Bezeq - The Israel Telecommunication Corp. Ltd.

Board of Directors' Report on the State of the Company's Affairs for the Period Ended June 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 six month period ended June 30, 2015 ("the Six Month 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**

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:

	1-6.2015	**1-6.2014**	**Increase (decrease)**		**4-6.2015**	**4-6.2014**	**Increase (decrease)**	
	NIS millions	**NIS millions**	**NIS millions**	**%**	**NIS millions**	**NIS millions**	**NIS millions**	**%**
Profit	**945**	1,267	(322)	(25.4)	**482**	810	(328)	(40.5)
EBITDA (operating profit before depreciation and amortization)	**2,198**	2,555	(357)	(14.0)	**1,245**	1,553	(308)	(19.8)

Results for the corresponding period and quarter 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). For the first time, operating results for the present Quarter include the results of the Multi-Channel Television segment, 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

	June 30, 2015 NIS millions	June 30, 2014 NIS millions	Increase (decrease) NIS millions	%	Explanation
Cash and current investments	**1,825**	2,398	(573)	(23.9)	The decrease was mainly due to ongoing investments in the Domestic Fixed-Line Communications segment, and was partially offset by DBS's First Time Consolidation to the amount of NIS 470 million.
Current and non-current trade and other receivables	**3,127**	3,247	(120)	(3.7)	The decrease was due to a reduction in trade receivables balances in the Cellular Communications segment, caused by a reduction in revenues from services, including revenues from hosting services and a reduction in installment-based terminal equipment sales. The decrease was partially offset by DBS's First Time Consolidation to the amount of NIS 181 million.
Other current assets	**102**	113	(11)	(9.7)	The decrease was mainly attributable to a reduction in held-for-sale assets in the Domestic Fixed-Line Communications segment.
Broadcasting rights	**471**	-	471	-	Balance from DBS's First Time Consolidation.
Property, plant and equipment	**6,980**	6,060	920	15.2	The increase was mainly due to DBS's First Time Consolidation to the amount of NIS 789 million.
Goodwill and intangible assets	**3,692**	1,839	1,853	100.8	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	**28**	1,014	(986)	(97.2)	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	**854**	35	819	-	After completing the acquisition of DBS, the Company attributed surplus acquisition costs to a deferred tax asset, net (See Note 4.2.4 d to the financial statements).
Other non-current assets	**354**	334	20	6.0	
Total assets	**17,433**	15,040	2,393	15.9	

	June 30, 2015 NIS millions	June 30, 2014 NIS millions	Increase (decrease) NIS millions	%	Explanation
Debt to financial institutions and debenture holders	**11,368**	9,349	2,019	21.6	The increase was mainly due to DBS's First Time Consolidation (including attributed surplus acquisition costs) to the amount of NIS 2.1 billion.
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	**1,786**	1,289	497	38.6	The increase was due to DBS's First Time Consolidation to the amount of NIS 546 million.
Other liabilities	**1,598**	1,518	80	5.3	The increase was mainly attributable to the Domestic Fixed-Line Communications Segment, due to current and deferred tax liabilities.
Total liabilities	**14,853**	12,156	2,697	22.2	
Total equity	**2,580**	2,884	(304)	(10.5)	The decrease in total equity was mainly attributable to timing differences between accrual of earnings in the Company, and the distribution of such earnings as dividends. Equity comprises 14.8% of the balance sheet total, as compared to 19.2% of the balance sheet total on June 30, 2014.

