

August 30, 2015

## Quarterly report for the period ended June 30, 2015

- Update to Chapter A (Description of Company Operations) of the Periodic Report for 2014
- Directors' Report on the State of the Company's Affairs for the period ended June 30, 2015
- Interim Financial Statements as at June 30, 2015



# **Update to Chapter A (Description of Company Operations) of the Periodic Report for 2014**



The information contained in this report constitutes a translation of the information 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.

**Update to Chapter A (Description of Company Operations) <sup>1</sup>  
to the Periodic Report for 2014 ("Periodic Report") of  
"Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")**

**1. Description of the general development of Bezeq Group's business**

**Section 1.1.2 - Merger of the Company and DBS**

In the matter of the Company's engagement in a transaction with Eurocom DBS to acquire Eurocom DBS's entire holdings in DBS - on June 23, 2015, approval was received from the Minister of Communications to transfer the means of control in DBS in which the Company will control DBS and will hold the entire issued and paid-up capital of DBS. Subsequently, on June 24, 2015, the aforesaid transaction was completed. On this occasion, the Company transferred to Eurocom DBS the cash consideration for the transaction in the amount of NIS 680 million, Eurocom DBS transferred to the Company all its shares and rights to shares in DBS and assigned to the Company its entire rights in the shareholders' loans that it had provided to DBS, and the director in DBS representing Eurocom DBS resigned his position. Upon completion of the transaction, DBS became a wholly owned subsidiary (100%) of the Company.

**Section 1.3.3 - Dividend distribution**

For information about a dividend distribution in the amount of NIS 844 million in respect of profits from the second half of 2014 that was approved by a general meeting of the Company's shareholders on May 6, 2015, and a recommendation by the Board of Directors on August 30, 2015 in connection with a dividend distribution in the amount of NIS 933 million for profits in the first half of 2015, see Note 7 to the Company's Financial Statements for the period ended June 30, 2015.

Outstanding, distributable profits at the reporting date - NIS 945 million<sup>2</sup> (surpluses accumulated over the last two years, after subtracting previous distributions and excluding the Special Distribution).

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<sup>1</sup> The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2013 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

<sup>2</sup> Including revaluation gains in the amount of NIS 12 million for an increase in the control of DBS. Pursuant to a Board of Directors' resolution dated February 10, 2015, these revaluation gains will be excluded from the dividend distribution policy and will not be distributed as a dividend.

**Section 1.4.4 - Main results and operational data**

A. Bezeq Fixed Line (the Company's operations as a domestic carrier)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenues (NIS million)	1,105	1,113	1,086	1,081	1,073	1,077
Operating profit (NIS million)	662	547	507	498	471	504
Depreciation and amortization (NIS million)	180	176	170	178	172	168
EBITDA (NIS million) (1)	842	723	677	676	643	672
Net profit (NIS million) (8)	382	346	293	263	251	295
Cash flow from operating activities (NIS million)	456	548	499	599	545	616
Payments for investments in property, plant & equipment and intangible assets (NIS million)	191	231	195	210	207	210
Proceeds from the sale of property, plant & equipment and intangible assets (NIS million)	80	12	82	69	42	28
Free cash flow (NIS million) (2)	345	329	386	458	380	434
Number of active subscriber lines at the end of the period (in thousands) (3)	2,204	2,208	2,205	2,205	2,205	2,214
Average monthly revenue per line (NIS) (ARPL) (4)	60	61	62	63	63	64
Number of outgoing minutes (in millions)	1,396	1,459	1,482	1,588	1,522	1,608
Number of incoming minutes (in millions)	1,385	1,428	1,440	1,498	1,424	1,467
Number of active subscriber lines at the end of the period (in thousands) (7)	1,418	1,390	1,364	1,335	1,308	1,289
Number of active subscriber lines at the end of the period (in thousands) – wholesale (7)	78	11	-	-	-	-
Average monthly revenue per Internet subscriber (NIS) - retail	88	87	85	85	84	82
Average broadband speed per Internet subscriber (Mbps)(5)	34.9	33.2	32.5	24.0	21.9	20.0
Churn rate (6)	2.4%	2.4%	2.5%	2.8%	2.8%	3.0%

- (1) EBITDA (Earnings before interest, taxes, depreciation and amortization) is a financial index that is not based on generally accepted accounting principles. The Company presents this index as an additional index for assessing its business results since this index is generally accepted in the Company's area of operations which counteracts aspects arising from the modified capital structure, various taxation aspects and methods, and the depreciation period for fixed and intangible assets. This index is not a substitute for indices which are based on GAAP and it is not used as a sole index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies.
- (2) Free cash flow is a financial index which is not based on GAAP. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net. The Company presents free cash flow as an additional index for assessing its business results and cash flows because the Company believes that free cash flow is an important liquidity index that reflects cash resulting from ongoing operations after cash investments in infrastructure and other fixed and intangible assets.
- (3) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (roughly) the first three months of the collection process).
- (4) Excluding revenues from transmission services and data communication, internet services, services to communications operators and contractor and other works. Calculated according to average lines for the period.
- (5) For bundles with a range of speeds, the maximum speed per bundle is taken into account.
- (6) The number of telephony subscribers who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period.
- (7) Number of active Internet lines including retail and wholesale lines. Retail - internet lines provided directly by the Company. Wholesale - Internet lines provided through a wholesale service to other communications providers.
- (8) Commencing in Q2 2015, the Company revised the internal management reporting structure in connection with financing income for shareholders loans that were provided to DBS and it no longer presents the financing income for shareholder loans as part of financing income for the fixed line domestic carrier segment. Comparison figures were restated so as to reflect the change in reporting structure. In this matter, see Note 12.1 to the Company's Financials.

B. Pelephone

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenue from services (NIS million)	502	499	584	610	622	637
Revenues from sale of equipment (NIS million)	219	228	251	214	221	280
Total revenue (NIS million)	721	727	835	824	843	917
Operating profit (NIS million)	53	32	74	122	127	126
Depreciation and amortization (NIS million)	106	104	111	108	105	106
EBITDA (1)	159	136	184	231	232	232
Net profit (NIS million)	49	36	59	100	106	108
Cash flow from operating activities (NIS million)	202	351	158	286	420	349
Payments for investments in property, plant and equipment and intangible assets (NIS million)	199	72	80	83	85	73
Free cash flow (NIS million) (1)	3	279	78	203	335	276
Number of subscribers at end of the period (thousands) (2)	2,566	2,565	2,586	2,600	2,610	2,631
Average monthly revenue per subscriber (NIS) (ARPU) (3)	65	65	75	78	79	80
Churn rate (4)	6.1%	6.5%	5.6%	7.3%	6.5%	7.5%

- (1) Regarding the definition of EBITDA and free cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.
- (2) Subscriber data include Pelephone subscribers (without subscribers from other operators hosted on the Pelephone network) and does not include subscribers connected to Pelephone services for six months or more but who are inactive. An inactive subscriber is one who in the past six months has not received at least one call, has not made one call / sent one SMS, performed no surfing activity on his phone or has not paid for Pelephone services. It is noted that a customer may have more than one subscriber number ("line").
- (3) Average monthly revenue per subscriber. The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and extended warranty in the period, by the average number of active subscribers in the same period.
- (4) The churn rate is calculated at the ratio of subscribers who disconnected from the company's services and subscribers who became inactive during the period, to the average number of active subscribers during the period.

C. Bezeq International

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenues (NIS million)	391	393	398	385	366	355
Operating profit (NIS million)	62	61	57	59	58	58
Depreciation and amortization (NIS million)	32	32	33	32	33	32
EBITDA (NIS million) (1)	94	93	90	92	90	90
Net profit (NIS million)	45	44	39	42	41	42
Cash flow from operating activities (NIS million)	74	62	71	71	95	74
Payments for investments in property, plant and equipment and intangible assets (NIS million) (2)	26	53	28	27	23	31
Free cash flow (NIS million) (1)	48	9	43	44	72	43
Churn rate (3)	4.9%	4.1%	4.7%	4.5%	3.7%	4.0%

(1) Regarding the definition of EBITDA and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) The item also includes long term investments in assets.

(3) The number of Internet subscribers who left Bezeq International during the period, divided by the average number of registered Internet subscribers in the period.

D. DBS

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenues (NIS million)	439	440	440	432	428	424
Operating profit (NIS million)	70	59	57	76	67	73
Depreciation and amortization (NIS million)	80	76	78	75	74	70
EBITDA (NIS million) (1)	150	135	135	151	141	143
Net profit (loss) (NIS million)	(166)	(3)	(87)	(86)	(115)	(34)
Cash flow from operating activities (NIS million)	106	149	122	101	106	113
Payments for investments in property, plant and equipment and intangible assets (NIS million)	82	65	94	64	68	78
Free cash flow (NIS million) (1)	24	84	27	38	38	35
Number of subscribers (at the end of the period, in thousands) (2)	638	634	632	623	613	607
Average monthly revenues per subscriber (ARPU) (NIS)(3)	230	232	234	233	234	234
Churn rate (4)	3.1%	3.4%	2.9%	3.2%	3.1%	3.6%

(1) Regarding the definition of EBITDA and cash flows, see comments (1) and (2) in the Bezeq Fixed Line table.

(2) Subscriber – one household or one small business customer. In the event of a business customer with many reception points or a large number of decoders (such as a hotel, kibbutz or gym), the number of subscribers is calculated by dividing the total payment received from the business customer by the average revenue from a small business customer.

(3) Monthly ARPU is calculated by dividing total DBS revenues (from content and equipment, premium channels, advanced products, and other services) by average number of customers.

(4) Number of DBS subscribers who left DBS during the period, divided by the average number of DBS registered subscribers in the period.

## **Section 1.5 - Forecast regarding the Group**

On the forecast for the Group for 2015 as published in the 2014 financials - the forecast remains unchanged after the execution of the transaction for the purchase of all the holdings in DBS (see update to Section 1.1.2) and after approval of the amendment to the collective labor agreement (see update to Section 2.9).

## **Section 1.6 - General environment and the influence of external factors on the Group's activity**

### **Section 1.6.3 - Regulatory oversight and changes in the regulatory environment - wholesale market**

Following the High Court of Justice ("HCJ") ruling of March 25, 2015 that a round-table discussion must be held with the participation of the Company and the State, as a form of post hearing, to examine the Company's arguments (professional and technical arguments, including technical issues which the Company claims are impossible to implement), in an effort to clarify such issues wherever possible and make the necessary amendments, and after which the Company and the State must submit statements to the Court within 60 days, the Company and the Ministry of Communications held discussions on the subject of the possible implementation of the wholesale telephony service and issues pertaining to the economic pricing model.

