTE 25:—ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Continued)

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
Financial income (expenses)			
Financial income			
Changes in fair value of financial derivatives, net	32	—	—
Refund of commissions from subscribers	2	—	—
Exchange rate differences, net	—	—	8
Other financial income	3	—	—
Revaluation of loan from controlling shareholder	—	108	16
Interest on loan from related party	15	—	—
	52	108	24
Financial expenses			
Financial expenses for short term credit	4	—	—
Revaluation of available for sale financial asset	42	—	—
Financial expenses for bank commissions and credit card companies commissions	35	1	1
Financial expenses for long term loans	60	—	—
Financial expenses for debentures	75	—	—
Exchange rate differences, net	10	2	10
Revaluation of loan from the controlling shareholder	135	158	45
Financial expenses on behalf of contingent consideration	32	—	—
Other financial expenses	45	—	3
	438	161	59
Other expenses, net			
Liability to government and others.	(4)	—	—
Provision for contingent liabilities and claim settlement	122	—	—
Dividend received	3	—	—
Transaction costs for purchase Mirs' shares	(7)	—	—
Others	(1)	—	—
	113	—	—

NOTE 26:—OPERATING SEGMENTS

General:

The operating segments have been determined on the basis of the information that is considered by the chief operational decision (CODM) for the purposes of decision making in respect of the allocation of resources and the evaluation of performance. Accordingly, for management purposes, the Group is

NOTE 26:—OPERATING SEGMENTS (Continued)

acted in accordance with operating segments, based on the services of three main operating segments, as follows:

The in-country fixed line communications segment	—	In this segment the Company, operating through HOT Telecom, provides in-country fixed-line telephone services
The cable television segment	—	In this segment the Company and the subsidiary companies that it holds provide multi-channel cable television broadcasts for subscribers.
Cellular communications segment	—	In this segment, the Company provides, through Mirs, Telephony services, wireless communications and data transfer PPT.

The accounting policies for the operating segments to that which is presented in Note 2.

The segmental assets do not included deferred taxes and cash and cash equivalents, since those assets are managed on a Group-wide basis.

The segmental liabilities do not included deferred taxes, short-term and long-term credit, including interest payable, since those liabilities are managed on a Group-wide basis.

See Note 23b(13) on the subject of the mechanism for the charging of Hot by HOT Telecom in respect of the use of the cables infrastructure, ancillary equipment and the other operational fixed assets that are owned by HOT Telecom.

	Year Ended December 31, 2011					
	Cellular communication segment(**)	The in-country fixed line communications	Cable television	Others	Inter segment revenues(*)	Total consolidated
	NIS in millions					
External revenues	66	1,503	1,728	—	(745)	2,552
Segment Income (loss)	(6)	301	160	(8)	—	447
Unattributed other income, net						5
Operating income						452
Financial Expenses, Net						(386)
income before gain from achieving control, Companys' share of earnings of a company accounted for at equity and taxes on income						66

(*) Revenues mainly from the in country line communications

(**) Effective November 28, 2011

NOTE 26:—OPERATING SEGMENTS (Continued)

	December 31, 2011			
	Cellular communication segment	The in-country fixed line communications	Cable television	Total consolidated
	NIS in millions			
Additional information				
Segmental assets	1,566	6,781	1,368	9,715
Assets that have not been allocated to a segment				376
Total consolidated assets				10,091
Segmental liabilities	291	532	732	1,555
Liabilities that have not been allocated to a segment				5,750
Total consolidated liabilities				7,305
Capital investments	38	383	82	503
Depreciation and amortization	13	583	75	671

NOTE 27:—BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

Balances with related parties:

	Year ended December 31	
	2011	2010
	NIS in millions	
Trade receivables	1	—
Trade payables and accrued expenses for suppliers	21	—
Loan from shareholders(*)	1,096	1,034
	1,118	1,034

(*) On March 31, 2010, the Company signed a loan agreement (''the loan agreement'') with its interest shareholder, Altice, effective from May 14, 2009 for borrowing up to € 300,000, of which an amount of € 227,645 net after prepayment was transferred to the Company by December 31, 2009 and an amount of € 227,630 net after repayment by January 12, 2010, and this in favor of the execution of the acquisition of the shares of the affiliated company, HOT.

The loan agreement determined that no repayment date has been set for the said loan (however it will be provided for at least 12 months) nor any interest whatsoever. Also, according to the loan agreement, the Company is entitled to repay all or part of the loan amount on any date it wishes. Further, the Company has the option to convert the loan into Ordinary share capital of the Company, if it elects to, as far as it elects to, without waiving its right to repay the loan on any date it wishes.

Also, it was determined that the loan shall not bear interest during the first twelve months.

Furthermore, the loan provides for limited recourse so that the Company's obligation to repay the loan to Altice is limited to shares of Hot held by the Company and if these assets are insufficient to enable full payment, the Company is not required to make up the deficit.

A series of scenarios have been set in the loan agreement in which Altice may demand an immediate repayment of the loan, the main of which are: (1) the Company defaults in the performance of any actions or obligations under the loan agreement; (2) the Company takes actions which turn to be illegal due to any reason whatsoever; (3) the Company acts or takes any steps for its winding-up, dissolution or reorganization, a receiver or trustee is appointed for it assets or the Company ceases to carry on business or makes a general settlement with its creditors; (4) the Company does not fulfill other liabilities in respect of other loans, cash or guarantees; (5) the Company ceases or threatens to cease to carry on its business.

On November 3, 2010, an amendment to the above loan agreement was signed according to which the maximum loan amount would be NIS 1,518 million (as NIS-loan). All other conditions of the loan agreement remained in place.

On December 2, 2010, a second amendment to the above loan agreement was signed according to which, pursuant to the Company's Board resolution to raise debentures in the total of approximately NIS 1.1 billion, the parties agree that should the

NOTE 27:—BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Continued)

Company raise debentures and have obligations towards the debentures holders or third financing parties, any repayment of the above loan from the parent company would be subordinated and subject to the applicable limitations in order to ensure that subordination to third party financing is effective. Since November 2011 the shareholder loan was classified as a long term liability, since it subordinated to long term bank loans.

Since neither repayment date nor interest were determined for the loan the Company recorded an increase in its equity (in capital reserve for transaction with controlling shareholder) of accumulated amount of approximately NIS 529 million reflecting annual real interest of 14.5% beginning on November 2011, and for previous year annual real interest of 13% as determined by an independent external expert.

	December 31 2011	December 31 2010	December 31 2009
	NIS in millions	NIS in millions	NIS in millions
Incomes	2	—	—
Expenses	54	—	—
Purchases and purchase of services from suppliers	2	—	—
Financial Incomes	15	108	16
Financial Expenses	135	158	45

NOTE 28:—SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

a. On January 31, 2012, HOT board of directors approved dividend distribution of NIS 365 million reflecting a dividend of NIS 4.699 per share where the record date was set to February 7, 2012. The distribution was approved by HOT board of directors and court approval was not necessary. The distribution was carried out on February 19, 2012. As a result of this distribution, The Company received NIS 236 million as a cash dividend. The Company may be required to report this dividend and pay tax at a rate of 5% to the Income Tax Authority.

b. After the balance sheet date, additional 15 claims were filed against Hot by its customers in a total amount of NIS 3.9 billion, which in this stage, it is impossible to evaluate the prospects of such claims.

c. In Connection with litigation for determining the Financial compensation regarding contents provided to Hot by Warner Brothers International Television Distribution, a division of Time Warner Entertainment Company L.P under the agreement, During April 2012 Summaries of claims filed by Warner, through which they claims that they are entitled to receive amounts in respect of content provided in a total ranging between USD 3.2 million and USD 104 million.

   HOT studying the claims, and based among other, on preliminary consultation with its legal counsel, and strongly disagree with the allegations.

d. On January 31, 2012 HOT Haifa entered into a commitment with K.D. Kahiri Assets and Investments Ltd. (hereinafter—the Seller) under an agreement for the purchase of the building in Beersheba that Hot Group Companies leased from the seller, including all of the seller's rights and/or commitments in respect of the land and all that is built thereon, for an overall consideration of NIS 36.3 million (with the addition of VAT).

e. On June 28, 2012 the Hot's Board of Directors approved a program for the buy-back (by Hot or by its wholly owned subsidiary company) of debentures (Series A) and debentures (Series B) of Hot, which are traded on Tel-Aviv Stock Exchange. As of the date of the approval of the financial statement, the Company has not re-purchased any debentures.

NOTE 28:—SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (Continued)

f. On May 31, 2012 HOT published a private purchase offer for the purchase of 4,842,105 ordinary shares of par value NIS 1, which constitute 6.23% of HOT's issued and paid-up capital and of its voting rights (5.95% of the capital at full dilution), which are held by HOT shareholders, at a price of NIS 38 per share. The final amount of the consideration for the purchase of the shares amounted to NIS 184 million. HOT completed the purchase of the shares on June 19, 2012.

   Therefore, the company now holds 68.86% of HOT shares and as a result the company recorded an amount of NIS 72 million as a reserve transaction with non-controlling interests.

g. On August 26, 2012 Hot announced that it had received an approach from the Company, the controlling shareholder in Hot, within the framework of which the Company would like to acquire all of current outstanding shares of Hot which are not held by the Company, and which would be performed by way of the triangle reverse statutory merger (hereinafter—''the transaction'').

   On September 28, 2012 Hot entered into a merger agreement with companies which are owned by her controlling shareholder. Within the framework of the merger, all of Hot's shares will be acquired (except for shares which are held by the controlling shareholder and shares of Hot which are held by Hot (treasury shares)), constituting approximately 31% of Hot's issued and outstanding share capital, such that following the merger the controlling shareholder, will hold, directly and indirectly, 100% of Hot's issued share capital. Hot's shares will be delisted from trading on Tel-Aviv Stock Exchange and it will become a private company under the Companies Law—1999, but will continue being a ''reporting company'' under the Securities Law—1968. The consideration in the merger that was set in the merger agreement was NIS 38 per share (see below in respect of the updating of the price per share).

   The Completion of the merger transaction is subject to various conditions, which include, inter alia: (1) the receipt of the approval of a general meeting of Hot's shareholders with the majority that is required under the Companies Law. The general meeting of Hot is scheduled for November 25, 2012, (2) The receipt of approval from the Ministry of Communications and the Cable Broadcasting Council, (3) The receipt of all third party consents which are required in connection with the completion of the merger, including the agreement of the financial institutions which granted financing available to Hot. After the balance sheet date the Company and Hot received the consents of the relevant financial intuitions for the execution of the transaction in accordance with the terms that were set with them. In addition the Company signed an agreement with its lender, in which it agreed to repay the Company's loans subject to the completion of the transaction. In accordance with the agreement, in case of the prepayment of the Company's loans, the Company will pay the principal amount of the loans (linked in accordance with the loans terms), the interests accrued upon of the completion, the sum of NIS 55 million and additional amount on behalf of loan costs.

   On November 11, 2012, the Ministry of Communications announced the granting of approval for HOT Telecom in connection with the transfer of means of control in Hot and through it in HOT Telecom, within the framework of the transaction, as defined above, subject to the conditions that were detailed in the approval.

   The completion of the merger (closing) will take place shortly after all of the conditions for the merger, which are required to be met prior to the time of the closing, shall have been met. In case of non completion of the agreement after 180 days following signing, the agreement can be cancelled by any of the parties, subject to the conditions that were stipulated therein.

   On November 1, 2012 an approach was received from the controlling shareholder in Hot in respect of the updating of the consideration per share that was set forth in the merger agreement, such that the consideration will be NIS 41 per share instead of NIS 38 per share, as aforesaid.

   On November 5, 2012 the Company entered into separate agreements with two shareholders of Hot (Yedioth Communications Ltd. (''Yedioth) and companies from the Fishman Group (collectively, ''Fishman'' and, together with Yedioth, the ''interested shareholders'')), pursuant to which the

NOTE 28:—SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (Continued)

Company agreed to acquire from each of the interested shareholders its full holdings in Hot in consideration for a payment of NIS 41 per share, which is identical to the share price in the merger transaction described above. The purchase of the shares from the interested shareholders will be consummated at such time as the Company determines, but not later than on April 30, 2013.

Each interested shareholder will waive the obligation of the Company towards such interested shareholder (under an agreement between the Company and such interested party dated October 2010 (hereinafter—the ''original agreement'')), not to, until the earlier of (1) the date on which Yedioth or Fishman will hold less than 2.5% of the Hot shares and or (2) the date that is three years from the date of the Company's acquisition of Hot shares from the interested shareholders in 2011, take any action which will cause Hot to became a private company or cause its shares to be delisted from the Tel Aviv Stock Exchange, without receiving the consent of each interested shareholder (hereinafter— ''the obligation'').

As consideration for the waiver of the obligation, the Company agreed to grant each interested shareholder the right to purchase from the Company, at a price per share equal to NIS 48, or NIS 41 if the merger is not completed and Hot remains a public company (hereinafter— ''the call consideration''), during the 24-month period commencing on the first anniversary of the date of the acquisition by the Company of the Hot shares from each interested party, the acquired shares, all or partially (hereinafter— ''the call option'').

The agreements also include certain rights that will be available to the interested shareholders as well as certain drag along and tag along rights of the Company and the interested shareholders, respectively.

The Company is examining the above agreements impact on its future financial statements.

h. On August 23, 2012 the Company entered into a bridge facilities agreement (hereinafter— ''the agreement'') as the guarantor, together with Altice Finco S.A. (hereinafter— ''Holdco'') and Altice Financing S.A. (hereinafter— ''the borrower''), both are direct or indirect subsidiaries of the parent company of the Company, with certain financial institutions.

The agreements include availability of provides for three credit facilities which in accordance in an aggregate amount of the three facilities together is the lesser of approximately USD 562.4 million or the USD equivalent of NIS 2,150 million as of the date of the utilization request for each facility (calculated using the spot rate).

All facilities, if any are drawn, shall be repaid in full on the termination date which is the earlier of: (1) the date that is 12 months following the first utilization date of facilities; or (2) December 31, 2013.

The agreement also includes customary provisions relating to mandatory and voluntarily prepayment.

The Company is a guarantor to the Borrower obligations under the agreement, and is thus guaranteeing the performance of each obligor thereunder (the borrower and guarantor), its obligation as a guarantor is, inter alia, to undertake any amount which was due and unpaid, and shall only apply after the first utilization of any of the facilities. It was also determined that the obligations of the guarantor will not exceed: (1) the aggregate amount of the outstanding intercompany loans to the Company or its subsidiaries by an obligor which have been funded directly by the facilities as part of the agreement; increased by (2) the greater of: (a) 90% of the Company's own funds and subordinated debt as of the date of execution of the above agreement, or (b) 90% of the Company's own funds and subordinated debt as at the date on which a demand is made under the above agreement, or (c) 90% of the net assets of the Company calculated on the basis of the fair market value of the assets and liabilities of the Company as at the date of the execution of the above agreement, or (d) 90% of the net assets of the Company calculated on the basis of the fair market value of the assets and liabilities of the Company as at the date on which a demand is made under the above agreement.

NOTE 28:—SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (Continued)

The agreement contains customary representations covenants and undertakings, including certain financial covenants both for the Borrower and the Company, on consolidated basis.

As of the date of the approval of the financial statements, the Company did not utilize any of the credit facilities under the bridge facilities agreement.

i. Following Note 13 to the annual financial statements of the Company and section g above in connection with the special general meeting invitation of HOT to approve the transaction, and due to the external valuation (hereinafter- ''HOTs' valuation'') that HOT received for the purpose of examining the fairness and reasonable of the tender offer of HOT shares from its shareholders, excluding the Company, the Company tested the different cash generating units for impairment.

The Company has determined the value in use of each cash generating unit, with the assistance of an external appraiser, and as a result of this valuation the Company concluded that the recoverable amount of the in-country fixed line communication segment is lower than its carrying amount and accordingly recorded in the reporting period an impairment of approximately NIS 604 million which was recorded as part of section ''other expenses'' (NIS 418 million is allocated to equity holders of the Company). For the other two cash generating units no impairment was recorded.

The following are the main assumptions that were used in the measurement of the recoverable amounts as of September 30, 2012:

In Country fixed-line telecommunications

The recoverable amount of the In Country fixed-line telecommunications segment was determined based on the value in use, which was calculated in accordance with the estimated future cash flows, which are expected from the cash generating unit, which were determined in accordance with the plans for the next five years, as of September 30, 2012. The weighted cost of capital (WACC) was 10%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 1.5%.

Cable television

The recoverable amount of the cable television cash generating unit was determined based on the value in use, which was calculated in accordance with the estimated future cash flows, which are expected for the segment, which were determined in accordance with the plans for the next five years, as of September 30, 2012. The weighted cost of capital (WACC) was 10%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 1%.

Cellular communication

The recoverable amount of the cellular communication cash generating unit was determined based on the value in use, which was calculated in accordance with the estimated future cash flows, which are expected for the segment, which were determined in accordance with the plans for the next five years, as of September 30, 2012. The weighted cost of capital (WACC) was 11%. The cash flows for the period exceeding five years from that date were estimated used a fixed growth rate of 2%.

