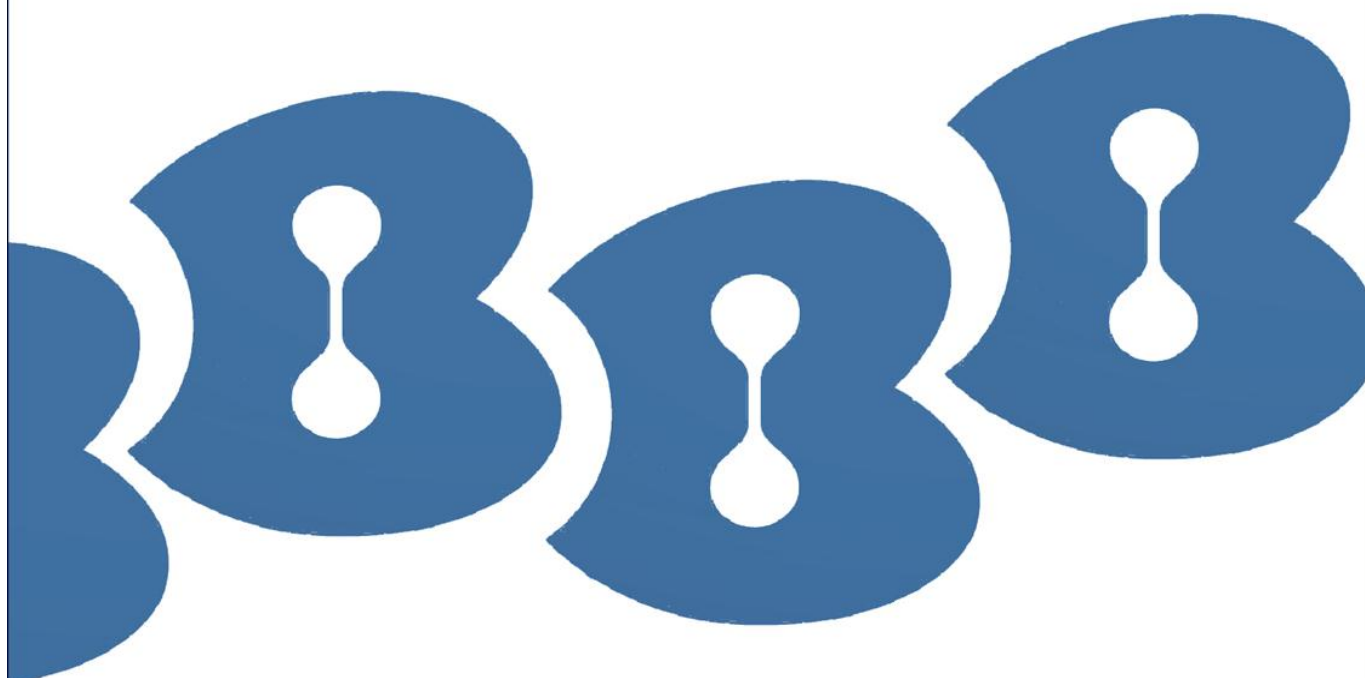


# **Bezeq The Israel Telecommunication Corporation Ltd.**

## **Condensed Separate Interim Financial Information as at September 30, 2015 (Unaudited)**



The information contained in these financial statements constitutes a translation of the financial statements published by the Company. 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. This translation was prepared for convenience purposes only.

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To:  
The Shareholders of "Bezeq"- The Israel Telecommunication Corporation Ltd.

**Subject: Special auditors' report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970**

*Introduction*

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq"- The Israel Telecommunication Corporation Ltd. (hereinafter – "the Company") as of September 30, 2015 and for the six and three month periods then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 594 million as of September 30, 2015, and the profit from this investee company amounted to NIS 5 million for the nine month period then ended. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

*Scope of Review*

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 5.

Somekh Chaikin  
Certified Public Accountants (Isr.)

November 18, 2015

**Condensed Separate Interim Financial Information as at September 30, 2015 (unaudited)**

**Condensed Interim Information of Financial Position**

	September 30, 2015	September 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
<b>Assets</b>			
Cash and cash equivalents	346	968	248
Investments, including derivatives	878	2,442	2,175
Trade receivables	756	714	720
Other receivables	103	184	107
Dividend receivable	172	295	-
Inventories	5	6	4
Loans provided to investees	289	262	261
Assets classified as held for sale	6	33	22
<b>Total current assets</b>	<b>2,555</b>	<b>4,904</b>	<b>3,537</b>
Investments	99	74	86
Trade and other receivables	147	29	51
Property, plant and equipment	4,749	4,574	4,620
Intangible assets	263	302	295
Investment in investees	7,070	6,202	6,325
Loans provided to investees	83	304	272
Deferred tax assets	-	121	-
<b>Total non-current assets</b>	<b>12,411</b>	<b>11,497</b>	<b>11,649</b>
<b>Total assets</b>	<b>14,966</b>	<b>16,401</b>	<b>15,186</b>