On April 20, 2015, the Company received a letter from the Director General of the Ministry of Communications on the subject of providing wholesale telephony service. According to the letter, further to the meetings between the Ministry and the Company pursuant to the above-mentioned HCJ ruling, it emerges, according to the Ministry, that provision of the wholesale services on the Bezeq network is technically feasible, with slight adjustments, within a short period and at negligible cost. The letter also states that the Ministry believes there are several possible technological solutions to providing the service in accordance with the service portfolio on time, and the letter includes a summary of three of these solutions. The Ministry therefore expects Bezeq to prepare for providing the service on the scheduled date (May 17, 2015). To this end, by April 27, 2015 the Company was required to submit documents to the Ministry describing the computerized interface for this service, and the letter also stipulates that insofar as Bezeq fails to submit these documents on time, the Ministry will take the view that Bezeq has no intention of providing the wholesale telephony service in accordance with its license, and it will take every available course of action (a copy of the letter sent by the Director General of the Ministry of Communications is attached to the Company's immediate report dated April 20, 2015, included in this report by way of reference). On April 26, 2015, the Company submitted its comments on this letter, completely rejecting the allegation that it had used the argument of the unfeasibility of the implementation to avoid providing the telephony services, and that the "technological solutions" presented in the Ministry's letter do not resolve the problem of unfeasibility and make it impossible to provide wholesale telephony services on the Company's existing network; nor are they consistent with the format for providing the services as defined in the service portfolio (in this context, the Company even suggested appointing an independent expert to examine the feasibility of the options put forward by the Ministry of Communications). Furthermore, the Company noted that the documents relating to the computerized interface for the service cannot be prepared as long as the service itself is impossible to implement (or even, taking the Ministry's position, until the format for the service has been defined and, according to the Ministry, several options may be possible).

On May 7, 2015, the Minister of Communications, Minister of Finance and Ministry of Communications submitted an updated notice on the Company's aforementioned petition, whereby, after the Ministry of Communications held meetings with the Company subsequent to the HCJ decision, the Ministry concluded that the provision of wholesale telephony services by the Company was technically feasible and that had the Company made preparations in advance, there would have been no technical impediment to opening the wholesale market in this field on the scheduled date, May 17, 2015. As for the economic issues, the notice stated that the Ministry of Communications had concluded that the Company's arguments that the tariffs were unreasonable should not be accepted. Nevertheless, after re-examining the Company's arguments, it had reached the conclusion that there was room to make certain changes in matters concerning the demand for data usage and requirements concerning the quality of the service as defined in the service portfolio (which the Ministry believes do not affect the tariffs), including the Ministry's intention to publish a preliminary hearing for the entire market and not to enforce requirements concerning the quality of the service at this stage. The notice included expert opinions by the Ministry's engineering and economic professionals. On May 25, 2015, the Company submitted its revised notice in this proceeding. In the

revised notice, the Company rejects the statements in the State's update, and noted that contrary to the State's conclusions (1) the various solutions put forward by the Ministry for providing telephony services in a wholesale market are not technically feasible. (2) The tariffs determined by the Ministry of Communications for the provision of the wholesale market services are unreasonable. The Company further asserts that the Ministry of Communications has not completed the discussions to evaluate the Company's arguments, as requested by HCJ, and has held steadfastly to its decisions such that the unreasonableness of such decisions has remained unchanged. The Company's revised notice included an engineering opinion prepared by an external expert and an internal economic opinion (together with an external comparative study indicating that the wholesale price in European countries on which the Ministry relied, is more than double the price determined by the Israeli ministry). On June 15, 2015, HCJ handed down its decision that the case would be returned to the tribunal. The hearing of the petition was set for September 16, 2015. The Company and the Ministry of Communications are currently negotiating in an attempt to find solutions to the disputes.

Until May 16, 2015, retail subscribers were transferred to a wholesale subscription (wholesale BSA service) via a non-automated process (a manual process that requires the intervention of Company employees). Notably, the Ministry of Communications and some of the communications operators had complaints regarding the Company's work capacity at that stage. As of May 17, 2015, the transfer is made by means of an automated process that does not require human intervention.

On May 11, 2015, the Company received notice from the Ministry of Communications of its intention to impose a monetary sanction in connection with the implementation of the broadband reform (the "**Notice**"), whereby, as detailed in the supervisory report attached to the Notice, the Ministry found that the Company was not in compliance with the directives prescribed in the service portfolio and that such course of conduct amounted to a violation under Item (5) of Section D of the Addendum to the Communications Law (Telecommunications and Broadcasting), 1982. The Ministry therefore intends to impose on the Company a monetary sanction of NIS 11,343,800, which is the maximum amount prescribed by the law. According to the Notice, the Ministry believes that the Company's conduct since the launching of the reform amounts, at the very least, to a violation of the provisions of the service portfolio in the following matters:

1. The Company conducted customer retention calls prior to completing the transition (to wholesale);
2. The Company did not enable implementation of a verbal transition process during the interim period until the establishment of an automated interface;
3. The Company did not comply with the timeframe prescribed for transferring an infrastructure subscriber from the Company to a service provider, and for transferring a subscriber between suppliers on the Company's infrastructure
4. The Company operated the service provider call center in a limited scope compared with the other centers, thereby discriminating between the different types of subscribers.

The explanations provided in the Notice stated, among other reasons, that the violation made it difficult to create competition in the market, assisted the Company in maintaining its monopolistic market share and the resulting high revenues, and that the Company's conduct could harm and even prevent an important and significant reform in the Israeli communications market, which was designed to ensure the public's interest, consumers' welfare and competition in various markets, including in the Internet and telephony sectors, and in the future in the commercial broadcasting and other sectors

The Company dismissed the Notice and submitted its counter-arguments, including that it rejects the unsubstantiated statements and determinations in the Notice in the context of preventing the reform and monopolistic practices. At the same time, the Company presented the Ministry's unreasonable course of conduct and the updating of the service portfolio in excess of its authority, while disregarding the complexity of the non-automated processes and the time frame prescribed for them.

On June 1, 2015, the Ministry of Communications published a hearing concerning the use of terminal equipment in a wholesale market, whereby it is considering the establishment of an "associate arrangement" for the BSA service file, according to which retail subscribers that become wholesale subscribers will be able to continue to use the Company's terminal equipment for a further 6 months, after which the equipment will be returned to the Company. On June 30, 2015, the Company filed its position opposing the arrangement under consideration, which infringes upon the Company's proprietary rights and expropriates its property, is contrary to the approach and justification underlying the wholesale service in that it detracts from the service provider's responsibility at the Company's expense, where there is no market failure, lack of infrastructure or bottleneck, and it fails



to comply with the clause limiting infringement of a basic right. On the same date, Bezeq International filed its position which also opposes the arrangement under consideration and asks for the conditions of the arrangement to be amended.

On June 15, 2015, the Antitrust Authority asked the Company for information as part of a review being conducted by the Antitrust Commissioner in relation to the provision of wholesale services on the Company's network, including information about requests to connect customers as part of the wholesale market, the dates of visits by technicians and Company documents relating to the reform of the wholesale market. The Company submits the information as requested by the Authority.

#### **Section 1.6.4 - Regulatory oversight and changes in the regulatory environment - additional topics**

Sub-section F - Enforcement and monetary penalties - the Ministry of Communications has recently made extensive use of the oversight powers and has issued notice of its intention to impose monetary sanctions on the Company regarding on-going regulatory matters as well as matters pertaining to implementation of the wholesale market. The Company submitted its comments on these oversight reports and notice of the imposition of such penalties to the Ministry.

## **2. Bezeq ("the Company") - Domestic fixed-line communications**

### **Section 2.7.4 – Real estate**

Sub-section A - concerning the Company's right to receive a site in Sakia, further to the Company's talks with the planning authorities vis-a-vis exercising the Company's rights under the planning authorization contract between the Company and ILA - in April 2015, a detailed outline plan was submitted to the Regional Planning Committee and published for objections, which determined the purposes, uses, building rights and construction provisions for the zoning in the plan.

### **Section 2.9 – Human resources**

On August 30, 2015, the Company's Board of Directors approved an amendment (no. 5) to the special collective labor agreement from December 5, 2006 between the Company, the union and the Histadrut. The main points of the amendment are:

1. An extension of the collective labor agreement and the retirement arrangements through December 31, 2021 and amendments thereof.
2. As part of the retirement arrangements, the Company will be entitled, at its discretion, to terminate the employment of up to 203 tenured employees (including new tenured employees) each year.
3. The estimated cost of the agreement, including wage improvements and not including the retirement of employees which is subject to the Company's discretion, is NIS 280 million throughout the period of the agreement (of which about NIS 30 million are contingent on the Company's performance).

### **Section 2.11 – Working capital**

See Section 1.3 of the Board of Directors' Report for information about the Company's working capital.

At June 30, 2015, the Company has a working capital deficit in the amount of NIS 1,667 million (this figure refers to the Company's separate financial statements. In the Company's consolidated financial statements as at June 30, 2015, there is a working capital deficit in the amount of NIS 472 million).

### **Section 2.13 - Financing**

On April 2, 2015 and on May 6, 2015, the Company entered into agreements with banking institutions in which context the banks undertook to provide the Company with credit in 2016 to recycle future debt, in the aggregate amount of NIS 900 million. The undertaking is to provide credit to the Company in June 2016 with an average duration of 4.6 years (repayment in five, equal annual installments as of June 1, 2019 until June 1, 2023), at an aggregate interest rate of 3.7% (fixed, shekel non-linked interest). Furthermore, on June 11, 2015, the Company entered into an additional agreement with a financial institution in which context the financial institution undertook to provide

the Company with further credit of NIS 500 million to recycle a future debt of the Company in 2016. The undertaking is to provide credit to the Company in December 2016 with an average duration of 4.9 years (repayment in five, equal annual installments from December 15, 2019 through December 15, 2023), at an aggregate interest rate of 4.3% (fixed, shekel non-linked interest). The terms of all the above undertakings and the loans to be provided thereunder, include terms that are similar to those given in relation to other loans provided to the Company, as detailed in Part C, Note 11.2.1 of the 2014 Periodic Report. These conditions include: an undertaking to refrain from creating additional liens over the Company's assets (under certain restrictions); an undertaking whereby, in the event that the Company assumes an undertaking towards a particular party in connection with meeting financial covenants, the Company shall also assume an identical undertaking with respect to this credit (subject to certain exceptions), and also accepted terms for immediate repayment (such as breach events, insolvency, liquidation or receivership and so forth), and cross default (with certain restrictions), that will also apply, mutatis mutandis, with respect to the periods of the undertaking to provide credit.

Additionally, the Company is working to obtain an undertaking to provide credit in 2017, and at the date of the report it received such undertaking in the amount of NIS 400 million.

On August 30, 2018, the Board of Directors authorized the Company's management to review the possible issuance of one or more new series of debentures to the public by virtue of the Company's shelf offering from May 2014. It should be clarified that no final decision on the issuance and scope of the issuance has been made, and the conditions of the debentures have yet to be determined. The issuance is subject, in part, to a final decision by the Company's Board of Directors, publication of a shelf offering and obtaining the approval of the Tel Aviv Stock Exchange Ltd. for listing the debentures for trade. The foregoing should not be construed as an undertaking by the Company to carry out the issuance and/or a public offering of securities, and there is no certainty that the issuance will actually take place and/or what its conditions will be.