The key assumptions that were used in the calculation of the value in use in each cash generating unit

The calculation of the value in use, for the In Country fixed-line telecommunications, the cable television and the cellular communication unit, is subject to changes in the following assumptions:

- Revenues.
- Operating expenses.
- Selling and marketing expenses.

NOTE 28:—SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (Continued)

- Administrative and general expenses.
- Investments.
- The weighted cost of capital.
- Long-term growth.

Revenues—The level of revenues is derived from changes in the number of subscribers and changes in the average revenues per subscriber over the length of the period of the forecast.

Operating expenses—The operating expenses (excluding depreciation expenses) are primarily fixed and semi-fixed, with the most pronounced expenses being content expenses, salary expenses and network maintenance expenses.

Selling and marketing expenses—Selling and marketing expenses primarily include salary expenses and advertizing and marketing expenses.

Administrative and general expenses—Administrative and general expenses are primarily fixed.

The weighted cost of capital—The real capitalization rate used in the In Country fixed-line telecommunications and the Cable television segments is 10% after tax and in the Cellular communication segment is 11% after tax. The capitalization rate reflects equity of 8.8% and 11.8%, respectively, interest rate on the debt of 6% and 7%, respectively, and leverage rate of 23% and 59%, respectively.

Long-term growth—Average long term growth for the three cash generating units is 1.5% per year.

j. In continuation of Note 24, during the reporting period Hot's management updated its forecast in respect of the amount of the contingent consideration on the purchase of the shares in HOT Mobile, which was done as the result of the updating of its forecasts for the EBITDA targets and the market share target in the years from 2013 to 2016, inclusive, such that in Hot's assessment, which is based, inter alia, on an external evaluation, the fair value of the liability in respect of the contingent consideration as of September 30, 2012 is NIS 336 million. As a result of this Hot recognized a gain in an amount of NIS 21 million in the third quarter of 2012 under other income.

k. f. See Notes 1, 23 and 28 regarding additional post balance sheet occasions which were detailed in the above notes.

NOTE 29:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY ("SOLO")

a. Consolidated Balance Sheet

	December 31, 2011	December 31, 2010
	NIS in millions	
CURRENT ASSETS		
Cash and cash equivalents	1	—
Restricted cash	203	—
	204	—
NON-CURRENT ASSETS		
Investment in investee	2,206	1,252
	2,206	1,252
	2,410	1,252
CURRENT LIABILITIES		
Credit from financial institutions	343	2
Trade payables	2	—
Other accounts payable	9	2
Loan from controlling shareholder	—	1,034
	354	1,038
NON-CURRENT LIABILITIES:		
Loans from financial institutions	808	—
Subordinated loan from controlling shareholder	1,096	—
	1,904	—
	2,258	1,038
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Share capital	6	6
Reserve for transaction with controlling shareholder	452	297
Retained loss	(306)	(89)
Total equity	152	214
	2,410	1,252

b. Statements of comprehensive income

	Year ended December 31, 2011	2010	2009
	NIS in millions		
General and administrative expenses	(8)	(1)	—
Operating loss	(8)	(1)	—
Finance income	15	108	24
Finance expenses	(224)	(161)	(59)
Net loss	(217)	(54)	(35)
Other comprehensive income (loss) (net of tax effect):			
Total other comprehensive income (loss)	—	—	—
Total comprehensive loss	(217)	(54)	(35)

NOTE 29:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (“SOLO”) (Continued)

c. consolidated statements of changes in equity:

	Attributable to equity holders of the Company			
	Share capital	Capital reserve for transaction with controlling shareholder	Retained earnings (loss)	Total
	NIS in millions			
Balance at April 26, 2009(*)	—	—	—	—
Net loss	—	—	(35)	(35)
Total comprehensive loss	—	—	(35)	(35)
Equity contribution on transaction with controlling shareholder	—	152	—	152
Balance at January 1, 2010	—	152	(35)	117
Net loss	—	—	(54)	(54)
Total comprehensive loss	—	—	(54)	(54)
Issue of share capital	6	—	—	6
Equity contribution on transaction with controlling shareholder	—	145	—	145
Balance at December 31, 2010	6	297	(89)	214
Net loss	—	—	(217)	(217)
Total comprehensive loss	—	—	(217)	(217)
Issue of share capital	—	—	—	—
Equity benefit on transaction with controlling shareholder	—	155	—	155
Balance at December 31, 2011	6	452	(306)	152

(*) The Company commenced its operations on April 26, 2009.

NOTE 29:—CONDENSED DATA FROM THE SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (''SOLO'') (Continued)

d. Consolidated statements of cash flows:

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
Cash flows from operating activities:			
Net loss	(217)	(54)	(35)
Adjustments required in order to present cash flows from operating activities:			
Adjustments to the profit or loss items:			
Interest on loan from controlling shareholder	135	158	45
Revaluation of loan from controlling shareholder	—	(108)	(16)
	(82)	(4)	(6)
Changes in asset and liability items:			
Increase in trade payables	2	—	—
Increase in other accounts payable	7	1	1
	9	1	1
Net cash used in operating activities	(73)	(3)	(5)
Cash flows from investing activities:			
Investment in restricted cash	(203)	—	—
Repayment of loan from related party		—	—
Acquisition of companies that are treated under the equity method of accounting	(954)	—	(1,252)
Net cash used in investing activities	(1,157)	—	(1,252)

	Year ended December 31,		
	2011	2010	2009
	NIS in millions		
Cash flows from financing activities:			
Short-term bank credit, net from bank commission	299	2	—
Receipt of long-term loans from financial institutions	1,800	—	1,321
Repayment of long-term loans from financial institutions	(950)	—	—
Repayment of loan from controlling shareholder	(8)	—	(63)
Receipt of loan from controlling shareholder	90	—	—
Net cash provided by financing activities	1,231	2	1,258
Increase (decrease) in cash and cash equivalents	1	(1)	1
Cash and cash equivalents at the beginning of the period	—	1	—
Cash and cash equivalents at the end of the period	1	—	1

The accounting policies applied in the above condensed data are identical to those applied in Note 2, except:

— The accounting treatment of investments in shares of investees pursuant to IAS 27:

When presenting the data from the separate financial statements of the parent company (''solo''), investment in shares of subsidiary is accounted for at cost or at fair value in accordance with IAS 39 and not at equity. The Company has elected to account for said investment at cost and, accordingly, the investment in shares of HOT is presented at cost.

COOL HOLDING LTD.

APPENDIX TO THE FINANCIAL STATEMENTS

List of the Principal Investee Companies
As of December 31, 2011

	Percentage holding and ownership %	
HOT—Cable Telecommunications Systems Ltd.	100	Consolidated
HOT—Cable Telecommunications Systems Haifa—Hadera Ltd.	100	Consolidated
Not- Net Internet Services Ltd. (Formerly HOT—Investments and Finance Ltd.[(*)]	100	Consolidated
HOT—Properties Ltd.[(*)]	100	Consolidated
HOT Vision Ltd.[(*)]	100	Consolidated
Nonstop Ventures Ltd.[(*)]	50	Affiliated
HOT Telecom—Limited Partnership[(*)]	100	Consolidated
Drom Hasharon Communications (1990) Ltd.[(*)]	100	Consolidated
Isracable Ltd.[(*)]	100	Consolidated
HOT—T.L.M. Subscription Television Ltd.[(*)]	100	Consolidated
HOT—Edom Ltd.[(*)]	100	Consolidated
HOT—Iden Cables Systems (Maintenance) 1987 Ltd.[(*)]	100	Consolidated
HOT—Iden Israel Cables Systems Ltd.[(*)]	100	Consolidated
HOT Gold Ltd.[(*)]	100	Consolidated
HOT Net Limited Partnership[(*)]	100	Consolidated
MIRS Communication Ltd.	100	Consolidated

(*) Companies that are held by HOT, directly and indirectly.

MIRS COMMUNICATIONS LIMITED

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

NIS IN MILLIONS

INDEX

	Page
Auditors report	F-308
Balance sheet	F-309
Statement of comprehensive income	F-311
Statement of changes in equity	F-312
Statement of cash flows	F-313
Notes to the financial statements	F-315

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Auditors Report to the Shareholders of
Mirs Communications Ltd.

We have audited the accompanying balance sheet of Mirs Communications Ltd. (Hereinafter—the Company) as of December 31, 2010 and the statements of comprehensive income, changes in equity and cash flows for the year ended on December 31, 2010. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2a(3) to the financial statements the Company's financial statements do not include comparative prior year financial statements that are required under the IFRS and not required by Rule 3-05 of the SEC Regulation S-X.

In our opinion, based on our audit, except for the omission of comparative prior year financial statement as described above, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of its operations, the changes in its equity and its cash flows for the year ended on December 31, 2010, in accordance with International Financial Reporting Standards (IFRS) and the disclosure requirements in accordance with the Securities Regulations (Annual Financial Statements)—2010.

Without qualifying our above opinion, we hereby draw attention to Note 18B and 18E to the financial statements regarding claims filed against the Company and the impact of regulation and legislation, which could have a material adverse effect on the Company's business and on its operating results.

Tel-Aviv, Israel
July 20, 2011

Kost Forer Gabbay & Kasierer
Certified Public Accountants

MIRS COMMUNICATIONS LTD.

BALANCE SHEET

	Note	December 31 2010
		Audited
		NIS thousands
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	3	46,902
Trade receivables	4	188,088
Other receivables	5	33,966
Inventory	6	34,531
Total current assets		303,487
NON-CURRENT ASSETS		
Employee benefit assets, net	7	8,059
Fixed assets, net	8	372,854
Intangible assets, net	9	147,192
Total non-current assets		528,105
		831,592

The accompanying notes are an integral part of the financial statements.

MIRS COMMUNICATIONS LTD.

BALANCE SHEET (Continued)

	Note	December 31 2010
		Audited NIS thousands
CURRENT LIABILITIES		
Current maturities of loan from banks	12	10,000
Related parties	20	75,279
Trade payables	10	153,217
Other payables	11	61,962
Total current liabilities		300,458
NON-CURRENT LIABILITIES		
Loans from banks	12	286,038
Other liabilities	13	16,952
Deferred taxes	15 D	30,491
Total non-current liabilities		333,481
EQUITY	16	
Share capital		38,467
Share premium		227,719
Perpetual capital note		200,000
Capital reserve from transaction with controlling shareholder		(7,579)
Accumulated deficit		(260,954)
		197,653
		831,592

July 20, 2011			
Date of the approval of the financial statements	Stella Handler Chairman of the Board of Directors	Yaakov Nadvorni Chief Executive Officer	Lior Helman Chief Financial Officer

The accompanying notes are an integral part of the financial statements.

MIRS COMMUNICATIONS LTD.

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2010
		Audited NIS thousands (except per share data)
Revenues from sales and services	19A	1,012,814
Cost of producing revenues		
Cost of sales and services	19B	597,236
Depreciation and amortization		210,124
Total cost of generating revenues		807,360
Gross profit		205,454
Selling and marketing expenses	19 C	103,404
Administrative and general expenses	19 D	75,565
Other expenses, net	19 E	9,696
Operating income		16,789
Financing income	19 F	2,281
Financing expenses	19 G	(32,629)
Loss before taxes on income		(13,559)
Taxes on income	15 E	(4,333)
Loss for the year		(17,892)
Total comprehensive loss for the year		(17,892)
Loss per share (in NIS)		
Basic and diluted loss per share	16	(0.54)

The accompanying notes are an integral part of the financial statements.

MIRS COMMUNICATIONS LTD.
STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Perpetual capital note	Capital reserve in respect of transaction with a controlling interest	Retained earnings (accumulated deficit)	Total equity
	Audited NIS thousands					
Balance as of December 31, 2009	38,467	187,983	—	35,671	161,438	423,559
Total comprehensive loss	—	—	—	—	(17,892)	(17,892)
Capital reserve in respect of transaction with a controlling shareholder	—	—	—	10,535	—	10,535
Issuance of perpetual capital note	—	—	200,000	(4,138)	—	195,862
Cost of share based payment in the former ultimate parent company	—	—	—	4,065	—	4,065
Expiry of options in the former ultimate parent company	—	39,736	—	(39,736)	—	—
Merger with Altice Acquisition(*)	—	—	—	(13,976)	(404,500)	(418,476)
Balance as of December 31, 2010	38,467	227,719	200,000	(7,579)	(260,954)	197,653

(*) See Note 1 B.

The accompanying notes are an integral part of the financial statements.

MIRS COMMUNICATIONS LTD.

STATEMENT OF CASH FLOWS

	Year ended December 31, 2010
	Audited
	NIS thousands
Cash flows from operating activities	
Loss for the year	(17,892)
Adjustments required in order to present cash flows provided by operating activities:	
Adjustments to elements of the statement of comprehensive income:	
Depreciation of fixed assets	80,720
Amortization of intangible assets	127,852
Taxes on income, net	4,333
Change in assets for employee benefits, net	6,722
Cost of share based payment in the former ultimate parent company	4,065
Financing expenses, net	30,348
	254,040
Changes in assets and liabilities:	
Increase in trade receivables (including long-term)	(27,541)
Decrease in other receivables	2,637
Decrease in inventory	7,897
Increase in trade payables	69,195
Decrease in other payables	(60,791)
	(8,603)
Cash paid and received in the course of the year for:	
Interest paid	(22,943)
Interest received	1,721
Taxes paid	(14,670)
Taxes refunded	846
	(35,046)
Net cash provided by operating activities	192,499

The accompanying notes are an integral part of the financial statements.

MIRS COMMUNICATIONS LTD.

STATEMENT OF CASH FLOWS (Continued)

	Year ended December 31, 2010
	Audited
	NIS thousands
Cash flows from investment activities	
Purchase of fixed assets	(51,856)
Purchase of intangible assets	(106,714)
Net cash used in investment activities	(158,570)
Cash flows from financing activities	
Issuance of perpetual capital note	200,000
Repayment of long-term loans from banks	(53,962)
Short-term credit from related parties, net	(4,943)
Repayment of loans from related parties	(151,580)
Receipt of loans from related parties	20,691
Net cash provided by financing activities	10,206
Increase in cash and cash equivalents	44,135
Cash and cash equivalents at the beginning of the year	2,767
Cash and cash equivalents at the end of the year	46,902
(a) *Significant non-cash activities*	
Merger with Altice Acquisition (B)	(404,500)
(b) *Merger with Altice Acquisition*	
Receipt of long-term loan from the parent company	54,500
Receipt of long-term loan from a banking entity	350,000
Total receipt of loans in respect of the merger with Altice Acquisition	404,500

NOTE 1:—GENERAL

a. Mirs Communications Ltd. (hereinafter—''Mirs'' or ''the Company'') was incorporated in March 1998.

The Company operates a public wireless communications system and provides services in Israel, which include telephony, wireless communications (PTT) and data transfer, primarily using digital communications systems.

On February 5, 2001, the Ministry of Communications converted Mirs' license to a general license for the provision of mobile telephone services on a cellular network. On February 11, 2003, the license was updated and extended for a period of 15 years. The Company is entitled to request an extension of the license of an additional period of six years and thereafter. for one or more periods of six years. If the license is not renewed, the holder of the new license will be obligated to purchase the communications network and the rights and the debts of the subscribers at a fair value, as may be agreed between the parties or as may be determined by an arbitrator.

As detailed further on in this Note, the Company won a tender for frequencies in April 2011, within the framework of which the Company's inventory of frequencies is expected to expand and, in addition, a number of changes will be made in the existing license. In the light of the terms of the tender, the Company, together with related parties, has made bank guarantees available in favor of the Ministry of Communications in order to collateralize its commitments in accordance with the license that is to be amended. See also Note 18C(1).

b. *Merger agreement with Altice Acquisition*

In December 2009, the Company's parent company of the former parent company (hereinafter—Motorola) signed on a memorandum of understanding (hereinafter—''the agreement'') with the parent company (hereinafter—the purchaser) for the sale of Motorola's entire holdings in the Company. The agreement entered into force on May 27, 2010 after all of the pre-conditions that were included in the agreement fullfield.

In addition, an arrangement was determined between the purchaser and Motorola that the Company will continue to receive certain services from Motorola in accordance with what it needs for a period of one year from the time of the entry of the agreement into force.

In order to execute the transaction a company by the name of Altice Acquisition (hereinafter—''AA'') was incorporated and it received a loan of NIS 350 million from a bank. The loan agreement was based on the merger of AA with the Company. The total consideration for the transaction amounted to NIS 650 million (US$ 170 million) as detailed below:

1. The purchaser took upon itself Motorola's commitment in connection with the shareholders loan that had been extended in the past to the Company by Motorola, in an amount of NIS 235 million.
2. In accordance with the purchase agreement, the parties agreed to settle the account between themselves in connection with amounts that will be received by either of the parties in respect of the period that preceded the transaction (current accounting and accounting with the tax authorities or any other authority).
3. In the course of the acquisition of the Company, the purchaser made a shareholders loan of approximately NIS 34 million (US$ 9 million) available to AA. This shareholders loan has been deducted from the overall balance of the equity.
4. A loan from Bank Hapoalim Ltd. in an amount of approximately NIS 350 million (see Note 12).

c. In January 2011, in accordance with the requirements of the license for the operation of a cellular telephony network in Israel, the Ministry of Communications approved the sale of 5% of the Company's holdings to Migad Communications Limited Partnership, which is a partnership that is registered in Israel, and which is held by residents and citizens of Israel.