1.2 Results of operations

1.2.1 Highlights

	1-6.2015 NIS millions	1-6.2014 NIS millions	Increase (decrease) NIS millions	%	4-6.2015 NIS millions	4-6.2014 NIS millions	Increase (decrease) NIS millions	%	Explanation
Revenues	**4,777**	4,561	216	4.7	**2,603**	2,250	353	15.7	The increase was due to DBS's First Time Consolidation in the present Quarter, to the amount of NIS 439 million, and increased revenues in the Domestic Fixed-Line Communications segment and the International Communications, Internet and NEP Services segment. The increase was partially offset by lower revenues in the Cellular Communications segment.
Depreciation and amortization	**768**	633	135	21.3	**451**	319	132	41.4	The increase was mainly due to DBS's First Time Consolidation in the present Quarter to the amount of NIS 80 million, and a write-down of surplus acquisition costs incurred when assuming control.
Labor costs	**936**	891	45	5.1	**497**	443	54	12.2	The increase was due to DBS's First Time Consolidation to the amount of NIS 62 million. The increase was partially offset by lower expenses in the Cellular Communications segment.
General and operating expenses	**1,801**	1,691	110	6.5	**1,002**	822	180	21.9	The increase was due to DBS's First Time Consolidation to the amount of NIS 227 million. 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	**158**	576	(418)	(72.6)	**141**	568	(427)	(75.2)	Net income was down due to NIS 582 million in gains recorded in the same quarter last year on the sale of Coral-Tell Ltd. shares. The decrease was partially offset, mainly by a provision recorded in the same quarter last year for termination of employment by way of early retirement in the Domestic Fixed-Line Communications segment.
Operating profit	**1,430**	1,922	(492)	(25.6)	**794**	1,234	(440)	(35.7)	
Finance expenses, net	**166**	74	92	-	**129**	32	97	-	Expenses were up mainly due to DBS's First Time Consolidation in the present Quarter, to the amount of NIS 55 million, and NIS 63 million in finance income from shareholder loans to DBS recognized in the same quarter last year.
Share in the gains (losses) of investees	**16**	(98)	114	-	**-**	(79)	79	(100)	Following DBS's First Time Consolidation in the present quarter, this item only includes the effects of this segment's results in the first quarter of 2015.
Income tax	**335**	483	(148)	(30.6)	**183**	313	(130)	(41.5)	The decrease was mainly due to taxes on gains from the sale of Coral-Tell Ltd.'s shares, included in the last-year quarter.
Profit for the period	**945**	1,267	(322)	(25.4)	**482**	810	(328)	(40.5)	

1.2.2 Operating segments

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

	1-6.2015		1-6.2014		4-6.2015		4-6.2014	
	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	**2,218**	46.4	2,150	47.1	**1,105**	42.4	1,073	47.7
Cellular Communications	**1,448**	30.3	1,760	38.6	**721**	27.7	843	37.4
International Communications, Internet and NEP Services	**784**	16.4	721	15.8	**391**	15.0	366	16.3
Multi-Channel Television	**879**	18.4	851	18.7	**439**	16.9	427	19.0
Other and offsets*	**(552)**	(11.5)	(921)	(20.2)	**(53)**	(2.0)	(459)	(20.4)
Total	**4,777**	100	4,561	100	**2,603**	100	2,250	100

	1-6.2015		1-6.2014		4-6.2015		4-6.2014	
	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	**1,209**	54.5	975	45.3	**662**	59.9	471	43.9
Cellular Communications	**85**	5.9	253	14.4	**53**	7.4	127	15.1
International Communications, Internet and NEP Services	**122**	15.6	116	16.1	**62**	15.9	58	15.8
Multi-Channel Television	**129**	14.7	140	16.5	**70**	15.9	67	15.7
Other and offsets*	**(115)**	-	438**	-	**(53)**	-	511**	-
Consolidated operating profit/ % of Group revenues	**1,430**	29.9	1,922	42.1	**794**	30.5	1,234	54.8

(*) 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

	1-6.2015 NIS millions	1-6.2014 NIS millions	Increase (decrease) NIS millions	%	4-6.2015 NIS millions	4-6.2014 NIS millions	Increase (decrease) NIS millions	%	Explanation
Fixed-line telephony	**799**	841	(42)	(5.0)	**396**	415	(19)	(4.6)	The decrease was mainly due to a reduction in ARPU.
Internet - infrastructure	**770**	677	93	13.7	**387**	345	42	12.2	The increase was mostly attributable to growth in the number of internet subscribers and higher average revenues per user.
Transmission, data communications and others	**649**	632	17	2.7	**322**	313	9	2.9	
Total revenues	**2,218**	2,150	68	3.2	**1,105**	1,073	32	3.0	
Depreciation and amortization	**356**	340	16	4.7	**180**	172	8	4.7	
Labor costs	**453**	451	2	0.4	**226**	228	(2)	(0.9)	
General and operating expenses	**356**	378	(22)	(5.8)	**176**	188	(12)	(6.4)	The decrease was mainly due to a reduction in building maintenance costs and call completion fees to telecom operators.
Other operating expenses (income), net	**(156)**	6	(162)	-	**(139)**	14	(153)	-	The difference was mainly due to an expense recognized in the last-year quarter for termination of employment by way of early retirement and an increase in capital gains on property sales.
Operating profit	**1,209**	975	234	24.0	**662**	471	191	40.6	
Finance expenses, net	**175**	203*	(28)	(13.8)	**100**	110*	(10)	(9.1)	Expenses were down mainly due to finance income from the fair value of future long-term credit from banks (see Note 5.1 to the financial statements).
Taxes on income	**306**	226	80	35.4	**180**	110	70	63.6	The increase was mainly attributable to an increase in pre-tax profit.
Segment profit	**728**	546	182	33.3	**382**	251	131	52.2	