On April 21, 2015, Maalot affirmed a rating of iIAA/Stable for the Company. In this matter, see also Section 5 of the Directors' Report.

See Section 5 of the Directors' Report on the repayments of a bond fund (Series 5) and a bond fund (Series 8).

On August 30, 2015, the Board of Directors of the Company approved the providing of a guarantee by the Company to uphold an undertaking by DBS to pay all the outstanding debts towards the holders of Debentures in Series B and C of DBS (in the amount of NIS 1.05 billion and NIS 307 million respectively), and this against a reduction of the annual rate of interest that the debentures will bear (by 0.5% and 1% respectively), as well as a cancellation of certain provisions sureties in the deeds of trust and debentures, and all in accordance with the conditions of the debentures' deeds of trust and the debentures. Pursuant to the foregoing, the Company is working to sign appropriate letters of guarantee. For the conditions of these debentures, see also Section 5.15 in Chapter of the 2014 Periodic Report.

### **Section 2.15.3 – Permits**

Concerning high-voltage facilities - at the date of this report, radiation permits for 27 HV facilities have been received. Two additional facilities are still in the process of obtaining such permits.

### **Section 2.16.5 - Authority with respect to real estate**

On May 7, 2015, the Ministry of Communications published a hearing on the subject of wiring in residential buildings. As part of the hearing it announced that taking note of the 2010 amendment to the Planning and Construction Regulations, which prescribes that the owner of a building permit must install three conduits from the boundary of the property to the building's internal communications cabinet, and that due to complaints by IBC concerning the lack of available conduits, it is considering, inter alia, determining that Bezeq and Hot groups will each use one conduit from the boundary of the property to the building's internal communications cabinet and to the communications cabinets on each floor, and that they must vacate conduits in existing buildings and make the necessary modifications following IBC's requests in certain circumstances. The Company submitted its objection to the aforesaid determinations, in part due to a lack of justification, proportionality and necessity.

### **Section 2.16.8 – Antitrust Laws**

Concerning sub-section G - negotiations with the Antitrust Commissioner whereby the Company abused its position as a monopoly and determined unfair purchase and sale prices of a service in a

monopoly in a sales promotion campaign - on March 31, 2015, the Company appealed the decision to the Antitrust Court, and submitted the opinion and affidavit of an economic expert, in which the Company asked that the court instruct that the determination is nullified, and alternatively for its repeal. In this appeal, the Company also argued that there had been no negative margin, that the decision had ignored various tests of negative margin and margin squeeze, that under the circumstances there was no concern of harm to competition, that in practice competition had not been adversely affected and that there had been no breach of relevant sections of the Antitrust Law. The Company also pointed out that the Authority had been in breach of administrative obligations while formulating the decision and by its very publication, which should also lead to cancelling the decision.

### **Section 2.18 – Legal proceedings**

Subsection G on a claim and an application for its certification as a class action that was filed against the Company in the Haifa District Court in which it is alleged that the Company does not permit existing customers to connect to the its infrastructure at the prices offered to new customers for the same service - on August 11, 2015, the court authorized the motion to abandon the application to certify the action as a class action without an order for legal costs.

Concerning sub-section J on an application to certify a claim as a derivative claim in the matter of a Company transaction for acquisition of all the holdings and shareholders' loans of Eurocom DBS in DBS ("**the First Application**") - on April 2, 2015 an additional application was filed in the Tel Aviv District Court (Economics Department) ("**the Second Application**") to certify a derivative claim in the same matter by a private shareholder who owns 30 shares of the Company and a company under his full ownership that holds 1000 Company shares ("**the Applicants**"), against the Company and against Eurocom DBS and Shaul Elovitch (Chairman of the Company's Board of Directors and an indirect controlling shareholder of the Company and Eurocom), against members of the Company's Board of Directors who approved the transaction, against three other Company directors, as claimed, for their influence over the resolutions passed by the sub-committee of the Company's Board of Directors, and against Bank of America Merrill Lynch for its professional liability and alleged negligence in estimation of the purchase price ("**the Respondents**"). The Applicants request, inter alia, that the court approve the filing of a derivative claim in the Company's name, in which Eurocom DBS and Shaul Elovitch will be required to return a total of NIS 518 million, which in the opinion of the Applicants and their economic expert, constitutes the "unfair surplus consideration" paid for acquiring the outstanding shares of Eurocom DBS, to determine the liability of the respondent directors and the liability of the Bank of America Merrill Lynch for contracting in the transaction, and to obligate them to pay the entire amount up to a total of NIS 518 million which shall not be returned to the Company's coffers, as noted above, or alternatively to obligate all the Respondents for payment of NIS 477 million which is the price obtained, according to the Applicants, on the assumption of credit of only 70% of the value of the synergies in favor of DBS (instead of 100%). On June 25, 2015, the Court resolved to strike out the Second Application, further to the application that was submitted on this matter. Accordingly, the hearing on the First Application will proceed.

In August 2015, the Company received an application to certify as a class action an action that had been filed in the Tel Aviv District Court. The application, which was filed by a Company subscriber, alleges that the Company abused its monopoly position to price its services in a manner that restricts the ability of the Company's competitors to offer fixed-line telephony services at competitive prices. This includes by offering its customers special offers in which it charges a lower price for its fixed-line telephony services than the price charged only for internet infrastructure services, namely for an input which is critical to the activity of its competitors in the market that operate using VoB technology (on this, it should be noted that in November 2014, the Antitrust Authority issued a ruling whereby the Company abused its position as a monopoly and the Company appealed the ruling in the Antitrust Court - see Section 2.16.8 (g) in Chapter A of the 2014 reports and an update to that section in this report). The applicant argues that the loss caused to the public as a result of the foregoing is estimated by examining the difference between the existing price in the fixed-line telephony market and comparing it with the hypothetical price that would have prevailed in a market with sophisticated competition that in turn would have resulted in lower prices in the long term. Based on an economic opinion (which the applicant mentions but was not included in the documents received by the Company), the applicant estimates the amount of the class action at NIS 244 million. The applicant claims that the members of the class action group are all the customers of the fixed-line telephony services, irrespective of whether the services are provided by the Company or its competitors, including by VoB technology, from January 15, 2011 and up to the date of submittal of the application.

### **3. Mobile radio-telephone (cellular telephony) - Pelephone Communications Ltd. ("Pelephone")**

#### **Section 3.1.5 A - Establishment of cellular networks using advanced technologies**

On May 20, 2015, Pelephone paid NIS 96 million in license fees for the LTE frequencies tender and deposited a guarantee of NIS 80 million with the Ministry of Communications as required in the tender. On August 9, 2015, the Ministry of Communications informed Pelephone that as a direct outcome of its winning the tender for the allocation of 4G frequencies, Pelephone's license had been amended thus allowing it to provide LTE (4G) services, and that it was also allocated the dedicated frequencies it had been awarded as part of that tender. The amendment to the license includes: permission to operate 4G services, rules for network sharing among operators (based on the models specified in the amendment), and definitions for systemic performance and requirements (quality and cover) that the 4G network must comply with (based on a periodic classification).

#### **Section 3.6.2 C - Infrastructure sharing**

On March 29, 2015, the Minister of Communications announced that the infrastructure sharing agreements between Cellcom and Golan Telecom must be changed significantly before the Ministry of Communications will review the agreements in detail. As far as Pelephone is aware, the companies are studying the repercussions of the required changes and are taking action to apply these changes in order to obtain the Minister's approval of the agreements.

On April 20, 2015, Partner and Hot Mobile announced that the Minister of Communications had approved the network sharing agreement between them. To the best of Pelephone's knowledge, the cellular network shared by the companies will operate through a joint venture of these two companies ("**the Joint Venture**"). The Joint Venture's entire operation is subject to obtaining a communications license for the venture and to the allocation of frequency bands in the 1800 Mhz spectrum that Partner and Hot Mobile won as part of the 4G frequency tender.

On July 8, 2015, the Antitrust Commissioner's decision was received granting a conditional exemption from a restrictive arrangement to the Joint Venture between Pelephone and Cellcom for the maintenance of passive components on cellular sites owned by Pelephone and Cellcom, including the reduction of costs by sharing the passive network components on these sites (including antennae), and the construction and maintenance of the shared sites by means of a supplier ("**the External Contractor**") to be chosen jointly by Pelephone and Cellcom ("**the Agreement**"). The exemption was granted, inter alia, on condition that each of the companies may independently enter into an agreement with a third party for the provision of hosting services on sites owned by the company and sites owned by the other company. In addition, the exemption limits the companies with respect to the employment of a party who is an employee, consultant or officer with the External Contractor, and the transfer of information which is not required as part of the Agreement among the companies themselves and between the External Contractor and either of the companies. The exemption is in force for a period of 10 years.

On August 9, 2015, the Ministry of Communications informed Hot Mobile that its license had been amended to facilitate the rendering of advanced services based on the use of LTE technologies and the allocation of the relevant frequencies that it had won the right to use according to the results of the tender. Furthermore, the Ministry of Communications announced that both Hot Mobile and Partner may use the frequency bands allocated to each of them through the MOCN, and that the MCON is also entitled to operate the cell-based radio centers by means of these frequency bands. The Ministry of Communications also granted the joint venture a special license to provide cellular radio infrastructure services to the cellular telephony operators. The license is valid for 10 years.

#### **Section 3.6.2 D - MVNO - Mobile Virtual Network Operator**

On July 7, 2015, Pelephone signed an agreement to acquire the activity of Alon Cellular. The agreement is subject to regulatory approvals that have not yet been received.

According to information published in the media, in July 2015, Cellcom acquired the activity of Home Cellular, a virtual cellular communications network operator.

#### **Section 3.9 – Human resources**

On August 3, 2015, Pelephone received notice from the New General Federation of Labor ("Histradrut") - Cellular, Internet and Hi-tech Workers' Union, of a labor dispute in accordance with the Settlement of Labor Disputes Law, 1957 and a strike beginning on August 17, 2015 onwards ("**the Announcement**"). According to the Notice, the matters in dispute are unilateral decisions taken

by Pelephone, specifically Pelephone allegedly undertaking organizational or structural changes that have implications on the working conditions, as well as Pelephone expanding the areas and scope of outsourced work. The workers are demanding to negotiate these issues. Pelephone rejected these arguments in previous correspondence. There has been no change during the 14 day notice period required by law.

### **Section 3.12.3 - Credit rating**

On April 21, 2015, Maalot affirmed a rating of iIAA/Stable for the Company and a rating of iIAA for Debentures (Series C) of Pelephone.

### **Section 3.15.3 – Site construction licensing**

As part of a notice and application for a further extension by the State on July 15, 2015, the State announced, among other things, that on May 14, 2015, a new government had been formed in Israel and that it had resolved to transfer to the Minister of Finance most of the Minister of the Interior's powers under the Planning and Construction Law, including the authority to promulgate regulations under Section 266C of the Planning and Construction Law. The State also advised that on July 13, 2015, the Knesset plenum had approved the transfer of authority from the Minister of the Interior to the Minister of Finance. The State further argued that the Minister of Finance must be given reasonable time to study the issue of the promulgation of regulations under Section 266C of the Planning and Construction Law, and to formulate his opinion on the subject. Under these circumstances and to enable the Minister of Finance as well as the Ministers of Communications and Environmental Protection to study the subject which is the subject of the petitions and formulate their opinions, the State requested a further time extension to submit its revised notice until December 15, 2015. On July 19, 2015, HCJ granted the requested extension.

