D.B.S. Satellite Services (1998) Ltd.

PPA upon Assuming Control of D.B.S. Satellite Services (1998) Ltd. (Yes), as at March 23, 2015

August 2015

The information contained in this report constitutes a convenience translation only. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect.

Definitions and terms

Term	Description
The Company or Yes	D.B.S. Satellite Services (1998) Ltd.
Bezeq	Bezeq Israel Communications Corp.
Eurocom	Eurocom D.B.S. Ltd.
HOT	HOT Communications Systems Ltd.
Cellcom	Cellcom Israel Ltd.
Partner	Partner Communications Ltd.
Spacecom	Spacecom Communications Ltd.
DTT or Idan+	A terrestrial radio transmission distribution system known as Digital Terrestrial Television (DTT) or Idan+, operated by the Second Authority for Television and Radio, through which various channels are distributed to the public free of charge.
Financial Statements	The Company's audited financial statements of 2013 and 2014, and the unaudited financial statements of 1Q15.
CBS	The Central Bureau of Statistics
OTT	Over the Top - A technology that employs public internet infrastructures in order to provide TV and video services by demand
VOD	Video on Demand - An interactive service offered by Yes, which confers access to such contents as movies, series, TV shows, original productions and children's contents by means of advanced set-top boxes Using this service, users can view TV contents by way of personal order. This service requires a 2.5MB wireless internet connection.
YesMax Total	A recording Yes set-top box that provides HD quality video, VOD services, YesStreamer services (that allow users to view contents streamed from their personal computers on their TV screens) and YesMultiroom services.
YesMax	A recording Yes set-top box

Definitions and terms

Term	Description
YesHD	A non-recording Yes set-top box that provides HD-quality video capabilities
YesMultiroom	A Yes service that allows users to view recorded contents using their home network
YesGO	In 2014, the Company launched an application by the name of YesGO that allows subscribers to view contents through a variety of end-user devices (smartphones, tablets and computers) in some of the channels broadcast by the Company, which the subscriber has purchased as part of the TV broadcast contents viewed at his home, as well as VOD contents.
PPV	Pay Per View - The Company's video channels in which pay per view is enabled.
PVR	Personal Video Recorder decoders used for the Company's recording set-top boxes, and which provide an interface to the Company's electronic broadcasting schedule, so as to enable services such as ordering recordings in advance, recording TV series, and pausing live broadcasts
HD ZAPPER	Decoders that allows users to receive HD-quality TV broadcasts for non-recording YesHD set-top boxes, which include an optional paid VOD service.
HD PVR	Decoders used for HD-quality recording set-top boxes, namely, YesMax Total units.
ARPU	Average Revenue Per User - A measurement of average revenue per subscriber/client
Related Parties	as defined in IAS 24 - Related Party Disclosures
EBITDA	Operating profit before financing, taxes plus depreciation and amortization

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1. General

General

Purpose of Valuation

We were asked by Bezeq's management ("the Client") to provide our opinion as regards the proper accounting treatment of the allocation of the excess costs which may arise as upon the exercise of the warrants into an additional 8.6% of Yes's shares, and the holding of 58.38% of Yes's share capital, as well as the acquisition of the remaining shares and shareholder's loans of Yes, so that after the acquisition, Bezeq will hold 100% of Yes's share capital and shareholder's debt ("the Work"). The Work carried out is current for March 23, 2015 ("the Business Combination Date").

The engagement for the performance of the Work was entered into in July 2015.

About Yes

Yes was founded in 1998, and commenced its first broadcasts in July 2000. Yes is the only Israeli company that provides multi-channel TV services to subscribers using satellite communications. Yes is also the first Israeli company that provided digital broadcasts and interactive TV services.

Since its founding, the Company accumulated approx. 630,000 clients, which comprise 42% of the Israeli multi-channel TV market. The Company has approximately 2,300 employees.

Structure of Transaction

Until March 23, 2015, Bezeq held 49.78% of Yes shares (not including warrants exercisable into approximately 8.6% additional Yes shares). The remaining shares are held by Eurocom, a company controlled by Mr. Shaul Elovitch. These shares were held via a trustee, so as to meet the Antitrust Authority's requirement of not actively holding Yes shares concurrently with the control over Bezeq.

In view of the Antitrust Commissioner's position, and the Supreme Court's decision in 2009 not to approve the merger of Bezeq and Yes, Bezeq was prevented from increasing its Yes holdings or from controlling Yes, in a manner that restricts the group's ability to benefit from all of the advantages that would have stemmed from full group operations.

On March 26, 2014, the Antitrust Commissioner approved the merger between Yes and Bezeq. As a result, Bezeq may immediately exercise its option to purchase 8.6% of Yes's shares and to become the Company's controlling shareholder.

On March 23, 2015, Bezeq's general meeting of shareholders approved the acceptance of the terms of the merger and the exercise of the option, as well as Bezeq's engagement in the purchase transaction, as provided above, in accordance with Section 275(A)(3) of the Companies Law, 1999.

Pursuant to this, Bezeq and Yes announced the acceptance of the terms of the merger, and on March 25, 2015, Bezeq exercised the option to allot shares in Yes, at a rate of 8.6% of Yes's issued share capital, so that, as of that date, the percentage of the Company's holdings in Yes amounts to approximately 58.4%.

On February 10, 2015, the Subcommittee, the Audit Committee and Bezeq's Board of Directors approved Bezeq's entry into a transaction with Eurocom, under which Bezeq is to purchase all of Eurocom's holdings in Yes, which, until that date, comprised 50.22% of Yes's issued share capital (41.62% in full dilution), as well as all of the shareholder's loans granted by Eurocom to Yes.

General (Cont'd)

Under the terms of the purchase transaction, Bezeq will pay Eurocom, upon completion, in exchange for the purchase of the shares and shareholder's loans, a total of NIS 680 million, in cash. In addition, Eurocom will be entitled to two additional conditional considerations, as follows:

1. An additional consideration of up to NIS 200 million will be paid according to the tax synergy; and
2. An additional consideration of up to NIS 170 million will be paid according to Yes's business results in the next three years.

Accounting Principles

For the purpose of preparing this work, we made use, *inter alia* of the following accounting standards:

A. International Financial Reporting Standard 3 - Business Combinations.
B. International Accounting Standard (IAS) 32 - Financial Instruments: Presentation.
C. International Accounting Standard (IAS) 39 - Financial Instruments: Recognition and Measurement.
D. International Accounting Standard (IAS) 38 - Intangible Assets.
E. International Accounting Standard (IAS) 12 - Income Taxes
F. International Financial Reporting Standard 13 - Fair Value Measurement
G. AICPA Practice Aid series: "Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries".

Information Sources

In preparing our Work, we relied, *inter alia*, on the following data:

Data received from the Client:

- The Company's 2015 budget.
- The financial statements presentation of 1Q15.
- The Company's draft financial statements of March 31, 2015.
- The Company's detailed financial forecast for 2015-2018, under the assumption that the Company will continue to operate at the Stand Alone level (namely, without taking into account the synergies between Bezeq and Yes that will stem from the merger).
- A presentation for investors, which describes Yes' business operations.
- Temporary allocation work of the PPA, prepared by us for the purposes of the pro forma report of September 30, 2014.
- Temporary allocation work of the PPA, prepared by us for March 23, 2015.
- Reports on signs of impairment in Yes in Bezeq's books of March 10, 2013 and March 4, 2014, which were prepared by Itzhak Suari Ltd.
- Report on excess cost recognized by Bezeq for Yes of March 2013, which was prepared by Itzhak Suari Ltd.
- Data presented by the Company in the virtual data room.
- Report on excess cost recognized by Bezeq for Yes of March 2013, which was prepared by Itzhak Suari Ltd.

General (Cont'd)

- The Company's management's assessment of the expected loss balance for tax purposes as at December 31, 2014.
- Additional information obtained by us from public sources, including the company's public reports, rating reports and other public information.
- Additional information obtained at meetings and through conversations and emails from the Company's management.

Publicly-available Data:

- The Company's audited financial statements and those of Bezeq of December 31, 2014, December 31, 2013 and December 31, 2012.
- Fairness opinion of February 10, 2015, which was prepared by Prof. Amir Barnea.
- Yes' valuation of February 10, 2015, which was prepared by Merrill Lynch International.
- Financial and other data of public companies that hold operations that are similar to those assessed.
- Complementary data obtained by us from public sources.

Business Combination Date

In accordance with International Financial Reporting Standard 3R (IFRS3R) IFRS, all business combinations are to be accounted for using the Acquisition Method, according to which the buyer recognizes the assets acquired and the liabilities and contingent liabilities assumed (including those that were previously not recognized by the acquired entity) at their fair value as at the date of the acquisition.

Section 8 of the Standard stipulates that the acquisition date is the date on which the buyer actually receives control over the acquired entity. Control means the power to determine the financial and operating policy of an entity or business so as to produce benefits from its operations.

It was disclosed to us that the Business Combination Date that pertains to the purposes of this Work is March 23, 2015 ("the Business Combination Date").

It should be noted that, due to the fact that the amount of time between Business Combination Date and March 31, 2015 is insignificant, the PPA was effected according to balance sheet balances and profit and loss data as at March 31, 2015.

Summary of Work Results

A summary of the PPA Results as calculated in this Work, is presented in the following table:

	Carrying amount	Fair value	Deferred tax	Fair value after tax		
	Mar 31, 2015	*Mar 31, 2015*	*Mar 31, 2015*	*Mar 31, 2015*		
Fair value estimate of Bezeq's share in Yes's share capital and shareholder loans				1,076		
Plus the cash consideration to be paid to Eurocom for its share in the investment in Yes				680		
Plus the fair value of the first additional consideration mechanism (in accordance with Appendix B of the agreement) - losses				84		
Plus the fair value of the second additional consideration mechanism (in accordance with Appendix C of the agreement) – future performance				17		
Cost of business combination				**1,857**		
Attribution of excess cost to assets and liabilities						
Assets:						
Cash	299	299		299		
Trade receivables	173	173		173		
Other receivables	9	9		9		
Fixed assets, net	801	801		801		
Intangible assets (cost of subscriber acquisition, software programs and licenses)	148	148		148		
Broadcasting rights net of rights exercised	449	449		449		
Deferred tax asset for tax losses			1,087	1,087		
Total tangible assets	**1,879**	**1,879**	**1,087**	**2,966**		
Liabilities:						
Credit line from banks	79	79		79		
Trade payables and service providers	450	450		450		
Other payables (neutralization of interest payable – debentures)	120	120		120		
Provisions	9	19	(3)	17		
Debentures including interest payable and current maturities	1,748	1,908	(42)	1,866		
Trade payables and other long-term liabilities	16	16		16		
Employee benefits	5	5		5		
Total tangible liabilities	**2,428**	**2,598**	**(45)**	**2,553**		
Excess tangible liabilities over tangible assets	**(550)**	**(719)**	**1,132**	**413**		
Attribution of excess cost to additional identified intangible assets:					**Useful Life**	**Amortization Method**
Brand		347	(92)	255	12 years	Linear over the useful life determined
Customer relationships		790	(209)	580	7 years	Years 1-2: 20%; Years 3-4: 15%; Years 5-7: 10%
Total intangible assets		**1,137**	**(301)**	**835**		
Goodwill (residual value)				**609**		

Value of goodwill is derived from the difference between the cost of the business combination and the fair value of the tangible assets, the intangible assets and the liabilities in the acquired company. The value of goodwill is subject to changes due to deferred taxes attributed to the intangible assets. The value of goodwill, as it appears in this Work, is a residual value, and therefore we do not express our opinion about its specific value.

Fair Value - Accounting Principles

Following is a review of principal accounting aspects that concern the “market participant” issue, in accordance with International Financial Reporting Standard 13 - Fair Value Measurement (IFRS 13) (“the Standard”).

- The Standard defines the term “Fair Value” as the exit price, namely, the price which would have been received upon the sale of an asset or the price which would have been paid for the transfer of a liability in an arms’ length transaction upon the date of measurement. As provided in Section 2 of the Standard, a Fair Value measurement must be **objective,** <u>under market conditions,</u> and **not** a subjective measurement.
- Under Section 23 of the Standard, an entity doesn’t need to identify specific market participants. The entity shall identify characteristics that generally distinguish market participants, while taking into account specific factors that pertain to the item being assessed and the principal market (as well as all market participants with which the entity will enter into a transaction in that market).
- Under the Standard, a market participant must possess the suitable knowledge in the line of business in which the company operates. At present, Yes’s principal operation is the provision of multi-channel TV services to subscribers using satellite communications. However, according to information disclosed to us, in the absence of Bezeq’s direct holding in Yes, Yes might have engaged in other communications-related lines of business, including the provision of landline telephone services, internet services, etc. Therefore, it appears that the relevant line of business in this case is **the communications line of business in its entirety, including TV contents.**
- Under the Standard, a fair value measurement is not a company-specific value, and the fair value is not specific to one of those “market participants” who would be willing, for example, to pay a price that is higher than that which the other market participants would be willing to pay based on a risk assessment and/or the existence of specific synergies from its particular standpoint.

  Our sources clearly indicate that a market participant is not necessarily the entity which might optimally exploit the synergies and the capacity to use the item whose fair value is being examined.
- Moreover, the de facto existence / non-existence of the willingness or capacity to sell at the time of the measurement irrelevant, and Yes’s fair value measurement from the standpoint of a market participant must be carried out at its fair value, even if Bezeq, as previously stated, had not been willing to effect a transaction for the sale or acquisition of the holdings in Yes under these or other terms.
- **In light of the above, it appears that in the case of Yes, the definition of market participant can be extended to include local or global market players, which possess interest in the communications industry, and which possess the means needed to carry out an investment in Yes. Therefore, the fair value of Yes set-top box and the purchase price allocation to the assets and liabilities of the company is examined in this Work from the standpoint of a market participant that is not necessarily Bezeq, namely, in disregard of the specific synergies attributed to the merger between Bezeq and Yes, but in view of existing synergies when considering, as a whole, any market participant who is an unrelated/independent party to the transaction.**

Limiting conditions

This Work constitutes as a recommendation for a purchase price allocation in accordance with International Financial Reporting Standard 3R (IFRS3R). This Work is not necessarily an indication for the intrinsic value of Bezeq's investment in Yes, and, in particular, does not take into account the specific synergies (such as the utilization of losses for tax purposes, reduced costs, etc.) which can be attributed to a potential full merger between Bezeq and Yes.

This Work is intended for Bezeq's management, and we shall not be obligated towards any third party without first approving, in writing, that third party's reliance on the findings of this Work. This Work or any part, abstract or summary thereof, must not be made public through public (or private) media channels without our advance and written consent. However, subject to the consent of the Company and Bezeq, we do not object to this Work's addition to Bezeq's financial statements and/or immediate reports.

This Work is based, inter alia, on data, projections and estimates received from Bezeq's management. The responsibility with regard to the reliability of the information, data representations, assessments and various explanations provided to us is assumed by the providers of said information, and we cannot confirm the veracity, completeness and fairness of these data. It should be stressed that this Work does not include due diligence, and it excludes any examination and verification of the aforementioned data. Therefore, our Work shall not be regarded as confirming and shall not serve to verify the veracity, completeness and accuracy of the data provided to us.

Under no circumstances will we be held liable for any loss, damage, cost or expense incurred in any way or fashion as a result of acts of fraud, misrepresentations, deception, the disclosure of erroneous information or the prevention of the disclosure of information to us.

It is possible that we have obtained certain historical financial data which we used in the course of preparing this Work, using unaudited financial data as they appeared in a virtual data room, which is under the company's management's responsibility. We did not independently examine the veracity or completeness of the data on which we relied (including their comparison with data appearing in the Company's audited financial statements), and we do not express any opinion or make any promise of any kind as regards the data used by us or the Company's financial statements.

It is our understanding that our findings will be used to assist Bezeq in determining the cost of the business combination and the purchase price allocation to the tangible and intangible assets and liabilities acquired, for the purposes of financial reporting in accordance with IFRS 3R. This Work is solely intended to meet the information and usage purposes of Bezeq's management and of its independent auditors. It must not be used, distributed, quoted from or referred to in any way whatsoever for any other purpose, including, without limitation, for the registration, acquisition or sale of securities. This Work must not be submitted or referred to, in whole or in part, in a registration report or in any other document. However, we agree that the assumptions and results of this Work shall be included and/or cited in reports filed with the Securities Authority.

