Bezeq - The Israel Telecommunication Corp. Ltd.

Board of Directors' Report on the State of the Company's Affairs for the Period Ended September 30, 2015

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We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group") for the nine months ended September 30, 2015 ("the Period") and the three months then ended ("the Quarter").

The Board of Directors' report includes a condensed review of its subject-matter, and was prepared assuming the Board of Directors' report of December 31, 2014 is also available to the reader.

On March 23, 2015, the Company assumed control of D.B.S. Satellite Services (1998) Ltd. ("DBS"). As of that date, DBS is consolidated in the Company's statements. On June 24, 2015, the Company completed its acquisition of Eurocom's remaining holdings in DBS, and as of that date the Company holds all rights to DBS's shares ("DBS's First Time Consolidation"). The effects of DBS's operations on the Group's income statement for the three months ended March 31, 2015 were included under the 'Share in the earnings of investees accounted for under the equity method" item.

For more information, see Note 4.2 to the financial statements.

In its financial statements, the Group reports on four main operating segments:

1. **Domestic Fixed-Line Communications**
2. **Cellular Communications**
3. **International Communications, Internet and NEP Services**
4. **Multi-Channel Television**

It is noted that the Company's financial statements also include an "Others" segment, which comprises mainly online content and commerce services (through "Walla") and contracted call center services (through "Bezeq Online"). The "Others" segment is immaterial at the Group level.

The Group's results were as follows:

	1-9.2015	1-9.2014	Increase (decrease)		7-9.2015	7-9.2014	Increase (decrease)	
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%
Profit	**1,352**	1,695	(343)	(20.2)	**407**	428	(21)	(4.9)
EBITDA (operating profit before depreciation and amortization)	**3,307**	3,553	(246)	(6.9)	**1,109**	998	111	11.1

Results for the corresponding period include gains on the sale of all holdings in the shares of Coral-Tell Ltd. and a provision for termination of employment by way of early retirement (see Note 10 to the financial statements). As of the second quarter of 2015, revenues, expenses and cash flows for the reporting Period and Quarter include the results of Multi-Channel Television operations, as detailed below.

1. The Board of Directors' explanations on the state of the Company's affairs, the results of its operations, equity, cash flows, and additional matters

1.1 Financial position

	30.9.2015	30.9.2014	Increase (decrease)		
	NIS millions	NIS millions	NIS millions	%	Explanation
Cash and current investments	**2,156**	4,094	(1,938)	(47.3)	The decrease was mainly attributable to the Domestic Fixed-Line Communications segment, including the acquisition of DBS's shares and loans to the amount of NIS 680 million. However, the decrease was partially offset by DBS's First-Time Consolidation to the amount of NIS 346 million. For more information, see Section 1.3 - Cash Flows, below.
Current and non-current trade and other receivables	**3,060**	3,078	(18)	(0.6)	The decrease was mainly due to a reduction in trade receivables balances in the Cellular Communications segment, caused by a reduction in service revenues including revenues from hosting services and a reduction in installment-based terminal equipment sales. The decrease was mostly offset, mainly by DBS's First Time Consolidation to the amount of NIS 181 million.
Other current assets	**96**	116	(20)	(17.2)	The decrease was attributable to a reduction in held-for-sale assets in the Domestic Fixed-Line Communications segment.
Broadcasting rights	**458**	-	458	-	Balance from DBS's First Time Consolidation.
Property, plant and equipment	**6,975**	6,052	923	15.3	The increase was mainly due to DBS's First Time Consolidation to the amount of NIS 784 million. Furthermore, property, plant and equipment balances increased in the Domestic Fixed-Line Communications segment.
Goodwill and intangible assets	**3,613**	1,810	1,803	99.6	The increase was due to the DBS's First Time Consolidation, mainly comprising goodwill, customer relations and brand value (see Note 4.2.4 to the financial statements).
Investments in investees as per the equity method	**27**	1,043	(1,016)	(97.4)	The decrease was due to the reversal of DBS's investment, presented as per the equity method, and its first time consolidation.
Deferred tax assets	**860**	6	854	-	After completing the acquisition of DBS, the Company attributed surplus acquisition costs to a deferred tax asset, net (See Note 4.2.4d to the financial statements).
Other non-current assets	**361**	340	21	6.2	
Total assets	**17,606**	16,539	1,067	6.5	