### **Section 3.17 – Legal proceedings**

In May 2015, an action was filed against Pelephone in the Tel Aviv District Court together with an application for its certification as a class action, on grounds that Pelephone had discriminated against customers who contracted with it by not providing them with the lowest price that is offered for such services; and that it discriminated against its new customers over existing customers who were awarded monetary benefits for joining Pelephone. This was allegedly contrary to Pelephone's obligation, as provided in its license and by law, to refrain from discriminatory practices with respect to the prices of the services it offers. Notably, in 2013, a claim was filed against Pelephone on similar grounds, and such claim is still pending in court (see Section 3.17.1(E) in Chapter A of the 2014 Periodic Report). The applicant seeks for Pelephone to reimburse the members of the class group for the difference between the price they paid for the services and the lowest price customers such as themselves could have paid for the same services. Additionally, the applicant asked the court to require Pelephone to offer all customers identical terms and to display them in its various advertisements. The applicant estimates the action at millions of shekels and even more.

In May 2015, Pelephone received a financial claim together with an application for its certification as a class action, which was filed in the Tel Aviv District Court. The claim is based on the allegation that Pelephone violated a compromise settlement approved by the court as part of a ruling that was handed down on another class action that the same applicant had filed against Pelephone (see Section 3.17.2B in Chapter A of the 2014 Periodic Report). The subject of the alleged violation relates to the sale of earphones by Pelephone. The applicant estimates the amount of the application at NIS 410 million.

In August 2015, Pelephone received a claim together with an application for its certification as a class action that had been filed in the Central District Court against Pelephone and against two communications companies and a company operating in the insurance and finance industry. The main subject of the action is the allegation that one of the communications companies had made improper use of its database and that in contravention of the Protection of Privacy Law, 1981, it had transferred or sold information about its customers to the other respondents, Pelephone included. The claim against Pelephone can be summarized as the purchase or receipt of such information and its utilization for marketing purposes, in a manner that violates the provisions of the Communications Law with respect to the sending of unsolicited advertising material (spamming). The applicant does not specify the amount of the action against Pelephone.

**4. Bezeq International – international communications, Internet and NEP services - (“Bezeq International”)**

**Section 4.13.2 D - NEP license**

On July 23, 2015, the Ministry of Communications extended the NEP license that had been granted to Bezeq International, until July 31, 2020.

**Section 4.13.4 - Key regulatory developments**

On June 15, 2015, Bezeq International filed an application with the Ministry of Communications to obtain a uniform general license, pursuant to the provisions of the Communications (Telecommunications and Broadcasts) (Procedures and Conditions for Obtaining a Uniform General License), 2010.

**5. Multi-channel television - DBS Satellite Services (1998) Ltd. (“DBS”)**

As of June 24, 2015, DBS is a wholly owned subsidiary of the Company, further to the completion of the transaction between the Company and Eurocom DBS for the acquisition of Eurocom DBS's holdings in DBS. On this, see the above update to Section 1.1.2.

**Section 5.15.3 - Institutional financing**

In April-May 2015, DBS issued additional debentures (Series B), by way of an expansion of the series, in the total amount of NIS 228 million.

**Section 5.19.1 - Pending legal proceedings**

Sub-section A - An action in the matter of disconnecting customers from Channel 5+ and a motion for its certification as a class action - in May 2015, the parties filed a motion in the court to approve the compromise settlement whereby DBS will grant the members of the class action group a bonus and it will also pay compensation to the class plaintiff as well as lawyer's fees to his attorney. At the date of this report, the Attorney General's opinion on the compromise settlement had not been received and the court has not given its decision regarding approval of the compromise settlement.

Sub-section E - action in the matter of subtitles that accompany DBS television broadcasts and a motion for its certification as a class action - on June 30, 2015, the parties filed an agreed application for the applicant to abandon the action and the motion for certification. On July 7, 2015, a ruling was issued in which the court approved the application for abandonment.

In July 2015, a claim was filed against DBS in the Central District Court together with an application for its certification as a class action, concerning alleged discrimination against DBS customers who were not offered or were not given the best possible conditions or the lowest price for the services received from Yes; that it discriminated against its new customers over existing customers who were awarded special offers or a bonus for joining Yes; and an allegation of discrimination against new customers who are introduced by company employees, over other new customers. This was allegedly contrary to the obligation applicable to Yes, as provided in its license and by law, to refrain from discriminatory practices with respect to the prices of the services it offers. The applicant has asked that Yes should compensate members of the class action group with the financial difference between the price that each of them actually paid Yes for the services, and the lowest price they could have paid for the same services. Furthermore, the applicant asked the court to instruct Yes to offer and provide its services freely to any applicant under identical conditions and to display these conditions in its various advertisements. The applicant did not present the amount of the group claim due to a lack of data, although she estimates the scope of the loss as tens of millions of NIS.

August 30, 2015

Date

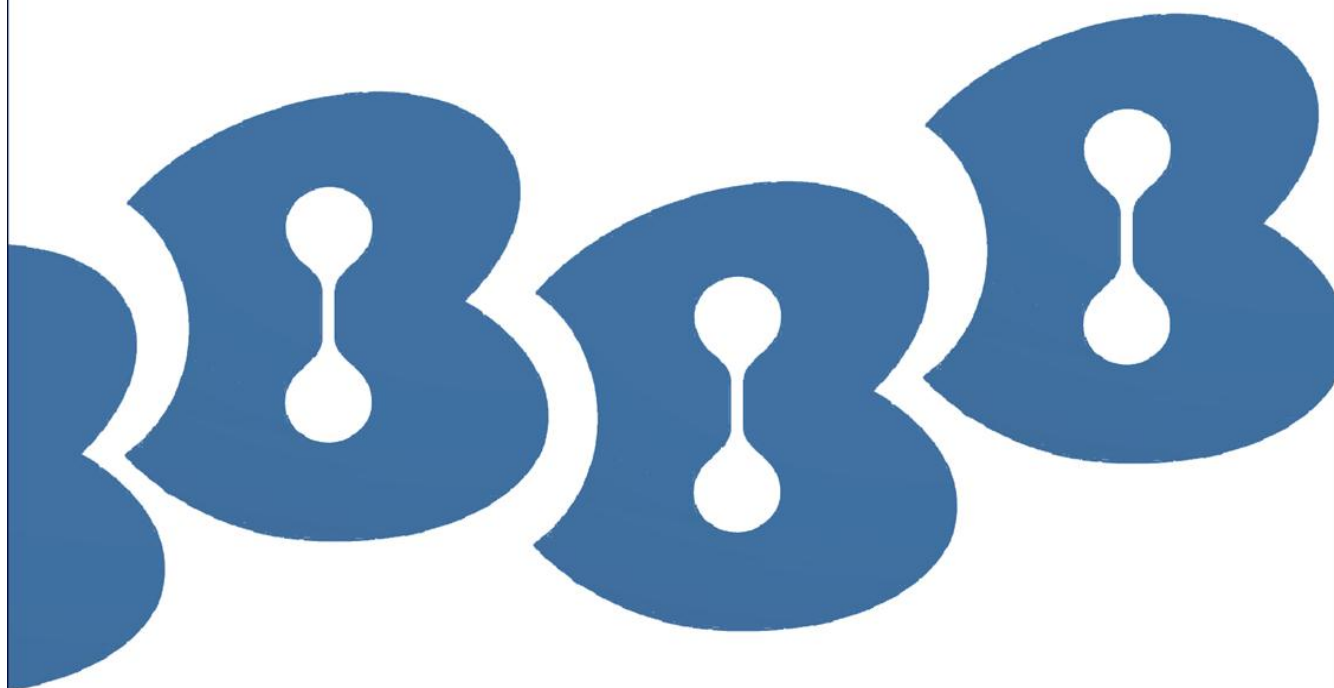
Bezeq The Israel Telecommunication Corporation Ltd.

Names and titles of signatories:

Shaul Elovitch, Chairman of the Board of Directors

Stella Handler, CEO

**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**



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:

	<b>1-6.2015</b>	<b>1-6.2014</b>	<b>Increase (decrease)</b>		<b>4-6.2015</b>	<b>4-6.2014</b>	<b>Increase (decrease)</b>	
	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>%</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>NIS millions</b>	<b>%</b>
Profit	<b>945</b>	1,267	(322)	(25.4)	<b>482</b>	810	(328)	(40.5)
EBITDA (operating profit before depreciation and amortization)	<b>2,198</b>	2,555	(357)	(14.0)	<b>1,245</b>	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	June 30, 2014	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	
Cash and current investments	<b>1,825</b>	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	<b>3,127</b>	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	<b>102</b>	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	<b>471</b>	-	471	-	Balance from DBS's First Time Consolidation.
Property, plant and equipment	<b>6,980</b>	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	<b>3,692</b>	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	<b>28</b>	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	<b>854</b>	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	<b>354</b>	334	20	6.0	
<b>Total assets</b>	<b>17,433</b>	15,040	2,393	15.9	

Board of Directors' Report on the state of the corporation's affairs for the periods ended June 30, 2015

	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.
<b>Total liabilities</b>	<b>14,853</b>	12,156	2,697	22.2	
<b>Total equity</b>	<b>2,580</b>	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	1-6.2014	Increase (decrease)		4-6.2015	4-6.2014	Increase (decrease)		Explanation
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%	
Revenues	<b>4,777</b>	4,561	216	4.7	<b>2,603</b>	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	<b>768</b>	633	135	21.3	<b>451</b>	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	<b>936</b>	891	45	5.1	<b>497</b>	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	<b>1,801</b>	1,691	110	6.5	<b>1,002</b>	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	<b>158</b>	576	(418)	(72.6)	<b>141</b>	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	<b>1,430</b>	1,922	(492)	(25.6)	<b>794</b>	1,234	(440)	(35.7)	
Finance expenses, net	<b>166</b>	74	92	-	<b>129</b>	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	<b>16</b>	(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	<b>335</b>	483	(148)	(30.6)	<b>183</b>	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	<b>945</b>	1,267	(322)	(25.4)	<b>482</b>	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
<b>Revenues by operating segment</b>								
Domestic Fixed-Line Communications	<b>2,218</b>	46.4	2,150	47.1	<b>1,105</b>	42.4	1,073	47.7
Cellular Communications	<b>1,448</b>	30.3	1,760	38.6	<b>721</b>	27.7	843	37.4
International Communications, Internet and NEP Services	<b>784</b>	16.4	721	15.8	<b>391</b>	15.0	366	16.3
Multi-Channel Television	<b>879</b>	18.4	851	18.7	<b>439</b>	16.9	427	19.0
Other and offsets*	<b>(552)</b>	(11.5)	(921)	(20.2)	<b>(53)</b>	(2.0)	(459)	(20.4)
<b>Total</b>	<b>4,777</b>	100	4,561	100	<b>2,603</b>	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
<b>Operating profit by segment</b>								
Domestic Fixed-Line Communications	<b>1,209</b>	54.5	975	45.3	<b>662</b>	59.9	471	43.9
Cellular Communications	<b>85</b>	5.9	253	14.4	<b>53</b>	7.4	127	15.1
International Communications, Internet and NEP Services	<b>122</b>	15.6	116	16.1	<b>62</b>	15.9	58	15.8
Multi-Channel Television	<b>129</b>	14.7	140	16.5	<b>70</b>	15.9	67	15.7
Other and offsets*	<b>(115)</b>	-	438**	-	<b>(53)</b>	-	511**	-
<b>Consolidated operating profit/ % of Group revenues</b>	<b>1,430</b>	29.9	1,922	42.1	<b>794</b>	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**

