



**Bezeq Acquisition of
Control in **

March 2015

Disclaimer

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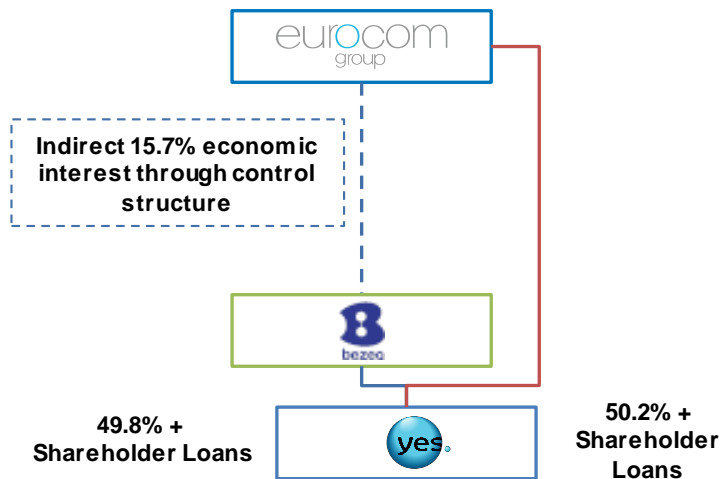
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Key Transaction Highlights

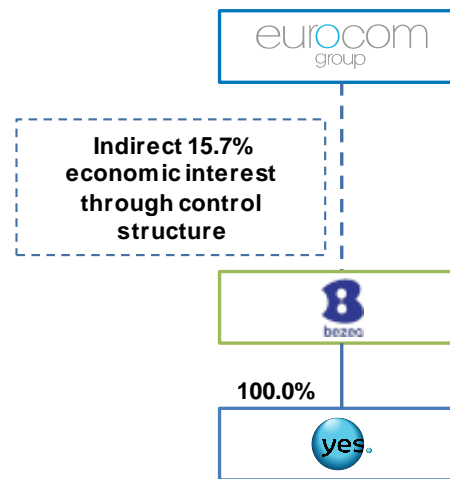
Transaction Scope

- Acquisition of the entire holdings of Eurocom in YES, representing 50.2% of its outstanding share capital (41.6% fully diluted)⁽¹⁾ and the shareholder loans provided by Eurocom to YES (NIS1,533m or \$396m)⁽²⁾⁽³⁾
- Bezeq will also consolidate YES external net debt of NIS1,616m (\$418m)⁽²⁾⁽³⁾
- Transaction subject to approvals by Bezeq's EGM and Ministry of Communications

Pre Transaction



Post Transaction



Source: Bezeq.

(1) Post exercise of Bezeq call option to acquire an additional 8.6% stake in YES.

(2) As at September 30, 2014.

(3) Based on NIS/USD spot exchange rate of 3.87 as at February 10, 2015.



Key Transaction Highlights (Cont'd)

Transaction Consideration

- 1 Bezeq to pay Eurocom an initial consideration of NIS680m (\$176m)⁽¹⁾ in cash at closing
 - Two additional deferred and contingent cash payments:
 - A Up to NIS200m (\$52m)⁽¹⁾ to be paid depending on the outcome of a tax settlement, and
 - B Up to NIS170m (\$44m)⁽¹⁾ earn-out based on the business performance of YES in the next three years
- 2 Assuming full deferred and contingent cash payment (A + B), maximum consideration will amount to NIS1,050m (\$271m)⁽¹⁾



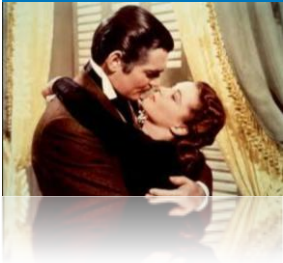
Source: Bezeq.

(1) Based on NIS/USD spot exchange rate of 3.87 as at February 10, 2015.