NOTE 1:—GENERAL (Continued)

d. *The winning of a tender for frequencies*

In April 2011, the Company won a tender that had been published by the Ministry of Communications for the allocation of frequencies, which enable the setting up of a network for the provision of advanced generation 3.9 (UMTS) cellular services (hereinafter—''the new network''). On April 12, 2011, the Company received confirmation from the Ministry of Communications in respect of the tender. In the Company's assessment, the license is expected to be received in the course of the weeks following the date of the approval of these financial statements.

Within the framework of the tender, the Company gave an undertaking to provide nation-wide coverage through the new network during the course of the seven years that follow the receipt of the license (at a cumulative extent of 20% at the end of two years, 40% at the end of four years, 55% at the end of five years, 75% at the end of six years and 90% at the end of seven years).

Part of the coverage will be provided by means of the Company's existing sites, which will be converted to broadcast on the new frequencies and new sites that will be set up by the Company.

Within the framework of the tender, the Company gave an undertaking to make a payment in the future, as detailed below and under certain conditions, in respect of the frequency that it has won, in an amount of up to NIS 705 million. In May 2011, the Company made a payment of NIS 10 million and made a bank guarantee available in respect of the balance (NIS 695 million). The payment of the balance of the license fee will be made at the end of a period of five years from the date of the receipt of the license, and this will be derived from the market share that is achieved in accordance with the following calculation: For each percentage of the market share in the private sector that is achieved within five years, the license fee will be refunded/reduced at a rate that is equivalent to 14.3% of the amount of the guarantee. The check will be carried out on two occasions: after two years and after five years from the date of the receipt of the license.

The amount of the guarantee will be adjusted at each checking point, in accordance with the mechanism that is detailed above.

The mechanism for the refund will only apply to the balance of NIS 695 million (an amount of NIS 10 million is to be paid in any event).

As of the date of these financial statements, the Company is making preparations for the setting up of the new network and in accordance with its assessment and forecasting, inter alia, on the basis of the existing assumptions from the regulatory field (planning and construction, including regulations on the subject of access facilities), the new network is expected to begin to operate during the course of the year 2012.

In June 2011, the Company chose Nokia Siemens to set up the new communications network and entered into a commitment with it under a contract. In accordance with the agreement, Nokia Siemens will set up the communications network under the Turn Key Services method in a project the first part of which will continue for three years and whose cost is estimated at approximately NIS 182 million (approximately US$ 52 million).

The fair value, as aforesaid, is estimated at approximately NIS 45 million, based on an expert opinion in accordance with scenarios for the accumulation of market share.

See Note 18c (1) on the subject of a guarantee for the Ministry of Communications.

e. *Agreement for the sale of the shares in the Company to HOT Communications Systems Ltd.*

On July 20, 2011, an agreement (hereinafter—''the purchase agreement''), was signed between HOT and the shareholders in the Company (hereinafter—''the sellers''), for the acquisition of the entire share capital of the Company, including shares that will be issued as a result of the exercise of options by employees in the Company prior to completion of the acquisition of the Company's shares by HOT (together with the seller's rights in capital notes that are convertible into shares in the Company and in shareholders loans), in consideration of an overall cash amount of NIS 1.3 billion

NOTE 1:—GENERAL (Continued)

based on the value of the Company's operations. The net debt owed as of June 30, 2011 is to be deducted from this amount. Similarly, the Company's debt to Altice will be endorsed into a debt from the Company to HOT (in an amount of NIS 68 million). The consideration for the purchase bears interest, as agreed between the parties, from the date of the signing of the agreement and until the completion of the transaction.

The completion of the purchase transaction is conditional upon the compliance with a number of crucial terms, the main ones being: (1) the approval of the purchase transaction by a general meeting of HOT's shareholders; (2) the receipt of the approval of the Anti-Trust Commissioner for the completion of the purchase transaction; (3) the receipt of the approval of the Ministry of Communications and the Council for Cable TV and Satellite Broadcasting for the completion of the purchase transaction; (4) the correctness of the representations made by the sellers and HOT, in all material respects, as of the time of the completion of the transaction; (5) the receipt of the agreement of the bank that will be making finance available for the purchase by HOT; and (6) the non-existence of circumstances that amount to a significant adverse impact on the Company.

In accordance with the purchase agreement, up to the time of the completion of the purchase transaction, the parties are entitled, by joint agreement, to cancel the agreement at any time and for any reason. In addition, the purchase agreement can be cancelled by any of the parties in certain circumstances, as detailed in the agreement, and inter alia: (1) in the event that the purchase transaction is not completed within 180 days from the time of the signing of the purchase agreement (with the giving of an extension of 90 days in so far as the purchase transaction has not been completed as the result of the non-receipt of the approvals that are required from the Government authorities), or (2) in the event that the approval of a Government authority that is required for the completion of the transaction is conditional in a manner that places a significant economic burden or a significant charge on any of the parties (where a structural separation will not be considered to be a term that places a burden or a charge, as aforesaid). The party, on which the burden is placed, as aforesaid, is entitled to bring the agreement to an end or to extend the aforementioned period in which the transaction is to be completed. In the case of the cancellation of the agreement, the purchase agreement will be deemed to be void ab initio (including rights and/or the commitments by the parties thereunder) without any liability on the part of any of the parties, except for a liability in connection with a breach of the parties' commitments prior to the termination of the transaction, which relate to confidentiality as well as a certain additional sections of the purchase agreement.

A duty is placed under the purchase agreement on the sellers and/or on Hot to provide indemnification in respect of damages (except for indirect damages and/or resultant damage) which are caused to the other party, as is customary in agreements of this sort, and solely that the duty to indemnify of the sellers on the one hand and of Hot on the other hand, is not to exceed an amount that is equivalent to US$ 38.5 million (where in respect of the sellers—the duty to indemnify will be in accordance with its relative share of the holdings prior to the completion of the purchase transaction), where neither party will be entitled to indemnification in respect of damage up to an amount that is equivalent to NIS 9 million, and solely that in the event that the amount of the damage that is caused to a party exceeds an amount that is equivalent to NIS 9 million, then that party will only be entitled to indemnification in respect of the damages that are caused to it in excess of that amount (except for certain exceptions). The said indemnification under the purchase agreement constitutes the sellers' and/or HOT's exclusive remedy in respect of damages that are caused to any of them in connection with the purchase agreement. In the event of damages that are caused as a result of fraud, no restriction will apply on the said duty of indemnification.

f. Companies in the Motorola Group constitutes a significant supplier for the Company, see Note 18A (2).

NOTE 1:—GENERAL (Continued)

g. *Definitions*

In these financial statements—

The Company	—Mirs Communications Ltd.
The ultimate parent company	—Altice VII sa'rl
The parent company	—Altice Securities s.a.r.l.
The former ultimate parent company	—Motorola Inc.
The former parent company	—Motorola Israel Ltd.
Interested parties	—As defined in the Securities Regulation (Annual Financial Statements)—2010.
Related parties	—As defined in IAS 24.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES

a. *Basis of presentation of the financial statements*

1. *Measurement basis*

The Company's financial statements are prepared on a cost basis, except for: Liability for cash-settled share-based payment transaction, derivatives and financial instruments at fair value through profit or loss, deferred tax assets and deferred tax liabilities and Employee benefit assets and employee benefit liabilities.

The Company has elected to present profit or loss items using the function of activities method.

2. *Basis of preparation of the financial statements*

These financial statements have been prepared in accordance with International Financial Reporting Standards (''IFRS''). These Standards comprise:

a) International Financial Reporting Standards (IFRS).

b) International Accounting Standards (IAS).

c) Interpretations issued by the IFRIC and by the SIC.

Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

3. The Company's financial statements do not include comparative prior year financial statements that are required under the IFRS and not required by Rule 3-05 of the SEC Regulation S-X.

b. *Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements*

1. *Judgments*

In the process of applying the significant accounting policies, the Company has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

— Classification of leases:

In order to determine whether to classify a lease as a finance lease or an operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Company evaluates such criteria as the existence of a ''bargain'' purchase option, the lease term in relation to the

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

— Recognizing revenue on a gross or net basis:

Income reporting on gross basis or net basis.

In cases where the Company acts as agent or broker without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Company acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis.

2. *Estimates and assumptions*

The preparation of the financial statements requires management 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 of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

— Legal claims

In estimating the likelihood of outcome of legal claims filed against the Company, the company relies on the opinion of its 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.

— Deferred tax assets

Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

— Transactions with controlling interests

The Company has received a loan from a controlling interest that is not at market terms. The Company accounts for these transactions as including an equity benefit. Accordingly, they are recorded at fair value pursuant to IAS 39 and the amount of the benefit that is recorded in equity reflects the difference between the fair value as above and the terms of the transaction. In determining the equity benefit, the Company is required to evaluate the market conditions that existed on the date of the transaction had it been provided by a third party.

— 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 significant uncertainty.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

— The determination of the fair value of share based payment transactions

The fair value of share based payment transactions is determined using the option costing model. The assumptions used in the model include the share price, the exercise price, the expected fluctuations, the dividends that are expected and the risk free interest rate.

c. *The functional currency and foreign currency*

1. *Functional currency and presentation currency*

The presentation currency for the financial statements is the New Israeli Shekel (NIS).

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and in which its transactions are denoted, has been determined to be the NIS.

2. *Transactions, assets and liabilities in foreign currency*

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. *Index-linked monetary items*

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index (''Israeli CPI'') are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, are recognized in profit or loss.

The following are details of the exchange rates of the currencies that are relevant to the Company and the Israeli CPI:

	December 31 2010
The Index (in points)(*)	211.7
Exchange rates (in NIS)	
US Dollar	3.55

(*) The index is in accordance with the basis of the average for 1993 = 100.

	2010
The rate of change in the year:	
The Index	2.66
US Dollar	(5.99)

d. *Cash equivalents*

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 Company's cash management.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. *Short term deposits*

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

f. *Allowance for doubtful accounts*

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company also recognizes a provision for groups of customers that are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

g. *Inventory*

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.

The cost of the inventory is determined under the weighted average method.

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

h. *The operating cycle*

The Company's regular operating cycle period is one year, accordingly the current assets and the current liabilities include items that are intended and expected to be realized within the Company's regular operating cycle.

i. *Financial instruments*

Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following two categories:

- Financial assets at fair value through profit or loss.
- Loans and receivables.

1. *Financial assets at fair value through profit or loss*

The Company has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits or if they are derivatives not designated as hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss and (d) the currency in which the contract is

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

denoted (foreign currency) is not the functional currency of the counter side that operates in Israel.

Derivatives, including separated 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 asset at fair value through profit or loss only upon initial recognition.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company 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.

None of the derivatives are designated for use as effective accounting hedging.

2. *Loans and receivables*

The Company has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process.

3. *Fair value*

The fair value of financial instruments that are traded in an active market is determined by reference to market prices on the balance sheet date. For financial instruments for which there is no active market, the fair value is determined by the use of valuation methods. Such methods include basing the evaluation 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 methods.

4. *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial liabilities

1. *Financial liabilities measured at amortized cost*

Interest-bearing loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process.

2. *Financial liabilities 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.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 separated 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 Company assesses whether embedded derivatives are required to be separated from host contracts when the Company 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.

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the agreement.

Financial guarantee contracts are initially recognized at fair value, taking into account transaction costs that are directly attributable to the issue of the guarantee. After initial recognition, the liability is measured at the higher of the amount initially recognized (less, if appropriate, cumulative amortization over the period of the guarantee) and the estimate of any obligation to be recorded at the end of the reporting period as determined in accordance with IAS 37.

Derecognition of financial instruments

Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Company):

- Discharges the liability by paying in cash, other financial assets, goods or services; or
- Is legally released from the liability.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

Financial assets carried at amortized cost

There is objective evidence of impairment of debt instruments, loans and receivables and held-to-maturity investments carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account (see allowance for doubtful accounts above). In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

j. *Leases*

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Company as lessee

1. *Finance Leases*

Finance leases transfer to the Company substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease liability using the effective interest method.

2. *Operating Leases*

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

k. *Fixed assets*

Fixed asset are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the plant and equipment.

The cost of self-constructed assets includes the cost of materials, direct labor and borrowing costs as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Infrastructure for the communications network	5 - 7
Computers and peripheral equipment	33
Office furniture and equipment	10 - 20

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Company and intended to be exercised) and the expected life of the improvement.

A part of an item of fixed items with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated on a straight-line basis over the useful life of the part.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of fixed assets, see paragraph M below.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognized.

I. *Intangible assets*

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

The useful life of intangible assets is as follows:

	Years
Subscriber acquisition costs	1.5 - 3
Software	3
License	15

Subscriber acquisition costs

The Company has an intangible asset that has been created in respect of the costs associated with the acquisition of subscribers. The cost of subsidizing devices, including the equipment that is ancillary to them, which have been delivered to the customers who signed on commitments to remain customers of the Company, is recognized as an intangible asset. The expenses in respect of the amortization of the acquisition of subscribers (less the income that is received in respect of them, if any) are recorded in the statement of comprehensive income over the length of the subscribers' contractual commitment under depreciation and amortization expenses. Following the amendment of the Communications Law in December 2010 (see also Note 18 E (5)) and the reduction of the fees for an early exit from costing plans that contain a commitment, the Company has begun to sell devices as a separate product from the costing plan and it has also began to recognize their full cost (which up to that time was capitalized to the intangible asset as costs of acquiring subscribers) at the time of the sale.

Software

The Company's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

License

The Company has a general license for the provision of mobile radio telephone services on a cellular network. In February 2003, the period of the license was updated and extended for a period of 15 years (see Note 1).

The license is amortized under the straight-line method, over the period of the useful lifetime, in accordance with the period of the license that is determined in the agreement.

m. *Impairment of non-financial assets*

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

n. *Taxes on income*

Taxes on income in the statement of income comprise current and deferred taxes. Current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item.

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. *Deferred taxes*

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, ''taxes on income''.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

o. *Share-based payment transactions*

The Company's employees are entitled to benefits by way of share-based payments in consideration for capital instruments.

Up to May 2010, the Company's employees received benefits by way of share-based payments in consideration for capital instruments of the former ultimate parent company. See Note 17c.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model; additional details are given in Note 17.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award (''the vesting period''). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in profit or loss represents the change between the cumulative expense recognized at the end of the reporting period and the cumulative expense recognized at the end of the previous reporting period.

No expense is recognized for awards that do not ultimately vest.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

p. *Liabilities in respect of employee benefits*

The Company has several employee benefit plans:

1. *Short-term employee benefits*

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. *Post-employment benefits*

The plans are generally financed by deposits with insurance companies and they are classified as defined deposit plans and also as defined benefit plans.

The Company operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds with a term that matches the estimated term of the benefit obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits with pension funds and insurance companies (''the plan assets''). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company.

The liability for employee benefits presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs.

Actuarial gains and losses are recognized in profit or loss in the period in which they occur.

3. *Other long-term employee benefits*

The Company's net obligation in respect of 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 Company'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.

Actuarial gains and losses are fully recognized in profit or loss in the period in which they occur.

4. *Termination benefits*

Employee termination benefits are recognized as an expense when the Company has committed, without realistic possibility of withdrawal, to terminate employees before the normal retirement date according to a detailed formal plan. Benefits to employees in respect of voluntary retirement are provided for when the Company has offered the employees a plan that encourages voluntary redundancy, it is expected that the offer will be accepted and the number of respondents can be reliably measured.

q. *Revenue recognition*

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Revenues from credit sales transactions that include a financing element are recorded at present value such that the difference between the fair value of the consideration had credit not been provided and the nominal amount of the consideration is recognized in profit or loss as finance income using the effective interest method.

The specific criteria for revenue recognition for the following types of revenues are:

Revenue from the sale of equipment

Revenue from the sale of equipment includes sales of mobile devices and ancillary equipment. Revenue from sales is recognized where all of the significant risks and yields that are derived from the ownership of the equipment have been transferred to the purchaser and the seller does not retain any continuing managerial involvement. Generally, the time of the delivery is the time at which ownership is transferred.

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

As from February 1, 2011, following a change in the fees for an early exit from a charging program with a predetermined commitment period, the Company has made changed in the terms of the commitments with its customers in transactions for the sale of end-user.

The charge in respect of the end-user is made separately from the monthly charge in respect of the use of services, and in accordance with the amount that is denoted in a separate invoice, which reflects the fair value of the end-user, which is not subsidized by the Company.