	<b>1-6.2015</b>	<b>1-6.2014</b>	<b>Increase (decrease)</b>		<b>4-6.2015</b>	<b>4-6.2014</b>	<b>Increase (decrease)</b>	
	<b>NIS</b>	<b>NIS</b>	<b>NIS</b>	<b>%</b>	<b>NIS</b>	<b>NIS</b>	<b>NIS</b>	<b>%</b>
	<b>millions</b>	<b>millions</b>	<b>millions</b>		<b>millions</b>	<b>millions</b>	<b>millions</b>	
Fixed-line telephony	<b>799</b>	841	(42)	(5.0)	<b>396</b>	415	(19)	(4.6)
Internet - infrastructure	<b>770</b>	677	93	13.7	<b>387</b>	345	42	12.2
Transmission, data communications and others	<b>649</b>	632	17	2.7	<b>322</b>	313	9	2.9
Total revenues	<b>2,218</b>	2,150	68	3.2	<b>1,105</b>	1,073	32	3.0
Depreciation and amortization	<b>356</b>	340	16	4.7	<b>180</b>	172	8	4.7
Labor costs	<b>453</b>	451	2	0.4	<b>226</b>	228	(2)	(0.9)
General and operating expenses	<b>356</b>	378	(22)	(5.8)	<b>176</b>	188	(12)	(6.4)
Other operating expenses (income), net	<b>(156)</b>	6	(162)	-	<b>(139)</b>	14	(153)	-
Operating profit	<b>1,209</b>	975	234	24.0	<b>662</b>	471	191	40.6
Finance expenses, net	<b>175</b>	203*	(28)	(13.8)	<b>100</b>	110*	(10)	(9.1)
Taxes on income	<b>306</b>	226	80	35.4	<b>180</b>	110	70	63.6
Segment profit	<b>728</b>	546	182	33.3	<b>382</b>	251	131	52.2

<b>Explanation</b>
The decrease was mainly due to a reduction in ARPU.
The increase was mostly attributable to growth in the number of internet subscribers and higher average revenues per user.
The decrease was mainly due to a reduction in building maintenance costs and call completion fees to telecom operators.
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.
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).
The increase was mainly attributable to an increase in pre-tax profit.

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

1.2.2 Operating segments

C Cellular Communications segment

	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	%
Services	<b>1,001</b>	1,259	(258)	(20.5)	<b>502</b>	622	(120)	(19.3)
Equipment sales	<b>447</b>	501	(54)	(10.8)	<b>219</b>	221	(2)	(0.9)
Total revenues	<b>1,448</b>	1,760	(312)	(17.7)	<b>721</b>	843	(122)	(14.5)
Depreciation and amortization	<b>210</b>	211	(1)	(0.5)	<b>106</b>	105	1	1
Labor costs	<b>192</b>	212	(20)	(9.4)	<b>96</b>	103	(7)	(6.8)
General and operating expenses	<b>961</b>	1,084	(123)	(11.3)	<b>466</b>	508	(42)	(8.3)
Operating profit	<b>85</b>	253	(168)	(66.4)	<b>53</b>	127	(74)	(58.3)
Finance income, net	<b>28</b>	35	(7)	(20)	<b>14</b>	17	(3)	(17.6)
Income tax	<b>28</b>	74	(46)	(62.2)	<b>18</b>	38	(20)	(52.6)
Segment profit	<b>85</b>	214	(129)	(60.3)	<b>49</b>	106	(57)	(53.8)

Explanation
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.
The decrease was mainly due to a reduction in the number of items sold, partially offset by a change in the sales mix.
The decrease was mainly attributable to a reduction in the workforce.
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.
The decrease was attributable to the reduction in income before taxes.

1.2.2 Operating segments

**D International Communications, Internet and NEP Services**

	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	%
Revenues	<b>784</b>	721	63	8.7	<b>391</b>	366	25	6.8
Depreciation and amortization	<b>65</b>	65	-	-	<b>33</b>	33	-	-
Labor costs	<b>152</b>	148	4	2.7	<b>75</b>	73	2	2.7
General and operating expenses	<b>445</b>	392	53	13.5	<b>222</b>	202	20	9.9
Operating profit	<b>122</b>	116	6	5.2	<b>62</b>	58	4	6.9
Finance expenses, net	<b>3</b>	5	(2)	(40.0)	<b>2</b>	3	(1)	(33.3)
Share in the earnings of associates	-	1	(1)	(100)	-	-	-	-
Tax expenses	<b>30</b>	29	1	3.4	<b>15</b>	14	1	7.1
Segment profit	<b>89</b>	83	6	7.2	<b>45</b>	41	4	9.8

**Explanation**

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.

This increase was mainly attributable to an increase in the number of employees providing outsourced services in ICT operations

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.

1.2.2 Operating segments

**E Multi-Channel Television**

	<b>1-6.2015</b>	<b>1-6.2014</b>	<b>Increase (decrease)</b>		<b>4-6.2015</b>	<b>4-6.2014</b>	<b>Increase (decrease)</b>	
	<b>NIS</b>	<b>NIS</b>	<b>NIS</b>	<b>%</b>	<b>NIS</b>	<b>NIS</b>	<b>NIS</b>	<b>%</b>
	<b>millions</b>	<b>millions</b>	<b>millions</b>		<b>millions</b>	<b>millions</b>	<b>millions</b>	
Revenues	<b>879</b>	851	28	3.3	<b>439</b>	427	12	2.8
Depreciation and amortization	<b>156</b>	144	12	8.3	<b>80</b>	74	6	8.1
Labor costs	<b>131</b>	130	1	0.8	<b>62</b>	68	(6)	(8.8)
General and operating expenses	<b>463</b>	437	26	5.9	<b>227</b>	218	9	4.1
Operating profit	<b>129</b>	140	(11)	(7.9)	<b>70</b>	67	3	4.5
Finance expenses, net	<b>53</b>	62	(9)	(14.5)	<b>55</b>	44	11	25.0
Finance expenses for shareholder loans, net	<b>244</b>	226	18	8.0	<b>181</b>	137	44	32.1
Tax expenses	<b>1</b>	1	-	-	<b>-</b>	1	(1)	(100)
Segment loss	<b>(169)</b>	(149)	(20)	13.4	<b>(166)</b>	(115)	(51)	44.3

**Explanation**

This increase was mainly attributable to an increase in the average number of subscribers.

This increase was mainly due to an increase in utilized broadcasting rights, and content costs.

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.

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.



### 1.3 Cash flow

	1-6.2015	1-6.2014	Change		4-6.2015	4-6.2014	Change	
	NIS millions	NIS millions	NIS millions	%	NIS millions	NIS millions	NIS millions	%
Net cash from operating activities	1,801	2,107	(306)	(14.5)	840	1,064	(224)	(21.1)
Net cash from (used in) investing activities	778	(557)	1,335	-	1,156	(60)	1,216	-
Net cash used in financing activities	(2,413)	(1,487)	(926)	62.3	(2,338)	(1,380)	(958)	69.4
Net increase (decrease) in cash	166	63	103	163.5	(342)	(376)	34	(9.0)

Explanation
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.
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.
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).

Average volume in the reporting Period:

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)

<b>Subject of valuation</b>	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.
<b>Date of valuation</b>	March 23, 2015; the valuation was signed on May 19, 2015.
<b>Value prior to the valuation</b>	The carrying amount of the Company's investment in DBS - NIS 1,064 million.
<b>Value set in the valuation</b>	NIS 1,076 million - value of Bezeq's investment in DBS.
<b>Assessor's identity and profile</b>	<p>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.</p> <p>Fahn Kanne Consulting is a subsidiary of Fahn Kanne &amp; 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.</p> <p>The assessor has no dependence on the Company.</p>
<b>Valuation model</b>	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.
<b>Assumptions used in the valuation</b>	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.

<b>Subject of valuation</b>	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.
<b>Date of valuation</b>	March 23, 2015; the valuation was signed on August 26, 2015.
<b>Value prior to the valuation</b>	N/A
<b>Value set in the valuation</b>	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.
<b>Assessor's identity and profile</b>	See above table - Section 4.1.1.
<b>Valuation model</b>	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.
<b>Assumptions used in the valuation</b>	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 iIAA/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.

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Shaul Elovitch  
Chairman of the Board

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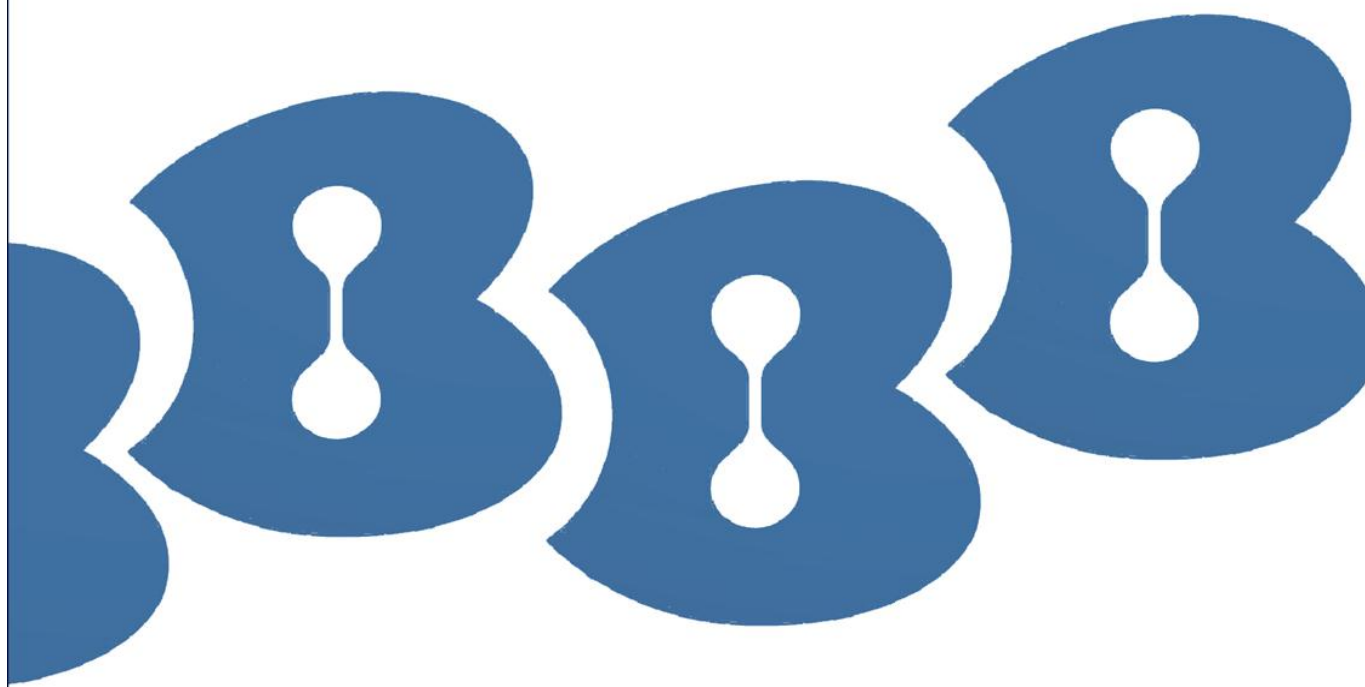
Stella Handler  
CEO