This Work does not constitute as legal advice or opinion. The interpretation of the various documents examined by us was carried out strictly for the purpose of this financial opinion. The information appearing in our Work does not presume to include all of the information which a potential investor may require, and it is not intended to assess the company's value for another investor, given that different investors may have different objectives and considerations in mind, as well as other examination methods based on other assumptions. Accordingly, the estimated financial value on the basis of which various entities may engage in financial actions may be different.

Limiting conditions (Cont'd)

Moreover, changes in market conditions may also result in valuations that are essentially different from the ones specified on the date of the valuation. We do not assume any responsibility whatsoever for changes in market conditions that occur following the date of the valuation and we are not obligated to update our Work, analysis, conclusions or other documents that pertain to our services following the date of the valuation, for any reason whatsoever.

In this Work we also address forward-looking information disclosed to us by the Company's management. Forward-looking information included in this Work reflects our assessment regarding various parameters and based on the information available to us. If these assessments fail to materialize, actual outcomes may significantly differ from those we have assessed.

The assessments of data relating to cash flows included in this document are strictly intended for obtaining an indication of fair value, and are not meant to be used as forecasts or projections of future performance. Moreover, given that events and circumstances often do not occur as expected, normally there are differences between the assessment of results and actual results, and these differences may be substantial.

It is agreed that you and others for which the services under the agreement (including between any third parties) will be provided are not entitled to receive from us, whether under this contract or by way of claims for damages, by law or otherwise, any compensation for cumulative loss and damages in an amount that exceeds twice the fees paid for the services that directly resulted in the damage or loss in connection with claims that arise from this agreement or that are related in any other fashion to the provision of the services.

It is agreed that you may not file any claim or institute any legal proceedings in connection with the services or otherwise under this agreement against our owners of managers, directors, managers or employees, except in cases where an act was maliciously or committed or an act of fraud was committed by any of the above.

It is agreed that this Work is intended for you only, and that we shall not be obligated towards any third party unless we first approved, in writing, that third party's reliance on the written report.

it is hereby stressed that the conclusions of our work, should they be relayed to the client in the course of relaying the information, strictly constitute as the expression of an opinion, and that any decision in connection with the services provided, whether it included the assumptions and conclusions of our present Work or otherwise, shall be made by the client alone, and the client shall be held solely responsible therefor.

Given the fact that the calculation were made using electronic spreadsheets, some rounding differences may be found.

We wish to mention that we have no personal interest in or dependence on the shares of Bezeq and/or of Yes.

For the purposes of this Work, we assumed that the data disclosed to us were accurate, complete and fair, and nothing was ever brought to our attention that may indicate the improbability of the data we used. If any other information comes to light, our recommendations will change accordingly. Therefore, we reserve the right to update our Work in light of new data which were not presented to us prior to the provisions of the Work's recommendations.

The reader must examine all of the assumptions made in the course of the Work.

Fahn Kanne Consulting Ltd.

August 26, 2015

2. Cost of the business combination calculation

Calculating the cost of the business combination

General

The cost of the business combination was calculated according to the results of the valuation of Yes's shares and shareholder's loans.

Summary of the Estimated Cost of the Business Combination

Following is a summary of the total cost of the business combination, as calculated by us in the course of the valuation:

NIS millions	Fair value after tax
Estimated Fair value of Bezeq's share in Yes's share capital and shareholder loans	1,076
Plus the cash consideration to be paid to Eurocom for its share in the investment in Yes	680
Value of contingent consideration for tax losses	84
Value of contingent consideration for performance	17
Cost of business combination	**1,857**

Estimated Fair value of Bezeq's share in Yes's share capital and shareholder's loans

We were asked to allocate, for accounting purposes, the value of Bezeq's investment in Yes, in its entirety, to the various types of investment vehicles - the various types of shareholder's loans, the share capital and options, and this allocation was carried out based on the order of precedence of the shareholder's loans' repayment, as determined in the arrangement between the shareholders and the company of December 30, 2002, in which it was decided that the loans granted by some of the shareholders to the company as of July 10, 2002, shall take precedence over the old shareholder's loans.

Following is a summary of the calculation of the value of Bezeq's share in Yes:

Value of share capital and shareholder loans *NIS millions*	Total	Bezeq's share	Value of Bezeq's share	Value of Eurocom's share
Value of new shareholder loans (11%)	1,013	**88.0%**	892	122
Value of new shareholder loans (5.5%)	246	**75.2%**	185	61
Value of share capital + owner's debt	**1,259**		**1,076**	**183**
As a % of the overall value	***100%***		***86%***	***14%***

In order to allocate the value, and according to the order of precedence of the shareholder's loans' repayment, the full value of the share capital and owner's debt was allocated only to the owners of the new loans, and based on the scope of the investment made by the shareholders by and after April 27, 2003. After attributing the full total value to two types of the new shareholder's loans, the total value attributed in each of the two new shareholder's loans between Bezeq and Eurocom Group was allocated based on the ratio of their investments.

It should be noted that the allocation of the full value strictly to the new shareholder's loans was carried out because, according to the operation's projected cash flow, the repayment of the full balances of the new shareholder's loans is not expected.

Calculating the cost of the business combination (Cont'd)

The cash consideration to be paid to Eurocom for its share of the investment in Yes

Under Section 6.1b of the purchase agreement of February 11, 2015 between Eurocom and Bezeq, it was stipulated that, in exchange for the shareholder's loans and sold shares, Bezeq shall pay Eurocom a total of NIS 680 million, subject to the allocation of the acquired shareholder's loans, free of any encumbrance, to the buyer and the transfer of the sold shares, free of any encumbrance

Estimated fair value of the mechanism of the first additional consideration - Losses for tax purposes

The calculation of the additional consideration component for the utilization of Yes's losses for tax purposes (a total of NIS 5.4 billion) was calculated based on the terms stipulated under the draft sale agreement (as provided in Appendix B of the agreement).

Under the agreement, the consideration paid for the losses shall be calculated according to the alternative of the merger between Bezeq and Yes (as defined in the agreement). However, so long as, during the reconciliation period (10 years as of the beginning of 2015), no final decision is made with regard to this alternative, the first additional consideration shall be calculated based on the utilization of actual losses by Yes alternative (as defined in the agreement). Given the fact that, according to the company's assessments, the merger between Bezeq and Yes is expected to take place, the value of the mechanism of the additional consideration for the losses was calculated based on the merger alternative.

Under the agreement, the merger alternative consideration shall be calculated for each "total loss" amount equal or higher than the lower threshold of NIS 3 billion, and up to the upper threshold of NIS 5.4 billion. Should it be determined in a final decision that the "total loss" amount is between the lower and upper thresholds, Bezeq will pay the seller the relative part of a maximum consideration of NIS 200 million, which is to be calculated on a pro rata basis (linearly) based on the part of the "total loss" recognized above the lower threshold relative to the difference between upper and lower threshold (NIS 2.4 billion, "the Delta").

The estimated value of the additional consideration component for losses for tax purposes was assessed based on a legal opinion about tax aspects related to a potential merger between Bezeq and Yes, which was prepared by Mr. Udi Barzilay, Adv., in June 2014 ("the Barzilay Opinion").

In the Barzilay Opinion, various probabilities were presented with regard to the odds and risks facing Bezeq, should it wish to utilize Yes's losses for tax purposes. According to the Barzilay Opinion, there are three principal risks entailed in the utilization of the losses for tax purposes.

1. **Lack of recognition of financing expenses for loans from shareholders included in Yes's losses** - there is a risk that the loss will not be recognized in full as the lenders have not recognized any finance income, given the low probability of obtaining the revenue in light of Yes's financial position in those years. According to the Barzilay Opinion, it is estimated that half of the losses arising from financing expenses are expected to be recognized for tax purposes owing to this risk. It should be noted that under Section 8C of the draft Appendix B of the agreement: "For the purposes of calculating the 'total loss' or the deductible income, as the case may be, the amount in which the transferred losses decreased as a result of the compromise shall be regarded as having been included in the 'total loss' or the deductible income." Therefore, some of Bezeq's financing expenses are included in any case in the total losses used for calculating the conditional consideration.
2. **Income due to debt waiver** - There exists the risk that, once the acquisition is completed, the Tax Authority may claim that the balance of the loans granted to Yes after the loans were deducted against payment of the consideration attributed to them shall be deemed waivered, and therefore income from debt waiver shall be introduced into Yes's financial statements, thus reducing its losses for tax purposes. The probability of this risk was estimated in the Barzilay Opinion at 10% for Bezeq's share, and at 40% - 60% for Eurocom's share.
3. **Denial of the full amount of business losses** - According to the Ben Ari Rule (Civil Appeal 7387/06), in case of the acquisition of control / merger, the possibility of exploiting the full extent of losses is denied, only with respect to losses that exceed the holding percentage that the buyer had prior to the merger, in the absence of any commercial grounds. In such cases, there exists the risk that Yes's losses will not be recognized according to Eurocom's share in Yes. According to the Barzilay Opinion, this risk is estimated to be very low, given the sound financial and commercial grounds that underlie the transaction.

According to the assumptions and parameters as provided above, and in view of the probabilities as indicated by the Barzilay Opinion, the value of the mechanism of the consideration for the loss is estimated at **NIS 84 million.** For a full account of the calculation, see **Appendix D** below.

Calculating the cost of the business combination (Cont'd)

Estimated fair value of the mechanism of the second additional consideration - meeting cash flow targets

A consideration of up to NIS 170 million is conditional upon the Company's meeting free cash flow targets in 2015-2017, and shall be divided into two components (NIS 100 million and 70 million, as provided below).

The calculation of the value of the conditional consideration was made using a Monte Carlo simulation, by way of modeling the risk-adjusted stochastic behavior (risk neutral measure) of the underlying asset, namely, the projected cash flow. It should be noted that, in modeling the risk neutral measure of the cash flow, the drift parameter was defined as the risk-free interest rate added by the G parameter, which consists of the differences between the cash flow's projected growth and the yield needed for it.

Given that the conditional consideration calculation mechanism is derived from the value of the overall future cash flow in 2015-2017, it therefore follows that under any scenario included in the simulation the value of the cash flow was monitored in each of the aforementioned years, and a cumulative cash flow was calculated. Based on the cumulative cash flow generated in the 100,000 scenarios simulated, the conditional consideration which would have been received in each scenario was calculated.

The value of the conditional consideration until the date of the assessment was calculated based on the discounting of the expected value of the future conditional consideration at a risk-free interest rate.

Following is an account of the principal parameters used in constructing the model:

- **Expected value of projected cash flow:** a cash flow was assumed according to the valuation - NIS 185 million in 2015, NIS 257 million in 2016, and NIS 248 million in 2017.
- **Return of expected cash flow:** derived from the expected value of the assumed cash flow.
- **Fluctuation (standard deviation) of the cash flow's expected value:** the standard deviation of the change in the free cash flow was estimated at 38%, based on the historical standard deviation of the Yes' cash flow in the last 7 years.
- **Risk-free interest:** the risk-free interest rate was estimated on the basis of risk-free yield curves over a period of three years, as at March 31, 2015 - approx. 0.27% (source: RBT).
- **Number of scenarios:** the simulation included approx. 100,000 scenarios.

The value of the consideration obtained by the Monte Carlo simulation is NIS **17** million.

3. Company overview

About the Company

Principal Shareholders

- The Company's shares are held by Bezeq at a rate of 58.36%. The remaining shares are held by Eurocom, a company controlled by Mr. Shaul Elovitch These shares are held via a trustee, so as to meet the Antitrust Authority's requirement of not actively holding Yes shares concurrently with the control over Bezeq.
- On March 26, 2014, the Antitrust Commissioner approved the merger between Yes and Bezeq.
- The principal owner investments in Yes were made over the years by way of shareholder's loans. The investments were affected by difficulties in obtaining bank financing, by the partial or absent participation of the other shareholders during the capital-raising phase, and by the regulatory restrictions on the augmentation of Bezeq's investment in Yes, which stemmed from the fear of its adversely affecting competition within the multi-channel television market.
- The regulatory restrictions were reflected in the restriction of Bezeq's holding percentage to no more than 50%, and, in part of that period, in restrictions on any cash investment that exceeds Bezeq's part of the shares. Bezeq appealed against these restrictions in various legal frameworks. on August 20, 2009, the Supreme Court ruled that the merger between Bezeq and Yes shall not be approved.
- In November 2001, the company's shareholders reached an agreement that stipulated the mechanism of the holdings' dilution, as not all of the shareholders invest in the company according to the original holding percentages. In 2001-2006, Bezeq granted shareholder's loans that exceed its relative part in the Company's shares, in exchange for shares and options, which may be exercised without consideration, and whose exercise increased Bezeq's holdings in the Company to 58.36%.

Description of the Company and the Company's holding structure[1]

- Yes was founded in 1998, and commenced its first broadcasts in July 2000. Yes is the only Israeli company that provides multi-channel TV services to subscribers using satellite communications. Moreover, Yes is also the first Israeli company that provided digital broadcasts and interactive TV services.
- Since its founding, the Company accumulated approx. 630,000 clients, which comprise 42% of the multi-channel TV market.
- The Company has more than 2,000 employees. The Company's total income in 2014 amounted to NIS 1,724 million, and is expected to amount to NIS 1,749 million in 2015.
- The Company broadcasts more than 150 channels (video, radio, music, games and information channels), including HD-quality channels, EPG (Electronic Program Guide), smart recording set-top boxes (also using HD technology), Video on Demand (VOD) services and streaming technology, that enables users to view videos, listen to audio and view images in various formats from their personal computer on their television screens, and to access various online contents.
- The Company holds 20% of ZIRA (Copyrights in the Internet) Ltd., an Israeli company held by 11 media companies founded for the purpose of struggling against copyright infringements caused as a result of online piracy. The company represents, inter alia, the content corporations Reshet, Keshet, Channel 10, HOT, United King and others.

[1] Sources: the Company's website, Management's Presentation, and Bezeq's financial statements of 2013-2014.

About the Company

- In an arrangement between the shareholders and the company of December 30, 2002 it was decided that the loans granted by some of the shareholders to the company as of July 10, 2002 (the "New Shareholder's Loans"), shall take precedence over the old shareholder's loans. In other words, loans received between July 10, 2002 and April 27, 2003, which carry an annual interest of 5.5%, and loans received on April 27, 2003 or later, which carry an annual interest of 11%, shall take precedence.
- Under the agreements, the New Shareholder's Loans shall be payable in full to the Company prior to any distribution of dividends by the Company and/or the repayment of the old shareholder's loans provided to the Company by the shareholder's loan, subject to the Company's cash flow and its undertakings in accordance with agreements entered into with the banks and some of the debenture holders.
- Moreover, investments by the shareholders in new shareholder's loans grant the right to choose between the allotment of shares and between options for shares as derived from their investment. This right grants Bezeq the possibility to continue investing in Yes without exercising its right to additional shares in the Company, which will cause it to possess a holding that exceeds the current holding percentage of the Company's shares.
- Following is the distribution of shareholder's loans, all of which are CPI-linked, by order of precedence, and Bezeq share therein, as at March 31, 2015 (in NIS millions):

Breakdown of shareholder loans by their specified terms	Interest rate	Balance as at March 31, 2015	Bezeq's share of the investments	% of Bezeq's share
Old shareholder loans	*0%*	2,345	1,193	*50.9%*
New shareholder loans:				
Loans granted by April 27, 2003	*5.5%*	497	374	*75.2%*
Loans granted after April 27, 2003	*11%*	2,052	1,806	*88.0%*
Total new loans		**2,549**	**2,180**	**85.5%**
Total		**4,894**	**3,372**	**68.9%**

Approval of the merger with Bezeq

- On February 10, 2015, the Subcommittee, the Audit Committee and Company's Board of Directors approved Bezeq's entry into transaction with Eurocom, under which Bezeq is to purchase all of Eurocom's holdings in Yes, which, until that date, comprised 50.22% of Yes's issued share capital (41.62% in full dilution), as well as all of the shareholder's loans granted by Eurocom to Yes (approx. NIS 1,522 as at March 31, 2015).
- It was further decided that, prior to the purchase transaction, Bezeq and Yes shall accept the terms of the merger and Bezeq shall exercise the option granted to it without consideration to allot shares in Yes at a rate of approx. 8.6% of Yes's issued share capital.
- In Bezeq's general meeting of shareholders, which convened on **March 23, 2015**, the meeting decided to approve the acceptance of the terms determined by Antirust Commissioner, in the merger approval decision issued by him on March 26, 2014, and announced the exercise of the existing option to allot 6,221 Yes shares, which comprise 8.6% of Yes's shares, for no consideration. In addition, it was decided to approve the entry into the purchase agreement with Eurocom.