In the light if the aforesaid, as from February 1, 2011, the Company recognizes income in respect of the sale of the devices when the ownership of the devices is passed to its customers. The income is recognized on the first day in accordance with the fair value at that time and the difference between the fair value and the denoted amount of the consideration is recognized as financing income over the course of the payment period.

Revenue from the rendering of services

Revenue from the rendering of services is recognized in accordance with the stage of completion of the transaction as at the reporting date. In accordance with this method, the revenue is recognized in the reporting period in which the services are provided.

Revenue from the rendering of services is comprised of charges in respect of the use of air time on the Company's communications network, including interconnection fees, roaming, transmission, data transfer services, certain warranty agreements, content services and added value services.

Income in advance from the sale of dialing cards is recognized in accordance with the actual use made by the customers or the time at which the dialing cards expire.

Revenues from credit arrangements

Revenues that derive from long-term credit arrangements (such as the sale of devices with payments in installments) are recorded on the basis of the present value of the future cash flows (against long-term trade receivables) and are discounted using interest rates. The difference between the original amount of the credit and the present value, as aforesaid, is spread over the length of the credit period and recorded as interest income over the length of the credit period.

The reporting of income on the gross basis or net basis

In cases where the Company acts as an agent or as a broker without being exposed to the risks and rewards associated with the transaction, its revenues are presented on a net basis. However, in cases where the Company operates as a principal supplier and is exposed to the risks and rewards associated with the transaction, its revenues are presented on a gross basis.

Customer discounts

Current customer discounts are recognized in the financial statements when granted and are deducted from sales.

Arrangements with multiple elements

Revenues from sale agreements that do not contain a general right of return and that are composed of multiple elements such as equipment, services and so on are allocated to the various accounting units and recognized for each accounting unit separately. An element constitutes a separate accounting unit if and only if it has a separate value to the customer. Furthermore, this only applies if there is objective and reliable evidence as to the fair value of each element in the agreement or as to the fair value of undelivered elements. Elements that have not been separated into accounting units because they do not comply with the above criteria are grouped as a single accounting unit. Revenue from the various accounting units is recognized when the criteria for revenue recognition

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

regarding the elements of that accounting unit have been met according to their type and only to the extent of the consideration that is not contingent upon completion or performance of the remaining elements in the contract.

r. *Cost of sales and supplier discounts*

Cost of sales includes expenses for loss, storage and conveyance of inventories to the end point of sale. Cost of sales also includes provisions for write-downs of inventories, inventory write offs and provisions for slow-moving inventories.

Discounts are deducted from cost of purchase when the conditions entitling to those discounts are satisfied. The portion of the discounts relating to that portion of the purchases that are in closing inventories are attributed to inventories and the balance reduces the cost of sales.

s. *Finance income and expenses*

Financing income includes interest in respect of amounts that have been invested, changes in the fair value of financial assets that are measured at fair value through the statement of income and gains from exchange differences. Income from interest is recognized as it accumulates, using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the time value of provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses of financial assets and losses on hedges recognized in profit or loss. Borrowing costs that are not capitalized to qualifying assets are recognized in profit or loss using the effective interest method.

t. *Earnings (loss) per share*

Earnings (loss) per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

u. *Provisions*

A provision in accordance with IAS 37 is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Legal claims

A provision for claims is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Company to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is measured at its present value.

Warranty

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

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

v. *Advertising expenses*

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognized as an expense when the Company has the right of access to the advertising goods or when the Company receives those services.

w. *The presentation of a statement of comprehensive income*

The Company has elected to present a single statement of comprehensive income, which includes the components of a statement of income as well as the components of other comprehensive income, in so far as they exist.

x. *IAS 24—Related party disclosures*

The amendment to IAS 24 clarifies the definition of related party in order to simplify the identification of the relationship with a related party and to prevent a lack of consistency in the implementation of that definition. In addition, a partial relief is given within the framework of the amendment for companies that are connected to the government, in respect of the giving of disclosures for transactions with the government and with other companies, which are connected to the government. The amendment is to be implemented retrospectively as from January 1, 2011.

y. *Disclosure of new IFRSs in the period prior to their adoption*

IFRS 7—Financial Instruments: Disclosure

The amendment to IFRS 7 (''the Amendment'') provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The objective of the Amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Company's financial position. The Amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The Amendment is to be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The appropriate disclosures will be included in the Company's financial statements.

IFRS 9—Financial instruments

1. In November 2009, the IASB issued IFRS 9, ''Financial Instruments'', the first part of Phase 1 of a project to replace IAS 39, ''Financial Instruments: Recognition and Measurement''. IFRS 9 (''the Standard'') focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

   — The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

   — The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value

NOTE 2:—SIGNIFICANT ACCOUNTING POLICIES (Continued)

through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency (''accounting mismatch'') that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable.

When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard is effective commencing from January 1, 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the Standard.

3. In October 2010, the IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

   The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

   Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

   The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

   The Company believes that the Standard is not expected to have a material effect on the financial statements.

NOTE 3:—CASH AND CASH EQUIVALENTS

Composition:

	December 31 2010
	NIS thousands
Cash for immediate withdrawal	3,725
Cash equivalents—short-term deposits(*)	43,177
	46,902

(*) The deposits as of December 31, 2010 bear interest at an annual rate of ''Prime'' minus 1.65%.

NOTE 4:—TRADE RECEIVABLES

a. *Composition*

	December 31 2010
	NIS thousands
Open accounts	150,183
Credit cards	22,121
Checks receivable	5,281
Income receivable	25,518
Income receivable from other cellular network operators	17,621
	220,724
Less—allowance for doubtful accounts	32,636
Trade receivables, net	188,088

b. *Additional details:*

1. See Note 14 in respect of the linkage terms of the customers.
2. Customer debts that are in arrears bear interest.
3. In 2010, the Company discontinued the discounting of credit cards customers.
4. Impairment in the value of customer debts is treated by means of the recording of a provision for doubtful accounts.

c. The following is an analysis of the trade receivables (open debts and income receivable) in respect of which full impairment of value (provision for doubtful debts) has not been recognized), net trade receivables in accordance with the period of arrears in collection in relation to the reporting date:

	Customers whose settlement date has not yet been reached	Up to 90 days	90 days or more	Total
As of December 31, 2010	91,312	12,473	13,762	117,547

d. The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2010	25,278
Charge for the year	10,152
Derecognition of bad debts	(5,298)
Reversal of collected doubtful accounts	2,504
Balance at December 31, 2010	32,636

NOTE 5:—OTHER RECEIVABLES

a. *Composition*

	December 31 2010
	Audited NIS thousands
Government authorities	25,408
Prepaid expenses	7,308
Embedded derivatives	1,250
	33,966

b. See Note 14 in respect of the linkage terms of the other receivables.

NOTE 6:—INVENTORY

Composition:

	December 31 2010
	NIS thousands
Cellular telephony	25,672
Accessories	4,682
Spare parts	6,971
	37,325
Less—provision for impairment of the value of inventory	2,794
	34,531

NOTE 7:—ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

a. *Early retirement grants*

Within the framework of the merger agreement, which is described in Note 1 B above, the Company offered a retirement plan to approximately 40 employees, who have worked for the Company for more than 10 years, and who have passed the age of 50, according to which in the event that the employment of an employee is terminated by the Company or if the employee takes voluntary retirement within a set period of time, the employee will be entitled to an increased retirement grant. The plan is in force for up to two years from the time of the said merger. The overall cost of this retirement plan is estimated at approximately NIS 8 million.

b. *Defined benefit plan*

The Company accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Company deposits amounts in central severance pay funds and in qualifying insurance policies.

NOTE 7:—ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Continued)

1. *Expenses recognized in profit or loss*

	Year ended December 31, 2010
	NIS thousands
Current service cost	613
Interest cost on benefit obligation	702
Expected return on plan assets	(1,175)
Net actuarial loss recognized in the year	(790)
Total expenses in respect of employee benefits	(650)
Cost of early retirement grants	8,000
Total	7,350
Actual return on plan assets	1,720
The expenses are presented in the statement of income as follows:	
Cost of sales	4,336
Selling and marketing expenses	1,323
Administrative and general expenses	1,691
	7,350

2. *The plan assets (liabilities), net*

	December 31 2010
	NIS thousands
Liabilities in respect of a defined benefits plan	(14,057)
Fair value of the plan assets	30,116
Total net assets	16,059
Less—liabilities in respect of early retirement grants	(8,000)
Total	8,059

3. *Changes in the present value of defined benefit obligation*

	For the year ended December 31, 2010
	NIS thousands
Balance at January 1,	14,931
Interest cost	702
Current service cost	613
Benefits paid	(717)
Transfer of liability to Motorola	(1,227)
Net actuarial loss	(245)
Balance at December 31,	14,057

NOTE 7:—ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Continued)

4. *The plan assets*

a) The plan assets

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

b) The movement in the fair value of the plan assets:

	For the year ended December 31, 2010
	NIS thousands
Balance at January 1,	29,712
Expected return	1,175
Deposits with the plan by the employer	592
Benefits paid	(717)
Transfer of fund to Motorola	(1,191)
Net actuarial gain	545
Balance at the end of the year	30,116

5. The principal assumptions underlying the defined benefit plan:

	For the year ended December 31, 2010
Discount rate of the plan liability	4.8%
Expected rate of return on plan assets	4.8%
Future salary increases	2.0%

NOTE 8:—FIXED ASSETS

a. *Composition and movements*

For the year 2010

	Communications network infrastructure	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements	Total
			NIS thousands		
Cost					
Balance as of January 1, 2010	1,114,570	96,610	6,588	62,451	1,280,219
Additions in the year	40,196	8,132	1,230	2,298	51,856
Balance as of December 31, 2010	1,154,766	104,742	7,818	64,749	1,332,075
Accumulated depreciation					
Balance as of January 1, 2010	768,157	89,045	2,223	19,076	878,501
Additions in the year	68,832	6,129	612	5,147	80,720
Balance as of December 31, 2010	836,989	95,174	2,835	24,223	959,221
Net book value					
Balance as of December 31, 2010	317,777	9,568	4,983	40,526	372,854

b. *See Note 18D for details of liens.*

NOTE 9:—INTANGIBLE ASSETS

Composition and movements

For the year 2010

	Software	Subscriber acquisition costs	License	Total
	NIS thousands			
Cost				
Balance as of January 1, 2010	14,013	587,040	17,600	618,653
Additions in the year	9,199	97,515	—	106,714
Balance as of December 31, 2010	23,212	684,555	17,600	725,367
Accumulated amortization				
Balance as of January 1, 2010	2,988	436,930	10,405	450,323
Amortization recognized in the year	6,448	120,299	1,105	127,852
Balance as of December 31, 2010	9,436	557,229	11,510	578,175
Net book value				
Balance as of December 31, 2010	13,776	127,326	6,090	147,192

NOTE 10:—TRADE PAYABLES

a. Composition:

	December 31 2010
	NIS thousands
Open debts	89,193
Accrued expenses	42,997
Accrued expenses to communications operators	21,027
	153,217

b. The credit terms with suppliers up to March 2011 are EOM + 60 days.

c. Debts to suppliers are non-interest bearing.

d. See Note 14 on the subject of the linkage terms of the trade payables.

NOTE 11:—OTHER PAYABLES

Composition:

	December 31 2010
	NIS thousands
Employees and ancillary liabilities(***)	18,617
Government authorities	60
Accrued expenses(*)	9,349
Current finance leasing maturities	1,887
Advances from customers	5,450
Royalties payable(**)	3,312
Forward transactions	1,678
Former parent company(**)	20,718
Other payables	891
	61,962

(*) See also Note 18 A (4) on the subject of warranties for product.

(**) See also Note 18 A (6) on the subject of an arrangement with the Ministry of Communications.

(***) Includes provisions for vacation pay and for recreation pay.

NOTE 12:—LOANS FROM BANKS

a. Composition:

	December 31 2010
	NIS thousands
Loans from banks	296,038
Less—current maturities	10,000
	286,038

b. Repayment terms:

	December 31 2010
	NIS thousands
In the first year	10,000
In the second year	35,000
In the third year	35,000
In the fourth year	35,000
In the fifth year	35,000
In the sixth year	146,038
	296,038

c. The loan is unlinked and bears interest at an annual rate of ''Prime'' + 2.1%.

d. Financial covenants

1. The Company has given an undertaking in respect of the loan, which is detailed in section A' above, that during the course of the year 2010 and the first half of 2011 it will comply with a number of financial covenants, the main ones being:

   a) The gearing rate (the ratio between (1) the Company's financial debt less cash and cash equivalents and (2) EBITDA (hereinafter—''the gearing rate'') or the adjusted gearing rate (the ratio between (1) the financial debt less cash and cash equivalents and (2) the adjusted EBITDA (hereinafter—''the adjusted gearing rate'') is not to exceed 2.7 and 2.5 respectively; and

   b) The net gearing rate is to exceed 1.2; and

   c) The minimal shareholders' equity, after adjustments that have been set in the agreement or the minimal equity rate, after adjustments as determined in the agreement, by comparison with the assets is to exceed an amount of NIS 250 million and a rate of 27.5%, respectively.

   As of December 31, 2010, the Company was in compliance with the said financial covenants.

2. In accordance with loan agreement, as from the second half of 2011 and up to 2016 the financial covenants will be updated as follows:

   a) The gearing rate or the adjusted gearing rate are not to exceed 2.4 and 2.3, respectively, as from the second half of 2011, rates of 2.2 in 2012 and rates of 1.9 and 1.8, respectively, as from 2013 and up to 2016; and

   b) The net gearing rate is to exceed rates of between 1.2 up to 1.1; and

   c) The minimal shareholders' equity, after adjustments that have been set in the agreement or the minimal equity rate, after adjustments as determined in the agreement, by comparison with the assets is to exceed an amount of between NIS 225 million and NIS 175 million, respectively, in accordance with the balance of the loan.

e. See Note 18 D for details of collateral.

NOTE 13:—OTHER LIABILITIES

The liability in respect of finance leasing is in respect of investments in leasehold improvements in accordance with the rental agreement with ''Airport City'' Ltd. and is for a period of 10 years, ending in 2019.

See also Note 18 A (8).

The composition is as follows:

	December 31, 2010		
	Minimal future lease payments	The interest component	Present value of the minimal lease payments
	NIS thousands		
In the first year	2,580	693	1,887
From the second year to the fifth year	10,320	2,341	7,979
After the fifth year	10,320	1,347	8,973
	23,220	4,381	18,839

NOTE 14:—FINANCIAL INSTRUMENTS

a. *Financial risk factors*

The Company's activities expose it to various financial risks, such as market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's financial performance. The Company utilizes derivative in order to hedge certain exposures to risks (other than for the purpose of accounting hedging).

The management of the risks is carried out by the Company's Chief Financial Officer, in accordance with the Company's policies.

1. *Foreign exchange risk:*

The Company is exposed to currency risk in respect of its operating profit and its cash flows, primarily as the result of payments for purchases of cellular instruments, network equipment and roaming services. In addition, the Company maintains accounts in foreign currencies, which are different from the Company's functional currency. The Company executes forward transaction within the framework of the risks management policy in order to partially hedge the exposure to fluctuations in the exchange rates (other than for accounting hedging purposes).

2. *Israeli CPI risk:*

As of December 31, 2010, the Company has a liability in respect of finance leasing, which is linked to the changes in the Israeli CPI, which exposes the Company to cash flow risk in respect of changes in the Consumer Prices Index. The net amount of the financial instruments that are linked to the Israeli CPI and for which the Company is exposed to changes in the Israeli CPI amounted to approximately NIS 6 million as of December 31, 2010.

3. *Interest rate risk*

The Company is exposed to the risk of changes in the market interest rate, which derives from long-term loans that have been received and which bear variable rate interest and for changes in bank deposits.

NOTE 14:—FINANCIAL INSTRUMENTS (Continued)

Below are details of the type of interest of interest-bearing financial instruments of the Company:

	December 31, 2010
	NIS thousands
Variable rate instruments	
Financial assets	43,177
Financial liabilities	296,038

4. *Credit risk*

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics, whose ability to discharge their obligations will be similarly affected by changes in economic or other conditions.

Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the financial strength of groups of borrowers.

The Company regularly monitors the credit extended to its customers and their general financial condition and from time to time receiving collateral and deposits from customers as security for their debts. The Company provides an allowance for doubtful accounts, based on the factors that affect the credit risk of certain customers, past experience and other information.

The Company's income derives from customers in Israel. The Company routinely monitors its customers; debts and a provision for doubtful debts has been recorded in the financial statements, which, in the Company's opinion, gives a fair reflection of the loss that is inherent in the debts whose collection lies in doubt.

The Company does not have any significant concentrations of credit risk, because of the Company's policy, which ensures that for the most part the sales are executed using standing orders or using credit cards.

5. *Liquidity risk*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts and bank loans. The Company has had financial covenants set for it, which it must comply with and their breach, as defined in the credit agreement, could lead to a demand for the immediate repayment of the credit that has been made available by the banking entity (see Note 12d).