**Condensed Separate Interim Financial Information as at September 30, 2015 (unaudited)**

<b>Condensed Interim Information of Financial Position (contd.)</b>			
	<b>September 30, 2015</b>	<b>September 30, 2014</b>	<b>December 31, 2014</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS million</b>	<b>NIS million</b>	<b>NIS million</b>
<b>Liabilities</b>			
Debentures, loans and borrowings	<b>1,664</b>	1,568	1,570
Loan from an investee	<b>434</b>	434	-
Trade payables	<b>136</b>	100	167
Other payables, including derivatives	<b>580</b>	623	553
Current tax liabilities	<b>716</b>	581	590
Provisions (Note 5)	<b>53</b>	99	48
Employee benefits	<b>220</b>	320	223
Liability to Eurocom DBS Ltd, related party	<b>101</b>	-	-
Dividend payable	<b>933</b>	1,267	-
<b>Total current liabilities</b>	<b>4,837</b>	4,992	3,151
Debentures and loans	<b>7,673</b>	9,053	8,787
Loan from an investee	-	-	434
Employee benefits	<b>211</b>	198	203
Deferred tax liabilities	<b>42</b>	-	1
Derivatives	<b>109</b>	63	94
Other liabilities	<b>69</b>	71	75
<b>Total non-current liabilities</b>	<b>8,104</b>	9,385	9,594
<b>Total liabilities</b>	<b>12,941</b>	14,377	12,745
<b>Equity</b>			
Share capital	<b>3,864</b>	3,851	3,855
Share premium	<b>314</b>	222	253
Reserves	<b>365</b>	452	416
Deficit	<b>(2,518)</b>	(2,501)	(2,083)
<b>Total equity attributable to equity holders of the Company</b>	<b>2,025</b>	2,024	2,441
<b>Total liabilities and equity</b>	<b>14,966</b>	16,401	15,186

**Shaul Elovitch**  
Chairman of the

**Stella Handler**  
CEO

**David (Dudu) Mizrahi**  
Deputy CEO and CFO

Date of approval of the financial statements: November 18, 2015

The attached notes are an integral part of these condensed separate interim financial information.

## Condensed Separate Interim Financial Information as at September 30, 2015 (unaudited)

### Condensed Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Revenues (Note 2)</b>	<b>3,319</b>	3,231	<b>1,101</b>	1,081	4,317
<b>Cost of operations</b>					
Depreciation and amortization	540	518	184	178	688
Salaries	685	678	232	227	895
Operating and general expenses (Note 3)	542	581	186	203	777
Other operating income, net (Note 4)	(169)	(19)	(13)	(25)	(23)
<b>Cost of Activities</b>	<b>1,598</b>	1,758	<b>589</b>	583	2,337
<b>Operating profit</b>	<b>1,721</b>	1,473	<b>512</b>	498	1,980
<b>Financing expenses (income)</b>					
Financing expenses	333	355	142	125	472
Financing income	(20)	(35)*	(4)	(8)*	(72)*
Financing expenses, net	313	320	138	117	400
<b>Profit after financing expenses, net</b>	<b>1,408</b>	1,153	<b>374</b>	381	1,580
<b>Share in earnings of investees, net</b>	<b>368</b>	886*	<b>151</b>	165*	1,009*
<b>Profit before income tax</b>	<b>1,776</b>	2,039	<b>525</b>	546	2,589
<b>Taxes on income</b>	<b>424</b>	344	<b>118</b>	118	478
<b>Profit for the period attributable to the owners of the Company</b>	<b>1,352</b>	1,695	<b>407</b>	428	2,111

\* Reclassified due to changes in accounting policy, see Note 1.3

### Condensed Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	1,352	1,695	407	428	2,111
Items of other comprehensive income (loss) for the period, including actuarial and hedging income, net of tax	-	(33)	(33)	(24)	(36)
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>	<b>1,352</b>	1,662	<b>374</b>	404	2,075

The attached notes are an integral part of these condensed separate interim financial information.