About the Company (Cont'd)

Approval of the merger with Bezeq (Cont'd)

- On April 29, 2014, Standard & Poor's Maalot increased Yes's rating to 'ilA' from the previous 'ilA-' rating, and, concurrently, added the rating to Creditwatch, outlook positive. The rating's addition to the watch list with a positive outlook expresses the assessment as regards the positive potential of the merger for the Company. This is due to the benefits that may be obtained by the Company owing to the possibility of receiving financial support from Bezeq (should Bezeq become a parent company) as needed, the possibility of expanding the client base, to the expected reduction in costs and, ultimately, to the abolishment of structural separation.
- In January 2015, Standard & Poor's Maalot ratified the rating of Yes's debentures as stated above.
- **It should be noted that a key working assumption in this Work is that a market participant (as defined in IFRS 13) is that it constitutes as a local or global market player, who possesses an affinity to the communications industry, which is not necessary Bezeq. Accordingly, the fair value of Yes is examined in this Work irrespective of the specific synergies attributed to the possible future merger between it and Bezeq, but in view of the existing synergies, considered as a whole, of any market participant that is an unrelated / independent party to the transaction.**

About the Company (Cont'd)

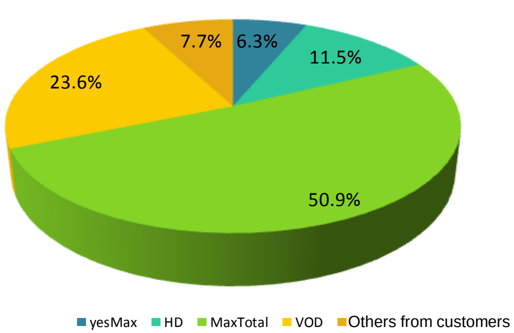
Products and services

- **Channels** - Yes broadcasts include a large variety of channels: approx. 150 different video channels (of which 5 are Pay Per View channels and 20 are HD (High Definition) channels), in addition to radio, music and interactive service channels.
- **Channel Packages -** Under Yes's broadcasting license and in accordance with Council resolutions, broadcasts include either a basic package or any of the basic packages which each subscriber is required to purchase, as well as additional channels which the subscriber may purchase at his discretion, whether as packages or as discrete and PPV channels.
- **Advanced Services** - Yes markets PVR decoders to its clients. These decoders provide an interface to Yes's electronic broadcasting schedule, and enable services such as prerecording orders, recorded TV series, and live broadcast pausing. Moreover, PVR decoders enable users to view the contents which Yes stores in the decoder's memory from time to time (push video).

  Yes delivers HD-resolution TV broadcasts, which may be received by HD ZAPPER decoders. These broadcasts allow users to enjoy high-quality video contents. Moreover, Yes markets HDPVR decoders to its clients, namely, HD-YesMax Total recording set-top boxes that enable both HD-quality video and PVR services. In addition, these decoders enable the MultiRoom service, through which it is possible, via the user's home network, to watch contents recorded by these decoders using other decoders (HD ZAPPER or HDPVR decoders) at the subscriber's home.
- The majority of Yes subscribers make use of advanced decoders (PVR or HD ZAPPER). In D.B.S's assessment, the increase in the number of Yes subscribers who make use of the aforementioned decoders will contribute to the increase of its revenues from these subscribers and their retention as its subscribers, although it does necessitate a significant financial investment.
- **VOD Services** - Yes provides its subscribers with VOD services through the interenet, which enable subscribers to view the contents of their choosing. The services are provided in exchange for subscriber fees, with some contents requiring additional payment. Connecting to the service requires the use of certain decoders as well as an internet connection of a suitable bandwidth. In recent years, a significant increase in the number of Yes subscribers connected to VOD services and in the consumption of VOD services has been observed, inter alia due to the larger assortment of contents available through this service, the increase in available bandwith at subscribers' homes, and the significant increase in the use of advanced decoders.

The following diagram presents the internal subdivision of the Company's revenues from advanced services, current for 1Q15:

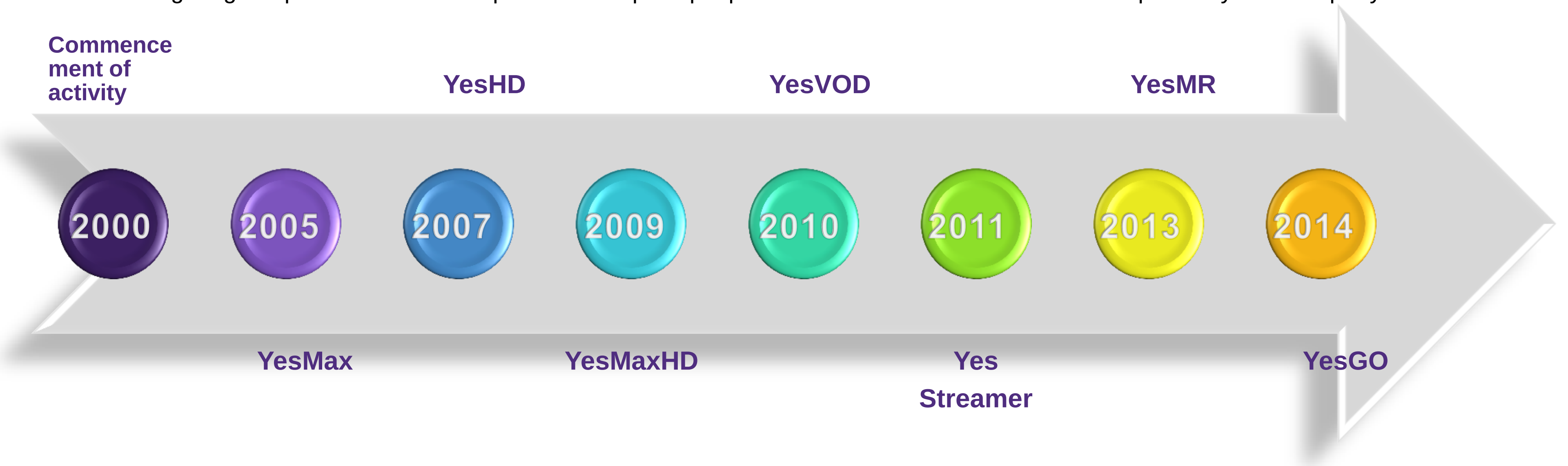
Distribution of revenues from advanced services Q1/2015



About the Company (Cont’d)

In 2014, the Company launched an application by the name of YesGO that allows subscribers to view contents through a variety of end-user devices (smartphones, tablets and computers) in some of the channels broadcast by the Company, which the subscriber has purchased as part of the TV broadcast contents viewed at his home, as well as VOD contents.

The following diagram presents the development of the principal products and services launched to the public by the Company over time:



As we can see in the diagram above, it appears that every year or two the Company launches a new product for its clients.

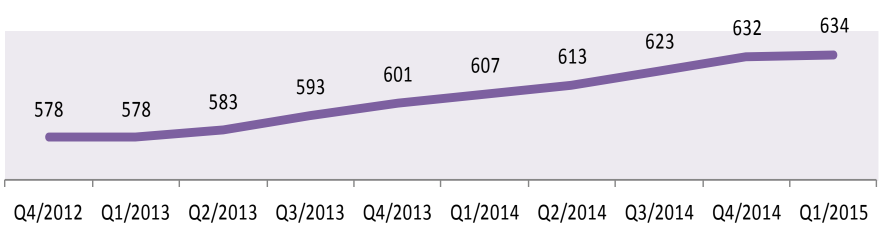
Soon, the Company is expected to launch the Yesmaxtotal3 set-top box, which will enable users to retroactively record two channels at the same time, also with respect to programs that were broadcast up to seven days prior to the recording.

About the Company (Cont'd)

Subscribers

- The number of subscribers in 1Q15 amounted to approx. 634 thousand subscribers, which indicates a slight increase relative to the number of subscribers in 2014. In 2014, the number of subscribers increased by 5% relative to 2013 (the number of subscribers at the end of 2014 amounted to approx. 632 thousand subscribers, compared with 601 thousand subscribers at the end of 2013). The number of Company subscribers demonstrated a growth trend of 4% between 2012 and 2013 (the number of subscribers at the end of 2013 amounted to approx. 601 thousand subscribers, compared with 578 thousand subscribers at the end of 2012).

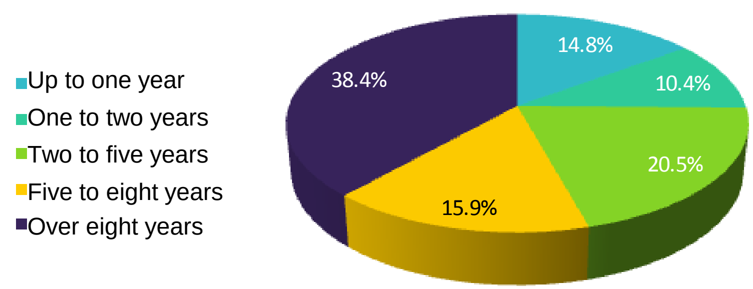
Number of subscribers at the end of the period (thousands)



- **Subscriber Loyalty** - As at the end of 2014, the number of Company subscribers who have remained loyal subscribers for over 8 years amounted to approx. 38% of all Company subscribers.

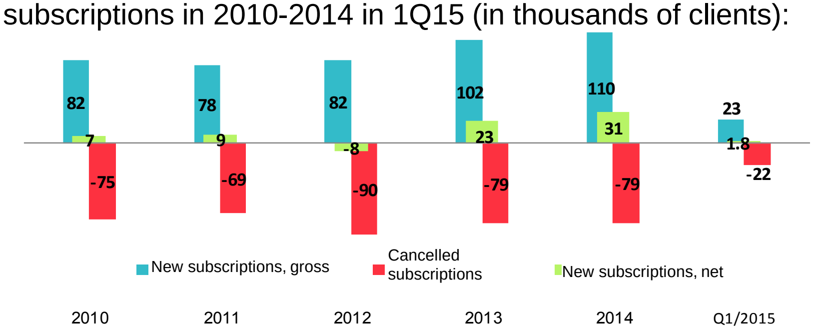
  However, Company subscribers who are the least loyal cumulatively comprise a significant portion of all Company subscribers (namely, 62% of the total number of Company subscribers).

Breakdown of subscribers by duration of subscription



- **New vs. Cancelled Subscriptions -** In 1Q15, the number of new subscriptions exceeded the number of cancelled subscriptions, and the net number of new subscriptions amounted to 1.8 thousand, relative to approx. 31 thousand in 2014 and approx. 23 thousand in 2013. The percentage of cancelled subscriptions in 1Q15 amounted to approx. 3.4%, namely, a cancellation rate of 13.6% in annual terms. This compared to 12.8% in 2014 and 13.5% in 2013. The average number of cancelled subscriptions in 2011-2014 amounts to approx. 80 thousand clients per year, and the average number of new subscriptions in 2011-2014 amounts to approx. 93 thousand clients.

  The following diagram presents the number of new and cancelled subscriptions in 2010-2014 in 1Q15 (in thousands of clients):



4. Industry outlook and principal risk factors

Economic environment and principal risk factors

Regulation

- **General** - Yes's operations are regulated by an elaborate system of laws that apply to broadcasting operations, which includes primary legislation (in particular the Communications Law and the regulations enacted in accordance therewith), as well as secondary legislation and the administration provisions and the resolutions of the Commercial Broadcasts Council. In addition, Yes's operation is subject to the provisions of its licenses, principal among which is its broadcasting license. In July 2013, the Communications Law (Telecommunications and Broadcasting, Amendment 57, the Authority and Council for Commercial Broadcasts, 2013) bill was published, which stipulated the establishment of the Commercial Broadcasts Authority. This authority shall serve as a regulatory entity that will possess all of the regulatory powers currently maintained by the Second Authority, the Second Authority Council and the Council, and shall engage in the regulation of commercial broadcasting in Israel.
- **Eligibility criteria for satellite broadcasting license holders - restrictions on cross ownerships** - The Satellite Broadcasting License Regulations stipulate various restrictions on license holders, and, indirectly, eligibility criteria that concern the holdings of the license holder and its principal shareholders, directly and indirectly, and cable broadcasting franchisees, and franchisees under the Second Authority Law, as well as daily newspapers.
- **Regulation of Rates** - The broadcasting license includes provisions regarding the types of payments which the license holder may collect from its subscribers for service rendered by virtue of the license, and these are determined in Yes's price list. The majority of subscribers pay for packages that include the various services offered by Yes, including various combinations of content packages, additional services, and end-user equipment items and the installation thereof, at prices that are lower than those specified in the price list.

  Yes is obligated to inform the Chairman of the Council of any price list changes approved by the Council immediately upon publication, and the Chairman may in some cases prevent price list changes. The Chairman of the Council may also intervene in special sales or discounts offered by Yes, should he hold that they are misleading the public or that they discriminate between subscribers.

  In accordance with Section 6-49 of the Communications Law, it is possible to specify the maximum prices which may be collected from subscribers in the license. As of the date of this report, no such prices were determined. In addition, in accordance with Section 6-11 2 of the Communications Law, the Minister may determine the price of basic packages.
- **The obligation to invest in local productions** - in accordance with the broadcasting license requirements and Council resolutions, for 2013, Yes had to invest no less than 8% of its income from subscriber fees in local productions. In 2014, Yes completed the investments determined for it in the past by the Council in certain categories. The obligation to invest in local productions in 2015 was also 8%, as previously stated.
- **Content of broadcasts and subscription-related obligations** - The broadcasting license contains provisions that concern the contents of Yes broadcasts, including the mandatory approval by the Council of the channels broadcast by Yes. the Communications Law forbids broadcasting license holders from broadcasting commercials, subject to several exceptions. Moreover,, the broadcasting license includes conditions relating to the terms of the services rendered to subscribers, including the prohibition against any discrimination between them.

Economic environment and principal risk factors (Cont'd)

Regulation (Cont'd)

- **Restrictions relating to exit fees** - Yes is not allowed to collect exit fees for the cancellation of the agreement by the subscriber from subscribers whose average monthly bill is lower than NIS 5,000, and who entered into an agreement with Yes that entered into force on August 8, 2001 or later, and with respect to such subscribers who had entered into an agreement with Yes before August 8, 2011, payment for agreement cancellation is limited to 8% of the average monthly bill until the date of cancellation, multiplied by the number of months remaining before the end of the commitment period.

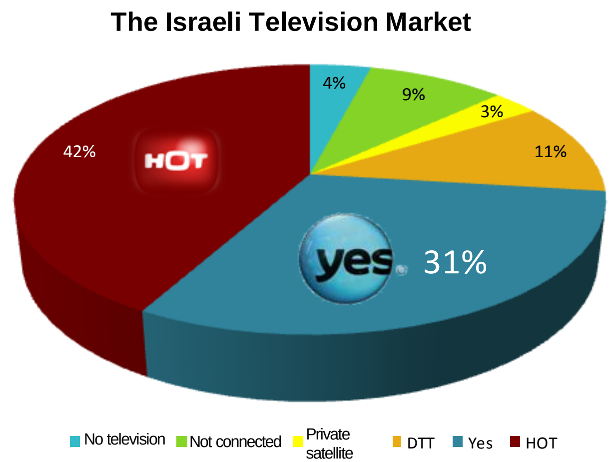
  In addition, it is forbidden to deprive the subscriber of any benefit which he would have received had he not terminated the agreement, and to render immediately payable the remaining payments for the subscriber's end-user equipment in the event of agreement cancellation. these legislative amendments have, in the Company's assessment, led to an increase in the number of subscription cancellations.

  On October 15, 2013, the Ministry of Communications furnished the Company with a preliminary regulatory report, according to which the Company is denying customers who cancel their agreement with the Company of their monthly credit for end-user equipment (routers), allegedly in violation of the above described prohibitions. The Company's position is that it acted lawfully, and its response was delivered to the Ministry of Communications.