NOTE 14:—FINANCIAL INSTRUMENTS (Continued)

b. *The concentration of liquidity risk*

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

As of December 31, 2010	Up to 3 months	From 3 months to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
	NIS millions							
Long-term loans from banking entities (including current maturities)	—	10,000	35,000	35,000	35,000	35,000	146,038	296,038
Loan from controlling shareholder	6,830	68,449(*)	—	—	—	—	—	75,279
Trade payables	151,820	1,397	—	—	—	—	—	153,217
Other payables	53,928	—	—	—	—	—	—	53,928
Other long-term liabilities (including current maturities)	645	1,935	2,580	2,580	2,580	2,580	10,320	23,220
	213,223	81,781	37,580	37,580	37,580	37,580	156,358	601,682

(*) No repayment terms have yet been set for the loan from the parent company.

c. *The fair value of financial instruments that are presented in the financial statements*

The carrying amount of cash and cash equivalents, short and long-term trade receivables, other receivables, trade payables, other accounts payables and long-term loan accord with or approximate their fair value.

d. *The classification of financial instruments in accordance with a rating scale for fair value*

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3—Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

As of December 31, 2010, the Company has no financial assets or liabilities that fit the definitions for Levels 1 and 3.

The following are details of the financial assets and liabilities that are measured at fair value through the statement of comprehensive income, which fit the definition of Level 2:

	December 31 2010
	NIS thousands
Financial assets at fair value:	
Embedded derivatives	1,250
Financial liabilities at fair value:	
Forward contracts in foreign currency that are not defined as accounting hedges	1,678

e. *Derivatives and hedging*

1. *Embedded derivatives*

The Company has commitments under rental agreements that are denoted in U.S. dollars, which is not the functional currency of any of the parties to the agreements.

NOTE 14:—FINANCIAL INSTRUMENTS (Continued)

The foreign currency derivatives have been separated and are measured at fair value through the statement of comprehensive income.

2. *Forward contracts in foreign currencies*

The Company has forward contracts in foreign currencies whose objective is to protect it from fluctuations in the exchange rates in respect of some of its transactions. Forward transactions in foreign currencies have not been designated for the hedging of cash flows.

f. *Sensitivity tests relating to changes in market factors*

1. Sensitivity testing for changes in interest rates:

	Gain (loss) from the change	
	Increase of 1.5% in interest	Decrease of 0.5% in interest
	NIS in thousands	
For the year ended December 31, 2010:	(2,996)	999

2. Sensitivity test to changes in the Israeli CPI:

	Gain (loss) from the change	
	Increase of 10% in Israeli CPI	Decrease of 10% in Israeli CPI
	NIS in thousands	
For the year ended December 31, 2010:	777	(777)

3. Sensitivity testing to changes in the U.S. dollar exchange rate:

	Gain (loss) from the change	
	Increase of 10% in exchange rate	Decrease of 10% in exchange rate
	NIS in thousands	
For the year ended December 31, 2010:	(5,352)	5,352

Sensitivity tests and the principle work assumptions

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

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The sensitivity test for long-term loans with variable interest was only performed on the variable component of interest.

NOTE 14:—FINANCIAL INSTRUMENTS (Continued)

g. *Linkage terms of monetary balances*

	December 31, 2010				
	In or linked to foreign currency	Linked to Israeli CPI	Unlinked	Non-monetary	Total
	NIS thousands				
Assets					
Cash and cash equivalents	315	—	46,587	—	46,902
Trade receivables	—	—	188,088	—	188,088
Other receivables	1,250	25,408	—	7,308	33,966
Inventory	—	—	—	34,531	34,531
Employee benefit assets	—	—	—	8,059	8,059
Fixed assets	—	—	—	372,854	372,854
Intangible assets	—	—	—	147,192	147,192
	1,565	25,408	234,675	569,944	831,592
Liabilities					
Current maturities of loan from banking entity	—	—	10,000	—	10,000
Related parties	—	—	75,279	—	75,279
Trade payables	39,447	—	113,770	—	153,217
Other payables	1,678	1,887	52,947	5,450	61,962
Loan from a banking entity	—	—	286,038	—	286,038
Other long-term liabilities	—	16,952	—	—	16,952
Deferred taxes	—	—	—	30,491	30,491
	41,125	18,839	538,034	35,941	633,939

NOTE 15:—TAXES ON INCOME

a. *Tax laws applicable to the Company:*

1. The Income Tax Law (Inflationary Adjustments)—1985

   According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

   In February 2008, the ''Knesset'' (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2008 tax year).

2. As from the 2004 tax year and up to including the 2009 tax year, the Company elected to present a statement of adjustment for tax purposes in accordance with the Dollar regulations, as a foreign investment company. As from the 2010 tax year, the Company has elected for the Dollar regulations not to apply to it.

b. *Tax rates applicable to the Company*

The tax rate in Israel for companies is as follows: In the year 2008—27%, in the year 2009—26% and in the year 2010- 25%. A reduced tax rate of 25% applies on capital gains that have been generated as from January 1, 2003 and this is instead of the regular tax rate. In July 2009 the Knesset passed the Economic Efficiency Law (Amendments to Legislation for the Implementation of the Economic

NOTE 15:—TAXES ON INCOME (Continued)

Plan for the Years 2009 and 2010)—2009, which determines, inter alia, an additional gradual reduction of the tax rate for companies and a tax rate on real capital gains in Israel as from the year 2011 to the following rates: In the year 2011—24%, in the year 2012—23%, in the year 2013—22%, in the year 2014—21%, in the year 2015—20% and in the year 2016 and thereafter—18%.

c. *Tax assessments*

The Company's tax assessments up to and including the 2006 tax year are considered to be final under the obsolescence rule, in accordance with the Income Tax Ordinance. The said assessments are considered to be final subject to the authorities that have been afforded the Director of the Tax Authority in Israel in accordance with section 145, 147 and 152 of the Income Tax Ordinance.

d. *Deferred taxes*

Composition:

	December 31 2010
	NIS thousands
Deferred tax liabilities	
Depreciable fixed assets	38,833
Deferred tax assets	
Allowance for doubtful accounts	8,057
Accrual for vacation pay	93
Provision for warranty	192
	8,342
Deferred tax assets, net	30,491

e. *Taxes on income included in profit or loss*

	For the year ended December 31, 2010
	NIS thousands
Current taxes	6,483
Deferred taxes	(2,150)
	4,333

f. *Theoretical tax*

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	For the year ended December 31, 2010
	NIS thousands
Loss before taxes on income	(13,559)
Statutory tax rate	25%
Tax saving computed at the statutory tax rate	(3,390)
Increase (decrease) in taxes on income resulting from the following factors:	
—Non-deductible expenses for tax purposes	4,825
—Unrecognized temporary differences	3,016
—Other	(118)
Taxes on income	4,333

NOTE 16:—EQUITY

a. *The Composition of the share capital*

	As of December 31, 2010	
	Registered	Issued and paid-up
	Thousands of shares	
Regular shares of NIS 1 par value each (see section B below)	100,000	33,000

b. *Capital note*

On December 31, 2010, the Company issued a perpetual capital note to the parent company in an amount of NIS 200 million. The capital note is non-interest bearing and is unlinked. The capital note will only be repaid in the event of the winding up of the Company. The capital note is unsecured and it will be repaid after the payment of all of the Company's commercial liabilities, whether they are secured or unsecured.

The capital note can be converted, at any time, at the request of the parent company, into regular shares in the company.

c. *Earnings per share*

The number of shares in the calculation of the loss per share in the year ended December 31, 2010 was 33,000,000.

Options for employees in share based payments plans have not been taken into account in the calculation of the diluted net earnings (loss) per share, since their inclusion would increase the basic earnings (decrease the loss) per share (an anti-dilutionary impact).

NOTE 17:—SHARE BASED PAYMENT

a. On February 28, 2011, the Company's Board of Directors approved the principles for a plan for the allocation for options for shares in the Company to the CEO and to additional five office holders (hereinafter—''the plan'' and ''the managers'', respectively). In accordance with the principles of the plan and the agreements for the granting of the options, which were signed on May 4, 2011 (hereinafter—''the agreements''), the managers received options for the purchase of shares in a number that is equivalent to 2.25% (cumulative) of the Company's issued share capital (hereinafter—''the options''). The Company's CEO was allocated 36% of the said option, and the balance was allocated to the other five managers. The options have been allocated in accordance with section 102 of the Income Tax Ordinance (New Version)—1961, on the capital gains path with a trustee.

In accordance with the plan and the agreements, the managers can exercise the options if an event occurs in which the sale of the Company takes place, on condition that the selling price of the Company will be at least NIS 300 million (with the addition of the amounts of the loans that have been extended to the Company and/or the investment in the Company's capital before the sale event).

The number of options that the managers can exercise will vary in accordance with the selling price of the Company and will vary between 1.25% (cumulative) of the Company's issued share capital (in a transaction in which the selling price of the Company will be between NIS 300 million and NIS 900 million) and 2.25% (cumulative) of the Company's issued share capital (in a transaction in which the selling price of the Company will be NIS 3 billion and above). In the event that at the end of a period of seven years from the date of the allocation of the options no sale of the Company has taken place, then the managers can exercise all of the options for the purchase of shares in a number that will be equivalent to 1.75% of the Company's issued share capital, with the other options expiring. The exercise price of the options will be calculated in accordance with a valuation of NIS 300 million for the Company.

NOTE 17:—SHARE BASED PAYMENT (Continued)

In the event that the employment of any of the managers is discontinued, the number of options that can be exercised (for that manager) in the event of the sale of the Company or seven years after the grant, will be reduced in accordance with the scales that have been set in the contract and in accordance with the date of the cessation of the employment and the reason for the cessation of the employment. After the exercise of the options, the parent company (hereinafter—''Altice'') will receive the right of first refusal over the shares and the right to force the managers to sell the shares in the Company, and the managers will have the right to tag along with Altice in the event of the sale of shares in the Company.

The value of the option warrants, as of the time of the approval of the plan in accordance with the Black & Scholes model, amounts to approximately NIS 2.2 million, which has been calculated based on an annual standard deviation of 25%, an annual discount rate of 2.11% and an average expected lifetime for the plan of 7 years.

b. On January 1, 2011, in accordance with the agreements that were reached after the completion of the merger, agreement was signed between the parent company and five senior managers in the Company (hereinafter—the purchasers) for the purchase of 0.784% (cumulative) of the shares which the parent company holds in the company, 0.784% (cumulative) of the shareholders' loan that the parent Company had made available to the Company and 0.784% (cumulative) of the perpetual capital note that had been issued to the parent company, for an overall consideration of NIS 2,235 thousand.

To the best of the Company's knowledge, inter alia, the following provisions are determined in the purchase agreement: (1) with the completion of the transaction, the purchasers will sign on a power of attorney, which empowers the parent company to vote in the name of the purchasers in all general meetings of the Company in accordance with the parent company's exclusive judgment; (2) the purchasers will not be entitled to transfer, to endorse or to charge the assets that are being acquired (the shares, their share of the capital note and their share of the shareholders loan) without the prior agreement of the parent company; (3) the parent company is given the right of first refusal in the event of the sale of the assets being acquired by any of those purchased; (4) the parent company is given the right to drag along the purchasers to a sale of all of the assets that are being acquired in the event of a transaction for the sale of the control in the Company; (5) the purchasers are given the right to tag along to any sale of shares by the parent company (Co-Sale), after the parent company sells more than 25% of the share capital of the Company; (6) a lock up arrangement has been set in respect of the shares that are being sold in the event of the flotation of the Company or in the event of a transaction for the sale of control in the Company within the framework of which the purchasers will receive shares in another entity in replacement for their holdings in the Company; (7) a mechanism has been set in accordance with which in certain cases involving the cessation of the employment of any of the purchasers in the Company, the parent company will have the right to purchase the assets that are being acquired from that same purchaser, whose employment has been discontinued, which are held by them at the said time. As of the time of this report, the transaction has not yet been completed.

c. Employees of the Company have been awarded options and restricted stock units in the former ultimate parent company by the former parent company, within the context of the former ultimate parent company's remuneration plan. The exercise price of the options and the restricted stock units will not fall below the market value of the shares of the former ultimate parent company on the date of the grant. The period of validity of the benefit ranges between five and ten years and the vesting period lies between two and four years. Within the framework of the change in the ownership of the Company in May 2010, all of the abovementioned options and the restricted stock units expired, which has vested as of the date of the transaction, and the other options and shared that had been granted to employees and which had not yet vested at the time of the transaction were replaced by the granting of a commitment that will be given in cash by the Company and this subject to the condition that the employees have served the Company for up to 4 years. The

NOTE 17:—SHARE BASED PAYMENT (Continued)

economic value of the options and the restricted shares has been evaluated at approximately NIS 44 million in accordance with the Black & Scholes model.

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES

a. *Commitments*

1. Agreement for the receipt of management services from Altice VII Sa'rl (''Altice 7'')

On August 9, 2010, an agreement was reached between the Company and the ultimate parent company, in accordance with which the ultimate parent company will extend management services to the Company (hereinafter—''the management agreement''), which include, inter alia, consultancy services and support in administrative and financial matters and consultancy services in the communications field (including the subjects of technology, the purchase of equipment, marketing, the management of customers and charges, information systems and so on).

In accordance with the management agreement, the ultimate parent company is entitled to the payment of management fees at a level of 1% of the Company's annual income, but not more than NIS 10 million a year. The Company has also undertaken to bear all of the reasonable expenses that the ultimate parent company may have in respect of the provision of the services. In accordance with the financing agreement with a banking entity (see Note 12), the actual payment of management fees is subject to the Company or the ultimate parent company not being in a state of ''insolvency'' as defined in the financing agreement and on condition that the Company's EBITDA or its adjusted EBITDA (as defined in the financing agreement) exceeds an amount of NIS 154 million.

The management fees are to be paid in Euros (in accordance with the known representative exchange rate on the date of the payment), once a quarter or as an annual payment, at the election of the ultimate parent company.

Within the framework of the management agreement, the Company has undertaken to indemnify the ultimate parent company for any direct loss, expense, cost, claim, damage and/or liability to a third party, where the event is connected to the management services that are provided within the framework of the management agreement.

The management agreement is for an unlimited period, with the ultimate parent company having the right to bring it to a conclusion by giving 10 days notice in advance.

2. *Commitments with companies in the Motorola Group*

The Company provides its customers with cellular communications services using iDEN technology and its major suppliers are companies in the Motorola Group (hereinafter—''Motorola''). For the purposes of the performance of its operations the Company has entered into commitments with Motorola under a number of agreements, as follows:

a) *Framework agreement for infrastructure systems*

Within the framework of this agreement, the Company purchases the equipment and infrastructure that are required for the operation of the iDEN technology from Motorola, including the training of employees in the operation of the infrastructure. In addition, the Company purchases technical support for the infrastructure and the repair of the systems, in so far as is required, on an annual basis. The agreement is in force for a period of five years, commencing on May 27, 2010 and it can be extended for one year at a time.

b) *Agreement for the purchase of end-user*

The Company has entered into a commitment with Motorola under an agreement in accordance with which the Company is entitled to purchase end-user from Motorola,

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

under the terms that are details in the agreement between the parties. Motorola has undertaken to supply the equipment for a period of five years.

c) *Software license—Motorola*

On May 27, 2010, the Company received a license for the use of software (hereinafter- ''the license'') from the former parent company. The license affords the irrevocable right to use the former parent company's software, during the routine course of the Company's business. Within the framework of the agreement the Company received access to the software's source code, and this solely for the purpose of routine maintenance.

So long as the Company continues to provide its services using iDEN technology alone, it will have a dependency on Motorola, which, to the best of the Company's knowledge, is the holder of all of the rights in that technology and which is the sole supplier of equipment and terminal equipment for the said technology. The cessation or the disruption of the supply of the products and/or the services by Motorola could impair the Company's ability to provide services to its customers.

The overall amount of the payments that have been paid to Motorola in respect of the said agreements amounted to NIS 54 million in the year 2010.

3. The Company has commitments, in connection with the license that was granted to it, to pay royalties to the State of Israel (in the year 2010) at a level of 1% of the Company's income that derive from communications services, less payments that are transferred to other communications operators in respect of interconnection fees, roaming services, the sale of devices and expenses in respect of doubtful debts.

   The royalties rate has been reduced in recent years from 4.5% in 2002 to 4% in 2003, 3.5% in 2004 and 2005, 3% in 2006, 2.5% in 2007, 2% in 2008, and 1.5% in 2009. In January 2011, the relevant regulations were amended such that the royalties that will be paid solely by the cellular operators in the years 2011 and 2012, as from January 19, 2011, have been increased to 1.75% in the year 2011 and 2.5% in the year 2012, except in special circumstances. In addition, in accordance with the telegraph regulations, the Company is committed to pay a fixed annual amount for each frequency that it uses. In respect of the year 2010, the Company paid an amount of NIS 19,170 thousand.