1.1 Financial Position (contd.)

	30.9.2015 NIS millions	30.9.2014 NIS millions	Increase (decrease) NIS millions	 %	Explanation
Debt to financial institutions and debenture holders	**11,077**	10,363	714	6.9	The increase was attributable to DBS's First Time Consolidation (including attributed excess acquisition costs) to the amount of NIS 1.9 billion. The increase was partially offset by loan and debenture repayments in the Domestic Fixed-Line and Cellular Communications segments.
Liabilities towards Eurocom D.B.S. Ltd.	**101**	-	101	-	Obligation to pay a contingent consideration in a business combination (see Note 4.2.1 to the financial statements).
Trade and other payables	**1,822**	1,359	463	34.1	The increase was due to DBS's First Time Consolidation to the amount of NIS 528 million.
Other liabilities	**2,581**	2,793	(212)	(7.6)	The decrease was attributable to the Domestic Fixed-Line Communications segment, mainly due to a decrease in dividends payable, partially offset by an increase in current and deferred tax liabilities
Total liabilities	**15,581**	14,515	1,066	7.3	
Total equity	**2,025**	2,024	1	-	Equity comprises 11.5% of the balance sheet total, as compared to 12.2% of the balance sheet total on September 30, 2014.

1.2 Results of operations

1.2.1 Highlights

	1-9.2015	1-9.2014	Increase (decrease)		7-9.2015	7-9.2014	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Revenues	**7,379**	6,793	586	8.6	**2,602**	2,232	370	16.6	The increase was due to DBS's First Time Consolidation, to the amount of NIS 885 million in the Period and NIS 446 million in the Quarter, and increased revenues in the Domestic Fixed-Line Communications segment and the International Communications, Internet and NEP Services segment. The increase was materially offset by lower revenues in the Cellular Communications segment.
Depreciation and amortization	**1,225**	960	265	27.6	**457**	327	130	39.8	The increase was mainly due to DBS's First Time Consolidation, to the amount of NIS 158 million in the Period and NIS 78 million in the Quarter, and a write-down of excess acquisition costs incurred when assuming control.
Labor costs	**1,442**	1,328	114	8.6	**506**	437	69	15.8	The increase was due to DBS's First Time Consolidation, to the amount of NIS 131 million in the Period and NIS 69 million in the Quarter. The increase was partially offset by lower expenses in the Cellular Communications segment.
General and operating expenses	**2,801**	2,513	288	11.5	**1,000**	822	178	21.7	The increase was due to DBS's First Time Consolidation, to the amount of NIS 452 million in the Period and NIS 225 million in the Quarter. The increase was partially offset by lower expenses in the Cellular Communications segment and in the Domestic Fixed-Line Communications segment.
Other operating income, net	**171**	601	(430)	(71.5)	**13**	25	(12)	(48.0)	The last-year period includes NIS 582 million in gains on the sale of Coral-Tell Ltd. shares, which were partially offset by provisions for termination of employment by way of early retirement recognized in the Domestic Fixed-Line Communications segment in the last-year period.
Operating profit	**2,082**	2,593	(511)	(19.7)	**652**	671	(19)	(2.8)	
Finance expenses, net	**266**	113	153	135.4	**100**	39	61	156.4	Net expenses were up, mainly due to finance income from shareholder loans to DBS recognized in the second and third quarters of 2014 (NIS 63 million and NIS 61 million, respectively). As of April 1, 2015, this income is no longer recognized following the first-time consolidation and the first-time inclusion of DBS's expenses, to the amount of NIS 49 million, in the Period. Furthermore, expenses were up in the present Quarter in the Domestic Fixed-Line Communications segment. The increase was partially offset by finance income recorded in the present Quarter following a reduction in the annual interest rate on DBS's debentures (see Note 4.2.6 to the financial statements).
Share in the gains (losses) of investees	**15**	(132)	147	-	**(1)**	(34)	33	(97.1)	Following DBS's First-Time Consolidation in the second quarter of 2015, this item only includes the effects of the above segment's results in the first quarter of 2015.
Income tax	**479**	653	(174)	(26.6)	**144**	170	(26)	(15.3)	The decrease was due to a reduction in pre-tax profit, which in the present Period was mainly due to gains on the sale of Coral-Tell Ltd. shares which were included in the last-year period
Profit for the period	**1,352**	1,695	(343)	(20.2)	**407**	428	(21)	(4.9)	

