# DBS SATELLITE SERVICES (1998) LTD.

## CONDENSED INTERIM FINANCIAL STATEMENTS
## AS AT SEPTEMBER 30, 2009
## (UNAUDITED)

**Condensed Interim Financial Statements as at September 30, 2009**

## Contents

**Auditors Report for the Shareholders of**
**DBS Satellite Services (1998) Ltd.**

*Introduction*

We have reviewed the accompanying financial information of DBS Satellite Services (1998) Ltd. ("the Company"), including the condensed interim statement of financial position as at September 30, 2009 and the condensed interim statements of income, comprehensive profit, changes in equity and cash flows for the nine and three months periods then ended. The board of directors and the management are responsible for preparation and presentation of the interim financial information for these interim periods in accordance with International Accounting Standard IAS 34 - *Interim Financial Reporting*, and are also responsible for preparation of the financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), -1970. Our responsibility is to express a conclusion on the financial information for the interim periods based on our review.

*Review scope*

We conducted our review in accordance with Accounting Standard no. 1 of the Institute of Certified Public Accountants in Israel – *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted auditing principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to the aforesaid in the previous paragraph , based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), -1970.

Without qualifying our above conclusion, we draw attention to Note 4 regarding the financial situation of the Company. As at September 30, 2009, the Company is in compliance with the financial covenants set for it, subsequent to receiving revised stipulations for 2009 from the banks on March 15, 2009, which will be adapted to the Company's budget.

The continuation of the Company's activities depends, *inter alia*, on its compliance with the stipulations determined for 2009 and/or further reliefs that will be received during the year. Based on the assessment of the Company's management, the sources of financing available to it will suffice for the Company's operating requirements for the forthcoming year, based on the cash flow forecast approved by the Company's Board of Directors.

Additionally, we draw attention to Note 22 to the Company's annual financial statements as at December 31, 2008, regarding the class action filed against the Company in respect of disruptions to the Company's broadcasts. Based on the assessment of the Company's management, which is based on the opinion of its legal counsels, the Company has included an appropriate provision in its financial statements.

Yours sincerely,

Somekh Chaikin

Certified Public Accountants

November 1, 2009

## Condensed Interim Statements of Financial Position

| | September 30 2009 (Unaudited) NIS thousands | September 30 2008 (Unaudited) NIS thousands | December 31 2008 (Audited) NIS thousands |
|---|---|---|---|
| **Assets** | | | |
| Short-term deposits | **3,000** | 3,001 | 3,000 |
| Trade receivables | **151,404** | 150,978 | 152,876 |
| Other receivables | **9,222** | 14,606 | 8,261 |
| **Total current assets** | **163,626** | 168,585 | 164,137 |
| Broadcasting rights, net of rights exercised | **301,722** | 264,113 | 253,333 |
| Property, plant and equipment, net | **679,052** | 678,971 | 671,663 |
| Other intangible assets, net | **61,582** | 38,754 | 42,970 |
| **Total non-current assets** | **1,042,356** | 981,838 | 967,966 |
| **Total assets** | **1,205,982** | 1,150,423 | 1,132,103 |