YES: A Premium Pay TV Platform

1 Superior Brand Perception

Cinematic



Innovative



International



Daring & Courageous



2 Extensive Content Offering

“YES” branded channels

- 5 Feature film/ movie channels
- 4 Series channels
- Award - winning Documentary channel
- 24 hour programming
- Full HD

External channels

- Over 140 external channels including: sports, children, music, movie, entertainment, news and more

VOD offering

- > 25,000 titles in the VOD catalogue
- Over 1,000 new titles added monthly
- c. 8m content views per month
- Primary content items categories include: children's world, series, programs from channels, movies, Russian titles, other

YES: A Premium Pay TV Platform

3 Best-in-Class Technology and Value Added Services

- Product strategy: Increasing the penetration of advanced set top boxes – Total set top box as the central engine

Devices

YES Max Total
PVR + HD +
VOD + Streamer



HD Zapper with
VOD OTT



Products

Multi-Room

- Enables viewing recorded programs from any STB in the home network



YES Streamer

- Sharing video files, pictures and music from the home PC / Internet upon the TV

YES Streamer
2.0

- Streaming video, pictures, music and WEB via wifi from the companion device to the STB

YES: Strong Operating and Financial Momentum

Subscribers ('000s)

YES Market Share (%)

39.2%

40.7%

40.2%

42.0%

4.0% CAGR

5.1% CAGR

578

601

593

623

FY 2012

FY 2013

9M 2013

9M 2014

Revenue (NISm)

0.0% CAGR

5.4% CAGR

1,636

1,635

1,218

1,284

FY 2012

FY 2013

9M 2013

9M 2014

EBITDA (NISm)

5.7% CAGR

8.4% CAGR

502

530

400

434

FY 2012

FY 2013

9M 2013

9M 2014

OpFCF (NISm)

(5.0)% CAGR

41.0% CAGR

217

207

159

224

FY 2012

FY 2013

9M 2013

9M 2014

Source: Bezeq.

YES: 2014 at a Glance

- ✓ Record year since 2006 in terms of subscriber growth and market share gain
- ✓ Maintained ARPU levels despite aggressive competition
- ✓ Launch of yesGo (TV Everywhere)
- ✓ Robust growth in VOD customers and VAS services (Multi-Room, yesGo, yes Streamer)
- ✓ Launch of "24/7" movie library: hundreds of films in the VOD with no extra charge
- ✓ Launch of "yes Binge" category (VOD) featuring complete seasons of key series (+100)
- ✓ Maintaining industry leading position in terms of brand, content and service quality as reflected in surveys

Transaction Rationale

Positive Impact on Bezeq's Future Market Positioning

- 1 Full consolidation of a premier TV brand with proven scale, reach and content expertise
- 2 Allows Bezeq to bundle telecom and Pay TV services, improving its competitive position vs. HOT
- 3 Integrate sales, marketing and customer service functions to increase customer take-up, customer satisfaction and reduce churn
- 4 Increased flexibility to adapt to rapidly evolving market changes
- 5 Skilled leadership team with excellent track record in content, marketing and platform development

We have conservatively assumed c. NIS100m NPV of revenue synergies

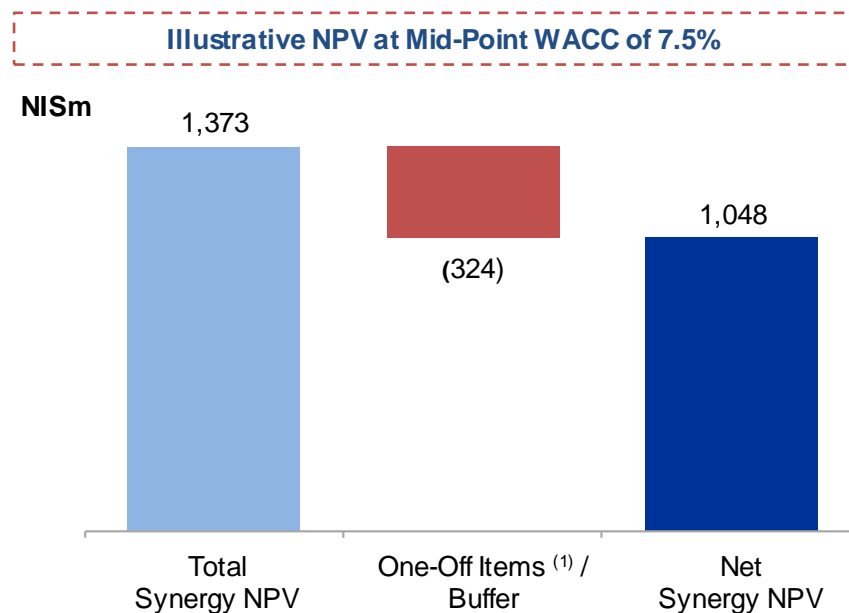
Transaction Rationale (Cont'd)