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

1.2.2 Operating segments

C Cellular Communications segment

	1-6.2015 NIS millions	1-6.2014 NIS millions	Increase (decrease) NIS millions	%	4-6.2015 NIS millions	4-6.2014 NIS millions	Increase (decrease) NIS millions	%	Explanation
Services	**1,001**	1,259	(258)	(20.5)	**502**	622	(120)	(19.3)	The decrease was due to a NIS 104 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.
Equipment sales	**447**	501	(54)	(10.8)	**219**	221	(2)	(0.9)	The decrease was mainly due to a reduction in the number of items sold, partially offset by a change in the sales mix.
Total revenues	**1,448**	1,760	(312)	(17.7)	**721**	843	(122)	(14.5)	
Depreciation and amortization	**210**	211	(1)	(0.5)	**106**	105	1	1	
Labor costs	**192**	212	(20)	(9.4)	**96**	103	(7)	(6.8)	The decrease was mainly attributable to a reduction in the workforce.
General and operating expenses	**961**	1,084	(123)	(11.3)	**466**	508	(42)	(8.3)	The decrease was due to a reduction in most cost categories and mainly in terminal equipment costs, advertising, doubtful and bad debt, repair and expanded warranty services, rental costs, and content-related expenses.
Operating profit	**85**	253	(168)	(66.4)	**53**	127	(74)	(58.3)	
Finance income, net	**28**	35	(7)	(20)	**14**	17	(3)	(17.6)	
Income tax	**28**	74	(46)	(62.2)	**18**	38	(20)	(52.6)	The decrease was attributable to the reduction in income before taxes.
Segment profit	**85**	214	(129)	(60.3)	**49**	106	(57)	(53.8)	

1.2.2 Operating segments

D International Communications, Internet and NEP Services

	1-6.2015 NIS millions	1-6.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	4-6.2015 NIS millions	4-6.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenues	**784**	721	63	8.7	**391**	366	25	6.8	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	**65**	65	-	-	**33**	33	-	-	
Labor costs	**152**	148	4	2.7	**75**	73	2	2.7	This increase was mainly attributable to an increase in the number of employees providing outsourced services in ICT operations
General and operating expenses	**445**	392	53	13.5	**222**	202	20	9.9	The increase was due to an increase in ICT equipment costs, internet services, call transfers between global communication carriers, and data communication services, corresponding with the above revenues.
Operating profit	**122**	116	6	5.2	**62**	58	4	6.9	
Finance expenses, net	**3**	5	(2)	(40.0)	**2**	3	(1)	(33.3)	
Share in the earnings of associates	**-**	1	(1)	(100)	**-**	-	-	-	
Tax expenses	**30**	29	1	3.4	**15**	14	1	7.1	
Segment profit	**89**	83	6	7.2	**45**	41	4	9.8	

1.2.2 Operating segments

E Multi-Channel Television

	1-6.2015 NIS millions	1-6.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	4-6.2015 NIS millions	4-6.2014 NIS millions	Increase (decrease) NIS millions	Increase (decrease) %	Explanation
Revenues	**879**	851	28	3.3	**439**	427	12	2.8	This increase was mainly attributable to an increase in the average number of subscribers.
Depreciation and amortization	**156**	144	12	8.3	**80**	74	6	8.1	
Labor costs	**131**	130	1	0.8	**62**	68	(6)	(8.8)	
General and operating expenses	**463**	437	26	5.9	**227**	218	9	4.1	This increase was mainly due to an increase in utilized broadcasting rights, and content costs.
Operating profit	**129**	140	(11)	(7.9)	**70**	67	3	4.5	
Finance expenses, net	**53**	62	(9)	(14.5)	**55**	44	11	25.0	The decrease in the present period was mainly due to linkage differences on debentures due to a greater drop in the CPI in the present period, as compared to the same period last year. The increase in the present Quarter was due to a greater rise in the CPI in the present Quarter as compared to the same quarter last year.
Finance expenses for shareholder loans, net	**244**	226	18	8.0	**181**	137	44	32.1	Expenses were up in the Quarter due to higher expenses for linkage differences, interest and factoring. Expenses in the period were partially offset by lower linkage differences.
Tax expenses	**1**	1	-	-	**-**	1	(1)	(100)	
Segment loss	**(169)**	(149)	(20)	13.4	**(166)**	(115)	(51)	44.3	