| | September 30 2009 | September 30 2008 | December 31 2008 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| **Liabilities** | | | |
| Credit from banks | **255,400** | 76,505 | 877,202 |
| Current maturities of debentures | **54,710** | - | - |
| Trade payables | **411,857** | 409,112 | 400,280 |
| Other payables | **133,926** | 200,339* | 210,921 |
| Provisions | **8,505** | 7,980* | 8,980 |
| **Total current liabilities** | **864,398** | 693,936 | 1,497,383 |
| Debentures | **624,415** | 657,751 | 654,780 |
| Loans from institutions | **176,674** | 154,327 | 157,700 |
| Bank loans | **668,573** | 846,230 | - |
| Loans from shareholders | **1,916,416** | 1,637,031 | 1,681,515 |
| Other liabilities | **20,402** | 30,029 | 27,812 |
| Employee benefits | **7,444** | 7,453 | 5,051 |
| **Total non-current liabilities** | **3,413,924** | 3,332,821 | 2,526,858 |
| **Total liabilities** | **4,278,322** | 4,026,757 | 4,024,241 |
| **Capital deficit** | | | |
| Share capital | **29** | 29 | 29 |
| Share premium | **85,557** | 85,557 | 85,557 |
| Option warrants | **48,219** | 48,219 | 48,219 |
| Capital reserves | **1,537,271** | 1,537,271 | 1,537,271 |
| Capital reserve for share-based payments | **6,198** | 77 | 1,636 |
| Accumulated deficit | **(4,749,614)** | (4,547,487) | (4,564,850) |
| **Total capital deficit** | **(3,072,340)** | (2,876,334) | (2,892,138) |
| **Total liabilities and capital** | **1,205,982** | 1,150,423 | 1,132,103 |

| Rimon Ben Shaul<br>(Authorized to sign as chairman of the board**) | Ron Eilon<br>CEO | Katriel Moriah<br>CFO |
|---|---|---|

* Restated – See Note 2.C.
** See Note 7.

Date of approval of the financial statements: November 1, 2009

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Income Statements

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2009 | September 30 2008 | September 30 2009 | September 30 2008 | December 31 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| Revenue | **1,140,330** | 1,136,387 | **380,451** | 375,150 | 1,512,632 |
| Cost of revenue | **775,905** | 831,025 | **261,836** | 266,678 | 1,091,171 |
| **Gross profit** | **364,425** | 305,362 | **118,615** | 108,472 | 421,461 |
| Selling and marketing expenses | **90,217** | 98,768 | **28,779** | 28,323 | 128,162 |
| General and administrative expenses | **88,543** | 84,782 | **29,175** | 27,736 | 116,151 |
| | **178,760** | 183,550 | **57,954** | 56,059 | 244,313 |
| **Operating profit** | **185,665** | 121,812 | **60,661** | 52,413 | 177,148 |
| Financing expenses | **148,177** | 172,582 | **57,549** | 61,038 | 229,650 |
| Financing income | **(13,580)** | (22,441) | **(12,978)** | (9,778) | (51,805) |
| Shareholders' financing expenses | **234,901** | 218,477 | **104,205** | 83,280 | 262,961 |
| Financing expenses, net | **369,498** | 368,618 | **148,776** | 134,540 | 440,806 |
| **Loss before income tax** | **(183,833)** | (246,806) | **(88,115)** | (82,127) | (263,658) |
| Income tax | **931** | 410 | **342** | - | 1,048 |
| **Loss for the period** | **(184,764)** | (247,216) | **(88,457)** | (82,127) | (264,706) |
| **Basic and diluted loss per share (in NIS)** | **(6,180)** | (8,241) | **(2,959)** | (2,737) | (8,919) |

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Statements of Comprehensive Profit

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2009 | September 30 2008 | September 30 2009 | September 30 2008 | December 31 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| Loss for the period | **(184,764)** | (247,216) | (88,457) | (82,127) | (264,706) |
| Other items of comprehensive profit: | | | | | |
| **Actuarial gains from a defined benefit plan (1)** | **-** | - | - | - | 127 |
| Other comprehensive profit for the period | **-** | - | - | - | 127 |
| Total comprehensive loss for the period | **(184,764)** | (247,216) | (88,457) | (82,127) | (264,579) |

Due to first-time adoption of the revised IAS 1 in these financial statements, the presentation format of the statement of comprehensive profit was changed. See also Note 3(1) for a description of first-time adoption of the new standards.

(1) The Company does not recalculate its actuarial commitments in each interim reporting period, unless there are significant changes in the benefit plans or fundamental changes in market conditions during the interim period, which affect the Company's commitments. As a result, actuarial gains or losses in the reporting period are not recognized.