Date of signature: August 30, 2015

**Bezeq The Israel  
Telecommunication Corporation  
Limited**

**Condensed Consolidated Interim  
Financial Statements**

**June 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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**Review Report to the Shareholders of  
"Bezeq" -The Israel Telecommunication Corporation Ltd.**

Introduction

We have reviewed the accompanying financial information of "Bezeq" -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – "the Group") comprising of the condensed consolidated interim statement of financial position as of June 30, 2015 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of interim financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on interim financial information for these interim periods based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose assets constitute 1.1% of the total consolidated assets as of June 30 2015, and whose revenues constitute 1% of the total consolidated revenues for the six and three month periods then ended. The condensed interim financial information of that company was 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 information 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 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 financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, 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 interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 6.

Somekh Chaikin  
Certified Public Accountants (Isr.)

August 30, 2015

**Condensed Consolidated Interim Statements of Financial Position**

		June 30, 2015	June 30, 2014	December 31, 2014
		(Unaudited)	(Unaudited)	(Audited)
Assets	Note	NIS million	NIS million	NIS million
Cash and cash equivalents		826	673	660
Investments, including derivatives		999	1,725	2,223
Trade receivables		2,256	2,335	2,227
Other receivables		216	325	238
Inventory		96	89	96
Assets classified as held for sale		6	24	22
<b>Total current assets</b>		<b>4,399</b>	<b>5,171</b>	<b>5,466</b>
Trade and other receivables		655	587	566
Broadcasting rights, net of rights exercised		471	-	-
Property, plant and equipment		6,980	6,060	6,079
Goodwill	4.2	1,647	1,040	1,040
Intangible assets	4.2	2,045	799	753
Deferred and other expenses		254	254	253
Investments in equity-accounted investees	4.2	28	1,014	1,057
Investments		100	80	99
Deferred tax assets	4.2	854	35	-
<b>Total non-current assets</b>		<b>13,034</b>	<b>9,869</b>	<b>9,847</b>
<b>Total assets</b>		<b>17,433</b>	<b>15,040</b>	<b>15,313</b>

**Condensed Consolidated Interim Statements of Financial Position (Contd.)**

		June 30, 2015	June 30, 2014	December 31, 2014
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity	Note	NIS million	NIS million	NIS million
Debentures, loans and borrowings		1,924	1,534	1,481
Trade payables		1,021	638	664
Other payables, including derivatives		765	651	710
Current tax liabilities		699	591	600
Provisions		90	134	62
Employee benefits		271	378	259
Liability to Eurocom DBS Ltd, related party	4.2.1	101	-	-
<b>Total current liabilities</b>		<b>4,871</b>	<b>3,926</b>	<b>3,776</b>
Loans and debentures		9,444	7,815	8,606
Employee benefits		238	229	233
Provisions		70	68	69
Deferred tax liabilities		67	10	17
Derivatives		76	35	94
Deferred income and others		87	73	77
<b>Total non-current liabilities</b>		<b>9,982</b>	<b>8,230</b>	<b>9,096</b>
<b>Total liabilities</b>		<b>14,853</b>	<b>12,156</b>	<b>12,872</b>
<b>Total equity</b>		<b>2,580</b>	<b>2,884</b>	<b>2,441</b>

<b>Total liabilities and equity</b>	<b>17,433</b>	<b>15,040</b>	<b>15,313</b>
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**Shaul Elovitch**  
Chairman of the Board of Directors

**Stella Handler**  
CEO

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

Date of approval of the financial statements: August 30, 2015

The attached notes are an integral part of these condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statements of Income**

	Six months ended June 30		Three months ended June 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 8)</b>	<b>4,777</b>	4,561	<b>2,603</b>	2,250	9,055
<b>Costs of activity</b>					
Depreciation and amortization	768	633	451	319	1,281
Salaries	936	891	497	443	1,768
General and operating expenses (Note 9)	1,801	1,691	1,002	822	3,366
Other operating expenses (income), net (Note 10)	(158)	(576)	(141)	(568)	(586)
	<b>3,347</b>	2,639	<b>1,809</b>	1,016	5,829
<b>Operating profit</b>	<b>1,430</b>	1,922	<b>794</b>	1,234	3,226
<b>Financing expenses (income)</b>					
Financing expenses	265	240	164	127	486
Financing income	(99)	(166)	(35)	(95)	(356)
Financing expenses, net	166	74	129	32	130
<b>Profit after financing expenses, net</b>	<b>1,264</b>	1,848	<b>665</b>	1,202	3,096
<b>Share in the (profits) losses of equity accounted investees</b>	<b>16</b>	(98)	-	(79)	(170)
<b>Profit before income tax</b>	<b>1,280</b>	1,750	<b>665</b>	1,123	2,926
<b>Income tax</b>	<b>335</b>	483	<b>183</b>	313	815
<b>Profit for the period</b>	<b>945</b>	1,267	<b>482</b>	810	2,111
<b>Earnings per share (NIS)</b>					
Basic earnings per share	0.34	0.46	0.18	0.30	0.77
Diluted earnings per share	0.34	0.46	0.17	0.29	0.77

The attached notes are an integral part of these condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statements of Comprehensive Income**

	Six months ended June 30		Three months ended June 30		Year ended
	2015	2014	2015	2014	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2014
	NIS million	NIS million	NIS million	NIS million	(Audited)
					NIS million
Profit for the period	945	1,267	482	810	2,111
Items of other comprehensive income (loss) (net of tax)	33	(9)	16	(22)	(36)
<b>Total comprehensive income for the period</b>	<b>978</b>	<b>1,258</b>	<b>498</b>	<b>788</b>	<b>2,075</b>

The attached notes are an integral part of these condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statements of Changes in Equity**

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Six months ended June 30, 2015 (Unaudited):</b>							
Balance as at January 1, 2015	3,855	253	131	390	(105)	(2,083)	2,441
Profit for the period	-	-	-	-	-	945	945
Other comprehensive income for the period, net of tax	-	-	-	-	33	-	33
Total comprehensive income for the period	-	-	-	-	33	945	978
<b>Transactions with shareholders recognized directly in equity</b>							
Dividends to Company shareholders (see Note 7)	-	-	-	-	-	(844)	(844)
Exercise of options for shares	5	35	(35)	-	-	-	5
<b>Balance as at June 30, 2015</b>	<b>3,860</b>	<b>288</b>	<b>96</b>	<b>390</b>	<b>(72)</b>	<b>(1,982)</b>	<b>2,580</b>
<b>Six months ended June 30, 2014 (Unaudited):</b>							
Balance as at January 1, 2014	3,842	143	242	390	(67)	(2,127)	2,423
Profit for the period	-	-	-	-	-	1,267	1,267
Other comprehensive loss for the period, net of tax	-	-	-	-	(9)	-	(9)
Total comprehensive income for the period	-	-	-	-	(9)	1,267	1,258
<b>Transactions with shareholders recognized directly in equity</b>							
Dividend to Company shareholders	-	-	-	-	-	(802)	(802)
Share-based payments	-	-	(1)	-	-	-	(1)
Exercise of options for shares	6	55	(55)	-	-	-	6
<b>Balance as at June 30, 2014</b>	<b>3,848</b>	<b>198</b>	<b>186</b>	<b>390</b>	<b>(76)</b>	<b>(1,662)</b>	<b>2,884</b>

The attached notes are an integral part of these condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statements of Changes in Equity(Contd.)**

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Three months ended June 30, 2015 (Unaudited)</b>							
Balance as at April 1, 2015	3,858	272	112	390	(88)	(1,620)	2,924
Profit for the period	-	-	-	-	-	482	482
Other comprehensive income for the period, net of tax	-	-	-	-	16	-	16
Total comprehensive income for the period	-	-	-	-	16	482	498
<b>Transactions with shareholders recognized directly in equity</b>							
Dividends to Company shareholders (see Note 7)	-	-	-	-	-	(844)	(844)
Exercise of options for shares	2	16	(16)	-	-	-	2
<b>Balance as at June 30, 2015</b>	<b>3,860</b>	<b>288</b>	<b>96</b>	<b>390</b>	<b>(72)</b>	<b>(1,982)</b>	<b>2,580</b>
<b>Three months ended June 30, 2014 (Unaudited)</b>							
Balance as at April 1, 2014	3,844	161	223	390	(54)	(2,472)	2,092
Profit for the period	-	-	-	-	-	810	810
Other comprehensive loss for the period, net of tax	-	-	-	-	(22)	-	(22)
Total comprehensive income for the period	-	-	-	-	(22)	810	788
<b>Transactions with shareholders recognized directly in equity</b>							
Exercise of options for shares	4	37	(37)	-	-	-	4
<b>Balance as at June 30, 2014</b>	<b>3,848</b>	<b>198</b>	<b>186</b>	<b>390</b>	<b>(76)</b>	<b>(1,662)</b>	<b>2,884</b>

Condensed Consolidated Interim Statements of Changes in Equity(Contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for transactions between a corporation and a controlling shareholder	Other reserves	Deficit	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Year ended December 31, 2014 (Audited)</b>							
Balance as at January 1, 2014	3,842	143	242	390	(67)	(2,127)	2,423
Income in 2014	-	-	-	-	-	2,111	2,111
Other comprehensive income (loss) for the year, net of tax	-	-	-	-	(38)	2	(36)
Total comprehensive income for 2014	-	-	-	-	(38)	2,113	2,075
<b>Transactions with shareholders recognized directly in equity</b>							
Dividend to Company shareholders	-	-	-	-	-	(2,069)	(2,069)
Share-based payments	-	-	(1)	-	-	-	(1)
Exercise of options for shares	13	110	(110)	-	-	-	13
Balance as at December 31, 2014	3,855	253	131	390	(105)	(2,083)	2,441

The attached notes are an integral part of these condensed consolidated interim financial statements.