**Condensed Separate Interim Financial Information as at September 30, 2015 (unaudited)**

**Condensed Interim Information of Cash Flows**

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Cash flows from operating activities</b>					
Profit for the period	1,352	1,695	407	428	2,111
Adjustments:					
Depreciation and amortization	540	518	184	178	688
Share in earnings of investees, net	(368)	(886)*	(151)	(165)*	(1,009)*
Financing expenses - net	318	329*	140	124*	432*
Profit from gaining control in an investee	(12)	-	-	-	-
Capital gain, net	(170)	(148)	(13)	(28)	(175)
Income tax expenses	424	344	118	118	478
Sundries	(6)	(1)	(3)	-	3
Change in trade and other receivables	(36)	60	40	11	59
Change in trade and other payables	(57)	28	54	44	85
Change in provisions	5	(11)	(5)	(8)	(62)
Change in employee benefits	(9)	96	2	(17)	3
Net cash (used in) from operating activities due to transactions with subsidiaries	(24)	(2)	(1)	4	5
Net income tax paid	(267)	(262)	(86)	(90)	(359)
<b>Net cash flows from operating activities</b>	<b>1,690</b>	<b>1,760</b>	<b>686</b>	<b>599</b>	<b>2,259</b>
<b>Cash flows from investing activities</b>					
Investment in intangible assets	(51)	(59)	(14)	(20)	(82)
Proceeds from the sale of property, plant and equipment	113	139	21	69	221
Acquisition of financial assets held for trading and others	(1,029)	(1,430)	(300)	(810)	(2,654)
Proceeds from the sale of financial assets held for trading and others	2,329	125	149	31	1,617
Purchase of property, plant and equipment	(601)	(568)	(216)	(190)	(740)
Sundries	(6)	(4)	(8)	(6)	(14)
Net cash from investment activities due to transactions with subsidiaries	223	598	26	9	931
<b>Net cash provided by (used in) investment activities</b>	<b>978</b>	<b>(1,199)</b>	<b>(342)</b>	<b>(917)</b>	<b>(721)</b>
<b>Cash flow from finance activities</b>					
Issue of debentures and receipt of loans	-	1,146	-	1,146	1,446
Repayment of debentures and loans	(802)	(373)	(50)	(50)	(920)
Dividend paid	(844)	(802)	-	-	(2,069)
Payment to Eurocom DBS for acquisition of shares and DBS loans	(680)	-	-	-	-
Interest paid	(217)	(234)	(17)	(21)	(421)
Sundries	(7)	(1)	4	4	3
Net cash (used in) from operating activities due to transactions with subsidiaries	(20)	434	-	-	434
<b>Net cash from operations (used for financing operations)</b>	<b>(2,570)</b>	<b>170</b>	<b>(63)</b>	<b>1,079</b>	<b>(1,527)</b>
Increase in cash and cash equivalents, net	98	731	281	761	11
Cash and cash equivalents at beginning of period	248	237	65	207	237
<b>Cash and cash equivalents at the end of the period</b>	<b>346</b>	<b>968</b>	<b>346</b>	<b>968</b>	<b>248</b>

\* Reclassified due to changes in accounting policy, see Note 1.3

The attached notes are an integral part of these condensed separate interim financial information.

## Notes to the Condensed Separate Interim Financial Information

**1. Manner of preparing financial information****1.1. Definitions**

The Company: Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2014.

**1.2. Principles used for preparing financial information**

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial statements for the year ended December 31, 2014 and in conjunction with the condensed interim consolidated financial statements as at September 30, 2015 ("the Consolidated Financial Statements").

Other than that provided in section 1.3 above, the accounting policies used in these condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2014.

**1.3. Changes in accounting policies**

As a result of completion of the acquisition transaction for the entire holdings of Eurocom DBS of DBS shares and shareholder loans on June 24, 2015, as set out in Note 4 to the Consolidated Financial Statements, the Company adjusted its accounting policies with regard to presentation of financing income with regard to the shareholders loans provided to DBS.

Prior to the acquisition of the entire holders in the shares and shareholders' loans of DBS, the Company presented the financing revenues from the shareholders' loans under a finance revenue item in the statement of income and the Company's share regarding DBS's financing expenses were presented under the item Share in earnings (losses) of investees. As the result of acquisition of 100% of the rights in DBS and in view of the Company's opinion that it is not expected to collect such financing revenues, the Company decided that the financing revenue regarding the shareholders' loans to DBS should be presented net of DBS earnings (losses) in the statement of income included in the separate financial information.