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Statements of Changes in Equity

| | Share capital | Share premium | Option warrants | Capital reserve | Capital reserve for share-based payments | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **Nine months ended September 30, 2009 (unaudited):** | | | | | | | |
| Balance at January 1, 2009 (audited) | 29 | 85,557 | 48,219 | 1,537,271 | 1,636 | (4,564,850) | (2,892,138) |
| Movement in the period (unaudited) | | | | | | | |
| Comprehensive loss for the period | **-** | **-** | **-** | **-** | **-** | **(184,764)** | **(184,764)** |
| Share-based payments | **-** | **-** | **-** | **-** | **4,562** | **-** | **4,562** |
| Balance at September 30, 2009 (unaudited) | **29** | **85,557** | **48,219** | **1,537,271** | **6,198** | **(4,749,614)** | **(3,072,340)** |
| **Nine months ended September 30, 2008 (unaudited):** | | | | | | | |
| Balance at January 1, 2008 (audited) | 29 | 85,557 | 48,219 | 1,537,271 | - | (4,300,271) | (2,629,195) |
| Movement during the period (unaudited) | | | | | | | |
| Comprehensive loss for the period | - | - | - | - | - | (247,216) | (247,216) |
| Share-based payments (unaudited) | - | - | - | - | 77 | - | 77 |
| **Balance at September 30, 2008 (unaudited)** | 29 | 85,557 | 48,219 | 1,537,271 | 77 | (4,547,487) | (2,876,334) |

Due to first-time adoption of the revised IAS 1 in these financial statements, the presentation format of the statement of changes in equity was changed. See also Note 3(1) for a description of first-time adoption of the new standards.

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Statements of Changes in Shareholders Equity (Contd.)

| | Share capital | Share premium | Option warrants | Capital reserve | Capital reserve for share-based payments | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **Three months ended September 30, 2009 (unaudited):** | | | | | | | |
| Balance at July 1, 2009 (unaudited) | 29 | 85,557 | 48,219 | 1,537,271 | 4,689 | (4,661,157) | (2,985,392) |
| Movement in the period (unaudited) | | | | | | | |
| Comprehensive loss for the period | **-** | **-** | **-** | **-** | **-** | **(88,457)** | **(88,457)** |
| Share-based payments (unaudited) | **-** | **-** | **-** | **-** | **1,509** | **-** | **1,509** |
| Balance at September 30, 2009 (unaudited) | **29** | **85,557** | **48,219** | **1,537,271** | **6,198** | **(4,749,614)** | **(3,072,340)** |
| **Three months ended September 30, 2008 (unaudited):** | | | | | | | |
| Balance at July 1, 2008 (unaudited) | 29 | 85,557 | 48,219 | 1,537,271 | - | (4,465,360) | (2,794,284) |
| Movement in the period (unaudited) | | | | | | | |
| Comprehensive loss for the period | - | - | - | - | - | (82,127) | (82,127) |
| Share-based payments (unaudited) | - | - | - | - | 77 | - | 77 |
| **Balance at September 30, 2008 (unaudited)** | 29 | 85,557 | 48,219 | 1,537,271 | 77 | (4,547,487) | (2,876,334) |

Due to first-time adoption of the revised IAS 1 in these financial statements, the presentation format of the statement of changes in equity was changed. See also Note 3(1) for a description of first-time adoption of the new standards.

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Statements of Changes in Shareholders Equity (Contd.)

| | Share capital | Share premium | Option warrants | Capital reserve | Capital reserve for share-based payments | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **Year ended December 31, 2008 (audited)** | | | | | | | |
| Balance at January 1, 2008 (audited) | 29 | 85,557 | 48,219 | 1,537,271 | - | (4,300,271) | (2,629,195) |
| Movement in 2008 (audited) | | | | | | | |
| Comprehensive loss for the period | - | - | - | - | - | (264,579) | (264,579) |
| Share-based payments | - | - | - | - | 1,636 | - | 1,636 |
| **Balance at December 31, 2008 (audited)** | 29 | 85,557 | 48,219 | 1,537,271 | 1,636 | (4,564,850) | (2,892,138) |

Due to first-time adoption of the revised IAS 1 in these financial statements, the presentation format of the statement of changes in equity was changed. See also Note 3(1) for a description of first-time adoption of the new standards.