**Condensed Consolidated Interim Statements of Cash Flows**

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Cash flows from operating activities</b>					
Profit for the period	945	1,267	482	810	2,111
Adjustments:					
Depreciation and amortization	768	633	451	319	1,281
Profit from sale of the shares of Coral Tell Ltd.	-	(582)	-	(582)	(582)
Share in the losses (profits) of equity-accounted investees	(16)	98	-	79	170
Financing expenses, net	203	122	136	59	229
Profit from gaining control in an investee (see Note 4.2)	(12)	-	-	-	-
Capital gain, net	(159)	(121)	(148)	(104)	(175)
Share-based payments	-	(1)	-	-	(1)
Income tax expenses	335	483	183	313	815
Miscellaneous	(5)	(6)	(4)	(3)	(3)
Change in inventory	-	34	(9)	13	28
Change in trade and other receivables	145	387	61	224	549
Change in broadcasting rights	(11)	-	(11)	-	-
Change in trade and other payables	(195)	(107)	(150)	(45)	(39)
Change in provisions	9	8	6	12	(63)
Change in employee benefits	1	117	(3)	104	3
Net income tax paid	(207)	(225)	(154)	(135)	(527)
<b>Net cash from operating activities</b>	<b>1,801</b>	<b>2,107</b>	<b>840</b>	<b>1,064</b>	<b>3,796</b>

**Condensed Consolidated Interim Statements of Cash Flows (Contd.)**

	Six months ended June 30		Three months ended June 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>Cash flow used for investing activities</b>					
Investment in intangible assets and deferred expenses	(214)	(90)	(148)	(42)	(194)
Proceeds from the sale of property, plant and equipment	97	75	84	46	230
Acquisition of financial assets held for trading and others	(929)	(686)	(489)	(476)	(2,720)
Proceeds from the sale of financial assets held for trading and others	2,188	94	2,067	94	1,635
Cash in a company consolidated for the first time (see Note 4.2.3)	299	-	-	-	-
Purchase of property, plant and equipment	(665)	(548)	(363)	(281)	(1,081)
Non-current investments, net	(1)	(1)	3	2	(19)
Net consideration for the sale of Coral Tell Ltd. shares	-	596	-	596	596
Miscellaneous	3	3	2	1	7
<b>Net cash from (used in) investment activities</b>	<b>778</b>	<b>(557)</b>	<b>1,156</b>	<b>(60)</b>	<b>(1,546)</b>
<b>Cash flows used in financing activities</b>					
Payment to Eurocom DBS for acquisition of shares and DBS loans (see Note 4.2)	(680)	-	(680)	-	-
Issue of debentures and receipt of loans	228	-	228	-	1,446
Repayment of debentures and loans	(863)	(462)	(805)	(380)	(1,149)
Dividends paid	(844)	(802)	(844)	(802)	(2,069)
Interest paid	(243)	(219)	(223)	(192)	(431)
Miscellaneous	(11)	(4)	(14)	(6)	3
<b>Net cash used for financing activities</b>	<b>(2,413)</b>	<b>(1,487)</b>	<b>(2,338)</b>	<b>(1,380)</b>	<b>(2,200)</b>
<b>Increase (decrease) in cash and cash equivalents, net</b>	<b>166</b>	<b>63</b>	<b>(342)</b>	<b>(376)</b>	<b>50</b>
Cash and cash equivalents at beginning of period	660	610	1,168	1,049	610
<b>Cash and cash equivalents at end of period</b>	<b>826</b>	<b>673</b>	<b>826</b>	<b>673</b>	<b>660</b>

The attached notes are an integral part of these condensed consolidated interim financial statements.

## 1. General

### 1.1. Reporting Entity

Bezeq –The Israel Telecommunication Corporation Limited (“the Company”) is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company include those of the Company and its subsidiaries (together referred to as “the Group”), as well as the Group’s interests in associates. The Group is a principal provider of communication services in Israel (see also Note 12 –Segment Reporting).

### 1.2. Material events in the reporting period

On March 23, 2015, the Company gained control in DBS Satellite Services (1998) Ltd. (“DBS”) and began consolidation as at that date. On June 24, 2015, acquisition of the remaining holdings of Eurocom in DBS was completed and as from that date, the Company holds the entire rights to DBS shares. The effect of the operating results of DBS on the Group’s statement of income for the three months ended March 31, 2015 was included under “Share in losses of equity-accounted investees”. For further information see Note 4.2 regarding discontinued operations.

## 2. Basis of Preparation

**2.1** The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 –Interim Financial Reporting, and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

**2.2** The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2014 and the year then ended, and their accompanying notes (“the Annual Financial Statements”). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

**2.3** The condensed consolidated interim financial statements were approved by the Board of Directors on August 30, 2015.

### 2.4 Use of estimates and judgment

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

Other than the contents of Note 3.2, the judgments made by management, when applying the Group’s accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied in the Annual Financial Statements.

Below is information about significant estimates and judgments for which changes in the assessments and assumptions could potentially have a material effect on the financial statements, in addition to the information in Note 1.7.1 to the annual financial statements:

Subject	Principal assumptions	Possible effects	Reference
Fair value measurement of the Company’s investment in DBS prior to gaining control in DBS	Assumption of expected cash flows from the operations of DBS, discount rate and assumptions about the identity of the relevant market participant.	Change in profit/loss from gaining control	Note 4.2
Attribution of excess cost arising from acquisition of control in DBS	Assumption of expected cash flows from identifiable assets in the business combination, timing of recognition, and scope of the deferred tax asset for carry forward losses	Change in the value of identifiable tangible and intangible assets in the business combination and changes in the value of goodwill	Note 4.2
Fair value measurement of contingent consideration in a business combination	Assumption of expected cash flows and assumption of DBS’s losses for tax purposes.	Change in the value of a liability for contingent consideration recognized in a business combination	Note 4.2 and Note 11.1.4

### 3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except as described in section 3.2 below.

#### 3.2 Accounting policy for new transactions or events

In view of consolidation of DBS in these financial statements for the first time, as described in Note 4.2, below is a description of the accounting policy for the consolidation of DBS in these condensed consolidated interim financial statements:

3.2.1 The Group implemented the acquisition method for all business combinations. The acquisition date is the date on which the acquirer obtained control over the acquiree.

3.2.2 The Group recognized goodwill at acquisition based on the fair value of the consideration transferred, and the fair value at the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed.

3.2.3 The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree, **including the obligation to acquire the acquiree's equity instruments**. In addition, the consideration transferred includes the fair value of any contingent consideration.

3.2.4 In the step acquisitions, the difference between the fair value at the acquisition date of the Group's pre-existing equity rights in the acquiree and the carrying amount at that date **is recognized in the statement of income under other operating income or expenses**.

3.2.5 The Group implements the anticipated acquisition method, whereby it undertook to acquire the equity instruments of a subsidiary in return for cash or another financial asset. The commitment to acquire a subsidiary's equity instruments is recognized as a financial liability at the present value. The commitment is recognized at the agreement date, if the preconditions to the agreement are not under the Group's control.

Based on the anticipated acquisition method, non-controlling interests are derecognized at the recognition date of the commitment to acquire the subsidiary's equity instruments. Accordingly, the Group's share in the subsidiary's equity and operating expenses includes the share of the holders of non-controlling interests.

3.2.6 Costs associated with the acquisition that were incurred by the acquirer in the business combination such as advisory, legal, valuation and other professional or consulting fees were recognized as expenses in the period the services are received.

#### 3.3 New standards not yet adopted

Further to Note 2.17 to the annual financial statements regarding the implementation of IFRS 15, Revenues from Contracts with Customers, in July 2015, the IASB approved the postponement of mandatory initial application of the standard by one year from the original date, meaning that the standard will be effective for annual periods beginning on January 1, 2018. Early application is permitted.

### 4. Group Entities

4.1 A detailed description of the Group entities appears in Note 10 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

#### 4.2 DBS Satellite Services (1998) Ltd. ("DBS")

4.2.1 As described in Note 10.1.2 to the annual financial statements, the Company holds 49.78% of the share capital of DBS and it holds options that confer the right to 8.6%

in DBS shares, which the Company is unable to exercise. Accordingly, the Company accounted for its investment in DBS in accordance with the equity method.

On March 26, 2014, the Company received the decision of the Antitrust Authority, according to which, under the terms set out in the decision, the merger between the Company and DBS ("the Merger") will be permitted.

Further to the aforesaid, on February 10, 2015, the Board of Directors' subcommittee that was established for this matter, the audit committee and the Board of Directors of the Company approved the Company's engagement in a transaction with Eurocom DBS. In the transaction, the Company will acquire the entire holdings of Eurocom DBS in DBS ("the Acquisition Transaction"), which at this date represent 50.22% of the issued share capital of DBS (41.62% fully diluted) and all the shareholder loans provided by Eurocom to DBS. It was further decided that prior to the Acquisition Transaction, the Company and DBS will accept the merger terms and the Company will exercise the option granted, at no cost, for the allotment of DBS shares at a rate of 8.6% of the issued capital of DBS.

Under the terms of the acquisition transaction, the Company was required to pay Eurocom DBS NIS 680 million in cash on the closing date, against acquisition of the shares and shareholder loans. Eurocom DBS will also be entitled to two additional contingent considerations, as follows: the first additional consideration of up to NIS 200 million will be paid in accordance with the amount of the carry forward losses of DBS used for tax purposes and the second additional consideration of up to NIS 170 million will be paid in accordance with the business results of DBS in the next three years.

On March 23, 2015, the general meeting of the Company's shareholders approved the acceptance of the merger terms and exercise of the option, and the Company's engagement in the Acquisition Transaction, as described above. Subsequently, the Company and DBS announced the acceptance of the merger terms, and on March 25, 2015, the Company exercised the option and it was allotted DBS shares at a rate of 8.6% of the issued capital of DBS, so that as from this date, the Company holds 58.4% of DBS. Accordingly, the Company consolidates the financial statements of DBS as from March 23, 2015 (the date that the general meeting approved exercise of the option to DBS shares by the Company). In view of the Company's holding of 49.78% of DBS shares prior to gaining control, the acquisition transaction was accounted for in the financial statements as a step acquisition.

The Company's engagement in the transaction with Eurocom DBS for acquisition of the entire holdings of Eurocom DBS in DBS is subject to the approval of the Ministry of Communications for transfer of control in DBS such that the Company will control DBS and will hold the entire issued and paid up share capital of DBS. This approval was received unconditionally on June 23, 2015, and on June 24, 2015, the transaction was completed. On the completion date, the Company transferred the cash consideration of NIS 680 million to Eurocom DBS and Eurocom DBS transferred its rights and the rights to DBS shares to the Company and assigned to the Company its entire rights in the shareholders loans of DBS. On completion of the transaction, DBS became a wholly owned subsidiary (100%) of the Company.

As at June 30, 2015, the Company has a liability for the contingent consideration of NIS 101 million towards Eurocom DBS as described in Note 11, Financial Instruments.