4. *Warranty for products*

   Until the time of the signing of the agreement for the sale of the Company from the former parent company to the parent company, which entered into force on May 27, 2010, the former parent company was responsible for the products that were sold by the Company. Accordingly, no provision for warranties was recorded in the Company's financial statements up to the said date.

   As from May 2010, the Company has been giving warranties for the products that it sells and, accordingly, a provision of NIS 800 thousand for warranties was recorded in the financial statements as of December 31, 2010.

5. *Commitment with a main customer*

   The Company provides a range of services to the Ministry of Defense: cellular telephones, data transmission and PTT services. The Company's overall revenues from the Ministry of Defense in 2010 constituted approximately 13.5% of the Company's revenues in that year, and the number of subscribers constituted approximately 14.3% of the Company's subscribers.

   The Company and the Ministry of Defense operate under the power of a number of commitment agreements, with the largest and the central one being the agreement for the supply of cellar telephone devices, the tender for which was won by the Company in 2005. In

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

October 2008, the Ministry of Defense exercised an option that was extended to it in the tender for the extension of the agreement up to October 2011 (the year 2012 is considered to be a transition year).

6. *Arrangement with the Ministry of Communications*

The Bezeq regulations require the holder of a license for the operation of mobile radio telephone services to pay royalties on income from communications services. The Company paid royalties in the past, but only in respect of the telephone services and in respect of the ancillary services, such as SMS services. In September 2005, the Ministry of Communications demanded payment of royalties in respect of digital PTT services. The Company, in reliance on an opinion that it has received from its legal advisers, has taken the position that the regulations do not apply to it, since these services are not provided by means of infrastructure for the mobile radio telephone services.

At the time of the granting of the license to operate mobile radio telephone services to the Company in 2001, it was agreed with the Ministry of Communications to pay license fees in an amount of US$ 24.8 million. The payment was made as follows: (1) four equal annual payments in an amount of approximately NIS 4 million and (2) a rate of 1.3% on the Company's turnover that is chargeable to royalties and this for a period of ten years. A dispute arose between the parties in respect of the question of whether royalties are to be paid in respect of transmission services where the Ministry of Communications does not agree with the amount that was paid to it in respect of component (2) as aforesaid. On January 10, 2010, the Ministry of Communications sent a letter in which it rejected the position taken by the Company and demanding the receipt of information and the payment of royalties in respect of PTT services from the time of the receipt of the license in 2001.

In order to reach a compromise and in order to reach an arrangement for the mutual claims, the parent company and the Company reached an arrangement with the Ministry of Communications, in respect of the aforesaid dispute. In accordance with the agreement, the Company is to pay the Ministry of Communications an amount of approximately NIS 75 million in respect of the years 2001 to 2009 and an amount of approximately NIS 2 million in respect of the period from January 1, 2010 to May 31, 2010. The Company recorded a provision in respect of the said commitments in its financial statements as of December 31, 2009, under other payables. In May 2010, the Company paid the said amount.

7. *Commitment with ''Bezeq'' the Israeli Communications Company Ltd.*

The Company has a commitment under an agreement with Bezeq The Israeli Communications Company Ltd. (hereinafter—''Bezeq'') in accordance with which, as from September 1, 2006 and for a period of 5.5 years, Bezeq will provide the Company with transmission services, which include the transfer of signals from terminal to terminal in various ranges (optical cables, copper cables, radio and so on), using especial equipment that is located at terminals.

For the purpose of the immediate provision of the services, from the time of the commencement of the period of the agreement, Bezeq purchased the microwave equipment from the Company, including the management system for the microwave channels (hereinafter—''the microwave equipment'') for a consideration of US$ 2.5 million.

Bezeq, at its sole discretion, will transfer the supply of the transmissions services to the Company by means of radio infrastructure (the microwave equipment) for the supply of the services via the optical infrastructure.

Bezeq will bear all of the frequency fees that are required during the course of the period of the agreement in respect of the supply of transmission services using radio transmission, through which the services are provided.

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

In consideration of all of the services that are provided to the Company by Bezeq, the Company will pay an amount of NIS 11,663 a year during the period of the agreement.

The agreement will be extended for additional periods of one year up to additional periods of five years, unless the Company informs Bezeq that it is not interested in extending the agreement.

8. *Agreement with ''Airport City'' Ltd.*

On September 11, 2007, the Company entered into a commitment under a rental agreement in respect of space at the ''Airport City'' site for a period of 10 years. In accordance with the agreement, the Company has an option for the extension of the period of the agreement for a period of up to 25 years. The annual rental fees amount to NIS 6.5 million. In addition, the Company is to pay an amount of NIS 28 million in respect of construction work that was performed by ''Airport City'' on the leased building. This amount will be settled over a period of 10 years and the balance bears interest at a rate of 2% a year. In November 2009, the Company transferred its offices to the ''Airport City'' site.

The costs of the refurbishment were reflected as fixed assets in the financial statements as of December 31, 2009, against the recording of a liability, in discounted amounts of approximately NIS 17,844 thousand. The actual costs of the refurbishment amounted to NIS 22 million (see Note 13).

9. The minimum future lease payments that are payable as of December 31, 2010, are as follows:

	NIS thousands
In the first year	50,879
In the second to the fifth years	151,416
After the fifth year	145,515
	347,810

b. *Legal claims*

1. Apart from the class actions, which are described below, the Company is a party to certain legal claims in an overall amount of NIS 2.4 million. The Company's management and its legal advisors estimate that the results of these claims are not expected to have a significant impact on the financial statements.

2. In May 2010, a claim and an application for its approval as a class action against the Company (and the other three cellular telephone operators) were filed in the Central Region District Court, by four petitioners, who claim to be subscribers of the respondents. The petitioners claim that the respondents, unlawfully and in breach of their licenses and the agreements with their customers, did not set up cellular sites in sufficient quantity, scope and coverage in order to provide cellular services of the required quality; that they do not check, repair and inform the subscribers that the level of radiation from repaired mobile telephones exceed the manufacturers specifications and the maximum level that is permitted under the law; that they do not inform and warn the subscribers about the risks that are connected to the manner in which the device is held and its distance from the subscriber's body; and that all of these purportedly increase the level of radiation and the health risk that the subscribers are exposed to.

In September 2010, the Court directed that the claim and the application for approval as a class action be transferred to the Tel-Aviv-Jaffa District Court. In December 2010, the Company presented its response to the application for approval. In the event that the claim is approved as

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

a class action, the overall amount that is being claimed from the Company has been estimated by the petitioners at approximately NIS 1.23 billion.

At this preliminary stage, at which no pre-trial hearings have yet been held and the preliminary proceedings have not yet taken place, the Company, based on the opinion of its legal advisors, is not able to assess the chances of the application being accepted.

3. In June 2011, a class action was filed against the cellular companies, including the Company.

The subject matter of the claim is accessories that are intended for the carrying of mobile devices to the body. The petitioner is alleging that the manufacturers of the devices attach warnings and prohibitions in respect of accessories, which are intended for the carrying of cellular devices, with a large portion of them determining that carrying devices using accessories that do not comply with the conditions in the manufacturer's manual, including the carrying of the device at a distance from the body is forbidden and endangers the user.

The petitioner alleges that these matters also arise from the position taken by the Ministry of Health, within the context of the leaflet for consumers, which is marketed with every cellular device, by law.

These warnings are known to the respondents, so the petitioner alleges; however they choose not to reveal or to mislead the consumers in relation to this at the time of the sale of the accessories and to sell them without any warning that the use of them contradicts the recommendation of the Ministry of Health and of the manufacturers of the devices.

The alleged grounds for the claim are misleading, the breach of a duty of disclosure, the breach of a legislated duty, negligence, impairment of the autonomy of an individual—and all of these under the force of the Law of Contracts, the Consumer Protection Law and the law regarding warranties of faulty products.

The overall amount that is being claimed from the Company has been estimated at approximately NIS 202.2 million by the petitioner.

In addition, the petitioner is requesting that a mandatory injunction be issued to the respondents, requiring them to avoid any action of the sale or marketing of accessories, as aforesaid and alternatively, requires them to publish detailed warnings in respect of the accessories.

At this preliminary stage, the Company is not able to assess the chances of the claim or of its approval as a class action.

c. *Guarantees*

1. Within the framework of the Company's winning a tender for the allocation of frequencies and as collateral for its commitments, the Company has provided a bank guarantee in an amount of NIS 695 million, which is in force until December 31, 2018, available in favor of the Ministry of Communications.

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

In light of the abovementioned terms, the Company has signed a letter of undertaking and indemnification vis-à-vis the bank, according to which the Company waives and is prevented from raising any claim against the bank in connection with the wording of the guarantee, as aforesaid, and it will indemnify and compensate the bank in respect of any expense for the

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

purpose of the management of administrative and/or legal procedures in connection with the said matters.

After the balance sheet date, the parent company and an additional company that is wholly owned by the parent company signed on an irrevocable letter of undertaking 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 of NIS 695 million as collateral for the Company's commitment vis-à-vis the Ministry of Communications within the framework of its winning in the tender for frequencies for the setting up of a third generation (UMTS) cellular network. For additional information, see Note 1 D.

2. The Company has given a bank guarantee in an amount of approximately NIS 41 million in favor of the Ministry of Communications in respect of the license, as detailed in Note 1A above. The guarantee was returned to the Company in May 2011.

3. The Company has given a number of guarantees for various commitments, in an overall amount of approximately NIS 15 million.

d. *Charges*

1. As collateral for the Company's liabilities vis-à-vis Bank Hapoalim, a floating charge has been recorded on all of the Company's assets and rights in the present and in the future as well as a fixed charge on the share capital, the goodwill and the cash balances at Bank Hapoalim Ltd.

2. As collateral for the Company's liabilities vis-à-vis a leasing company, the Company has recorded a charge on various motor vehicles.

e. *The impact of regulation and legislation*

1. In January 2006, the Un-ionized Radiation Law was passed, within the framework of which the Planning and Construction Law was also amended. The main provisions of the Radiation Law entered in to force in 2008. The amendment determines, inter alia, that as a condition for the issuance of a license for the setting up of a broadcasting instillation, a planning institution is to require a letter of indemnification against claims for compensation under section 197 of the Planning and Construction Law, as the result of an impairment in the value of property (hereinafter -''the indemnification letters under section 197''), in accordance with the directives of the National Council. These directives will remain in force until a change is made in National Outline Plan 36. At the beginning of January 2006, official directives were issued by the National Planning and Construction Council in which a duty of indemnification at a rate of 100% was placed. The deliverer of a letter of indemnification will be given then possibility of conducting the legal proceedings against a claim, as aforesaid. The wording of the letter of indemnification was attached to the directives. No time was set in the Un-ionized Radiation Law for the amendment of the National Outline Plan. After the legislation of the Law, the Company delivered 94 letters of indemnification as a condition for the receipt of building licenses at various sites across the country.

   Up to the date of the approval of the financial statements, no claims have been filed against the Company in respect of this matter.

2. In July 2009, the Communications Law was amended to include a virtual operator's license. In January 2010, the regulations that are necessary for the granting of a virtual operator's license were promulgated. As of the balance sheet date, the Ministry of Communications has granted seven virtual operator's licenses, one of which has been returned. Under the Communications Law, in the event that a virtual operator and a cellular operator have failed to reach an agreement in respect of the terms of the services as a virtual operator within six months of the date on which the virtual operator approached the cellular operator, and if the

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

Ministry of Communications together with the Ministry of Finance decide that the failure to reach an agreement is due to unreasonable conditions imposed by the cellular operator, the Ministry of Communications can intervene in the terms of the agreement, including the setting of the price for the services, the operation of an MVNO operator in the cellular market and requiring services to be provided.

3. In March 2010, the Ministry of the Interior submitted a draft regulation setting substantial restrictions on the ability to construct radio access devices based on the exemption from obtaining a building permit, for the approval of the Economic Affairs Committee of the Knesset (Israel's Parliament). The proposed restrictions will render the construction of radio access devices based on the exemption practically impossible. In September 2010, the Supreme Court issued an interim order prohibiting further construction of radio access devices in cellular networks in reliance on the exemption (which had been requested in two petitions that were filed in July 2008 and June 2009). The interim order, which was issued at the request of the Attorney General, will be in force until the promulgation of the proposed regulations or until some other decision is made by the Court. The order will not apply to the replacement of existing radio access devices under certain conditions.

4. In September 2010 the Ministry of Communications announced its decision to amend the regulations that determine the interconnection fees that are paid to cellular operators in Israel as follows:

   a) The maximum charge rate for a interconnection fee that is to be paid to a landline operator or to a cellular operator for the completion of a call on another cellular network was reduced from the previous charge rate of NIS 0.251 a minute to NIS 0.0687 per minute as from January 1, 2011; to NIS 0.0634 per minute as from January 1, 2012; to NIS 0.0591 per minute, as from January 1, 2013 and to NIS 0.0555 per minute as from January 1, 2014.

   b) The maximum charge rate that is to be paid to a cellular operator for the sending of an SMS message to another cellular network was reduced from the previous charge rate of NIS 0.0285 to NIS 0.0016 as from January 1, 2011; to NIS 0.0015 as from January 1, 2012; to NIS 0.0014, as from January 1, 2013 and to NIS 0.0013 as from January 1, 2014.

   c) The charge rates do not include VAT and will be updated annually from January 1, 2011, based on the change in the Index that is published in November of the year preceding the date of the update by comparison with the average index for the year 2009. The charge rates will also be increased by the percentage of the royalties that the operator is to pay to the Ministry of Communications. Following these updates, including the increasing of the royalties that the Company pays to the Ministry of Communications, the current maximum interconnection fees charge rates are NIS 0.0728 a minute for the completion of a call on another cellular network and NIS 0.0017 for the completion of an SMS message to another cellular network.

5. In December 2010, the Communications Law was amended such that the early termination fees in pricing plan, which include a commitment for a predefined period, were reduced. In accordance with the amendment, as from February 1, 2011 early termination fees are to be calculated on the basis of the subscriber's average monthly bill, resulting in a negligible fee. The reduced early termination fees apply to customers with less than a certain amount of phone lines set by the law. The reduction applies both to existing and to new calling plans. In accordance with a decision made by the Council in July 2010, the Company is not entitled to demand payment from a subscriber, who seeks to be disconnected prior to the end of the period of the commitment, in excess of the lower of (a) ''the return of the cost of the benefit'' (in other words—the number of months in which the subscriber enjoyed a benefit times the difference between the charge rate set in the price list and that set for the special offer); or (b) the balance of the amount of the transaction that the subscriber committed themselves to.

NOTE 18:—CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES (Continued)

The Company does not expect a significant impact on its business as a result of the implementation of the said decision.

6. In December 2010, the Communications Law was amended in order to allow national roaming for new operators and the Company, one of the four existing cellular companies—if it were to win a tender for an operator of third generation services. Following the amendment, if a new operator or the Company and the hosting operator have not reached an agreement as to the terms of the service, including the consideration, for any reason whatsoever by the time at which the services are supposed to commence (after certain criteria have been complied with), the services are to be supplied in accordance with the then prevailing connections charge rate (in relation to conversations and 65% of the connections charge rate per mega for data transmission services), and subsequently (but no later than February 1, 2012), the charge rate will be set by the Ministry of Communications with the agreement of the Minister of Finance and will apply retroactively.

7. In December 2010, the Communications Law was amended such that it forbids the placing of any restriction whatsoever on the use of any internet service or application, including through discriminatory pricing (network neutrality). In addition, the Ministry of Communications published details of a hearing regarding VOC licenses, which inter alia, notes the Ministry of Communications' intention to require operators to offer ''data only'' services, at a price that does not exceed the current data only subscription fees (such as for a modem), which is to include a charge rate for low speed surfing. The said requirements may adversely affect the Company's operating results.

8. National Outline Plan 36 contains guidelines for the setting up of base sites for the purpose of coverage for the broadcasting and reception of cellular communications across Israel. At the same time, National Outline Plan 36 is in the process of being changes. The current proposal for changing it places restrictions and makes additional demands in respect of the setting up and operation of base sites. In June 2010, the proposed plan was approved by the National Planning and Construction Council and submitted to the approval of Israel's Government, which avoided discussing it at the time. If the changes that are proposed are approved by Israel's Government, they will have a severe impact on the ability of the Company to set up new sites, they will make the process of the receipt of a building permit for the construction and operation of base sights more complicated and more expensive, they could have an adverse impact on the Company's existing network and they would delay the future spreading of the Company's network.

NOTE 19:—ADDITIONAL DETAILS ON ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, 2010
	NIS thousands
a. *Revenues from sales and services*(*)	
The sale of equipment	23,286
The provision of services	989,528
	1,012,814

(*) See Note 18 A (5) on the subject of a commitment with a customer.