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Statements of Cash Flows

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2009 | September 30 2008 | September 30 2009 | September 30 2008 | December 31 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **Cash flows from operating activities** | | | | | |
| Loss for the period | **(184,764)** | (247,216) | **(88,457)** | (82,127) | (264,706) |
| **Adjustments** | | | | | |
| Depreciation and amortization | **171,035** | 184,043 | **58,928** | 58,738 | 249,880 |
| Financing costs, net | **356,751** | 340,332 | **156,170** | 120,268 | 426,258 |
| Loss (profit) from the sale of property, plant and equipment | **(191)** | - | **1** | - | (124) |
| Share-based payments | **4,562** | 77 | **1,509** | 77 | 1,636 |
| Income tax expenses | **931** | 410 | **342** | - | 1,048 |
| Change in trade receivables | **1,472** | (5,454) | **3,355** | 5,690 | (7,352) |
| Change in other receivables | **(961)** | (6,340) | **(2,223)** | (2,332) | 5 |
| Change in trade payables | **37,554** | (51,926) | **10,151** | (25,325) | (61,394) |
| Change in other payables and provisions | **(12,649)** | 32,473 | **(19,424)** | 9,115 | 24,544 |
| Change in broadcasting rights net of rights exercised | **(48,389)** | (21,365) | **15,193** | 13,498 | (10,585) |
| Change in employee benefits | **2,394** | (464) | **366** | (28) | 912 |
| Change in other liabilities | **(7,410)** | (5,805) | **(541)** | (341) | (8,022) |
| | **505,099** | 465,981 | **223,827** | 179,360 | 616,806 |
| Income tax paid | **(1,246)** | (5,073) | **(342)** | - | (5,073) |
| **Net cash flows from operating activities** | **319,089** | 213,692 | **135,028** | 97,233 | 347,027 |
| **Cash flows for investing activities** | | | | | |
| Interest received | **-** | 35 | **-** | - | 76 |
| Acquisition of property, plant and equipment | **(174,485)** | (144,720) | **(72,635)** | (46,705) | (198,208) |
| Sale of property, plant and equipment | **578** | - | **578** | - | - |
| Acquisition of other intangible assets | **(10,636)** | (9,646) | **(5,449)** | (1,664) | (12,643) |
| Payments for subscriber acquisition | **(23,615)** | (20,403) | **(9,304)** | (7,481) | (26,690) |
| **Net cash used for investing activities** | **(208,158)** | (174,734) | **(86,810)** | (55,850) | (237,465) |

The accompanying notes are an integral part of the financial statements.

## Condensed Interim Statements of Cash Flows (cont.)

| | Nine months ended | | Three months ended | | Year ended |
|---|---|---|---|---|---|
| | September 30 2009 | September 30 2008 | September 30 2009 | September 30 2008 | December 31 2008 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| **Cash flows for financing activities** | | | | | |
| Short-term credit from banks, net | **46,771** | (4,938) | **6,148** | (40,084) | (50,471) |
| Interest paid | **(157,702)** | (34,020) | **(54,366)** | (1,299) | (59,091) |
| **Net cash used for financing activities** | **(110,931)** | (38,958) | **(48,218)** | (41,383) | (109,562) |
| **Change in cash and cash equivalents** | **-** | - | **-** | - | - |
| **Cash and cash equivalents for beginning of period** | **-** | - | **-** | - | - |
| **Cash and cash equivalents for end of period** | **-** | - | **-** | - | - |

The accompanying notes are an integral part of the financial statements.