1.2.2 Operating segments

A Revenue and operating profit data, presented by the Group's operating segments:

	1-9.2015		1-9.2014		7-9.2015		7-9.2014	
	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues
Revenues by operating segment								
Domestic Fixed-Line Communications	**3,319**	**45.0**	3,231	47.6	**1,101**	**42.3**	1,081	48.4
Cellular Communications	**2,177**	**29.5**	2,584	38.0	**729**	**28.0**	824	36.9
International Communications, Internet and NEP Services	**1,173**	**15.9**	1,105	16.3	**389**	**15.0**	385	17.2
Multi-Channel Television	**1,325**	**17.9**	1,284	18.9	**446**	**17.1**	432	19.4
Other and offsets*	**(615)**	**(8.3)**	(1,411)	(20.8)	**(63)**	**(2.4)**	(490)	(21.9)
Total	**7,379**	**100.0**	6,793	100.0	**2,602**	**100.0**	2,232	100.0

	1-9.2015		1-9.2014		7-9.2015		7-9.2014	
	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues	NIS millions	% of total revenues
Operating profit by segment								
Domestic Fixed-Line Communications	**1,721**	**51.9**	1,473	45.6	**512**	**46.5**	498	46.1
Cellular Communications	**146**	**6.7**	375	14.5	**61**	**8.4**	122	14.8
International Communications, Internet and NEP Services	**182**	**15.5**	175	15.8	**59**	**15.2**	59	15.3
Multi-Channel Television	**203**	**15.3**	215	16.7	**74**	**16.6**	76	17.6
Other and offsets*	**(170)**	**-**	355**	-	**(54)**	**-**	(84)	-
Consolidated operating profit/ % of Group revenues	**2,082**	**28.2**	2,593	38.2	**652**	**25.1**	671	30.1

(*) Offsets are mainly for periods when results from Multi-Channel Television operations were included as an associate company.

(**) Including NIS 582 million in gains on the sale of Coral-Tell Ltd.'s shares.

1.2.2 Operating segments

B Domestic Fixed-Line Communications Segment

	1-9.2015 NIS millions	1-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	7-9.2015 NIS millions	7-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Fixed-line telephony	1,194	1,259	(65)	(5.2)	395	418	(23)	(5.5)	The decrease was mainly due to a reduction in ARPU.
Internet - infrastructure	1,155	1,030	125	12.1	385	353	32	9.1	The increase was mostly attributable to growth in the number of internet subscribers and higher average revenues per user.
Transmission, data communications and others	970	942	28	3.0	321	310	11	3.5	
Total revenues	3,319	3,231	88	2.7	1,101	1,081	20	1.9	
Depreciation and amortization	540	518	22	4.2	184	178	6	3.4	
Labor costs	685	678	7	1.0	232	227	5	2.2	
General and operating expenses	542	581	(39)	(6.7)	186	203	(17)	(8.4)	The decrease was mainly due to a reduction in call completion fees to telecom operators, building maintenance costs, and consultancy costs.
Other operating income, net	169	19	150	-	13	25	(12)	(48.0)	Net income in the Period was up, mainly due to an expense of NIS 133 million recognized in the last-year period for termination of employment by way of early retirement and an increase in capital gains on property sales. In the present Quarter, capital gains on property sales were down.
Operating profit	1,721	1,473	248	16.8	512	498	14	2.8	
Finance expenses, net	313	320*	(7)	(2.2)	138	117*	21	17.9	Finance expenses were up in the present Quarter, mainly due to finance expenses from the fair value of future long-term credit from banks (see Note 5.1 to the financial statements). On the other hand, interest expenses were down (in the Quarter and Period) following debenture and loan repayments.
Taxes on income	424	344	80	23.3	118	118	-	-	Expenses in the present Period were up, mainly due to an increase in pre-tax profit.
Segment profit	984	809	175	21.6	256	263	(7)	(2.7)	

* Re-stated, see Note 12.1 to the financial statements.