Significant Cost Synergies Potential

- Based on detailed bottom-up analysis
- Integration of overlapping functions
- No content or transmission synergies
- Subject to removal of structural separation by 2016YE
- Run-rate of c. NIS155m achieved in 2017 (10.7% of YES cost base)

Cost Savings Areas (% of YES Cost Base)

- Sales (0.3%)
- Marketing (1.8%)
- Customer Service (1.9%)
- IT/ Engineering (1.8%)
- Procurement (0.8%)
- Billing & Collection (0.2%)
- G&A Headcount (3.9%)



Source: Bezeq. Synergies NPV at September 30, 2014.

(1) Includes integration (IT/Operational and other) cost, merger cost and other costs.

Transaction Rationale (Cont'd)

Ability to Unlock the Value of YES' NOLs

- Transaction and removal of shareholder loans to allow utilization of up to c. NIS 5.4bn net operating losses (“NOLs”) at YES, subject to approval by the Israel Tax Authority
- Utilization at YES level pre merger of YES and Bezeq and Bezeq level post merger (assumed in 2017)

		Value of Tax Asset (NISm)					
		Total Utilizable NOLs (NISm)					
		3,000	3,500	4,000	4,500	5,000	5,400
NOLs Utilization Period (1)	7 Years	588	685	782	879	976	1,054
	9 Years	556	648	739	830	921	994
	11 Years	528	613	699	785	871	940

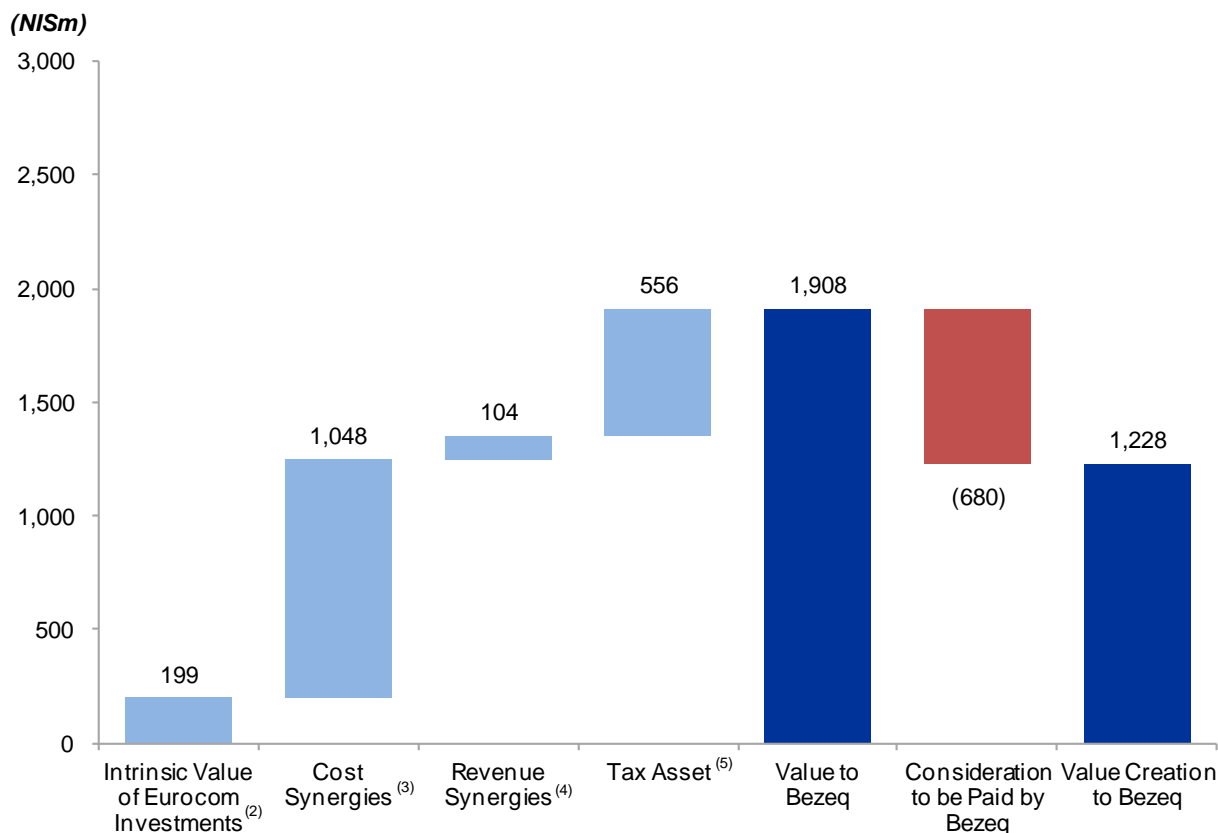
Source: Bezeq.