	Year ended December 31, 2010
b. *Cost of sales and services*	
According to the sources of the revenues:	
The sale of equipment	8,297
The provision of services	588,939
	597,236
According to the composition of the costs:	
Salaries and social benefits	101,248
Maintenance of subscribers, infrastructure and network	158,545
Interconnection fees	203,645
Royalties and licenses	12,596
Frequencies	19,170
Rental and maintenance fees for sites	74,951
Others	27,081
	597,236
c. *Selling and marketing expenses*	
Salaries and social benefits	37,547
Sales commissions	51,199
Advertising and sales promotion	4,064
Depreciation and amortization	1,427
Others	9,167
	103,404

NOTE 19:—ADDITIONAL DETAILS ON ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Year ended December 31, 2010
	NIS thousands
d. *Administrative and general expenses*	
Salaries and social benefits	32,430
Bad and doubtful debts	10,152
Office rental and maintenance	13,616
Management fees	8,066
Professional services	2,253
Depreciation and amortization	2,527
Others	6,521
	75,565
e. *Other expenses*	
Professional consultancy	4,023
VAT on bad debts	3,997
Others	1,676
	9,696
f. *Financing income, net*	
Arrears interest from customers	1,318
Changes in the fair value of financial derivatives, net	560
Interest on deposits	403
	2,281
g. *Financing expenses*	
Bank charges and interest	12,301
Credit card commissions	2,499
Interest on loans from related parties	8,184
Changes in the fair value of financial derivatives, net	1,678
Exchange differences, net	7,473
Others	494
	32,629

NOTE 20:—BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES

	December 31, 2010
	NIS thousands
A. *Balances with interested parties*	
Current assets:	
Trade receivables	1,222
Current liabilities:	
The parent company[1]	68,449
The parent company—for management fees and the reimbursement of expenses	6,830
Trade payables	1,475

(1) The balance is unlinked, non-interest bearing and no repayment date has been set for it. See also Note 1 B (2) on the subject of the treatment of transactions with a controlling interest.

NOTE 20:—BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES (Continued)

	Year ended December 31, 2010
	NIS thousands
B. *Transactions with interested parties*	
Revenues:	
From related parties of the parent company	4,029
From the former parent company	2,386
Cost of producing revenues:	
To related parties of the parent company	4,091
To the former parent company	63,903
Administrative and general expenses:	
To the parent company	8,066
To related parties of the parent company	204
To the former parent company	5,492
Financing expenses:	
To the parent company	6,397
To the former parent company	1,787

	Year ended December 31, 2010
	NIS thousands
C. *Benefits to key management personnel*	
Short-term benefits	7,358
Post-employment benefits	2,583
Share based payments	1,102

D. The Company has a short-term remunerations program for key managerial personnel by way of an annual grant in accordance with the meeting of personal goals and general goals for the Company.

The annual grants program, to which the office holders who are directly subordinate to the Company's CEO, as well as a limited number of other senior managers in the Company are entitled, defined an annual grant on the basis of compliance with Company's targets (financial targets such as revenues, EBITDA and EBITDA less investments) and on basis of personal targets.

The targets for the Company as a whole range between 60% and 90% of the overall amount of the bonus and the personal targets range between 10% and 40% of the bonus accordingly, all of which is in accordance with the position and the level of seniority of the manager who is entitled to the bonus. The ceiling for the overall annual bonus for the Company's CEO and senior officer holders who are directly subordinated to the Company's CEO lies in the range of 2 to 10 monthly salaries and the ceiling for the overall annual bonus for other managers lies in the range of 1.5 to 4.5 annual salaries. Over and above the maximum bonus, as aforesaid, the plan also sets a minimum bonus, which will be paid to someone who is entitled to a bonus in any event.

E. As from the date of its incorporation and up to May 27, 2010, the Company received a range of services from the former parent company, such as: human resources services (including salary preparation services), bookkeeping and financial management, information systems and so on. The monthly charges in respect of these services, which were received, as aforesaid from the former parent company, were recorded within the framework of the administrative and general expenses.

F. See Note 18 C (1) in respect of a contra guarantee that was provided to the Ministry of Communications by the parent company.

NOTE 21:—SIGNIFICANT POST BALANCE SHEET DATE EVENTS

a. In April 2011, the Company won a tender that had been published by the Ministry of Communications for the allocation of frequencies, which enable the setting up of a network for the provision of advances Generation 3.9 (UMTS) services. See Note 1 D for further details.

b. Within the framework of the Company's winning in the tender for the allocation of frequencies, the Company has made a bank guarantees in an amount of NIS 695 million in favor of the Ministry of Communications, see Note 18 C.

c. See also notes 1 and 18 with regards to additional events occurred after the balance sheet date.

Annex A

SUMMARY UNAUDITED PRO FORMA FINANCIAL AND OTHER DATA

The following table presents certain summary unaudited pro forma financial information as of and for the periods ended on the dates indicated below. The following summary unaudited pro forma financial information of HOT gives effect to the acquisition of HOT Mobile as if such transaction had occurred on January 1, 2011, but does not give any effect to the Transaction. The table should also be read together with ''Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT''. HOT's historical results do not necessarily indicate results that may be expected in the future.

HOT's summary pro forma financial information for the twelve months ended June 30, 2012 has been derived by adding HOT's summary pro forma financial information for the year ended December 31, 2011 to its summary financial information for the six months ended June 30, 2012 and subtracting its summary pro forma financial information for the six months ended June 30, 2011. HOT's summary pro forma financial information for the twelve months ended June 30, 2012 has been prepared for illustrative purposes only and is not necessarily representative of its results for any future period or its financial condition at any such date. It has not been audited. The convenience translations provided below are based on an average exchange rate for the six months ended June 30, 2012 of $0.263=NIS1.00.

HOT Unaudited Pro Forma Statement of Operations Data[4]	For the twelve months ended June 30, 2012	For the twelve months ended June 30, 2012
	NIS in millions	$ in millions
Revenue		
Telecom[1]	1,999	526
Cable television	2,305	606
Cellular	805	212
Other[2]	4	1
Adjustments[3]	(971)	(255)
Total revenue	**4,142**	**1,090**
Expenses		
Depreciation and amortization	1,049	276
Operating expenses	2,099	552
Sales and marketing expenses	334	88
Administrative and general expenses	189	50
Other revenue, net and network set up expenses	(65)	(17)
Operating income	**536**	**141**
Financing income	54	14
Financing expenses for acquisition of HOT Mobile	(23)	(6)
Financing expenses	(253)	(67)
Income before taxes on income	**314**	**82**
Taxes on income	115	30
Net income (loss)	**199**	**52**
Other comprehensive loss (after tax effect)		
Loss on available for sale financial asset	(34)	9
Total comprehensive income (loss)	**165**	**43**
EBITDA	**1,539**	**403**

(1) Telecom includes revenue from our fixed-line telephony and broadband Internet infrastructure access services.

(2) Other revenue represents revenue from our ISP services that launched in the first half of 2012.

(3) Adjustments reflect mainly revenues that were received by HOT Telecom from HOT in respect of rental of a cable network owned by HOT Telecom, which is reported in the revenue line item for Telecom and is required to be eliminated in consolidation. It also includes adjustments resulting from inter-company payments by HOT Mobile to HOT for subscriber acquisition costs and transmission services.

(4) In 2012, HOT reclassified certain line items of its financial statements to, it believes, present a fairer more reliable presentation of its financial results. The above also was reflected in the pro-forma financial statements of operations. The reclassification did not have any impact on its reported results or its financial position.

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL AND OTHER DATA

The following tables present HOT's summary financial information and other data as of and for the periods ended on the dates indicated below and certain financial data of Cool Holding as of and for the periods ended on the dates indicated below.

HOT's summary financial information as of and for the six months ended June 30, 2012 and 2011 has been derived from its unaudited interim consolidated financial statements as of and for the six months ended June 30, 2012 and 2011 prepared in accordance with IAS 34 ''Interim Financial Information'', the IFRS standard applicable to interim reporting. It has not been audited.

The balance sheet as of June 30, 2012 includes the results of operations of HOT Mobile.

The tables should also be read together with ''Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT''. HOT's historical results do not necessarily indicate results that may be expected in the future.

	As of June 30, 2012
	NIS in millions (unaudited)
HOT Consolidated Balance Sheet Data[1]	
Current Assets	
Cash and cash equivalents	38
Designated cash	—
Trade receivables[1]	438
Other receivables	82
Inventory	35
Total Current Assets	593
Non-Current Assets	
Long-term trade receivables	91
Film and program broadcast rights[1]	n.a.[1]
Investment in financial asset available for sale	20
Long-term receivables	120
Fixed assets	4,148
Intangible assets	818
Goodwill	1,264
Deferred taxes	57
Total Non-Current Assets	6,518
Total Assets	**7,111**
Current Liabilities	
Credit from banking entities and others and current maturities of bonds[1]	602
Credit from banking corporations[1]	n.a.
Current debenture maturities[1]	n.a.
Trade payables[1]	1,058
Other payables[1]	311
Provision for legal claims	166
Total Current Liabilities	2,137
Non-Current Liabilities	
Loans from banking entities and bonds[1]	2,582
Loans from banking institutions[1]	n.a.
Debentures[1]	n.a.
Other long-term liabilities	556
Prepaid income for terminal equipment installation	45
Employee benefit liabilities	28
Deferred taxes	323
Total Non-Current Liabilities	3,534
Equity	
Share capital	96
Treasury shares	(184)
Share premium	1,655
Capital reserve for share-based payments	42
Capital reserve on available for sale financial asset	4
Retained earnings (losses)	(173)
Total equity	1,440
Total Equity and Liabilities	**7,111**

(1) In 2012, HOT reclassified certain line items of its financial statement to, it believes, present a fairer and more reliable presentation of its financial results. The reclassification did not have any impact on its reported results or its financial position.

	For the six months ended June 30,
	2012
	NIS in millions except percentages (unaudited)
Other Financial Data	
EBITDA[(1)(3)]	773
Cable-based services EBITDA	726
Capital expenditures as % of revenue	42%
Net working capital[(2)]	(814)

** Not reported

(1) EBITDA represents profit before net financing income, taxes on income, depreciation and amortization, and before expenses in respect of options and before expenses (income) derived from updates in actuary assumptions and other expenses (income), net and network set up expenses. EBITDA is an additional measure used by management to demonstrate our underlying performance and should not replace the measures in accordance with IFRS as an indicator of our performance, but rather should be used in conjunction with the most directly comparable IFRS measure.

(2) Net working capital is defined as the sum of trade receivables, other receivables and inventory minus trade payables and other payables. The decrease in net working capital during the six months ended June 30, 2012 was mainly driven by an increase in trade payables and offset by an increase in trade receivables as a result of migrating to invoicing on a post-services basis as opposed to pre-services, which we are required by the Council for Cable and Satellite Broadcasting to complete by the end of 2012.

(3) The following table presents a reconciliation of EBITDA to total comprehensive income (loss) for the period, attributable to equity owners for the indicated periods.

	For the six months ended June 30,	
	2011	2012
	NIS in millions	
EBITDA	**713**	**773**
(Taxes on income) benefit	(20)	(37)
Financing expenses, net	(130)	(135)
Options	(9)	(8)
Changes in actuary assumptions	—	—
Other (expenses) income, net and network set up expenses	4	(21)
Depreciation and amortization	(400)	(509)
Total comprehensive income (loss) profit	**158**	**63**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF HOT

The following discussion and analysis is intended to assist in providing an understanding of HOT-Telecommunication Systems Ltd.'s financial condition, changes in financial condition and results of operations and should be read together with the HOT's financial statements for the six months ended June 30, 2011 and 2012, including the accompanying notes. The capitalized terms used below have been defined in the notes to HOT's financial statements. Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of June 30, 2012. In this section only, references to 'we', 'us', 'our' and the 'Company' may refer to HOT-Telecommunication Systems Ltd. or, collectively, HOT-Telecommunication Systems Ltd. and its subsidiaries, as the context requires.

Key Operating Measures

We use several key operating measures, including number of homes connected, Cable Customer Relationships, RGUs, RGUs per Cable Customer Relationship and ARPUs to track the financial and operating performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been audited or reviewed by an auditor, consultant or expert. All of these measures are derived from our internal operating and financial systems. As defined by our management, these terms may not be directly comparable to similar terms used by competitors or other

companies. As ARPU varies considerably for our different services, RGU growth is not necessarily indicative of the overall development of our business and results of operations.

	As of and for the six months ended June 30,
	2012
	NIS in thousands except percentages
HOT Summary Statistical and Operating Data:	
Total Israeli Homes	**2,258***
Customer Relationships	
Cable Customer Relationships[(1)]	1,224
Cable Revenue Generating Units (RGUs)[(2)]	
Digital Television RGUs	867
Analog Television RGUs	27
Total Television RGUs	894
Broadband Internet Infrastructure Access RGUs	774
Fixed-Line Telephony RGUs	672
Total Cable RGUs	2,340
RGUs per Cable Customer Relationship	1.91x
Cellular Revenue Generating Units (RGUs)[(3)]	
UMTS RGUs	142
iDEN RGUs	421
Total Cellular RGUs[(3)]	563
Cable Services Penetration	
Television RGUs as % of Total Israeli Homes	40%
Broadband Internet Infrastructure Access RGUs as % of Total Israeli Homes	34%
Fixed-Line Telephony RGUs as % of Total Israeli Homes	30%
Cable Customer Bundling[(4)]	
Single-Play Customer Relationships as % of Cable Customer Relationships	**
Double-Play Customer Relationships as % of Cable Customer Relationships	**
Triple-Play Customer Relationships as % of Cable Customer Relationships	32%
Churn[(5)]	
Churn in Pay Television RGUs[(6)]	14.8%
ARPU[(7)]	
Cable-based services ARPU	218
Pay television ARPU	214
Broadband Internet infrastructure access ARPU	60
Fixed-line telephony ARPU	53
Market Share	
Cellular Market Share[(8)]	5.7%

* Projected figure for year end 2012.

** Not reported

(1) Cable Customer Relationships represents the number of individual end users who have subscribed for one or more of our cable-based services (including pay television, broadband Internet infrastructure access or fixed-line telephony), without regard to how many services to which the end user subscribed. It is calculated on a unique premises basis. Cable Customer Relationships does not include subscribers to either our cellular or ISP services.

(2) RGUs relate to sources of revenue, which may not always be the same as customer relationships. For example, one person may subscribe for two different services, thereby accounting for only one subscriber, but two RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per service basis and RGUs for fixed-line telephony are counted on a per line basis.

(3) Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network. As of August 13, 2012 we had 250,000 cellular RGUs for our 3G services.

(4) Cable customer bundling for our stand-alone, double-play and triple-play services is presented as a percentage of Cable Customer Relationships. Our double play package customers include customers who have purchased a combination of two services out of our pay television, broadband Internet infrastructure access and fixed-line telephony services. Our triple-play package comprises pay television, broadband Internet infrastructure access and fixed-line telephony services.

(5) Churn is calculated by dividing the number of RGUs for a given service that have been disconnected during a particular period (either at the customer's request or due to a termination of the subscription by us) by the average number of RGUs for such service, excluding transfers between our services (other than a transfer between our cable services and cellular services), during such period. For example, an analog television customer who migrates to our digital television services or a customer who migrates from our double-play to triple-play services or vice-versa will not increase churn.

(6) For the six months ended June 30, 2012, the churn shown is the annualized churn, calculated by multiplying the churn for the six months ended June 30, 2012 by two.

(7) ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the service provided, in each case including the proportional allocation of the bundling discount and after certain deductions) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.

(8) Our cellular market share is based on our estimate of the total cellular lines in Israel, which is based on the number of lines reported by other cellular operators in Israel. This market share calculation is not indicative of nor does it correlate to the market share calculation required under our cellular license. In relation to the addition of frequencies to our cellular license enabling us to provide UMTS based 3G services, we were required to pay a total license fee of NIS 705 million, out of which we paid NIS 10 million at the time of receiving the license. The remaining amount equal to NIS 695 million is payable in 2016 subject to certain deductions based on market share gained by HOT Mobile (based on the higher of the market share as measured in March 2013 and March 2016).

Subscribers and RGUs

Cable-based services

Cable Customer Relationships represent the number of individual end users who have subscribed for one or more of our cable-based services (including pay television, broadband Internet infrastructure access and fixed-line telephony). RGUs (revenue generating units) relate to sources of revenue, which may not always be the same as Cable Customer Relationship numbers. For example, one person may subscribe for two different services, thereby accounting for only one Cable Customer Relationship, but two RGUs. RGUs for pay television and broadband Internet infrastructure access are counted on a per service basis. RGUs for fixed-line telephony services are counted on a per line basis.

As of June 30, 2012, we had approximately 1,224,000 Cable Customer Relationships, representing a decrease of 1.7% compared to December 31, 2011. The decrease in the number of Cable Customer Relationships was due largely to increased competition for our product offerings and the transition of our subscribers to bundled products and offset by an increase in homes passed. We have experienced an increase in the number of Cable Customer Relationships subscribing for our triple-play service, with the number of triple-play subscribers as a percentage of our Cable Customer Relationships increasing to 32% as of June 30, 2012. The number of Cable Customer Relationships as a percentage of total Israeli homes decreased to approximately 54% as of June 30, 2012.