## NOTE 1 – REPORTING ENTITY

DBS Satellite Services (1998) Ltd. (“the Company”) was incorporated in Israel on December 2, 1998. The Company’s head office is at 6, Hayozma St., Kfar Saba, Israel.
In January 1999, the Company received a license from the Ministry of Communications to broadcast satellite television to subscribers (“the License”). The broadcasting license is valid until January 2014 and can be extended for a further six years under certain conditions. The Company is subject to the Communications (Telecommunications and Broadcasts) Law 5742-1982 (“the Communications Law”) and its subsequent regulations and rules and to the license terms.
In July 2000, the Company started to provide multichannel television to its subscribers under the license and pursuant to the Communications Law.
Under the license of Bezeq The Israel Telecommunication Corporation Limited (“Bezeq”), Bezeq is required to maintain full structural separation between it and its subsidiaries, including the Company. Additionally, on March 31, 2004, the Minister of Communications published a document banning certain business alliances between Bezeq and its subsidiaries, including the Company, unless, inter alia, there is a material deterioration in the competitive status of the Company. The Ministry is considering the approval of certain exemptions regarding the restrictions relating to the alliances while amending the license. This process has not yet been completed.
On February 3, 2009, the Antitrust Tribunal approved the merger (as defined in the Antitrust Law, 5748-1988) between the Company and Bezeq by exercising the options held by Bezeq into Company shares, subject to certain conditions. According to announcements made by Bezeq to the public, the Antitrust Authority and Eurocom DBS Ltd. appealed the court ruling and Bezeq filed a counter petition against the amount of the bank guarantee that was ruled as part of the merger terms. Additionally, after the Antitrust Tribunal dismissed the motion of the Antitrust Authority to postpone the implementation of the ruling and the Antitrust Authority filed another motion at the Supreme Court to postpone the implementation, Bezeq and the Antitrust Authority reached an agreement at the recommendation of the court, which received the validity of judgment, to postpone implementation of the merger. It further arises from the reports that on April 30, 2009, the Board of Directors of Bezeq resolved to implement the merger under the conditions prescribed in the ruling of the Antitrust Tribunal and to inform the Antitrust Tribunal and the Supreme Court of this decision, without derogating from Bezeq’s claims in the counter petition. Implementation of the merger was subject to the decision of the Supreme Court regarding the counter petition filed against approval of the merger. In August 2009, the Supreme Court accepted the Antitrust Commissioner’s appeal of the ruling of the Antitrust Tribunal, and decided not to approve the merger.
Further to the announcement of the Second Authority, Digital Terrestrial TV (DTT) broadcasts started on August 2, 2009. The Company believes that DTT broadcasts could have a negative effect on its revenue.

## NOTE 2 - BASIS OF PREPARATION

### A. Statement of compliance

The condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements for the year ended December 31, 2008 (“the Annual Report”). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The condensed interim financial statements were approved by the Board of Directors of the Company on November 1, 2009.

## NOTE 2 - BASIS OF PREPARATION (CONTD.)

### B. Use of estimates and judgments

The preparation of the condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The judgment of the management when applying the Company's accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements

### C. Reclassified amounts

In the financial statements of December 31, 2008, the provisions balance was presented as a separate item from the other payables balance of the Company's financial reports. Comparative figures at September 30, 2008 were reclassified accordingly so that other payables decreased by NIS 8 million.

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

With the exception of the contents of section (1) below, the Company's accounting policy in these condensed interim statements is the same policy applied in the annual statements.
The changes made in the accounting policy for the preparation of the condensed interim financial statements and their effect are described below:

### (1) Initial application of new Accounting Standards

#### A. Presentation of financial statements

Commencing from January 1, 2009, the Company applies IAS 1 – *Presentation of Financial Statements*, revised ("the Standard"). The Standard permits the presentation of one statement of comprehensive profit (a statement combining profit or loss and other comprehensive profit) or two statements (a separate income statement and a statement of comprehensive profit). The Company opted to present income and expenses and other comprehensive profit in two separate statements – an income statement followed by a statement of comprehensive profit. The Company also presents a statement of changes in equity instead of disclosure in the notes, immediately after the statement of comprehensive profit. The statement includes changes in equity arising from transactions with owners in their capacity as owners (such as dividends, transactions with controlling shareholders, share issues and options). The Standard is applied retrospectively.