Competition in the TV line of business

According to data received from the Company, the principal players that possess a significant share of the Israeli TV market are the Company and its main competitor, **HOT**.

Following is the distribution of the Israeli TV market, according to the Company's assessments for 2014:



In December 2014, Cellcom launched a service that allows users to view video contents using OTT technology through the internet, in addition to DTT contents.

To the best of the Company's knowledge, other entities are currently considering the possibility of launching similar services.

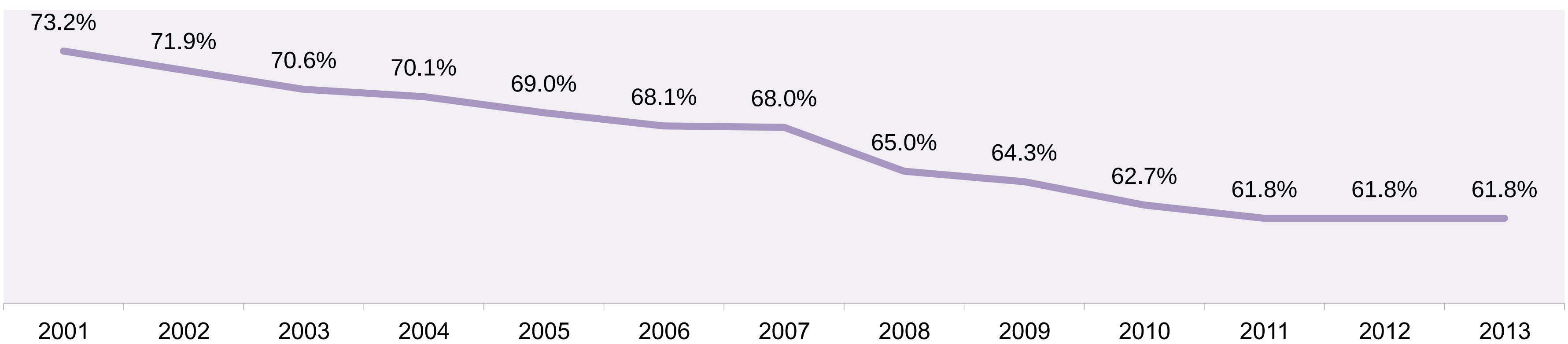
The establishment and development of such service may significantly affect competition in the broadcasting segment, which is currently based on designated infrastructures.

Economic environment and principal risk factors (Cont'd)

Consumption habits of Israeli households

- According to a CBS survey, the accelerated developments over the past two decades in new communications technologies have resulted in changes in the consumption habits of Israeli households. Over the years, a steady increase in expenditures on communications and in the percentage of ownership over communications products has been observed.
- According to CBS data for 2013, approx. 61.8% of households have a cable network or satellite TV subscription, and approx. 16.8% of households own a satellite dish, and 14.1% own a digital set-top box.
- When comparing income deciles, it appears that the higher the income decile, the higher the percentage of cable network or satellite TV subscriptions.
- However, between 2001 and 2013, an ongoing decrease in the percentage of cable network or satellite TV subscribers, mostly due to the use of alternative media such the internet, satellite dishes and digital set-top boxes. The decrease in the percentage of cable network or satellite TV subscribers that began in 2001 stopped in 2011, and remained similar in 2012-2013. In 2001, approx. 73.2% of all households were cable network or satellite TV subscribers, as opposed to 61.8% in 2011-2013.

Percentage of Multi-channel TV Subscribers



[1] Survey conducted by the Central Bureau of Statistics of October 29, 2014 ("Initial Findings from the 2013 Household Expenditures Survey; Income, Expenditures and Product Ownership of Israeli Households").

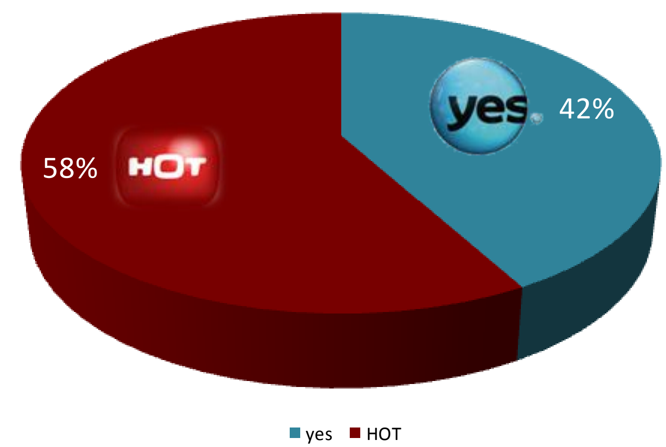
Economic environment and principal risk factors (Cont'd)

The Multi-channel TV Market

- According to data received from the Company, the multi-channel TV market is estimated at approx. NIS 4 billion a year, and in Israel there are currently approx. 1.5 million multi-channel TV subscribers.
- According to Company data, the penetration rate of multi-channel TV broadcasting companies is estimated at approx. 62% of all Israeli households. At present, the multi-channel TV market only includes Yes and its main competitor - HOT. HOT maintains a market share of 58%, whereas Yes controls the remaining share of the market, namely, 42% (at the end of 2008, the Company's market share was 38%).
- The distribution of market shares between these competing companies has remained stable, as opposed to previous years where a moderate increase in the Company's penetrate rate was observed, concurrently with a moderate reduction of HOT's market share.
- It appears that in order to maintain the existing penetration rate, the Company will have to continue recruiting new subscribers, in addition to preserving existing customers.

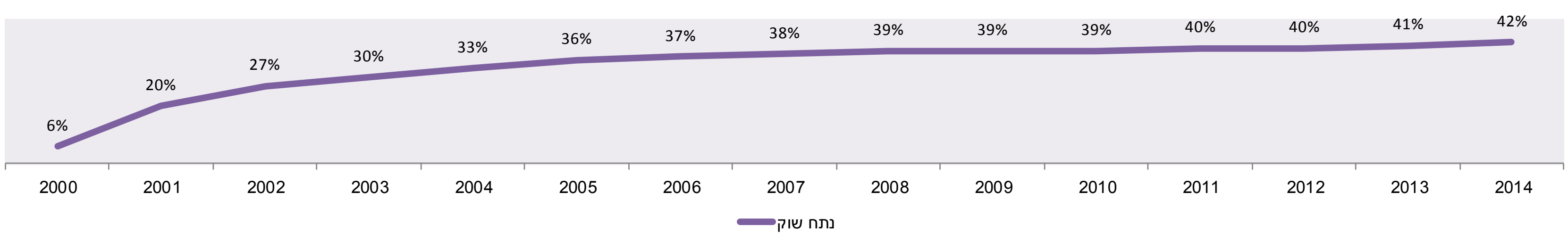
The following diagram presents the distribution of the multi-channel TV market in 2014:

Multi-channel TV Market



The following chart presents the rates of the Company's penetration into the multi-channel TV market between 2000 and 2014, based on Company data:

Yes's Penetration into the Multi-channel TV Market



Economic environment and principal risk factors (Cont'd)

Technological Developments

- Technological developments and the development of new technologies may render inferior the technology used today, and might force the Company to invest substantial sums of money in order to maintain its competitive standing.
- Such improvements and developments may serve to enhance current accessibility to video contents and may enable other entities to offer content viewing services without having to invest substantial sums of money, in a manner that could make it difficult for the Company to recruit and retain subscribers and to offer its services.
- The expansion of DTT, which constitutes as an alternative infrastructure to multi-channel TV, may adversely affect the Company's financial results. In February 2008, the Knesset enacted an amendment which permits DTT broadcasts. This law authorizes the Second Authority for Television and Radio as the agency responsible for these broadcasts in Israel. The name of this project is Idan+ (Accessible Digital Israeli Channels). Broadcasts are received for free, but the TV receiver's possession requires users to pay the radio and television toll to the Broadcasting Authority (a toll that is also imposed on multi-channel TV customers). DTT includes 6 channels (1, 2, 10, 23, 33 and 99). In order to watch the channels, users must make the one-time purchase of a digital set-top box, with prices ranging between NIS 250 - 450.
- Some tech-savvy users do not need Yes's and/or HOT's services as they download content from the internet using various means (torrents, streaming websites and others, applications that stream torrent links and others). Contents viewed through the internet are usually available for immediate viewing a significant amount of time before they are broadcast by multi-channel TV companies.
- These two developments (DTT and the internet), which are situated on both ends of the technological scale, can provide a substitute for multi-channel TV services. However, the number of people currently making use of these developments is relatively small.
- It should be noted that the addition of DTT channels and increased internet bandwidths could make the services provided through the internet more attractive.
- In addition, a new technology exists that allows broadcasts to be transmitted through the internet (OTT), and this technology is employed by the Company today as part of its VOD services. It appears that this technology could allow new and existing competitors to provide substitute services as an alternative to multi-channel TV services.
- It should be noted that in addition to Cellcom, which entered the market using its "Cellcom TV" services, it is possible that Golan Telecom (which recently announced its intention to enter this market) and Partner are expected to enter this market. It appears that the ability of these players to rely on this platform and to extend it to additional paid channels could be a key factor in their successful penetration into the market. However, given the technologies limitations of OTT, it is possible that it might not be able to provide live broadcasts in a satisfactory quality (for example, sports broadcasts).
- **Moreover, it is doubtful whether these players could offer content that is as extensive and versatile as those currently offered by Yes and HOT to their customers.**

Economic environment and principal risk factors (Cont'd)

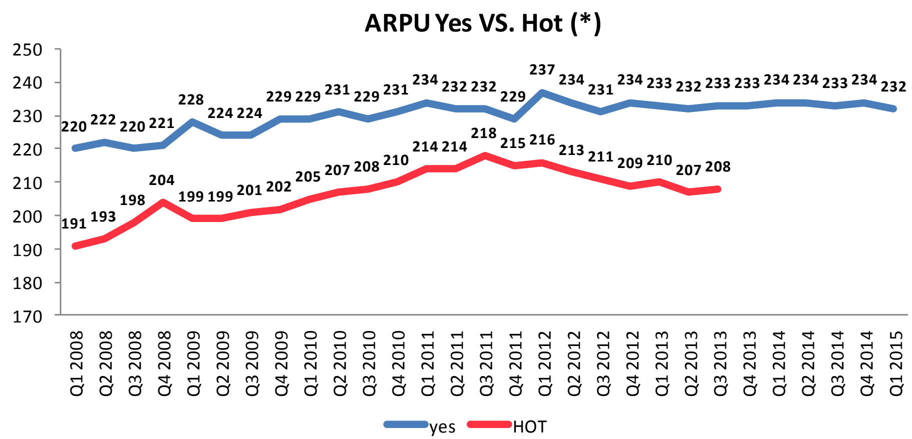
Marketing narrow packages

- At present, Yes and HOT are obligated to offer a "narrow package" to their customers - Packages that include a relatively small number of channels (approx. 25) at a lower price ranging between NIS 99 - 130.
- It appears that narrow packages are uncommon, and they comprise only 1% of the total number of Yes's subscribers. Yes and HOT price the narrow packages at approx. NIS 120 a month.
- However, it is expected that the introduction of new competitors into this segment (such as Partner and Cellcom), which are expected to price the packages at less than NIS 100, may decrease the prices of Yes's and HOT's narrow packages, and may add to the number of subscribers who would want to switch to the narrow packages.
- On December 29, 2014, Cellcom announced its launching of the new "Cellcom TV" service, which relies primarily on the internet. The new service includes TV-channel and VOD broadcasts, and it combines Idan+ (DTT) channels, which are received through the airwaves via Cellcom's set-top box, and an online VOD library that contains movies and TV series which can be viewed at any time. The service, which is provided for NIS 99 a month, includes only one set-top box. However, many questions could be asked about this "fledgling" service: what is the bandwidth involved? Is it suitable for all Israeli population groups? Does it compete with mobile network operators or in the multi-channel TV market (with Hot and Yes), and so on. In light of the above, the price may result in the escalation of existing competition and to a reduction in prices (to an extent and with an intensity which at present cannot be evaluated) and may affect the Company's financial results.

Economic environment and principal risk factors (Cont'd)

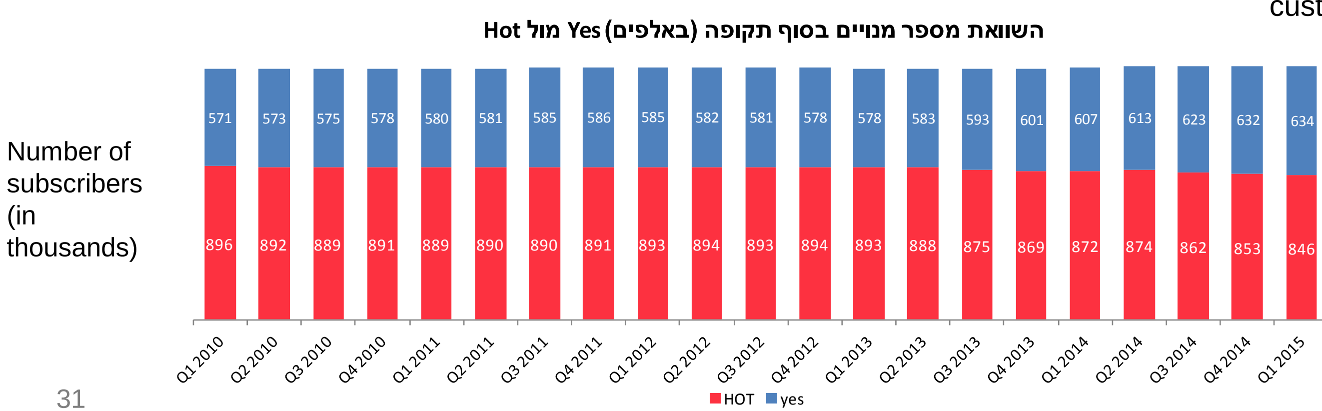
Competition with HOT

The following diagram presents the development of Yes's ARPU relative to HOT (according to available HOT data) between 2008-2014, and current for 1Q15.



* HOT's ARPU data are presented based on the data processing carried out by Bezeq and Fahn Kanne Consulting

The following diagram presents a comparison of the number of YES subscribers relative to HOT (according to available HOT data) between 2010-2014, and current for 1Q15.



- It should be noted that HOT currently controls a larger market share than that of the Company, and therefore the number of HOT subscribers is higher than that of the Company. However, as we can see, Yes's ARPU is higher than HOT's.
- We were informed by the Company that its ability to collect excess premium relative to its primary competitor, HOT, stems, inter alia from:
  - The high-quality service it provides to its customers, as opposed to its competitor, which users outsourcing services in order to reduce costs.
  - The creation of a preferable user experience, both in terms of technology and in terms of the better quality and diversity of the contents provided by the Company to its customers relative to HOT.

Economic environment and principal risk factors (Cont'd)

Following is a depiction of the Israeli communications market, broken down by holding groups and the services offered by telecommunication companies:

- While in the past most of the competition in the communications market was reflected in the competition between independent telecommunication providers within each segment of activity, in recent years an increasing trend of switching to competition between telecom groups that operate simultaneously in several telecom segments.
- In recent years, there has been a growing trend of "service basket" consumption (packages that include various combinations of multiple telecom services). The telecom groups market, or may market in the future, "common" service baskets that consist of various telecom services offered by the companies of each group.
- As a rule, the marketing of the common basket allows the telecom group to offer more attractive prices to the customer relative to the prices he would have to pay for each service separately (in some cases, this is done by way of "cross-subsidization" between the various components included in the basket), as well as a comprehensive solution that makes it unnecessary to enter into contracts with multiple suppliers.
- With regard to the marketing of common service baskets, the restrictions that apply to Bezeq are more stringent than those applicable to the other groups. Bezeq is subject to multiple restrictions in the context of forming collaborations between group companies, principal among which are the following:

** Given the regulatory processes and ongoing market changes, the above presented communications map is strictly indicative and may change over time*

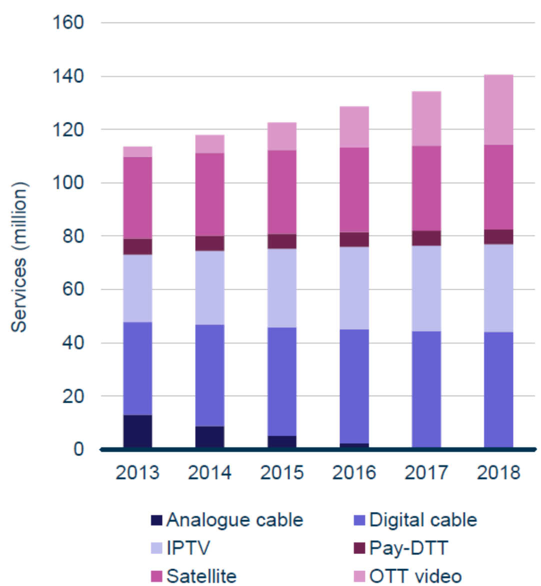
1. Mandatory structural separation - The Company must maintain structural separation between itself and its subsidiaries (including the full separation between the companies' managements). However, pursuant to the Company's market share's shrinkage to less than 85%, in May 2010 the Company was permitted to offer common service baskets with the subsidiaries to private subscribers, and in July 2012, business subscribers were offered common service baskets, and all subject to their approval by the Ministry of Communication and subject to several conditions stipulated under the domestic operator license.
2. Other restrictions on the provision of benefits to group companies and collaborations between them, including, without limitation, the restriction of the Antitrust Commissioner with respect to the approval of mergers between the company and group companies.
3. Restrictions concerning control of Yes.