1.3 Cash flow

	1-6.2015 NIS millions	1-6.2014 NIS millions	Change NIS millions	%	4-6.2015 NIS millions	4-6.2014 NIS millions	Change NIS millions	%	Explanation
Net cash from operating activities	**1,801**	2,107	(306)	(14.5)	**840**	1,064	(224)	(21.1)	The decrease 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 in net cash from operating activities was also attributable to the Domestic Fixed-Line Communications segment. The decrease was partially offset by DBS's First Time Consolidation in the present Quarter, to the amount of NIS 106 million.
Net cash from (used in) investing activities	**778**	(557)	1,335	-	**1,156**	(60)	1,216	-	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, and in the present period was also due to NIS 299 million in cash in the first quarter of 2015 from assuming control of DBS. The increase was partially offset by DBS's First Time Consolidation in the present Quarter, to the amount of NIS 262 million, which were mainly used to purchase held-for-trade financial assets, frequency purchases and increased investment in the 4G network in Cellular Communications and the net proceeds received in the same quarter last year from the sale of holdings in Coral-Tell Ltd.'s shares.
Net cash used in financing activities	**(2,413)**	(1,487)	(926)	62.3	**(2,338)**	(1,380)	(958)	69.4	The increase in net cash used in financing activities was mainly 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 following repayment of debentures (Series 8) in the present Quarter. The increase was partially offset by DBS's First Time Consolidation in the present Quarter, to the amount of NIS 147 million. This amount mainly included debenture issues (see Note 5.3 to the financial statements).
Net increase (decrease) in cash	**166**	63	103	163.5	**(342)**	(376)	34	(9.0)	

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

Long-term liabilities (including current maturities) to financial institutions and debenture holders: NIS 10,833 million.

Supplier credit: NIS 848 million.

Short-term credit to customers: NIS 2,222 million. Long-term credit to customers: NIS 520 million.

1.3. Cash flow (contd.)

As of June 30, 2015, the Group had a working capital deficit of NIS 472 million, as compared to a surplus of NIS 1,245 million on June 30, 2014.

According to its separate financial statements, the Company had a working capital deficit of NIS 1,667 million as of June 30, 2015, as compared to a working capital deficit of NIS 501 million on June 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 DBS's First Time Consolidation which brought in a working capital deficit of NIS 349 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 Fair value sensitivity analysis data as of June 30, 2015 do not differ materially from sensitivity analysis data as of December 31, 2014, except for the effect of DBS's consolidation, which 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.

2.2 The linkage bases report as of June 30, 2015 does not differ materially from the report as of December 31, 2014, except for a NIS 2 billion increase in CPI-linked liabilities, mainly due to DBS's consolidation.

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 August 4, 2015, August 10, 2015, and August 27, 2015.

The Committee's meeting on August 4, 2015, was attended by all Committee members and by the Chairman of the Board, Mr. Shaul Elovitch; Deputy CEO and CFO, Mr. Dudu

Mizrahi; Company Comptroller, Mr. Danny Oz; Corporate Secretary, Mrs. Linor Yochelman; 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 August 10, 2015, was attended by all the above, except for Dr. Rosenzweig. However, the August 10, 2015 meeting was also attended by Company CEO, Mrs. Stella Handler.

The Committee’s meeting on August 27, 2015, was attended by all Committee members and by the Chairman of the Board, Mr. Shaul Elovitch; Corporate Secretary, Mrs. Linor Yochelman; the Internal Auditor, Mr. Lior Segal; the Legal Counsel, Mr. Amir Nachlieli; the external auditors; and other Company officers.

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 August 27, 2015.

The Board of Directors discussed the Financial Statements Review Committee's recommendations and the financial statements on August 30, 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 second 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:

The valuation is appended to the financial statements.

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 June 30, 2015	NIS 490,176,126	NIS 886,286,312
Fair and market value as of June 30, 2015	NIS 514,034,372	NIS 948,592,240

5.2 Debentures (Series 5-8) 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 Company's immediate report (amended) of April 21, 2015 (ref. no. 2015-01-004083) and its immediate report of August 13, 2014 (ref. no. 2014-01-133185) (Maalot), and its immediate reports of December 28, 2014 (ref. no. 2014-01-232224) and March 5, 2015 (ref. no. 2015-01-045085) (Midroog). 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 June 30, 2015, see the Company's reporting form on the MAGNA system, dated August 31, 2015.

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

Shaul Elovitch	Stella Handler
Chairman of the Board	CEO

Date of signature: August 30, 2015