#### B. Employee benefits

Commencing from January 1, 2009, the Company applies IAS 19 – *Employee Benefits*, revised ("the Amendment"), in accordance with Improvements to International Financial Reporting Standards 2008 (Improvements to IFRSs). The amendment addresses the definition of "short-term employee benefits" and "other long-term employee benefits referring to when the benefits are due to be settled. Application of the revised standard did not have a material effect on the Company's financial statements.

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (2) New standards not yet adopted

Amendments to IFRS 2 – *Share-Based Payment* ("the Amendments") – cash-settled share-based payment transactions. The amendments address IFRS 2 and replace IFRIC 8 and IFRIC 11. The amendments provide guidance on the accounting for share-based payment transactions among group entities, for both the entity that receives the goods or services and for the entity that settles the transaction.
Under the amendments, the entity receiving the goods or services will recognize the transaction as an equity-settled share-based payment when the entity awards its own equity instruments in the transaction, or when the entity has no obligation to settle the transaction. In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment.
The entity that settles the award will measure the transaction as an equity-settled share-based payment only when it settles the transaction with the other equity instruments, otherwise, the entity will measure the transaction as a cash-settled share-based payment. The amendments are to be applied retrospectively for annual accounting periods commencing on or after January 1, 2010. Early application is permitted.
Application of the standard is not expected to have a material effect on the Company's financial statements.

## NOTE 4 – THE FINANCIAL POSITION OF THE COMPANY

**A.** Since the beginning of its operations, the Company has accumulated substantial losses. The Company's losses in 2008 amounted to NIS 265 million and the losses in the nine months ended September 30, 2009 amounted to NIS 185 million. As a result of these losses, the capital deficit and working capital deficit at September 30, 2009 amounted to NIS 3.072 billion and NIS 701 million, respectively.

**B.** The balance of the Company's bank loans and credit facility at September 30. 2009 was NIS 960 million, imposing various restrictions on the Company, including, inter alia, restrictions on providing a lien on or sale of certain assets, a restriction on receipt of credit from other banks without prior approval, a restriction concerning repayment of shareholders' loans, and a requirement for compliance with financial covenants ("the Conditions").

1. In January 2009, the Company applied to the banks requesting revision of the stipulations for 2009 so as to adapt them to the 2009 budget. On March 15, 2009, the banks agreed to amend the stipulations.

2. As at September 30, 2009, the Company is in compliance with the covenants set for it.

3. The Company's management believes that the sources of financing available to it will be sufficient for its operational requirements in the coming year, based on the projected cash flow approved by the Company's board of directors. If additional resources are required to meet its operational requirements during the year, the Company will adapt its operations to preclude the need for additional resources beyond those available to it.

## NOTE 5 – CONTINGENT LIABILITIES

**Agreements**

In June 2009, Israel Aerospace Industries (IAI) demanded immediate payment of the balance of the Company's debt for the use of the Amos 1 satellite and payment of interest and other amounts allegedly due to IAI under the agreement. In September 2009, the Company and IAI signed an agreement settling all the financial disputes that arose between the parties.

**Lawsuits**

During the normal course of business, legal claims are filed against the Company, including applications for certification as class actions.

In the opinion of the Company's management, which is based, *inter alia*, on legal opinions as to the likelihood of success of the claims, including the application for certification of the class actions, the financial statements include appropriate provisions, where required, to cover the exposure resulting from such claims.

The additional exposure due to claims filed against the Company on various matters and in which the likelihood of realization is possible, amounts to NIS 253 million.

A detailed description of these contingent liabilities appear in Note 22 to the annual statements as at December 31, 2008.