(1) Sensitivity to NOLs utilization period assumes no refinancing of YES external debt and future savings discounted back to September 30, 2014 using mid-point of YES WACC range and Bezeq WACC range of 8.0% and 6.9%, respectively.

Transaction Rationale (Cont'd)

Value Creation to Bezeq – Assuming Consideration of NIS680m

- Implies value creation to Bezeq of c. NIS1.2bn
- Consideration paid by Bezeq is in excess of intrinsic value to Eurocom but represents intrinsic value plus c. 28% of cost synergies, revenue synergies and tax asset NPV
- Transaction implies adjusted EV/EBITDA 14E of 6.5x⁽¹⁾



Source: Bezeq.

(1) Implied equity value ascribed to shareholder loans based on total shareholder loan contribution and order of seniority and assumed to result in value attributable to Eurocom of NIS680m; for multiple calculation purposes, implied EV has been adjusted for tax asset and revenue synergies and EBITDA has been adjusted for run-rate opex synergies and change in broadcasting rights.

(2) Based on standalone EV range of NIS3.25bn; Equity value ascribed to shareholder loans (based on total shareholder loan contribution) and ordinary equity in order of seniority.

(3) Base case assuming 7.5% WACC and removal of structural separation by the end of 2016.

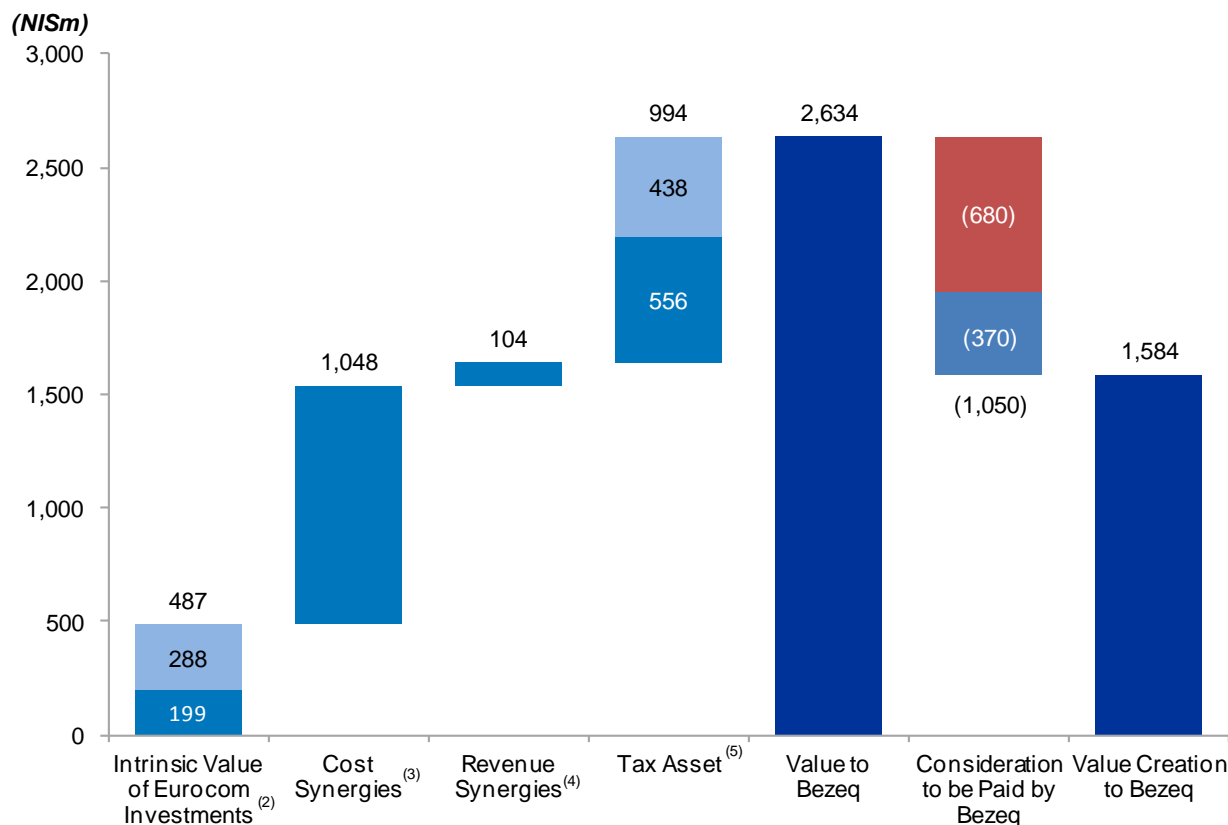
(4) Base case assuming 7.5% WACC.

(5) Base case assuming NIS3.0bn NOLs utilization and removal of structural separation by the end of 2016; Tax asset valuation based on YES WACC of 8.0% and Bezeq WACC of 6.9%.

Transaction Rationale (Cont'd)

Value Creation to Bezeq – Assuming Consideration of NIS1,050m

- Implies value creation to Bezeq of NIS1.6bn
- Includes all contingent payments per agreement and represents intrinsic value plus c. 26% of cost synergies, revenue synergies and tax asset NPV