Economic environment and principal risk factors (Cont'd)

Global review - analysis of the influence of OTT services on traditional TV service in West Europe.

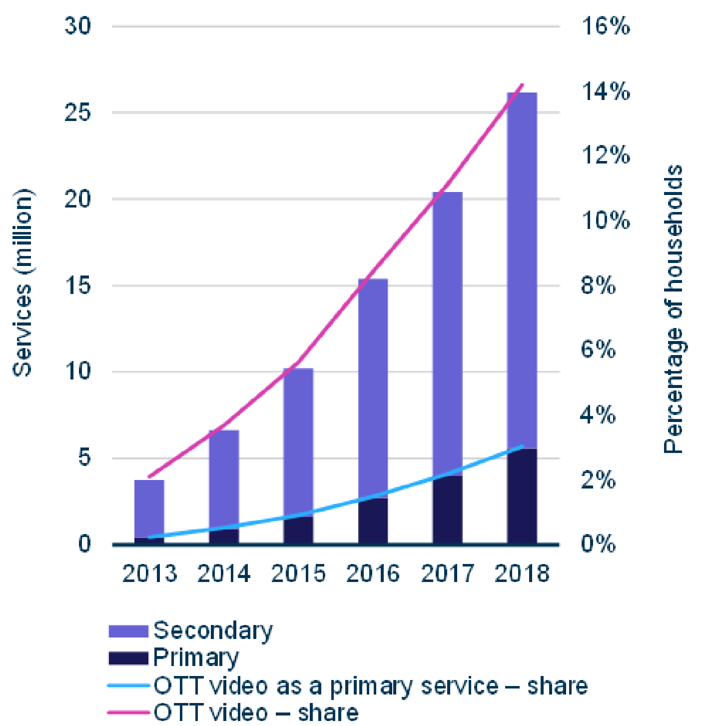
The data presented in the chart below indicate that the scope of paid television services in West Europe is expected to grow by approx. 24% (an average growth rate of 4%) between 2013-2018, and eventually reach a scope of services that amounts to approx. 141 million. The main source of growth in this market is expected to be the OTT video sector, which is destined to multiply itself by almost 7, and reach a scope of services that amounts to approx. 26 million households. Compare this to traditional paid television services, which are expected to grow by only 4.2% in 2013-2018 (an annual growth rate of 0.8%). **In other words, based on these data, the traditional television services sector is not expected to diminish in the years reviewed.**

Figure 9: Pay-TV services, by platform, Western Europe, 2013–2018 [Source: Analysys Mason, 2013]



The following diagram indicates that OTT, as a substitute for multi-channel television services, is expected to serve as a mere niche (approx. 3% of households), whereas for the vast majority of households OTT services are going to be strictly complementary and/or secondary to cable network or satellite television.

Figure 15: OTT video services to the TV set, by primary and secondary, Western Europe, 2013–2018 [Source: Analysys Mason, 2013]



Source: Research Report by Analysis Mason Limited 2013 , "Pay-TV and OTT video services in Western Europe: forecasts and analysis 2013–2018", *August 2013*

5. Financial statements analysis

Balance Sheet

Following are the company's balance sheet balances according to reported figures, as at December 31 of the years 2012-2014, and according to the draft quarterly statements of March 31, 2015 (in thousand NIS).

Cash and Cash Equivalents

As at March 31, 2015, the cash and cash equivalent balance of the Company amounted to approx. NIS 299 million, approx. 62% of the Company current assets, as opposed to the end of 2014, when the cash and cash equivalent balance of the Company amounted to approx. NIS 239 million, approx. 55% of the Company current assets, and to approx. NIS 125 million, approx. 43% of the Company's current assets in 2013.

Trade Receivable

The Company signs an agreement with all of its subscribers which governs the various rights and obligations of subscribers with respect to their relationship with the Company.

Normally, the Company does not engage in factoring transactions and avoids the early obtainment of revenues from customers. Namely, payment is made at the beginning of each month with respect to customers who pay by credit card. Other Company customers - according to their credit terms (normally net + 30 or 60).

The Company's DSO (Days Sales Outstanding) ratio has maintained relative stability over the three-year period, and represents, approximately, a balance of private customers for a single month (net+0) and a balance of business customers for a longer period.

Other receivables

The increase in the receivables balance in 2014 stems both from the increase in prepaid expenses and in the increase in other receivables, primarily due to the change in the value of hedging transactions.

Balance sheet *NIS thousands*	31.12.2012	31.12.2013	31.12.2014	31.3.2015
Current assets				
Cash and cash equivalents	-	125,263	239,146	298,649
Trade receivables	163,043	164,277	178,017	172,865
Other receivables	1,674	1,615	16,404	9,330
Total current assets	**164,717**	**291,155**	**433,567**	**480,844**
Percentage of current assets in balance sheet	*11.9%*	*18.0%*	*23.8%*	*25.6%*
Non-current assets				
Fixed assets, net	745,365	775,131	797,696	800,912
Intangible assets	99,864	133,728	146,805	147,507
Broadcasting rights net of rights exercised	377,349	416,598	441,813	449,303
Total non-current assets	**1,222,578**	**1,325,457**	**1,386,314**	**1,397,722**
Percentage of non-current assets in balance sheet	*88.1%*	*82.0%*	*76.2%*	*74.4%*
Total assets	**1,387,295**	**1,616,612**	**1,819,881**	**1,878,566**
Current liabilities				
Credit line from banks	69,322	35,785	14,837	14,837
Current maturities for debentures	174,305	292,168	377,388	371,363
Trade payables and service providers	403,104	467,929	429,572	450,470
Other payables	147,746	161,318	148,783	159,763
Provisions	6,200	12,360	9,673	9,491
Total current liabilities	**800,677**	**969,560**	**980,253**	**1,005,924**
Percentage of current liabilities in balance sheet	*57.7%*	*60.0%*	*53.9%*	*53.5%*
Non-current liabilities				
Credit line from banks	-	-	64,065	63,765
Debentures	1,364,840	1,387,616	1,361,557	1,337,220
Loans from shareholders	3,085,742	3,571,900	4,054,456	4,117,543
Trade payables and other long-term liabilities	92,033	24,931	18,588	16,321
Employee benefits	5,837	5,779	5,216	5,031
Total non-current liabilities	**4,548,452**	**4,990,226**	**5,503,882**	**5,539,880**
Percentage of non-current liabilities in balance sheet	*327.9%*	*308.7%*	*302.4%*	*294.9%*
Total liabilities	**5,349,129**	**5,959,786**	**6,484,135**	**6,545,804**
Equity				
Equity	29	29	29	29
Premium on shares	85,557	85,557	85,557	85,557
Warrants	48,219	48,219	48,219	48,219
Capital reserve	1,537,271	1,537,271	1,537,271	1,537,271
Capital reserve for share-based payments	10,280	10,280	10,280	10,280
Loss balance	(5,643,190)	(6,024,530)	(6,345,610)	(6,348,594)
Total equity	**(3,961,834)**	**(4,343,174)**	**(4,664,254)**	**(4,667,238)**
Percentage of equity deficit in balance sheet	*-285.6%*	*-268.7%*	*-256.3%*	*-248.4%*
Liabilities and equity	**1,387,295**	**1,616,612**	**1,819,881**	**1,878,566**

Balance Sheet (Cont'd)

Broadcasting rights - net of rights exercised

The Company owns broadcasting rights in video contents (movies and series) of two kinds:

1. Broadcasting rights acquired from third parties - including discrete contents and channels
2. Broadcasting rights owing to original productions in whose production the Company invests (partially or wholly), where, in addition to the actual right to include the contents in its broadcasts, the Company usually maintains interest in those contents, the percentage of which is specified in the agreements signed with the producers.

Normally, the Company is also entitled to assign authorizations to use rights and participate in revenues derived from other uses of the contents other than broadcasts at the Company, subject to agreements with suppliers.

- Broadcasting rights are presented in the Company's balance sheet at cost net of rights exercised.
- In 1Q15, an increase in the broadcasting rights balance of approx. 1.6% was observed, and in 2014 an increase in the broadcasting rights balance of approx. 6% was observed relative to 2013. In 2013 and 2012, an increase in the broadcasting rights balance of approx. 10% and 14% was observed, respectively. The principal causes of this increase are as follows:
  - Increased investments in original productions in accordance with the resolution issued by the Cable and Satellite Broadcasting Council. the amount invested in original productions was previously only derived from a certain percentage of revenues from contents. The Council determined that, as of 2012, the percentage invested in original productions shall be derived from content revenues in addition to revenues from equipment installation, sale or borrowing fees. In addition, the Company was permitted to pay the sum of the 2012 investment in equal installments over a period of three years.
  - In 2011, the rights amortization policy was changed to the straight-line method, which led to a longer estimated useful life for this asset.
  - USD exchange rate fluctuations.
  - Increased prices of purchased contents and the commencement of discounting the costs of translation to the broadcasting rights.

Fixed assets

- Fixed Assets comprise a significant balance of the Company's total assets, and amount to approx. NIS 801 million and approx. NIS 798 million as at March 31, 2015 and December 31, 2014, respectively (approx. 43% and 44% of the statement of financial position's total, respectively). This Section includes tow substantial balances:
  1. Digital satellite decoders: approx. NIS 490 million and approx. NIS 486 million as at March 31, 2015 and December 31, 2014, respectively. The estimated useful life of this equipment ranges between 4-8 years.
  2. Discounted installation costs amounting to approx. NIS 225 million and approx. NIS 229 million as at March 31, 2015 and December 31, 2014, respectively. The estimated useful life of installation costs is subdivided as follows: 13-15 years (for infrastructures in buildings) and 1-3 years (for infrastructures in apartments).
- We should not that the fixed assets balance contains additional balances that are significantly smaller, such as broadcasting and reception equipment, whose amortized cost amounted, as at March 31, 2015 and December 31, 2014, to approx. NIS 36 million and NIS 34 million, respectively.

Balance Sheet (Cont'd)

Intangible assets

Intangible assets consist of two principal components:

1. **Subscriber acquisition costs** - In 2011, a law was enacted which prohibits the Company from collecting exit fees from its customers. The Company switched to a contract model that does not stipulate a commitment period. As a result, the Company lost its secured revenue from that customer, against which it would by then have discounted the customer acquisition costs. In light of the changes in legislation and the Company's business model, the Company elected to implement an accounting policy and to discontinue the discounting of customer acquisition costs, despite the fact that there are certain accounting interpretations that permit, under certain circumstances, the continued discounting of customer acquisition costs even in cases where no customer commitment period applies. In light of this, as of the law's entry into force, the Company no longer discounts the cost of its subscribers' acquisition as an asset, in accordance with IAS38.
2. **Programs and licenses** - The increase in intangible assets in 2013 relative to 2012 stems mainly from two projects:
   - **A. TRIO** - The upgrade of the Company's management systems, which includes the development of three systems:
     - A new RBM system.
     - CRM system.
     - The integration of customer and billing management into SAP.
   - **B. TVE -** The development of a mobile phone viewing technology.

Deferred taxes, net

- Note 25 to the 2014 Financial Statements clarifies that, even though the Company has significant tax losses and inflation-related deduction which may be carried forward for an unlimited time until utilization (a total of NIS 5.4 billion), the Company does not recognize deferred taxes assets, as it is not expected that it will in the foreseeable future have any taxable income against which the aforementioned carried forward losses will be utilized.
- The aforementioned are accounted for in accordance with the principles of International Accounting Standard 12, Income Taxes (IAS 12).
- Of the accumulated loss of approx. 5.4 billion, a total of NIS 2.3 billion is derived from financing expenses on loans from shareholders (Bezeq: approx. NIS 1.8 billion; Eurocom Group: approx. NIS 0.5 billion).

Profit and Loss Statement

Following is a summary of profit and loss data for the years 2011-2014 (audited) and for 1Q15 (the draft financial statement received) (in NIS thousands):

Profit and Loss Statements – D.B.S. Satellite Services 1981 Ltd.	Audited 2011	Audited 2012	Audited 2013	Audited 2014	Reviewed Q1 2014	Draft Q1 2015
Revenues	1,618,809	1,635,994	1,635,216	1,723,938	423,724	440,174
Growth		*1.1%*	*-0.05%*	*5.4%*		*3.9%*
Cost of revenues	1,028,168	1,067,087	1,051,618	1,110,450	268,750	295,096
Gross profit	**590,641**	**568,907**	**583,598**	**613,488**	**154,974**	**145,078**
Gross profit (%)	*36.5%*	*34.8%*	*35.7%*	*35.6%*	*36.6%*	*33.0%*
Selling and marketing expenses	152,737	166,274	153,712	153,624	39,614	35,663
General and administrative expenses	143,036	149,884	162,372	187,284	42,478	50,376
Operating profit (loss)	**294,868**	**252,749**	**267,514**	**272,580**	**72,882**	**59,039**
Operating profit (%)	*18.2%*	*15.4%*	*16.4%*	*15.8%*	*17.2%*	*13.4%*
Financing expenses	168,991	155,431	167,677	136,669	33,463	40,587
Financing income	(23,163)	(1,859)	(6,979)	(26,056)	(15,912)	(41,992)
Financing expenses for loan from shareholders	377,529	407,826	486,158	482,556	88,906	63,087
Earnings (loss) before tax	**(228,489)**	**(308,649)**	**(379,342)**	**(320,589)**	**(33,575)**	**(2,643)**
Income tax	1,128	1,668	1,352	1,106	186	341
Actuarial profit (loss) from defined benefit plan*	(80)	(1,235)	(646)	0	0	0
Depreciation and amortization	276,393	248,250	262,735	297,554	69,731	76,411
EBITDA	**571,261**	**500,999**	**530,249**	**570,134**	**142,613**	**135,450**
EBITDA (%)	*35.3%*	*30.6%*	*32.4%*	*33.1%*	*33.7%*	*30.8%*

* This does not include actuarial profit (loss) from defined benefit plan of significant values, as provided in the Company's financial statements.

Profit and Loss Statement (Cont'd)

Revenues

In 1Q15, the Company's total revenues amounted to approx. NIS 440 million, its revenues in 2014 amounted to NIS 1,724 million.

The Company's revenues are subdivided into three major types:

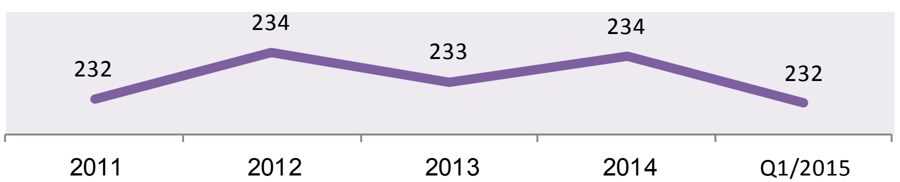
- **Revenues from basic services to customers -** These include revenues from basic content and equipment services, the leasing of regular set-top boxes, and basic channel broadcasts at fixed monthly prices.
- **Revenues from advanced services to customers** - These include revenues from technical services and installation fees, revenues from advanced services by supplying advanced set-top boxes, such as: YesMax, YesMax Total and YesHD, and the provision of YesMultiroom services, through which it is possible to view recorded contents via the home network and/or VOD service for which the customer pays fixed monthly fees.
- **Non-customer revenues -** These primarily include revenues from channels and revenues from the sale of content in accordance with the Company's specific agreements with suppliers for the sale of content purchased by the Company.