1.2.2 Operating segments

C Cellular Communications segment

	1-9.2015 NIS millions	1-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	7-9.2015 NIS millions	7-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Services	**1,522**	1,869	(347)	(18.6)	**521**	610	(89)	(14.6)	The decrease was due to a NIS 156 million reduction in hosting services revenues in the present period (NIS 52 million in the present Quarter), following termination of the contract with HOT Mobile in December 2014. The decrease was further due to a reduction in the number of subscribers, lower rates due to increased market competition, and migration of existing customers to cheaper bundles at current market prices, both of which lowered ARPU. The decrease in revenues in the Quarter was partially offset by a one-time refund from the tax authorities.
Terminal equipment sales	**655**	715	(60)	(8.4)	**208**	214	(6)	(2.8)	The decrease was mainly due to a reduction in terminal equipment sales volumes, partially offset in the present Period by higher selling prices and a change in the sales mix.
Total revenues	**2,177**	2,584	(407)	(15.8)	**729**	824	(95)	(11.5)	
Depreciation and amortization	**319**	319	-	-	**109**	108	1	0.9	
Labor costs	**282**	312	(30)	(9.6)	**90**	100	(10)	(10.0)	The decrease was mainly attributable to a reduction in the workforce.
General and operating expenses	**1,430**	1,578	(148)	(9.4)	**469**	494	(25)	(5.1)	The decrease was mainly due to a reduction in rental costs, distribution fees, content-related costs, repairs and extended warranty services, and bad and doubtful debts. Furthermore, terminal equipment sales costs were down in the present Period, following a decrease in the number of items sold, but partially offset by an increase in costs due to changes to the sales mix and a decrease in advertising costs and credit fees. The decrease was partially offset by an increase in frequency leasing fees following the acquisition of 4G LTE frequencies.
Operating profit	**146**	375	(229)	(61.1)	**61**	122	(61)	(50.0)	
Finance income, net	**39**	49	(10)	(20.4)	**11**	14	(3)	(21.4)	The decrease in net finance income was mainly due to a reduction in the credit component of installment-based terminal equipment sales, which was partially offset by lower interest expenses due to a reduction in the average debt balance.
Income tax	**45**	110	(65)	(59.1)	**17**	36	(19)	(52.8)	The decrease was attributable to the reduction in income before taxes.
Segment profit	**140**	314	(174)	(55.4)	**55**	100	(45)	(45.0)	

1.2.2 Operating segments

D International Communications, Internet and NEP Services

	1-9.2015 NIS millions	1-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	7-9.2015 NIS millions	7-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenues	**1,173**	1,105	68	6.2	**389**	385	4	1.0	The increase was attributable to greater revenues from enterprise communication solutions (ICT), higher internet revenues due to growth in the number of subscribers, higher revenues from call transfers between global communication carriers, and an increase in revenues from data communication services. The increase was partially offset by a reduction in revenues from outgoing calls, mainly due to ongoing competition with cellular operators.
Depreciation and amortization	**98**	97	1	1.0	**33**	32	1	3.1	
Labor costs	**226**	222	4	1.8	**75**	75	-	-	The increase in the present Period was mainly attributable to an increase in the number of employees providing outsourced services in ICT operations.
General and operating expenses	**667**	611	56	9.2	**222**	219	3	1.4	The increase was attributable to an increase in internet service costs, call transfers between global communication carriers, and data communication services. In the Period, the increase was also attributable to an increase in ICT equipment costs, corresponding with the above revenues.
Operating profit	**182**	175	7	4.0	**59**	59	-	-	
Finance expenses, net	**6**	7	(1)	(14.3)	**3**	2	1	50.0	
Share in the earnings of associates	**-**	1	(1)	(100)	**-**	-	-	-	
Tax expenses	**46**	45	1	2.2	**15**	15	-	-	
Segment profit	**130**	124	6	4.8	**41**	42	(1)	(2.4)	