The change of accounting policy was adopted retrospectively. Breakdown of the effect of retrospective application on the relevant items in the statement of income:

	Nine months ended September 30, 2014 (Unaudited)		
	As previously presented	Effect of retrospective application	As reported in these financial statements
	NIS million	NIS million	NIS million
Financing expenses	355	-	355
Financing income	(196)	161	(35)
Financing expenses - net	159	161	320
Share in earnings of investees, net	725	161	886



## Notes to the Condensed Separate Interim Financial Information as at September 30, 2015 (unaudited)

	Three months ended September 30, 2014 (Unaudited)		
	As previously presented	Effect of retrospective application	As reported in these financial statements
	NIS million	NIS million	NIS million
Financing expenses	125	-	125
Financing income	(69)	61	(8)
Financing expenses - net	56	61	117
Share in earnings of investees, net	104	61	165

	Year ended December 31, 2014 (Audited)		
	As previously presented	Effect of retrospective application	As reported in these financial statements
	NIS million	NIS million	NIS million
Financing expenses	472	-	472
Financing income	(285)	213	(72)
Financing expenses - net	187	213	400
Share in earnings of investees, net	796	213	1,009

## 2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed-line telephony	1,194	1,259	395	418	1,668
Internet - infrastructure	1,155	1,030	385	353	1,394
Transmission and data communication	797	765	267	251	1,022
Other services	173	177	54	59	233
	<b>3,319</b>	<b>3,231</b>	<b>1,101</b>	<b>1,081</b>	<b>4,317</b>

## 3. Operating and general expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Maintenance of buildings and sites	152	165	54	57	217
Sales and marketing	144	159	49	59	213
Interconnectivity and payments to communications operators	110	123	35	42	161
Services and maintenance by sub-contractors	47	45	17	14	61
Vehicle maintenance	57	56	21	20	76
Terminal equipment and materials	32	33	10	11	49
	<b>542</b>	<b>581</b>	<b>186</b>	<b>203</b>	<b>777</b>

**4. Other operating expenses (income), net**

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit from disposal of property plant and equipment (mainly real estate property)	(170)	(148)	(13)	(28)	(175)
Provision for contingent claims, net	12	(4)	-	(5)	(24)
Provision for voluntary redundancy severance payments	1	133	-	8	176
Profit from gaining control in DBS Satellite Services (1998) Ltd.	(12)	-	-	-	-
Other operating income, net	(169)	(19)	(13)	(25)	(23)

**5. Contingent Liabilities**

During the normal course of business, legal claims were filed against the Company or there are various pending claims ("in this section: "Legal Claims").

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 53 million, where provisions are required to cover the exposure arising from such litigation.

In the Company's opinion, the additional exposure (exceeding the foregoing provisions), as of September 30, 2015 due to litigation filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 2,974 million. This amount includes exposure of NIS 2 billion for a claim filed by shareholders against the Company and officers of the Company which has been estimated by the applicant to be NIS 1.1 billion or NIS 2 billion (according to the method of calculating the damage to be determined). In addition, of this exposure amount, NIS 372 million is for a claim filed against the Company and other associates without specifying the portion of the amount claimed from each of the plaintiffs. There is also additional exposure of NIS 417 million for claims, the chances of which cannot as yet be assessed. All the foregoing amounts are linked to the consumer price index and are before the addition of interest.

Furthermore, other claims have been filed against the Company as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

Subsequent to the date of the financial statements, claims were filed to a total amount of NIS 630 million, as well as a claim that does not contain a financial estimate, the chances of which cannot as yet be assessed.

For further information concerning contingent liabilities see Note 6 to the Consolidated Financial Statements.

**6. Dividends from investees**

- 6.1** In May 2015, Pelephone Communications Ltd. paid a cash dividend to the Company, which was announced in March 2015, in the amount of NIS 159 million.
- 6.2** In May 2015, Bezeq International Ltd. paid a cash dividend to the Company, which was announced in March 2015, in the amount of NIS 82 million.
- 6.3** In October 2015, Pelephone Communications Ltd. paid a cash dividend to the Company, which was announced in August 2015, in the amount of NIS 84 million.
- 6.4** In October 2015, Bezeq International Ltd. paid a cash dividend to the Company, which was announced in August 2015, in the amount of NIS 88 million.

**7. Subsequent events**

- 7.1 For additional information regarding business combinations with DBS, see Note 4.2 to the Consolidated Financial Statements.
- 7.2 On March 8, 2015 the Company provided Bezeq International a loan in the amount of NIS 50 million to be repaid in one lump sum on March 8, 2016. This loan bears annual interest of 3.05%.
- 7.3 For further information regarding guarantees provided for assuming DBS's undertakings to pay the full balance of its debts to holders of Debentures Series B and Debentures 2012, see Note 4.2.6 to the Consolidated Financial Statements.
- 7.4 For further information regarding early redemption of DBS debentures and a loan provided to DBS see Note 14.3 to the Consolidated Financial Statements.