In the six months ended June 30, 2012, the average number of RGUs per Cable Customer Relationship had increased to 1.91 services.

As of June 30, 2012, the number of pay television RGUs had increased to approximately 894,000, an increase of approximately 0.3% as compared to December 31, 2011. The increase in pay television RGUs was primarily due to our efforts to increase the attractiveness of our television channel offering, including an overall increase in HD content, VOD and PVR services, and our continued marketing of our triple-play bundles. As of June 30, 2012, we had approximately 27,000 analog television RGUs compared to 139,000 analog television RGUs as of December 31, 2009. We are in the process of phasing out our analog services, which we plan to complete in 2013.

As of June 30, 2012, the number of broadband Internet infrastructure access RGUs has increased further to approximately 774,000. The increase in broadband Internet infrastructure access RGUs was primarily due to the growth in the number of subscriptions to broadband Internet infrastructure access overall in Israel and our ability to offer our subscribers higher speeds and increased bandwidth capacity compared to alternative technologies such as xDSL and mobile broadband networks, which has allowed us to expand our market share in Israel and our ability to offer triple-play bundles, including our pay television offerings.

As of June 30, 2012, the number of fixed-line telephony RGUs was approximately 672,000. The increase in fixed-line telephony RGUs was primarily due to the increase in take-up of our multiple-play service bundles, in particular fixed-line telephony bundled with broadband Internet infrastructure access

(double-play) and fixed-line telephony bundled with broadband Internet infrastructure access and pay television (triple-play).

Cellular Services

Cellular RGUs is equal to the net number of lines or SIM cards that have been activated on our cellular network. As of June 30, 2012 we had approximately 563,000 cellular RGUs, including 142,000 RGUs for our UMTS service and 421,000 RGUs for our iDEN service. The increase in cellular RGUs was primarily due to the launch of our 3G network and was offset by subscribers disconnecting to our existing iDEN cellular network.

ARPU

ARPU is an average monthly measure that we use to evaluate how effectively we are realizing revenues from subscribers. ARPU is calculated by dividing the revenue (for the service provided, in each case including the proportional allocation of the bundling discount) for the respective period by the average number of RGUs for that period and further by the number of months in the period. The average number of RGUs is calculated as the number of RGUs on the first day in the respective period plus the number of RGUs on the last day of the respective period, divided by two.

Pay television ARPU remained stable at NIS 214 in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Broadband Internet infrastructure access ARPU increased by NIS 3, or 5.3%, to NIS 60 in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The increase in broadband Internet infrastructure access ARPU was primarily the result of our introduction of higher speeds (including 100 Mbps services in 2010) and offset by discounts applicable to our bundling strategies.

Fixed-line telephony ARPU decreased by NIS 3, or 5.4%, to NIS 53 in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The decrease was the result of decreased interconnect fees and call volumes, as subscribers reduced the number of calls placed over landlines, which we believe is consistent with general industry-wide trends, increased demand for our bundled service offers and the reduction in revenue as a result of unlimited fixed-line telephony offerings.

We intend to continue focusing on increasing ARPU by increasing RGUs per Cable Customer Relationship, promoting the migration of analog cable television subscribers to our digital services and launching other revenue and service enhancing measures.

Discussion and Analysis of Our Consolidated Operating Results

Six Months Ended June 30, 2012 compared to Six Months Ended June 30, 2011

This section provides an analysis of our results of operations for the six months ended June 30, 2012 and 2011. As further described in note 7 to our financial statements for the six months ended June 30, 2012, the operating results of HOT Mobile are not included in our historical consolidated condensed financial statements prior to November 28, 2011. In order to provide meaningful comparisons, the following discussion and analysis of our results of operations for the six months ended June 30, 2011 is based on pro forma statements of operations and statistical data that give effect to the acquisition of HOT Mobile as if such transaction had been completed on January 1, 2011. As a result, the pro forma statements of operations for the six months ended June 30, 2011 presented below include the operating results of HOT Mobile.

The table below sets forth our results of operations and the period on period percentage change for the periods under review:

	For the six months ended		Change	
	June 30, 2011 (pro forma)	June 30, 2012	Amount	%
	NIS in millions except percentages			
Revenue				
Telecom	1,002	997	(5)	(0.5)
Cable television	1,143	1,149	6	0.5
Cellular	476	382	(94)	(19.7)
Other	—	4	4	*
Adjustments	(501)	(473)	28	5.6
Total revenue	**2,120**	**2,059**	**(61)**	**(2.9)**
Expenses				
Depreciation and amortization	510	509	(1)	(0.2)
Operating expenses	1,028	1,050	22	2.1
Sales and marketing expenses	155	163	8	5.2
Administrative and general expenses	96	81	(15)	(15.6)
Other expenses (income), net and network set up expenses	(1)	21	22	*
Operating income	332	235	(97)	(29.2)
Financing income	9	20	11	122
Financing expenses for the acquisition of HOT Mobile	(13)	—	(13)	(100)
Financing expenses	(153)	(155)	2	1.3
Income before taxes on income	**175**	**100**	**(75)**	**(42.9)**
Taxes on income	26	37	11	42.3
Net income	**149**	**63**	**(86)**	**(57.7)**
Other comprehensive loss (after tax effect)				
Loss on available for sale financial asset	(19)	(17)	2	10.5
Total comprehensive income (loss)	**130**	**46**	**(84)**	**(64.6)**

* Not meaningful

Total Revenue. For the six months ended June 30, 2012, we generated total revenue of NIS 2,059 million, a 2.9% decrease compared to NIS 2,120 million on a pro forma basis for the six months ended June 30, 2011.

Telecom. Revenue generated by our fixed-line telephony and broadband Internet infrastructure access division remained unchanged at NIS 997 million for the six months ended June 30, 2012 as compared to NIS 1,002 million for the six months ended June 30, 2011. This is a result of an increase in fixed-line telephony and broadband Internet infrastructure access RGUs due to bundling strategies and increased download speeds, but offset by the decrease in ARPU in fixed-line telephony.

Cable television. Cable television revenue for the six months ended June 30, 2012 amounted to NIS 1,149 million as compared to NIS 1,143 million for the six months ended June 30, 2011 on a pro forma basis. This increase in revenue is a result of a slight increase in RGUs and ARPU for pay television and offset by the increase in triple-play subscribers, resulting in a decrease in ARPU.

Cellular. Revenue generated by our cellular segment through our subsidiary, HOT Mobile, decreased to NIS 382 million for the six months ended June 30, 2012 from NIS 476 million on a pro forma basis for the six months ended June 30, 2011. This was a result of a decrease in subscribers to our iDEN services due to reduced marketing of such services, reduced revenue from sales of handsets and increased competition and resulting price erosion and was offset by new subscribers to our UMTS-based network which launched in May 2012.

Other. Other revenue was NIS 4 million for the six months ended June 30, 2012 and includes revenue related to our ISP services which we began offering in the first half of 2012. We had no revenue for ISP services in 2011.

Adjustments. Adjustments decreased from NIS 501 million for the six months ended June 30, 2011 on a pro forma basis to NIS 473 million for the six months ended June 30, 2012.

Total Expenses. Total operating expenses amounted to NIS 1,824 million for the six months ended June 30, 2012, an increase of 2.0% compared to NIS 1,788 million on a pro forma basis for the six months ended June 30, 2011.

Depreciation and amortization. Depreciation and amortization totaled NIS 509 million for the six months ended June 30, 2012, which is relatively unchanged as compared to NIS 510 million (on a pro forma basis) for the six months ended June 30, 2011.

Operating expenses. Operating expenses continued to represent the majority of our total expenses. Our operating expenses increased for the six months ended June 30, 2012 to NIS 1,050 million from NIS 1,028 million on a pro forma basis for the six months ended June 30, 2011 (an increase of 2.1% period-on-period). Operating expenses increased as a result of the rolling out of our UMTS cellular telephony network, including increased handset costs and interconnection fees, and ISP services, and the inability to capitalize certain subscriber acquisition costs and were offset by a decrease in salaries and other related expenses that were capitalized until launch of our UMTS network.

Sales and marketing expenses. Sales and marketing expenses increased 5.2% from NIS 155 million on a pro forma basis for the six months ended June 30, 2011 to NIS 163 million for the six months ended June 30, 2012. Compared to the prior year period, our sales and marketing expenses increased as a result of increased marketing in connection with the rolling out of our ISP services and our 3G cellular telephony offerings.

Administrative and general expenses. Administrative and general expenses decreased 15.6% from NIS 96 million on a pro forma basis for the six months ended June 30, 2011 to NIS 81 million for the six months ended June 30, 2012 as a result of a decrease in salary and social benefits expenses because of a reduction in head count.

Other expenses (income), net, and network set up expenses. Other expenses (income), net, and network setup expenses amounted to expenses of NIS 21 million for the six months ended June 30, 2012 as compared to income of NIS 1 million on a pro forma basis for the six months ended June 30, 2011. This particular cost line predominantly reflects the costs of launching our UMTS network and setting aside of provisions for potential legal claims which were filed in the first six months of 2012.

Financing income and expenses. Net financing expenses were NIS 135 million for the six months ended June 30, 2012 compared to NIS 157 million on a pro forma basis for the six months ended June 30, 2011. The decrease primarily resulted from the payment fees payable in connection with the repayment of our credit facility in March 2011 that were not paid in the six months ended June 30, 2012.

Financing Income. Financing income for the six months ended June 30, 2012 totaled NIS 20 million, up compared to NIS 9 million on a pro forma basis for the six months ended June 30, 2011. The increase in financing income was a result of foreign currency exchange transaction gains.

Financing expenses. Our financing expenses for the six months ended June 30, 2012 totaled NIS 155 million, up from NIS 153 million on a pro forma basis for the six months ended June 30, 2011.

The increase in financing expenses was a result of refinancings with respect to our credit facility in March 2011.

Taxes on income. For the six months ended June 30, 2012, we recorded an income tax expense of NIS 37 million compared to an income tax expense of NIS 26 million on a pro forma basis for the six months ended June 30, 2011. The increase in income tax expense was a result of updating of deferred tax assets and a higher amount of net operating losses reducing our taxes on income in 2011. This was as a result of net losses available to reduce taxes on income in the six months ended June 30, 2011 (on a pro forma basis) that were not available in the six months ended June 30, 2012. Our effective tax rate for the six months ended June 30, 2012 was 37.0% as compared to an effective tax rate of 14.9% for the six months ended June 30, 2011.

Net income. We recorded a net income of NIS 63 million for the six months ended June 30, 2012. For the six months ended June 30, 2011, we reported a net income of NIS 149 million on a pro forma basis. The underlying decrease in net income on a like-for-like basis primarily reflects decreased revenue in the cellular segment and increased expenses related to the launch of our 3G cellular network.

Consolidated Cash Flow Statements

The table below summarizes our consolidated cash flow for the period presented.

	For the six months ended June 30,	
	2011	**2012**
	NIS in millions	
Cash and cash equivalents at beginning of period	1	16
Net cash generated by current operations	596	508
Net cash provided by (used in) investment operations(1)	(130)	(577)
Net cash provided by (used in) financing operations(1)	(467)	91
Cash and cash equivalents at end of period	**0**	**38**

(1) In 2012, HOT reclassified certain line items in its cash flow financial statements comparable figures in order to adjust the current period presentation.

Six Months Ended June 30, 2012 compared to Six Months Ended June 30, 2011

Net cash generated by current operations. Net cash generated by current operations decreased by 14.8% to NIS 508 million for the six months ended June 30, 2012 compared to NIS 596 million for the six months ended June 30, 2011. This decrease can be attributed to the decrease in net income and working capital mainly driven by an increase in trade payables and offset by an increase in trade receivables as a result of migrating to invoicing on a post-services basis as opposed to pre-services, which we are required by the Council for Cable and Satellite Broadcasting to complete by the end of 2012, and offset by an increase in the adjustments required to present cash flows from current activity. The acquisition of HOT Mobile resulted in an increase in net cash generated by current operations of NIS 22 million during the six months ended June 30, 2012.

Net cash provided by (used in) investment operations. Net cash used in investing operations was NIS 577 million for the six months ended June 30, 2012, up 344% compared to the NIS 130 million we used for the six months ended June 30, 2011. The increase of our net cash used in investing activities for the six months ended June 30, 2012, reflected an increase of NIS 196 million as a result of acquisitions of fixed assets for cellular infrastructure. Further, the acquisition of HOT Mobile resulted in an increase in net cash used by investment operations by NIS 137 million during the six months ended June 30, 2012 due to the purchase of fixed and intangible assets of HOT Mobile and additional increase in acquisition of network infrastructure in the telecom segment.

Net cash provided by (used in) financing operations. Net cash provided by financing operations amounted to NIS 91 million for the six months ended June 30, 2012, compared net cash used in financing operations NIS 467 million for the six months ended June 30, 2011. The cash movement for the six months ended June 30, 2012 reflected receipt of loans from banking entities which were offset by

payment of a dividend to our shareholders, the purchase of treasury shares and the repayment of other long-term liabilities. For the six months ended June 30, 2011, we reflected repayment of loans from banking entities and the issuance of NIS 1,485 million of the Existing HOT Unsecured Notes, which was offset by the issuance of NIS 83 million of share capital via a private issue. Further, the acquisition of HOT Mobile did not impact net cash provided by financing operations during the six months ended June 30, 2012.

Capital Expenditures

We classify our capital expenditures on an accrued basis in the following categories.

- *Modems and Converters Related.* Connection of customer premises and investment in hardware, such as set-top boxes, routers and other equipment, which is directly linked to RGU growth;
- *Cable Network Related.* Investment in improving or expanding our cable network, investments in the television and fixed-line platforms and investments in Docsis network capacity;
- *HOT Mobile Related.* Investment in improving or expanding our cellular networks, investments in cellular platforms and investments in UMTS and network capacity and other intangible assets; and
- *Other.* Investment in other fixed property and immaterial assets including computers, motor vehicles and other intangible assets. It does not include fixed assets acquired as part of business acquisitions.

The difference between accrued capital expenditure in the period and cash used for capital expenditure during the period is a result of delayed payment obligations in relation to our capital expenditures. For the six months ended June 30, 2011 and 2012 we had cash used for capital expenditures of NIS 252 million and NIS 577 million, respectively. We also had cash used to capitalize commissions which were reflected in our operating cash flow of NIS 21 million and NIS 47 million for the six months ended June 30, 2011 and 2012, respectively. We had total cash used for capital expenditures for the six months ended June 30, 2011 and 2012, NIS 273 million and NIS 624 million, respectively.

The table below summarizes our capital expenditures for the period presented.

	For the six months ended June 30,
	2012
	NIS in millions
Modems and Converters Related	**
Cable Network Related (Including Centers)	**
Other	**
Total HOT Capital Expenditures	**618**
HOT Mobile Related[(1)]	257
Total Capital Expenditures	**875**

** Not reported

(1) Beginning from November 28, 2011.

Six Months Ended June 30, 2012 compared to Six Months Ended June 30, 2011

Capital expenditures were NIS 875 million for the six months ended June 30, 2012, representing 42.5% of revenue, and an increase versus NIS 216 million for the six months ended June 30, 2011. This increase was a due in large part to increased capital expenditures related to our modems and converters and the build out of our UMTS cellular network.

HOT Mobile Related. HOT Mobile related capital expenditures represented NIS 257 million for the six months ended June 30, 2012, or 29% of total capital expenditures, which was due primarily to the building out of our UMTS network and the purchase of other intangible assets related to our cellular services operations.

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Table of Contents

	Page
General Description of our Business and the Offering	1
Risk Factors	34
The Transaction	72
Use of Proceeds	75
Capitalization	76
Unaudited Pro Forma Financial and Operating Data of HOT	77
Management's Discussion and Analysis of Financial Condition and Results of Operations of HOT	85
Industry and Market Overview	107
Description of Our Business	115
Regulatory	141
Management and Governance	152
Principal Shareholder	156
Certain Relationships and Related Party Transactions	157
Description of Other Indebtedness	158
Description of Senior Secured Notes	176
Description of Senior Notes	278
Book-Entry, Delivery and Form	372
Transfer Restrictions	378
Tax Considerations	382
Certain Employee Benefit Plan Considerations	391
Limitation on Validity and Enforceability of the Guarantees and the Security Interests	394
Plan of Distribution	401
Legal Matters	404
Enforcement of Judgments	405
Auditors	407
Listing and General Information	408
Glossary	G-1
Index of Financial Information	F-1
Annex A—Certain Financial Information and Discussion Related to HOT's Financial Results as of and for the Six Months Ended June 30, 2012	A-1

$450,000,000 7⅞% Senior Secured Notes due 2019

€200,000,000 8% Senior Secured Notes due 2019

issued by Altice Financing S.A.

$400,000,000 9⅞% Senior Notes due 2020

issued by Altice Finco S.A.

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Co-managers

BNP Paribas

Crédit Agricole CIB

Credit Suisse

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J.P. Morgan

December 17, 2012

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