ARPU Analysis

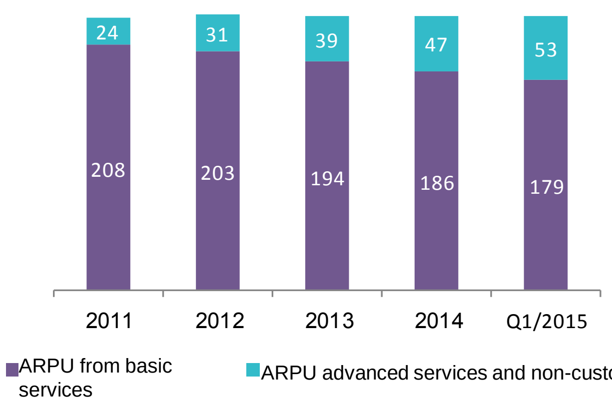
The term "ARPU" and the variations thereof is a key term in the world of communications. Mobile network operators, ISPs and cable network companies measure themselves in terms of ARPU (Average Revenue per User).

- The data indicate that in 1Q15 the Company's ARPU amounted to NIS 232, as opposed to NIS 234 at the end of 2014, which reflects a decrease by approx. 1%. In 2014, no significant ARPU changes were observed. In 2013, ARPU decreased by approx. 1% to approx. NIS 233 (compared to approx. NIS 234 in 2012).

ARPU (Average Revenue per User, in NIS)



Distribution of ARPU between basic and advanced services



Profit and Loss Statement (Cont'd)

Cost of Revenues

The majority of cost of revenue expenses consist of the costs of contents, broadcasting rights exercised, and depreciation and amortization. In the first three months of 2015, the total cost of revenue amounted to approx. NIS 295 million (approx. 67% of all revenues), an increase of approx. 6.3% annualized over 2014.

In 2014, the Company's cost of revenue amounted to approx. NIS 1,110 million (approx. 64% of all revenues), as opposed to NIS 1,052 million in 2013 (approx. 64%% of all revenues), which constitutes an increase of approx. 6%. The increase stemmed mainly from the increase in depreciation, broadcasting rights exercised and content costs.

Selling and Marketing Expenses

Selling and marketing expenses consist mostly of salary and wages and advertising expenses. Selling and marketing expenses in 1Q15 amounted to approx. NIS 35.6 million (approx. 10% of all revenues in this quarter), as opposed to approx. NIS 39.6 million in 1Q14, which constitutes an decreased of approx. 9.3% relative to the same quarter of the previous year.

In 2013 and 2014, an increase in selling expenses was observed, which was offset by a decrease in advertising and depreciation expenses. In 2013-2014, the selling and marketing expenses amounted to approx. NIS 154 million (approx. 9% and 9.3% of all revenues, respectively), as opposed to NIS 166 million (approx. 10%% of all revenues) in 2012.

Between 2012 and 2013, selling and marketing expenses decreased by approx. 7.6%. This decrease stems mainly in the decrease in depreciation and amortization expenses which resulted from the discontinued discounting of subscriber acquisition costs (namely, sales commissions paid to marketers and salespersons) as of the end of 2011.

G&A Expenses

G&A expenses primarily consist of salary and wages and depreciation and amortization. G&A expenses in 1Q15 amounted to approx. NIS 50 million (approx. 11% of all revenues), as opposed to approx. NIS 42 million in 1Q14, which constitutes an increase of approx. 19%.

In 2014, the Company's G&A expenses amounted to approx. NIS 187 million (approx. 11% of all revenues), as opposed to NIS 162 million in 2013 (approx. 10%% of all revenues) and as opposed to approx. NIS 150 million (approx. 9% of all revenues) in 2012.

In 2014, G&A expenses increased by approx. 15%, as opposed to an increase of approx. 8% and 5% in these expenses in 2013 and 2014, respectively.

Profit and Loss Statement (Cont'd)

Financing Expenses, Net

The majority of financing expenses stem from shareholder loans and interest expenses for financial liabilities. In the first three months of 2015, net financing expenses amounted to approx. NIS 62 million (approx. 14% of all revenues), as opposed to 2014, in which net financing expenses amounted to approx. NIS 593 million (approx. 34% of all revenues), and as opposed to 2013, in which net financing expenses amounted to approx. NIS 647 million (approx. 40% of all revenues). The decrease in net financing expenses in 2014 and in the first three months of 2015 stems mainly from margin revenues resulting from changes in the fair value of financial assets, in fair value through profit and loss, and in the effects of the consumer-price index.

Income Tax

According to data received from the Company and the 2013 tax adjustment report, the Company has tax losses and a deduction for inflation that are carried forward to the following years and that amount, as at December 31, 2014 and December 31, 2013, to approx. NIS 5.4 billion and NIS 5.3 billion, respectively.

We were informed that, of the accumulated tax losses, as at December 31, 2014, of approx. 5.4 billion, a total of NIS 2.3 million is derived from financing expenses on loans from shareholders (Bezeq: approx. NIS 1.8 billion; Eurocom Group: approx. NIS 0.5 billion).

In the Company's profit and loss statements, tax expenses amounting to NIS 1,106 thousand and NIS 1,352 thousand were recognized in 2013 and 2014, respectively.

6. Methodology

Methodology

Accounting for Business Combinations - General

International Financial Reporting Standard 3R ("IFRS 3R" or "the Standard") - Business Combinations concerns the matter of business combinations and examines the terms of the recognition and measurement of identifiable assets acquired in a business combination and in transferred liabilities, non-controlling interest in the acquired entity, and goodwill.

The Standard defines a business combination transaction as a transaction or other event in which the buyer receives control over one or more of the acquired businesses. A business combination transaction can be carried out in a number of ways that stem from legal, tax-related or other reasons.

The date of the acquisition is the date on which the buyer assumes control over the acquired entity.

The Standard stipulates that business combinations are to be accounted for using the Acquisition Method, which requires the following:

1. The identification of the buyer;
2. The determination of the acquisition date;
3. The recognition and measurement of identifiable assets acquired and transferred liabilities and non-controlling interest in the acquired entity;
4. The recognition and measurement of goodwill or profit from an incidental transaction.

Costs needed to carry out the transaction, such as attorney's fees, consultation, G&A, and debt or capital issue costs for the purposes of the acquisition, shall be recognized by the buyer as expenses in the period in which these costs were incurred and in which the services for said costs were received. Debt and capital issue costs shall be recognized in accordance with IAS 32 and IAS 39.

Intangible assets

Identification Capacity Criterion

An intangible asset is a non-financial asset devoid of any physical substance. An intangible asset can be identified if it meets either of the following conditions:

1. Separability condition: the asset can be separated, namely, it is possible to separate it from the entity or split it, it may be sold or transferred, and it is possible to grant a license to use, lease out or replace it, separately or together with a related contract, an identifiable related asset or a related liability, regardless of whether the buyer intends to do so;
2. Contractual-legal condition: the asset is derived from contractual or other legal rights, regardless of whether these can be carried forward or can be separated from the entity or from other rights or obligations.

An intangible asset which cannot be separated by itself complies with the separability condition if it can be separated together with a related contract, an identifiable asset or a liability.

Examples of identified intangible assets

The examples of intangible assets include the following items:

<u>Intangible assets related to customers:</u>

- Contracts with customers and associated customer relationships;
- Non-contractual customer relationships;
- Client lists;
- Order or production backlog.

Methodology (Cont'd)

Contract-based intangible assets:

- License and royalties;
- Franchise agreements;
- Operating and Broadcasting agreements;
- Various rights of use.

Intangible assets related to marketing:

- Trademarks;
- Trade names
- Domain names;
- Non-competition agreements.

Intangible assets related to art:

Such as literature, magazines, plays, musical pieces, paintings, photographs, etc.

Determining the fair value of intangible assets

The intangible assets are measured at fair value as at the date of acquisition.

in accordance with IAS 38, the quoting of market prices in an active market constitutes as the most reliable estimate of fair value for intangible assets. The suitable market price is usually the bid price. If the aforementioned prices are unavailable, the price in a similar transaction that took place at about the same time could form the basis for the fair value estimation, on the condition that no substantial changes in financial conditions took place between the date of this transaction and the date of the measurement.

In the absence of an active market for the intangible asset, its fair value shall be the price that would have been paid on the date of the acquisition between informed, willing parties on the basis of the best available information. In determining this value, the entity must consider the results of recent transactions in similar assets.

It is possible to employ pricing methods designed to determine fair value and which reflect conventional transactions and methods in the line of business to which the asset belongs. Such methods include:

- The use of multipliers that reflect the ratio between market transactions and the asset's profitability indexes (such as revenues, operating profit or market size) or the flow of royalties that could have been generated by leasing out the asset (the "relief from royalties" approach), or
- Discounting the asset's projected net cash flows.

Under IAS 38, if the intangible asset meets identifiability criteria, it therefore follows that there exists sufficient information that allows the reliable measurement of the asset's fair value.

Principal valuation methodologies

As a rule, there are multiple valuation methods in general, and multiple intangible asset valuation methods in particular. Naturally, each method has its own advantages and disadvantages, and one should employ each method according to its applicability to the case in question and/or to the assessment's situation and purpose.

1. **The Income Approach -** According to this approach, the value of the asset is derived from the current value of the cash flows which are expected to be derived from it over the remainder of its economic life. In this method, first we must estimate the cash flows which are expected to be derived from the asset in the future, based, inter alia, on an operational financial analysis.

Methodology (Cont'd)

In the second phase, these cash flows must be brought to the current values by way of discounting them to the date of the asset's valuation. Cash flow discounting is carried out using a rate of return which should reflect the time value of money and the business risk.

The fair value estimated using this method is actually the current value of future cash flows which are expected to be derived from the asset, including its salvage value, if any applies, at the end of the projection period.

When assessing value using this approach, it is common practice to employ the following methods, which are derived from the aforementioned financial approach:

- **Discounting of Excess Earnings -** Under this method, the intangible asset's value is estimated by way of discounting the "excess earnings" attributed to the asset. "Excess earnings" are defined as the difference between the operating profit expected from the evaluated asset and between the fair rate of return on the fair value of the assets that contribute and participate in the evaluated operation. The contribution of these contributing assets is reflected in the use which the intangible asset makes in other assets in the process of generating income or in the structure of expenses. In general, the contributing assets are usually fixed assets, human resources, brand, license, basic technology and more. In most cases, there will be more than one contributing asset.
- **Relief from Royalties** - Under this method, the value of an intangible asset is estimated by way of discounting the "adequate royalty" payments which the owner of the asset would have been required to pay for using the asset had it not been owned by him.
- This method is primarily used to estimate the value of intangible assets that are legally registered in the Company's name, such as: brands, trademarks, domain names, databases, patents, etc.

2. **Market Approach** - Under this method, the fair value takes into account the prices recently paid for similar assets, based on the analysis of similar transactions (as much as practicable) between willing buyers and sellers, including adjustments to the market prices specified, so as to reflect the condition and usability of the evaluated asset relative to the corresponding assets in the market. Consequently, this approach is often inapplicable to the valuation of intangible assets, and can be used strictly as a general and comparative measure for the results of other valuation methods.
3. **Cost Approach** -Under this method, fair value is estimated based on the asset's replacement cost net of depreciation that reflects the functional, financial or technological aging of the existing asset relative to the new one. Cost Approach valuation results can be viewed as the upper limit of the value in cases where the asset can be easily replaced or renewed, as no careful foreign investor would purchase an existing asset at a price that is higher than the price of producing an equivalent asset which provides it with similar financial benefits. This principle normally does not apply to unique intangible assets that are legally protected against duplication, such as patents or copyrights (however, one should consider the territorial borders of such protection), or when the development periods of a substitute intangible asset are significant, or when the uncertainty of self-development is unusually high.

Methodology (Cont’d)

Useful life

The buying entity must assess whether the intangible asset’s useful life is finite or undefined, and, if finite, must estimate its length. The entity shall consider a useful life duration as undefined if, after all relevant factors are analyzed, ther appears to be no limit to the period in which the asset is expected to generate net cash flows for the entity.

An intangible asset with a defined useful life will be amortized over the course of its useful life, subject to an impairment test.

However, an intangible asset with an undefined useful life will not be amortized. Instead, the buying entity must test for the asset’s impairment once a year or more frequently, if there is any indication of this asset’s impairment. Moreover, the entity shall periodically examine the useful life of the intangible asset in question, so as to determine whether the events and circumstances still support the assessment that the useful life is undefined.

Tax benefit

According to the AICPA Practice Aid Series[1] guide, each intangible asset valuation must include:

A. The expected tax payments for the cash flows attributed to the intangible asset and

B. Tax benefits that will stem from the amortization of the intangible asset for tax purposes.

The guide also mentions that adding the effects of tax is common for the Income and Cost Approaches, but is not characteristic of the Market Approach, as tax benefits in such cases are already included in the market price quoted during the negotiations for the acquisition of the asset between market participants. The team that authored the guide believes that these two tax effects should be included in the value of the intangible asset, whether the purpose of the transaction was to sell assets of the acquired company for tax purposes and whether it was to sell shares of the acquired company (without introducing any changes to the tax base of the acquired assets and the liabilities received). Accordingly, the value of the in accordance with must also include the value of the tax benefit, even if we are dealing with a business combination by way of the acquisition of shares which, in practice, does not allow the amortization of the intangible assets for tax purposes.

In the absence of explicit provisions relating to the amortization of intangible assets, it was assumed for the purposes of this Work that the amortization of the intangible assets acquired shall be recognized for income tax reporting purposes. Given that the Tax Authority’s opinion is yet to be expressed about this matter, our Work relied on the provisions set out in the AICPA Practice Aid Series guide.

The tax benefit in all the intangible assets evaluated was calculated using a straight line amortization method for the projection period used for the assessment of the intangible assets itself, or for a period of 10 years (the maximum period of goodwill amortization according to income tax provisions), whichever is lower.

[1] AICPA Practice Aid Series - Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries.

7. Tangible assets and liabilities

Tangible assets and liabilities

Current Assets

The balance of current assets includes cash and cash equivalents, trade receivables and other receivables. Since these are current financial assets, according to accepted accounting principles these should be presented at current values as at balance sheet date. Therefore, it was assumed it is unnecessary to discount these amounts given the insignificant difference between the discounted amounts and the amounts found in the books.

Broadcasting rights, net of rights exercised

The Company owns broadcasting rights in video contents (movies and series) of two kinds:

1. Broadcasting rights acquired from third parties - including discrete contents and channels
2. Broadcasting rights owing to original productions in whose production the Company invests (partially or wholly), where, in addition to the actual right to include the contents in its broadcasts, the Company usually maintains interest in those contents, the percentage of which is specified in the agreements signed with the producers.

Broadcasting rights are presented in the Company's balance sheet at cost net of rights exercised.

The financial value of the broadcasting rights was estimated using the Cost Approach. Under this approach, it was assumed that the rights previously paid for are not materially different from the costs which would have been paid for similar rights on the date of the allocation, owing to the relatively minor time differences (one year) between the date of payment and the date of allocation. Accordingly, in our assessment, the value of the asset presented in the books reflects its fair value.

As additional support for this, we should stress that we are dealing with a broad distribution of content providers, where the acquisition of broadcasting rights is effected according to framework agreements that were determined by negotiations, and it is likely that these were entered into under market conditions. Moreover, in its books, the Company examines the life o the assets ascribed to the broadcasting rights and determines the relevant amortization period based on the projected life of these assets.

According to the balance specified in the books, the value of the broadcasting rights is estimated at approx. NIS 449 million.