1.2.2 Operating segments

E Multi-Channel Television

	1-9.2015 NIS millions	1-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	7-9.2015 NIS millions	7-9.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenues	**1,325**	1,284	41	3.2	**446**	432	14	3.2	This increase was mainly attributable to an increase in the average number of subscribers.
Depreciation and amortization	**234**	218	16	7.3	**78**	75	3	4.0	
Labor costs	**200**	197	3	1.5	**69**	67	2	3.0	
General and operating expenses	**688**	654	34	5.2	**225**	214	11	5.1	The increase was mainly attributable to an increase in utilized broadcasting rights, content-related costs, space segments, and advertising costs.
Operating profit	**203**	215	(12)	(5.6)	**74**	76	(2)	(2.6)	
Finance expenses (income), net	**47**	87	(40)	(46)	**(6)**	26	(32)	-	The decrease in expenses was mainly attributable to finance income following a reduction in interest rates on debentures (see Note 4.2.6 to the financial statements). In the present Period, the decrease was also attributable to linkage differences on debentures following the decrease in the CPI in the present Period, as compared to a CPI increase in the last-year period.
Finance expenses for shareholder loans, net	**399**	362	37	10.2	**155**	136	19	14.0	The increase in expenses was attributable to an increase in interest and factoring expenses, partially offset in the present Period by lower linkage differences.
Tax expenses	**1**	1	-	-	**-**	-	-	-	
Segment loss	**(244)**	(235)	(9)	3.8	**(75)**	(86)	11	(12.8)	

1.3 Cash flow

	1-9.2015 NIS millions	1-9.2014 NIS millions	Change NIS millions	Change %	7-9.2015 NIS millions	7-9.2014 NIS millions	Change NIS millions	Change %	Explanation
Net cash from operating activities	**2,851**	3,057	(206)	(6.7)	**1,050**	950	100	10.5	The change in net cash from operating activities was mainly attributable to the Cellular Communications segment, due to lower net profits and a more moderate decrease in trade receivables balances. The decrease was partially offset (and in the Quarter - entirely offset) by DBS's First Time Consolidation to the amount of NIS 251 million in the Period and NIS 145 million in the Quarter. Furthermore, cash flows from operating activities in the Domestic Fixed-Line Communications Segment were down in the Period, but up in the Quarter.
Net cash from (used in) investing activities	**220**	(1,579)	1,799	-	**(558)**	(1,022)	464	(45.4)	The increase in net cash from investing activities was due to an increase in the net proceeds on the sale of held-for-trade financial assets in the Domestic Fixed-Line Communications segment (in the Quarter - a decrease in net purchases), and in the present Period was also due to NIS 299 million in cash recognized in the first quarter of 2015 from assuming control of DBS. The increase was partially offset by DBS's First Time Consolidation, to the amount of NIS 336 million in the Period and NIS 75 million in the Quarter, and frequency purchases in the Period and increased investment in the 4G network in Cellular Communications and the net proceeds received in the same period last year from the sale of holdings in Coral-Tell Ltd.'s shares.
Net cash from (used in) financing activities	**(2,701)**	(489)	(2,212)	-	**(288)**	998	(1,286)	-	The last-year quarter included a debenture issue by the Domestic Fixed-Line Communications segment, to the amount of NIS 1,146 million. In addition, the increase in net cash used in financing activities was due to payments to Eurocom DBS for the acquisition of DBS's shares and loans to the amount of NIS 680 million and an increase in debenture repayments in the Domestic Fixed-Line Communications segment in the present Period. The increase was also due to DBS's First Time Consolidation to the amount of NIS 206 million in the present Quarter (mainly debenture repayments) and NIS 59 million in the Period.
Net increase (decrease) in cash	**370**	989	(619)	(62.6)	**204**	926	(722)	(78.0)	

<u>Average volume in the reporting Period:</u>

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 10,963 million.

Supplier credit: NIS 894 million.

Short-term credit to customers: NIS 2,225 million. Long-term credit to customers: NIS 518 million.

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1.3. Cash flow (contd.)

As of September 30, 2015, the Group had a working capital deficit of NIS 1,217 million, as compared to a surplus of NIS 1,530 million on September 30, 2014.

According to its separate financial statements, the Company had a working capital deficit of NIS 2,282 million as of September 30, 2015, as compared to a working capital deficit of NIS 88 million on September 30, 2014.

The change in the Group's working capital was mainly attributable to the Domestic Fixed-Line Communications segment, mainly due to lower ongoing investments and cash balances and DBS's First Time Consolidation which brought in a working capital deficit of NIS 455 million.