There have been no material changes in the lawsuits up to the approval of these financial statements, with the exception of the following:

In April 2009, two claims were filed against the Company on behalf of 21 technicians (20 former employees of the Company and one technician who is still employed by the Company), in the amount of NIS 1.3 million. According to the claims, the Company owes the technicians for various salary components which were allegedly unpaid and the Company has withheld part of their wages. A statement of defense was filed in July 2009.

Further to Note 22.2.A to the financial statements as at December 31, 2008, in June 2009 the appeal and counter petition were brought before the Supreme Court. At the recommendation of the Court, it was agreed to dismiss the appeal and counter petition, without an order to pay costs and without the Court expressing any opinion on the ruling of the district court regarding the compensation and attorneys' fees.

Further to Note 22.2.B to the financial statements as at December 31, 2008, in September 2009, the application for certification as a class action was summarily dismissed, without an order to pay costs.
Further to Note 22.2.C to the financial statements as at December 31, 2008, in June 2009 a settlement agreement was signed to the effect that without admitting to any of the claims, the Company will compensate subscribers from whose deposits depreciation was alleged to have been unlawfully collected, existing subscribers of the Company will be entitled to view three DVDbox movies free of charge and subscribers who had left YES will be entitled to monetary compensation of NIS 25 or NIS 50 as set out in the agreement, or to five DVDbox movies free of charge should they choose to rejoin the Company's broadcasts. It was further determined that the lead plaintiff will be entitled to payment of NIS 50,000 and her attorneys will be entitled to payment of NIS 450,000. The court at which the agreement was submitted for approval ruled that this was an appropriate and reasonable arrangement and allowed the Company to publish an initial notice in this regard, which was published on June 18, 2009. On September 1, 2009, a motion was filed with the consent of the parties to approve the settlement, and on September 2, 2009, the agreement was given the validity of judgment. On September 14, 2009, a second notice was issued to the public.
Further to Note 22.2.H to the financial statements as at December 31, 2008, in August 2009 the parties filed (with consent) a motion to strike the applicant from the motion for approval and to dismiss the claim, with a token payment to the applicant and her attorney.

## NOTE 5 – CONTINGENT LIABILITIES (CONTD.)

**Lawsuits (contd.)**

Further to Note 22.2.Ito the financial statements as at December 31, 2008, in July 2009 the district court approved the claim filed by the applicant as a class action, solely for the contractual reason. Regarding the damage, the court ruled that the alleged damage relates to the proportionate amounts that were collected for the channels whose broadcasts were terminated, after termination of the broadcasts on January 15, 2008.
The court defined the group (including the Company's customers who paid for viewing the science and nature package and whose subscription fees were not terminated or reduced after the channels were no longer broadcasted up to August 18, 2008), and ruled that the remedy claimed is the refund of the proportionate payment paid by the group members for viewing both channels.
The court further ruled that the key question common to the group members is whether the wording of the relevant instructions in the subscriber agreement credits the group members by reducing their subscription fees (proportionately) after termination of the broadcasts of the channels that were included in the package up to January 15, 2008. The parties are in the preliminary stages of negotiations for a settlement.

## NOTE 6 – TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

Further to Note 20.C.1 to the financial statements as at December 31 2008, in July 2009 the board of directors of the Company approved an amendment to the CEO's employment agreement. Under the amendment, the undertaking to grant option warrants of the Company was cancelled and it was determined that the CEO is entitled to financial bonuses. Consequently, the Company included a liability in its financial statements that reflects the amounts of the unpaid bonuses according to this amendment.

## NOTE 7 – APPOINTMENT OF THE CHAIRMAN OF THE BOARD FOR THE APPROVAL MEETING

On the approval date of the financial statements, the Company did not have a chairman of the board. As a result, the board of directors authorized Mr. Rimon Ben Shaul to serve as chairman at the board meeting convened to approve the financial statements, and subsequently to sign the Company's financial statements as at September 30, 2009.