Fixed assets

- Fixed Assets comprise a significant balance of the Company's assets, and amount to approx. NIS 801 million and approx. NIS 798 million as at March 31, 2015 and December 31, 2014, respectively (approx. 43% and 44% of the statement of financial position's total, respectively). This Section includes tow substantial balances:
  1. Digital satellite decoders: approx. NIS 486 million and approx. NIS 490 million as at December 31, 2014 and March 31, 2015, respectively. The estimated useful life of this equipment ranges between 4-8 years.
  2. discounted installation costs amounting to approx. NIS 229 million and approx. NIS 225 million as at December 31, 2014 and March 31, 2015, respectively. The estimated useful life of installation costs is subdivided as follows: 13-15 years (for infrastructures in buildings) and 1-3 years (for infrastructures in apartments).
- We should not that the fixed assets balance contains additional balances that are significantly smaller, such as broadcasting and reception equipment, whose amortized cost amounted, as at December 31, 2014 and March 31, 2015, to approx. NIS 36 million and NIS 34 million, respectively.

Tangible assets and liabilities (Cont'd)

It was assumed that the financial value of fixed assets is not materially different from that appearing in the books. Under this approach, it was assumed that the costs previously paid for the assets correspond to the amounts which would have been paid today for the same assets. It was assumed that the amortization appearing in the financial statements also reflects a financial amortization.

Intangible assets, net

Intangible assets consist of two principal components:

1. Cost of Subscriber Acquisition

In 2011, a law was enacted which prohibits the Company from collecting exit fees from its customers, and the Company switched to a contract model that does not stipulate a commitment period. As a result, the Company lost is secured revenue from that customer, against which it would by then have discounted the customer acquisition costs. In light of the changes in legislation and the Company's business model, the Company elected to implement an accounting policy and to discontinue the discounting of customer acquisition costs.

The Company's sales entail a variety of sales commissions. Commissions can be directly identified with customer contracts. The Company's cost of subscriber acquisition are based on the balance of sums actually paid in the past and which are yet to be amortized in the financial statements over the subscribers' average contractual commitment period.

The financial value of the cost of subscriber acquisition was estimated using the Cost Approach. Under this approach, it was assumed that the costs of royalties previously paid to salespersons correspond to the amounts which would have been paid today for the same services, given the relatively minor time differences between the date of payment and the date of allocation.

The amortization appearing in the financial statements also reflects a financial amortization according to the subscribers' contractual period. Accordingly, in our assessment, the value of the asset presented in the books reflects its fair value.

2. Software Programs and Licenses

The financial value of software programs was also assessed using the Cost Approach, and, in our assessment, the value of the asset presented in the books reflects its fair value.

Current Liabilities

Credit line from banks, payables (without interest payable for debentures), trade payables and service providers were estimated according to their accounting balance in the Company's books.

Following are the assumptions used for estimating the fair value of the remaining current liabilities:

- **Current maturities for debentures and interest payable for debentures** - see "Debentures" below.
- **Provisions** - Several lawsuits or pending legal proceedings have been filed against the Company. The actual provision in the Company's books for lawsuits, as at March 31, 2015, amounted to approx. NIS 9,491 thousand. We were informed that the provisions found in the books does not reflect the exposure stemming from two class action suits of approx. NIS 20 million. For the purposes of this Work, it was assumed that the provision found in Yes's books must increase by approx. NIS 10 million so that it will reflect the fair value of the contingent liabilities.

Tangible assets and liabilities (Cont'd)

Debentures

The Company has three debenture series: Debenture Series A, Debenture Series B and Debenture Series C.

Debenture Series A - Issued in 2007 for institutional investors, which was listed on the TASE Tact Institutional system. In 2014, the Company completed additional Debenture Series A issues by way of series expansion, that amounted to approx. NIS 253 million.

Debenture Series A - Issued in 2010 for institutional investors and was listed on the TASE and expanded each year between 2011-2014. In 2014, the Company completed additional Debenture Series B issues that amounted to approx. NIS 179 million.

In April 2015, the Company completed additional Debenture Series B issues by way of series expansion, that amounted to approx. NIS 198 million.

Debenture Series C - Issued in 2012 for institutional investors.

The price of the debentures has risen, and therefore the calculated yield to maturity of each of the debentures has decreased between 2012 and 2014. The yield to maturity of debentures with longer average durations, namely, those of Debenture Series C is lower than that of Debenture Series B, which has a shorter average duration, although the collateral of each series is identical. It appears that in the past the Company obtained the debentures at higher interest rates, whereas today the interest rates are lower.

According to data received from the Company concerning the fair value calculation of the debentures in the Company's books as at March 31, 2015, the interest rates on the basis of which the projected cash flows were discounted are 1.9%, 2.1% and 2.3% for Debenture Series A, Debenture Series B, and Debenture Series C, respectively and as presented below:

Debenture Series	Discount Rate
Series A	1.9%
Series B	2.1%
Series C	2.3%

Therefore, their fair value as at March 31, 2015 of all three debenture series amounts to approx. NIS 1,908 million.

Other Long-term Liabilities

It was assumed that the accounting balance of other long-term liabilities reflects their fair value.

8. Intangible assets

Intangible assets

Accounting Principles

In March 2004, the International Accounting Standards Committee published a revised version of IAS 38, which concerns intangible assets. The Standard determines how intangible assets (that are not specifically addressed in other accounting standards) are to be accounted for, and requires the entity to recognize an intangible assets if and when certain defined criteria are met.

Under the Standard, in order for a certain item to meet the definition of an intangible asset, it must be a non-financial asset, devoid of any physical substance and identifiable. It is further stipulated that the fair value of the asset be reliably measurable.

Section 12 of IAS 38 stipulates that an intangible asset meets the identifiability condition whenever it meets any of the following criteria:

- **Financial criterion -** the asset can be separated, namely, it is possible to separate or split it from the entity, it may be sold or transferred, and it is possible to grant a license to use, lease out or replace it, separately or together with a related contract, a related asset or a related liability.
- **Legal criterion -** the asset is derived from contractual or other legal rights, regardless of whether these rights can be carried forward or can be separated from the entity or from other rights or obligations.

For the purpose of preparing this opinion, we examined several items which could constitute as possible intangible assets. Each item was examined to see if it meets the identifiability criterion described above, and, accordingly, if it could be recognized separately from goodwill (under the assumption, of course, that the asset meets all of the other conditions included in the definition), or if it fails to meet this criterion, and therefore constitutes as goodwill.

Identified and estimated intangible assets

Potential intangible assets were examined through a review of documents and other relevant information about the operation and through conversations with Yes's management.

After this examination, the intangible assets identified whose fair value was estimated in the course of this Work are as follows:

- **Brand**
- **Customer Relationships**

In addition, we identified intangible assets whose fair value is not included in the attribution of the cost of acquisition on the grounds described below:

- **Broadcasting license** - TV broadcasting requires a license issued by the Ministry of Communications by virtue of the Communications Law (Telecommunications and Broadcastings). This license was granted to Yes in 1999 and entails an obligation assumed by the Company to pay royalties to the State of Israel, which are calculated on an income basis, as defined in relevant regulations. Under the Communications Regulations, 2006, the percentages of royalties that apply over the years are as follows:

  2011 - 1.75%; 2012 - 1.75%; from 2013 onwards - 0%.

  The Company's license is due to expire in January 2017. At the end of this period, it may be renewed for additional periods, six years each.

Intangible assets (Cont'd)

Accounting Principles (Cont'd)

Identified and estimated intangible assets (cont'd)

Broadcasting license (cont'd)

Under Paragraph 21 of IAS38, "An intangible asset shall be recognized if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. "

Under Paragraph 38 of IAS38, the only circumstances under which it may not be possible to reliably measure the fair value of an intangible asset, which was acquired in a business combination, are when the intangible asset is derived from legal or other contractual rights, and when it is "(A) inseparable; (B) separable, but there is no history or evidence of any replacement transactions of identical or similar assets, and any other method of estimating fair value will depend on variables that cannot be measured."

In our assessment, and according to conversations we held with the Company's management, in the case of the licenses held by Yes, it is not possible to measure the fair value of the intangible asset using the Income or Comparison Approach, as there is no history or there are no swap transactions of identical or similar assets in the market. Furthermore, it is difficult to estimate the variables needed to make use of these fair value valuation techniques. Therefore, the value of the licenses was not estimated in the course of this reference work.

- **Commercial agreements** - Yes is party to several commercial agreements, chief among which are the following:
  - *Content providers* - The broadcasting rights whose acquisition also affects content costs, as previously stated, are purchased by the Company from a large number of content providers, and so the Company is not depended on a primary and/or single content provider. However, with regard to Israeli sports broadcasts, the Company depends on the acquisition of the broadcasting rights of two local sports channels from two providers - the Sports Channel and Charlton.
  - *Satellite segments* - Under the agreement with Spacecom Ltd., the Company leases space segments that belong to Amos Series satellites (Spacecom Agreement). The agreement stipulates the lease of 12 space segments. However, as of 2022, the lease shall encompass 9 space segments. The Company is materially dependent on Spacecom, as the holder of its exclusivity rights and sole supplier.
  - *Acquisition of decoders* -The Company buys decoders primarily from Eurocom, as well as from ADB (Advanced Digital Broadcast S.A.). Given the structure of the market in which Yes operates, there are only a few "players" that purchase the aforementioned products in considerable quantities. Moreover, there is only a small number of available suppliers, and therefore there exists no public information about agreements of this kind.

It was assumed that the agreements are performed at market prices, and that they do not reflect an improvement or worsening with respect to market conditions.

Intangible assets (Cont'd)

- Client list - It is prohibited by law to make commercial use (beyond the internal use of the Company for its own purposes) of the customer list, and therefore they do not have any significant financial value.
- Deferred taxes - The Company has tax losses and inflation-related deduction which may be carried forward for an unlimited time until utilization that amount to NIS 5.4 billion, as at December 31, 2014.
- Following are the sources of Yes's accumulated tax losses and an estimate of the losses for which deferred taxes will be recognized:

	NIS Millions
Business losses, without financing expenses for loans from shareholders	3,084
Losses that stem from financing expenses for loans from Bezeq	1,803
Losses that stem from financing expenses for loans from Eurocom	522
Total losses for tax purposes	**5,409**
Net of risk components according to the Barzilay Opinion:	
Financing expenses for Eurocom's loans	(261)
Risk due to debt waiver	(899)
Non-deduction of the Company's losses due to Eurocom's share	(155)
Total deductions	**(1,315)**
Estimated losses for which deferred taxes will be recognized	4,094
Estimated losses for which deferred taxes will be recognized (rounded)	**4,100**

The tax asset amounting to approx. NIS 1,087 million included in the PPA work was calculated based on the assumption that the amount of losses that will be recognized by the Income Tax Authority will amount to approx. NIS 4,100 million (**for more information about this calculation, see Appendix D below**) and on an assumed corporate tax rate of 26.5%. The assumptions that underlie this calculation are based on the Barzilay Opinion, which assumed that part of the losses will not be recognized due to various possible errors made by the income tax assessor with regard to the utilization of the carried-forward losses of an acquired company by a buyer in a merger. The tax asset also includes losses that stem from the financing expenses for the loans from Bezeq, and this is consistent with Bezeq's accounting information.

- Owned channels - Yes has 10 channels fully-owned by itself. Some of these channels are included in the basic packages and some are included in packages offered for an additional payment. It is not possible to purchase these channels separately from the basic packages or the packages to which they belong. Moreover, the majority of Yes's customers buy additional channel packages in addition to the basic packages, which belong to various tracks. Therefore, and because these channels are viewed domestically and privately and as part of broader packages, their independent value cannot be reliably determined.

Discount rate (WACC)

We have estimated the nominal discount rate of the Company in a "market participant" view **at 8.5%**, based on the following parameters:

- **Risk-free interest rate (Rf)** - We estimated this rate at approx. 2.01% according to a yield to maturity of unlinked State of Israel debentures for a period of 12 years.
- **Beta (β)** - According to the beta values of the similar companies presented in the table below, we estimated the Company's leveraged beta at 0.87.
- **The Israeli market's risk premium (Rm-Rf)** - According to Damodaran data, we estimated the market's risk premium at 6.80%.
- **Additional risk premium (ARP)** - According to a study of Duff&Phelps Valuation Handbook 2014, we estimated the additional risk premium of the Company at 2.81%.
- **Interest on debt (Rd)** - The Company's interest on debt (before tax) is estimated at 4.51%, according to the yield to maturity of the debentures whose risk level is similar to that of the Company's liabilities, for an average duration of 12 years.
- **Leverage (D/D+E)** - Based on the average debt levels of similar companies, we used a leverage of 30%.
- **Tax rate** - Israeli statutory corporate tax rate 26.5%.

Risk-free interest rate (Rf)		
Risk-free interest rate	2.01%	Risk-free, 12-year linked debenture interest

Beta (β)		
Unleveraged beta	0.67	
Leveraged beta for calculation purposes	**0.87**	**According to the leverage of similar companies in the line of industry**

Return on equity (Re)		
Rf	2.01%	
Rm-Rf	6.80%	Israel's risk premium according to Damodaran
Beta	0.87	According to data of similar companies (Bloomberg)
ARP (size)	2.81%	Duff & Phelps Valuation Handbook 2014
RE	**10.75%**	

Interest on debt (Rd)		
Rd	4.51%	Return of debentures (NIS, 12 years, A rating)
Tax	26.5%	Israeli corporate tax rate
Rd* (1-Tax)	**3.32%**	

Discount rate	
Re	10.75%
E/D+E	70%
Rd*(1-Tax)	3.32%
D/D+E	30%
WACC	**8.5%**

Name of Company	Adjusted Beta	R^2	Market Value	Net Debt	D/E	Tax Payment Country	Tax Rate	Un-leveraged Beta	D/D+E
Sky PLC	0.683	11%	18,050	6,545	0.36	UK	21%	0.53	27%
DISH Network Corp	0.974	19%	32,236	4,901	0.15	USA	40%	0.89	13%
SKY Network Television Ltd	0.546	3%	2,300	336	0.15	New Zealand	28%	0.49	13%
Liberty Global PLC	0.943	22%	44,497	45,001	1.01	USA	40%	0.59	50%
DIRECTV	0.802	18%	43,794	16,177	0.37	USA	40%	0.66	27%
Bezeq The Israeli Telecommunication Corp Ltd	0.712	3%	20,674	7,204	0.35	Israel	27%	0.57	26%
Weighted Average (Based on R^2 Value)	**0.854**	**17%**	**34,735**	**19,292**	**0.49**		**36%**	**0.666**	**30%**
Simple Average	**0.777**	**13%**	**26,925**	**13,361**	**0.40**		**33%**	**0.621**	**26%**

Customer Relationships

Customer Relationships

Results of the estimated value of the customer relationships asset

Following are the results of the estimated value of the customer relationships intangible asset:

Estimated fair value of customer relationships	NIS millions
Present Value of Customer Relationship Flows, before tax benefit	645
Value of tax benefit	144
Fair value plus tax benefit	**790**

Appendix A is attached hereto, and includes the cash flows projection used for the valuation of this intangible asset.

The method chosen

The fair value of the customer relationships intangible asset was estimated using the Income Approach, under which the Multi Period Excess Earnings Method was implemented. According to this approach, the value of the asset is derived from the current value of the cash flows which are expected to be derived from it over the remainder of its economic life. In this method, first we must estimate the cash flows which are expected to be derived from the asset in the future, based, inter alia, on an operational financial analysis. In the second phase, these cash flows must be brought to the current values by way of discounting them to the date of the asset's valuation. Cash flow discounting is carried out using a rate of return which should reflect the time value of money and the business risk.

Revenues from all customers projection

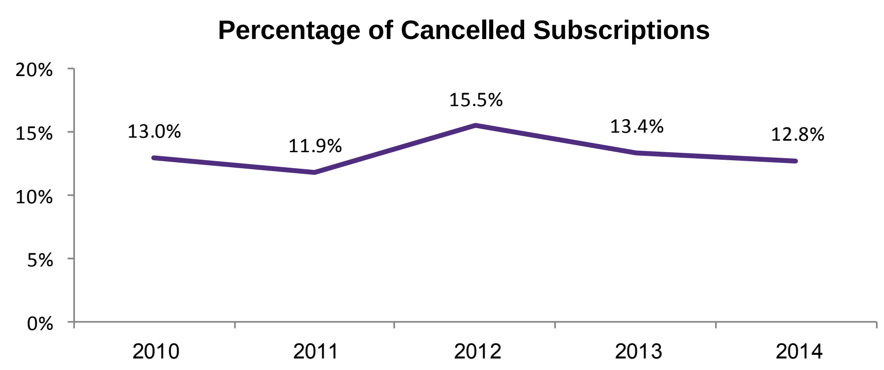
The analysis of revenues from customers was carried out based on the future operation projection received from Bezeq's management. For more information about the assumptions used for formulating this projection, see the valuation performed for the Company.