The Company's Board of Directors has reviewed, among other things, the Company's cash requirements and resources, both at present and in the foreseeable future, has reviewed the Company's and the Group's investment needs, the Company's and the Group's available credit sources, and has conducted sensitivity analysis to unexpected deterioration in the Company and the Group's business. In this context, the Company's Board of Directors has determined that the aforesaid working capital deficit does not indicate any liquidity problem in the Company and the Group and that there is no reasonable concern that the Company and the Group will fail to meet their existing and foreseeable obligations on time (even in the event of unexpected deterioration in the Company's and the Group's business). The Company and the Group can meet their existing and foreseeable cash requirements, both through available cash balances, through cash from operating activities, through dividends from subsidiaries, through guaranteed credit facilities for 2016 and 2017 under pre-determined commercial terms, and by raising debt from bank and non-bank sources.

The above information includes forward-looking information, based on the Company’s assessments concerning its liquidity. Actual data may differ materially from these assessments if there is a change in any of the factors taken into account in making them.

2. Market Risk - Exposure and Management

2.1 DBS's consolidation increased the Group's exposure to CPI changes by NIS 2 billion; exposure to changes in the real NIS-based interest rate - by NIS 2 billion; exposure to changes in the USD exchange rate - by NIS 1 billion; and exposure to changes in the USD-based interest rate - by NIS 0.8 billion. In addition to the above, fair value sensitivity analysis data as of September 30, 2015 do not differ materially from sensitivity analysis data as of December 31, 2014.

2.2 CPI-linked liabilities increased by NIS 2 billion, mainly due to DBS's consolidation. In addition to the above, the linkage bases report as of September 30, 2015 does not differ materially from the report as of December 31, 2014.

3. Aspects of Corporate Governance

Disclosure concerning the financial statements' approval process

3.1 Committee

The Company's Financial Statements Review Committee is a separate committee which does not serve as the Audit Committee. The Committee comprises 4 members, as follows: Yitzhak Idelman, chairman (external director); Mordechai Keret (external director); Tali Simone (external director); and Dr. Yehoshua Rosenzweig (independent director). All Committee members have accounting and financial expertise. All Committee members have submitted a statement prior to their appointment. For more information concerning the directors serving on the Committee, see Chapter D of the Company's Periodic Report for 2014.

3.2 Financial statements approval process

A. The Financial Statements Review Committee discussed and finalized its recommendations to the Company's Board of Directors in its meetings of November 8, 2015, and November 15, 2015.

The Committee's meeting on November 8, 2015, was attended by all Committee members, Company CEO, Mrs. Stella Handler; Deputy CEO and CFO, Mr. Dudu Mizrahi; Company Comptroller, Mr. Danny Oz; the Internal Auditor, Mr. Lior Segal; the Legal Counsel, Mr. Amir Nachlieli; Mr. Rami Nomkin - director; the external auditors; and other Company officers.

The Committee's meeting of November 15, 2015 were attended by all the above, except Mr. Rami Nomkin - director.

B. The Committee reviewed, inter alia, the assessments and estimates made in connection with the financial statements; internal controls over financial reporting; full and proper disclosure in the financial statements; and the accounting policies adopted on material matters.

C. The Committee submitted its recommendations to the Company's Board of Directors in writing on November 15, 2015.

The Board of Directors discussed the Financial Statements Review Committee's recommendations and the financial statements on November 18, 2015.

D. The Company's Board of Directors believes that the Financial Statements Review Committee's recommendations were submitted a reasonable time (three days) prior to the Board meeting, taking into account the scope and complexity of these recommendations.

E. The Company's Board of Directors adopted the Financial Statements Review Committee's recommendations and resolved to approve the Company's financial statements for the third quarter of 2015.

4. Disclosure Concerning the Company's Financial Reporting

4.1 Disclosure of material valuations

The following table discloses a material valuation pursuant to Regulation 8B to the Securities Regulations (Periodic and Immediate Reports), 1970.