- Transaction implies adjusted EV/EBITDA 14E 6.9x⁽¹⁾



Source: Bezeq.

- (1) Implied equity value ascribed to shareholder loans based on total shareholder loan contribution and order of seniority and assumed to result in value attributable to Eurocom of NIS1,050m; for multiple calculation purposes, implied EV has been adjusted for tax asset and revenue synergies and EBITDA has been adjusted for run-rate opex synergies and change in broadcasting rights.
- (2) Based on standalone EV of c. NIS4.6bn based on YES standalone DCF in case of full realization of the Upside Share; Equity value ascribed to shareholder loans (based on total shareholder loan contribution) and ordinary equity in order of seniority.
- (3) Base case assuming 7.5% WACC and removal of structural separation by the end of 2016.
- (4) Base case assuming 7.5% WACC.
- (5) Base case assuming 100% utilization of NOLs (NIS5.4bn) and removal of structural separation by the end of 2016; Tax asset valuation based on YES WACC of 8.0% and Bezeq WACC of 6.9%.

Key Take-Aways

A Compelling Transaction to Bezeq Shareholders

- ✓ Securing a 100% stake in a premium Pay TV platform with strong operating and financial performance
- ✓ Significant improvement in Bezeq's positioning in the market through the deployment of bundles of telecom and Pay TV services⁽¹⁾
- ✓ Large-scale cost synergies based on bottom-up analysis
- ✓ Ability to unlock tax asset value
- ✓ Consideration representing 26-28% of the potential value realized by Bezeq
- ✓ Potential additional value from refinancing the debt outstanding at YES

Significant value creation to Bezeq shareholders



(1) TV service price should be stated separately and apply when selling TV on a standalone basis.