Churn rate

In 2014, the number of new subscriptions exceeded the number of cancelled subscriptions, and the net number of new subscriptions amounted to 31 thousand. The average number of cancelled subscriptions in 2011-2014 amounts to approx. 79 thousand customers.

The churn rate of subscriptions in 2014 amounts to approx. 12.8%, as opposed to 13.4% in 2013.

According to the average percentage of cancelled subscriptions in 2010-2014 presented below, the percentage of subscriptions cancelled by existing customers was determined to be **13.3%.**



Customer Relationships (Cont'd)

Operating Profit

It was assumed that the operating profit for existing customers will be identical to the operating profit of the operational projection, while neutralizing expenses directly related to the recruitment of new customers (such as agents' commissions, part of the salespersons' salary, etc.).

Accordingly, the operating profit is estimated at 19.8% for the last nine months of 2015, and at 19.0% in 2016, at 17.9% in 2017, at 18.0% in 2018 and at 17.9% from 2019 onwards.

Contributory charges of the customer relationships asset

Under the Income Approach, financial expenses for the use of the other assets of the entity, which the asset needed during its economic life, must be ascribed to the evaluated intangible asset. These expenses should include the expenses needed to support the existence of the intangible asset, including contributory charges that reflect the recognition of financial lease fees which the intangible asset must pay the entity's various assets, both tangible and intangible.

- **Contributory charges for working capital** - The Company's working capital represents the funds needed by the firm to finance its regular course of business and to bridge the time gaps between the date on which funds are expended in the course of production and the date on which payments are received in exchange for sold products.

  For the purpose of calculating the contributory charges for working capital, it was assumed that the contributory return for the Company's working capital is equal to the risk-free return (return after tax). The working capital balances were determined according to a working capital rate of -25% (namely, a negative rate), which has been Yes's average working capital rate in recent years.

- **Contributory charge for fixed assets** - Most of the Company's fixed assets consist of broadcasting and recording equipment, digital satellite decoders, leasehold improvements, discounted installation costs, furniture and office supplies. The rate of return for fixed assets was determined according to the average balance of fixed assets from the Company's revenues over the years 2010-2014, and is estimated at 45%.

	2011	2012	2013	2014	Average
Fixed assets balance	676	745	775	798	**749**
Revenues	1,619	1,636	1,635	1,724	**1,653**
Return on fixed assets	**42%**	**46%**	**47%**	**46%**	**45%**

  The contributory rate of return on fixed assets is estimated to be equal to the return on debt.

- **Contributory charge for the broadcasting rights balance** - The rate of return on the broadcasting rights balance was determined according to the average rate over the years 2010-2014, and is estimated at 24%. The contributory return on the broadcasting rights balance is estimated to be equal to the return on debt.

	2011	2012	2013	2014	Average
Broadcasting rights balance	331	377	417	442	**392**
Revenues	1,619	1,636	1,635	1,724	**1,653**
Return on broadcasting rights	**20%**	**23%**	**25%**	**26%**	**24%**

Customer Relationships (Cont'd)

Contributory charges of the customer relationships asset (cont'd)

- **Contributory charge for Assembled Workforce** - Under IFRS 3R, the human resources asset is not an identifiable asset, which is to be recognized separately from goodwill, and shall be included in goodwill. On the other hand, according to the Income Approach, we must consider contributory charges for the recruitment and training of the operation's human resources, which would have been necessary had the owner of the intangible asset been required to re-recruit the human resources needed for current operations so as to provide the products to the customer's relations.

  Based on estimates provided to us by the Company's management, we included a relative charge for a two-month training period in the cash flow projection.

  The rate of return used for calculating the contributory charge for Assembled Workforce is the WACC rate as determined in this Work.
- **Contributory charge for the brand -** The contributory charges for the brand were estimated according to the estimated royalty rate of 3% of expected revenues (while taking the abandonment rate of subscriptions into consideration).

Tax rate

We assumed that the Company's profits will be taxed according to the Israeli company tax rate, namely, 26.5%. We disregarded carry-forward tax losses, which do not form part of the customer relationships asset.

Discount rate

Yes's weighted discount rate is estimated at 8.5%. This rate encompasses the risks reflected in the cash flow and in the realization of the Company's expected cash flow. The Company's cash flow includes both its cash flow from existing customers and its cash flow from future customers. In our assessment, the risk level of the cash flow that stems from existing customers is similar to that of future customers. Therefore, the discount rate used by us in discounting revenues from customer relationships was estimated by us at 8.5%.

The useful life of the customer relations asset and the rate of amortization

The economic useful life of the customer relationships as previously stated is set to 7 years, and amortization is to be effected according to the trend of existing customer abandonment, with the aforementioned trend being spread over an amortization period of 7 years, as follows: years 1-2 - 20%; years 3-4 - 15%; years 5-7 - 10%.

Inclusion of tax benefit in asset value

it was assumed that the asset's amortization will be recognized for tax purposes throughout the asset's estimated period of amortization for tax purposes. The tax benefit from the amortization of customer relationships was calculated under the assumption of a linear amortization of the intangible asset over a period of 10 years, according to the period of amortization for tax purposes of goodwill.

Brand

Brand

Brand fair value estimate - Results

Following are the results of the estimated value of the brand intangible asset:

Estimated fair value of brand	NIS Millions
Present Value of brand Royalty Flows, before tax benefit	287
Value of tax benefit	60
Fair value plus tax benefit	**347**

Appendix B is attached hereto, and includes the cash flows projection used for the valuation of this intangible asset.

Method chosen for estimating the value of the brand

The brand's fair value estimate was carried out using the Relief from Royalties method, which is one of the types of the Income Approach, as described above. Under this approach, the value of the asset is estimated as the current value of adequate royalties which the entity would have had to pay to a third party for the use thereof, had it not been the owner of that asset. Normally, royalties paid for the use of an asset such as a brand are paid out of the entity's revenues in each year. Therefore, the revenues projection of the brand activity was based on the projection of revenues from the Yes brand.

Revenue projection

It was assumed that all of the projected revenues of the Company are ascribed to the Yes brand name.

The analysis of revenues was carried out based on the future operation projection received from Bezeq's management. For more information about the assumptions used for formulating this projection, see the valuation performed for the Company.

Royalty rate

The rate of savings on royalties is estimates based on several information sources, as follows:

- According to the royalty transactions database obtained from ktmine.com (a website that contains a list of royalty transactions in various lines of business), the royalty rates for the brand asset in the communications segment normally range between 1%-10%. It should be noted that no royalty rates were found for the cable network television business.
- Two royalty transactions were found in the television business at royaltysource.com. In the first transaction, a usage license was granted in CBS's name in exchange for royalties equal to 7% of the revenues, and in the second transaction a usage license was granted in Virgin's name in exchange for royalties equal to 0.25%.
- The royalty rate as determined in the Yes's previous PPA, which was prepared in 2009, was determined according to the work prepared by Itzhak Suari Ltd., and was equal to 2%.
- A common rule of thumb assumes that approx. 25% of the operating profit can be ascribed to brand-based royalties. According to the cash flow projections, the operating profit ranges between 12-16%, and, in the representative year, the operating profit amounts to 15%. According to these data, the rate of brand-based royalties should be between 3%-4%.

In our assessment, branding is highly significant in the Israeli multi-channel television industry. Moreover, Yes's ARPU has been higher than Hot's ARPU over the past few years. We were informed by the Company that Yes's ability to collect excess premiums relative to its principal competitor, HOT, stems from the high-quality service it provides to its customers relative to its competitor, which uses outsourcing services in order to reduce costs, and from the creation of a preferable user experience, both in terms of technology and in terms of the better quality and diversity of the contents provided by the Company to its customers relative to HOT.

Based on our review of the data and the information sources mentioned above, it appears that the suitable royalty rate for the Yes brand name is **3%.**

Brand (cont'd)

Tax rate

We assumed that the Company's profits will be taxed according to the Israeli company tax rate, namely, 26.5%. We disregarded carry-forward tax losses, which do not form part of this asset.

Discount rate

In our assessment, the risk level of the cash flow generated by the brand is higher than the Company's average risk level. Therefore, theoretical brand-generated royalties were discounted at a discount rate of 9.5%, which is derived from a weighted discount rate (WACC) of 8.5%, plus a 1% margin.

Useful life

The brand's useful life assumed by the model is 12 years, both in light of the limited useful life of communications brands in the past (*Tevel*, Golden Channels, *Matab*, etc.), and owing to the difficulty of estimating the development of the various parameters that pertain to an estimate that is beyond this period.

Tax benefit

The asset's fair value estimate should include the tax shield that stems from the asset's amortization. It was assumed, for the purposes of this Work, that the estimated asset can be amortized for tax purposes for a period of 10 years.

9. Appendices

Appendix A - Customer Relationships Valuation (in NIS millions)

NIS millions	Actual 2014	Actual Q1/15	Projected Q2-Q4/15	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Estimated total revenues from Yes products	1724	440	1,309	1,765	1,737	1,731	1,748	1,766	1,783	1,801	1,819	1,837
Growth rate			1.5%	0.9%	-1.6%	-0.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Survivorship of customer			95%	84%	73%	63%	55%	48%	41%	36%	31%	27%
Revenues from existing customers, net		**440**	**1,244**	**1,483**	**1,266**	**1,094**	**958**	**839**	**735**	**643**	**563**	**493**
Operating profit margin (%)			19.8%	19.0%	17.9%	18.0%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%
Operating profit			**246**	**282**	**227**	**197**	**172**	**150**	**132**	**115**	**101**	**88**
	Royalty Rate											
Return on brand	3.0%		(37)	(45)	(38)	(33)	(29)	(25)	(22)	(19)	(17)	(15)
Operating profit net of return on brand			**209**	**238**	**189**	**164**	**143**	**125**	**110**	**96**	**84**	**74**
Tax expense	26.5%		(55)	(63)	(50)	(44)	(38)	(33)	(29)	(25)	(22)	(19)
After tax operating cash flow			**154**	**175**	**139**	**121**	**105**	**92**	**81**	**71**	**62**	**54**
	Royalty Rate											
Return on working capital	1.5%		5	5	5	4	4	3	3	2	2	2
Return on fixed assets	3.3%		(19)	(22)	(19)	(16)	(14)	(13)	(11)	(10)	(8)	(7)
Return on broadcasting rights	3.3%		(10)	(12)	(10)	(9)	(8)	(7)	(6)	(5)	(4)	(4)
Return on assembled workforce	8.5%		(3)	(3)	(3)	(2)	(2)	(2)	(2)	(1)	(1)	(1)
Net cash flow for discounting			**127**	**143**	**112**	**97**	**85**	**74**	**65**	**57**	**50**	**44**
Years to discount			0.38	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Discount factor	**8.5%**		1.03	1.11	1.20	1.30	1.41	1.53	1.67	1.81	1.96	2.13
Net discounted cash flow			**123**	**129**	**93**	**75**	**60**	**48**	**39**	**31**	**25**	**20**

Calculation summary	
Present Value of Customer Relationship Flows, before tax benefit	645
Value of tax benefit	144
Fair value plus tax benefit	**790**

Appendix B - Brand Valuation (in NIS millions)

		Actual 2014	Actual Q1/15	Projected Q2-Q4/15	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected Q1/2027
Projection of revenues from Yes brand		1,724	440	1,309	1,749	1,765	1,737	1,731	1,748	1,766	1,783	1,801	1,819	1,837	1,856	1,874	476
Growth rate					*1.5%*	*0.9%*	*-1.6%*	*-0.3%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Pretax relief from royalty	**3.0%**			**39**	**52**	**53**	**52**	**52**	**52**	**53**	**54**	**54**	**55**	**55**	**56**	**56**	**14**
Tax expenses	26.5%			(10)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(15)	(15)	(15)	(4)
Aftertax royalty				**29**	**39**	**39**	**38**	**38**	**39**	**39**	**39**	**40**	**40**	**41**	**41**	**41**	**10**
Years to discount				0.38		1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25	10.25	11.25	11.88
Discount factor	**9.5%**			1.0		1.1	1.2	1.3	1.5	1.6	1.8	1.9	2.1	2.3	2.5	2.8	2.9
Discounted cash flow net of tax				**28**		**35**	**31**	**28**	**26**	**24**	**22**	**21**	**19**	**17**	**16**	**15**	**4**

Calculation summary	
Present value of cash flow	287
Tax shield	60
Fair value plus tax benefit	**347**

Appendix C - WARA Calculation (in NIS millions)

WARA calculation:	NIS thousands	Discount rate	Weight
Working capital, net	-303	1.5%	-0.1%
Fixed assets	801	3.3%	0.7%
Intangible assets in Yes's books	148	8.5%	0.3%
Broadcasting rights net of rights exercised	449	3.3%	0.4%
Deferred tax asset for tax losses	1,087	8.5%	2.5%
Customer relationships	580	8.5%	1.4%
Brand	255	9.5%	0.7%
Goodwill (residual value)	609	14.9%	2.5%
Enterprise Value	**3,626**		**8.5%**
Less total financial liabilities and other assets/liabilities, net:	(1,769)		
Total cost of business combination	**1,857**		

Appendix - Estimate of Additional Consideration for Tax Losses

NIS millions	Total before weighting of probability	Average probability according to the Barzilay Opinion	Total after weighting of probability
Tax loss components and estimated probability (according to the Barzilay Opinion) of loss recognition for each component:			
Business losses, without financing losses	3,084	**100%**	3,084
Losses from financing expenses for Bezeq's loans	1,803 (*)	**50%**	902
Losses from financing expenses for Eurocom's loans	522 (**)	**50%**	261
Total tax losses	5,409		**4,247**
Plus financing income to be included in total loss in accordance with Section 8C of the draft agreement			**902**
Total tax losses in view of Section 8C of the draft agreement			**5,148**
Deduction for loss amortization risks due to debt waiver (according to the Barzilay Report)			
Deduction for loss due to waiver of Bezeq 's debt	(2,296)(***)	**10%**	(230)
Deduction for loss due to waiver of Eurocom 's debt	(1,338)(****)	**50%**	(669)
Subtotal	(3,635)		**(899)**
Total weighted callable losses, before Ben Ari Rule weighting	1,774		**4,249**
Deduction for loss amortization risks due to Ben Ari Rule (according to the Barzilay Report)			
Non-deduction of Company losses for Eurocom's share (Ben Ari Rule)	(1,549)(*****)	**10%**	(155)
Total callable weighted losses	226		**4,094**
Estimated future consideration for tax losses based on the agreement's formula			91
Liability maturity date (in years)			1.5
Plus interest and linkage differences in accordance with the agreement (4% for each year beyond the first year)			2
Discounting – consideration			93
Years to discount	WACC		1.5
Discount factor	7.00%		1.11
Estimated Present value of future consideration for tax losses			**84**

(*) Balance of financing expenses accumulated in Yes for Bezeq's shareholder loans until March 31, 2015.

(**) Balance of financing expenses accumulated in Yes for Eurocom's shareholder loans until March 31, 2015.

(***) As at March 31, 2015, Bezeq's owner's debt balance amounts to NIS 3,372 million. According to the Barzilay Opinion, amortization, if carried out, shall be effected net of the value of Bezeq's share owing to its share in Yes (approx. NIS 1,077 million).

(****) As at March 31, 2015, Eurocom's owner's debt balance amounts to NIS 1,521 million. According to the Barzilay Opinion, amortization, if carried out, shall be effected net of the value of Eurocom's basic consideration for the transaction (approx. NIS 183 million).

(*****) According to the Barzilay Opinion, under the Ben Ari precedent, it is possible that only the business losses equal to the holding percentage of Bezeq prior to the merger transaction will be permitted. Namely, 49.8% of the overall business loss will be recognized, whereas 50.2% of the overall business loss (which amounts to NIS 3,084 million) for Eurocom's share will not be deductible.

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Fahn Kanne Consulting is a subsidiary of Fahn, Kanne & Co., which is one of the six largest accounting firms in Israel. Fahn Kanne Consulting provides first-class financial, accounting and business consultation services, as well as financial and accounting management and control services to organizations and companies.

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