4.1.1 Valuation of Bezeq's investment in DBS:

(Attached to the financial statements as of March 31, 2015)

Subject of valuation	Value of Bezeq's investment in D.B.S. Satellite Services (1998) Ltd., in shares, share options, and various shareholder loans. The valuation was made as part of a Company transaction leading to Bezeq assuming control of DBS's shares.
Date of valuation	March 23, 2015; the valuation was signed on May 19, 2015.
Value prior to the valuation	The carrying amount of the Company's investment in DBS - NIS 1,064 million.
Value set in the valuation	NIS 1,076 million - value of Bezeq's investment in DBS.
Assessor's identity and profile	Fahn Kanne Consulting Ltd. The valuation was made by a team headed by Mr. Shlomi Bartov, CPA, partner and CEO of Fahn Kanne Consulting. Mr. Bartov has extensive experience in consulting and supporting some of the largest companies in Israel. Fahn Kanne Consulting is a subsidiary of Fahn Kanne & Co., a part of the Grant Thornton International Ltd. (GTIL) network, the special advisory services branch of the global Grant Thornton network specializing in spearheading international transactions, valuation and transaction consulting, global IPOs, executive consultancy and project financing. The assessor has no dependence on the Company.
Valuation model	The valuation was conducted using the income approach, using the discounted cash flows (DCF) method. Value was assigned to share capital and shareholder debt based on the repayment order of the new shareholder loans and the extent of the shareholder's investments.
Assumptions used in the valuation	Discount rate - 8.5% (post-tax). Permanent growth rate - 1%. Scrap value of total value set in valuation - 80%.

4.1.2 Purchase Price Allocation (PPA) Valuation:

(Attached to the financial statements as of June 30, 2015)

Subject of valuation	PPA upon assuming control of D.B.S. Satellite Services (1998) Ltd., by exercising the option to purchase 8.6% of the company's shares.
Date of valuation	March 23, 2015; the valuation was signed on August 26, 2015.

Value prior to the valuation	N/A
Value set in the valuation	Brand value (before assigning deferred taxes) - NIS 347 million. Customer relations value (before assigning deferred taxes) - NIS 790 million. Deferred tax asset net of deferred tax liabilities - NIS 831 million. Goodwill (100%) (residual value) - NIS 609 million.
Assessor's identity and profile	See above table - Section 4.1.1.
Valuation model	Fair value of customer relations was appraised using the income approach, using the multi-period excess earnings method. Fair value for the brand was appraised using the relief from royalties approach.
Assumptions used in the valuation	Customer relations - discount rate - 8.5% (post-tax). Brand - Discount rate - 9.5% (post-tax). Deferred tax asset, net - based on legal counsel concerning the utilization of DBS's losses carried forward.

4.2 Due to the material nature of legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

4.3 Material events subsequent to the financial statements' date

For information on material events subsequent to the financial statements' date, see Note 14 to the financial statements.

5. Details of debt certificate series

5.1 Debentures (Series 5 and 8)

	Debentures (Series 5)	Debentures (Series 8)
Repaid on June 1, 2015	NIS 397,827,674 par value	NIS 443,076,688 par value
Revaluated par value as of September 30, 2015	NIS 491,652,743	NIS 886,286,312
Fair and market value as of September 30, 2015	NIS 508,226,074	NIS 952,757,786

5.2 Subsequent to the financial statements' date, on October 15, 2015, the Company completed the issue of debentures (Series 9 and 10) based on a shelf offering report. Total proceeds (gross) were NIS 788,451,000, as follows:

	Gross proceeds (NIS)	Annual interest rate	Linkage terms
Series 9	388,451,000	3.65%	Unlinked
Series 10	400,000,000	2.2%	CPI-linked

Principal to be repaid in four unequal installments, as follows: In 2022 - 10%; in each of 2023-2025 - 30%. Interest payable twice a year, starting December 1, 2015.

For more information, see Note 5.3 to the financial statements.

5.3 Debentures (Series 5-10) are rated Aa2 Stable by Midroog Ltd. (“Midroog”) and ilAA/Stable by Standard & Poor’s Maalot Ltd. (“Maalot”). For current and historical ratings data for the debentures, see the immediate report of September 10, 2015 (ref. no. 2015-01-118998) (Midroog), and the immediate report of September 7, 2015 (ref. no. 2015-01-115938), and the immediate report of April 21, 2015 (ref. no. 2015-01-004083) (Maalot). The rating reports are included in this Board of Directors’ Report by way of reference.

6. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those companies consolidated in its financial statements as of September 30, 2015, see the Company's reporting form on the MAGNA system, dated November 19, 2015.

We thank the managers of the Group’s companies, its employees, and shareholders.

Shaul Elovitch Chairman of the Board	Stella Handler CEO

Date of signature: November 18, 2015