- 4.2.2 At the date of the business acquisition, the Company presented its investment in shares, share options and loans to DBS prior to acquisition of control, according to the equity method based on a valuation by an independent assessor. In accordance with the valuation, the value of the Company's investments prior to acquisition of control is estimated at NIS 1.076 billion. Accordingly, the Company recognized a profit of NIS 12 million from the gain of control under other operating income in the statement of income for the three months ended March 31, 2015.

The valuation was based on the income approach, whereby the discounted cash flow method (DCF) was applied on the basis of the forecasted cash flow for 2015 through to 2019. The cash flow forecast was based on the results of DBS for 2011-2014 and

the three months ended March 31, 2015. In the valuation, it was assumed that the market share of DBS is expected to remain stable and will be 42%-43% throughout the years of the forecast. It was also assumed that gradual erosion in the ARPU of DBS is expected between 2015 and 2018, while in 2019 and thereafter, it is expected that a fixed nominal ARPU will be maintained. The revenue forecast was based on the forecast of the number of subscribers, average income and competition in the market.

Assumed cost of capital: 8.5% (net of tax). In addition, it was assumed that the permanent growth will be 1%.

The valuation was based on assumptions regarding the identity of the relevant market participant that might acquire the Company's holdings in DBS and does not take into account the specific operational and tax synergies between the companies.

4.2.3 Identifiable acquired assets and liabilities:

	March 23, 2015 (Unaudited) NIS million
Cash and cash equivalents	299
Trade and other receivables	182
Broadcasting rights	449
Property, plant and equipment	801
Intangible assets (including excess cost attributed to customer relations and brand as described below)	1,284
Deferred tax asset, net of deferred tax liabilities (for attributed excess cost)	831
Debentures, loans, and borrowings (including excess cost attributed to debentures as described below)	(1,947)
Trade payables and other liabilities	(632)
Contingent liabilities (including excess cost attributed to contingent liabilities as described below)	(19)
<b>Identifiable assets, net</b>	<b>1,248</b>

4.2.4 The Company attributed the acquisition cost in relation to the fair value of the assets and liabilities that were acquired in the business combination. The attribution was based on the valuation performed by an independent assessor whose opinion is attached to these financial statements.

Excess cost was attributed as follows:

	March 23, 2015 (Unaudited) NIS million
Customer relations (see section A below)	790
Brand (see section B below)	347
Goodwill (see section C below)	609
Deferred tax asset, net of deferred tax liabilities (see D below)	831
Debentures (see section E below)	(160)
Contingent liabilities (see section F below)	(10)
<b>Total excess cost</b>	<b>2,407</b>

- A. **Customer relations:** The valuation was based on the income approach, using the multi-period excess earning method. Under this approach, the value of the asset is derived from the present value of the cash flows that are expected to arise from it over the remaining economic life of the asset. Amortization will be based on the customer churn rate.
- B. **Brand:** The valuation was prepared in accordance with the relief from royalty method. In accordance with this method, the value of the asset is estimated as

the present value of the appropriate royalty that the entity would have to pay a third party for the use of the asset, if the company did not own it. The useful life of the brand assumed in the model is 12 years.

- C. **Goodwill:** Following the acquisition of control, goodwill was recognized as follows:

	March 23, 2015
	(Unaudited)
	NIS million
Consideration value	781
Fair value of the investment in DBS prior to the acquisition	1,076
Less the fair value of net identifiable assets	(1,248)
<b>Goodwill</b>	<b>609</b>

- D. **Deferred tax asset:** Following completion of the acquisition transaction on June 24, 2015, as described in Note 4.2.1 above, the Company believes that will be able to take advantage of the tax asset for the accrued losses from future profits of DBS and due to the possible merger between the companies.

The Company accounted for completion of the acquisition transaction after gaining control as new information obtained in the measurement period for the facts and circumstances that existed at the acquisition date and, therefore, the Company attributed the excess cost arising from gain of control as a deferred tax asset in the financial statements as at June 30, 2015 (retroactively, effective as from gain of control).

Composition of the tax asset:

	March 23, 2015
	(Unaudited)
	NIS million
Tax asset for cumulative losses of DBS	1,087
Tax reserve for attributed excess cost	(256)
<b>Deferred tax asset, net</b>	<b>831</b>

- E. **Debentures:** The excess cost reflects the fair value of the debentures at the acquisition date based on a capitalization rate of 1.9%-2.3%.
- F. **Contingent liabilities:** The excess cost represents a present obligation arising from a class action filed by DBS customers.

- 4.2.5 The management estimates that had the business combination taken place on January 1, 2015, the revenue in the consolidated statement of income would have increased by NIS 434 million and there would have been no significant change in consolidated profit. When determining the amounts, the management assumed that the fair value adjustments at the date of the business combination are the same as the adjustments that would have been received had the business combination taken place on January 1, 2015.
- 4.2.6 Since the beginning of its operations, DBS has accumulated considerable losses. The loss of DBS in 2014 amounted to NIS 322 million and the loss in the six months ended June 30, 2014, amounted to NIS 169 million. As a result of these losses, as of June 30, 2014, DBS had an equity deficit and a working capital deficit of NIS 4,833 million and NIS 349 million, respectively.
- 4.2.7 As at June 30, 2015, DBS is in compliance with the financial covenants established under the financing and debenture agreements. As at June 30, 2015, DBS is in compliance with the debt/EBITDA ratio covenant established in Deed of Trust B (as at June 30, 2015, the debt/EBITDA ratio was 2.5). Furthermore, DBS is in compliance with the debt/EBITDA ratio covenant set out in Debenture 2012 (as at June 30, 2015,

the debt/EBIDTA ratio was 2.5) and the debt/E-C ratio covenant set out in Debenture 2012 (as at June 30, 2015, the debt-E-C ratio was 6).

- 4.2.8 The management of DBS believes that the financing resources at its disposal, which include, among other things, loans from the Company, will be sufficient for the operations of DBS for the coming year, based on the forecasted cash flows approved by DBS's board of directors.

## 5. Debentures, Loans and Borrowings

- 5.1. In the second quarter of 2015, the Company entered into agreements with banks and a financial institution, which undertook to provide the Company with credit in a total amount of NIS 1.4 billion, to refinance its future debt in 2016, as follows:

- A. Agreements with banks for credit of NIS 900 million in June 2016, with a duration of 4.6 years (payable in five equal annual payments commencing on June 1, 2019 through to June 1, 2023), at a fixed NIS unlinked interest rate of 3.7%. The agreements with the banks include an option to cancel the credit line, subject to an early repayment fee.
- B. Agreements with a financial institute for credit of NIS 500 million in December 2016, with a duration of 4.9 years (payable in five equal annual payments commencing on December 15, 2019 through to December 15, 2023), at a fixed NIS unlinked interest rate of 4.3%.

The terms of the undertaking and the loans to be provided thereunder include terms that are similar to the terms provided for other loans taken by the Company, as described in Note 11.2.1 to the annual financial statements, including the following: an undertaking to refrain from creating additional liens on the Company's assets (with certain restrictions); an undertaking that if the Company assumes an undertaking towards a party in respect of compliance with financial covenants, the Company will also assume the same undertaking for this credit (subject to certain exceptions); and standard terms for immediate repayment (such as default events, insolvency, liquidation or receivership), and cross default (with certain restrictions), which will also apply, with the required changes, to the period of the undertaking to provide credit.

In the three months ended June 30, 2015, the Company recognized financing income amounting to NIS 30 million for the fair value of future long-term credit from banks, net of transaction costs.

- 5.2. In August 2015, the Company entered into additional agreements with a bank and a financial institution, which undertook to provide the Company with additional credit amounting to NIS 400 million to refinance the Company's future debt in 2017.
- 5.3. In the second quarter of 2015, DBS issued additional debentures (Series B) amounting to NIS 228 million by expanding the series. For information about the terms of the debentures, see Note 10.1.5 to the Annual Financial Statements.

## 6. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the legal claims, the financial statements include appropriate provisions of NIS 89 million, where provisions are required to cover the exposure arising from such legal claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at June 30, 2015 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 3.3 billion. There is also additional exposure of NIS 2.8 billion for claims, the chances of which cannot yet be assessed.

In addition, motions for certification of class actions have been filed against the Group companies, for which the Group has additional exposure beyond the aforesaid, since the exact amount of the claim is not stated in the claim.

This amount and all the amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

For updates subsequent to the reporting date, see section 6.2 below.



6.1. Below is a description of the contingent liabilities of the Group (including DBS) as at June 30, 2015, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Company in respect of recognition of various salary components as components for calculation of payments to Company employees, some of which have wide ramifications in the Company.	11	128	-
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	42	2,899	829
Supplier and communication provider claims	Legal claims for compensation for alleged damage as a result of the supply of the service and/or the product.	3	168	-
Claims for punitive damages, real estate and infrastructure	Claims for alleged physical damage or damage to property caused by Group companies and in relation to real estate and infrastructure. The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	2	63	-
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	11	47	2,000*
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the authorities (including property taxes) or by the authorities to the Group companies.	20	37	11
<b>Total legal claims against the Company and subsidiaries</b>		<b>89</b>	<b>3,342</b>	<b>2,840</b>

\* A claim filed by shareholders against the Company and officers in the Company amounting to NIS 1.1 billion or NIS 2 billion (according to the method of calculating the damage to be determined).

6.2. Subsequent to the reporting date, claims amounting to NIS 592 million were filed against Group companies, and two other claims without a monetary estimate. At the approval date of the financial statements, the chances of these claims cannot yet be assessed. In addition, claims with exposure of NIS 403 million came to an end.

## 7. Capital

### 7.1. Below are details of the Company's equity:

Registered			Issued and paid up		
June 30, 2015	June 30, 2014	December 31, 2014	June 30, 2015	June 30, 2014	December 31, 2014
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,825,000,000	2,825,000,000	2,825,000,000	2,748,349,912	2,735,918,334	2,743,283,920

7.2. On May 6, 2015, the general meeting of the Company's shareholders approved the recommendation of the Company's Board of Directors of March 25, 2015 to distribute a cash dividend to the shareholders of the Company in the amount of NIS 844 million (representing NIS 0.371722 per share on the record date. The dividend was paid on May 27, 2015.

7.3. On August 30, 2015, the Board of Directors of the Company resolved to recommend to the general meeting of the Company's shareholders the distribution of a cash dividend to the shareholders in the amount of NIS 933 million. The dividend is distributed for profits of the first half of 2015 amounting to NIS 945 million less revaluation gains of NIS 12 million for the gain of control in DBS, which were excluded from the Company's dividend policy in accordance with the Board of Director's decision of February 10, 2015 as set out in Note 18.2.1 to the annual financial statements. As at the approval date of the financial statements, the dividend has not yet been approved by the general meeting.

## 8. Revenues

	Six months ended June 30		Three months ended June 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>Domestic fixed-line</b>					
Fixed-line telephony	783	824	388	407	1,636
Internet - infrastructure	770	677	387	345	1,394
Transmission and data	415	408	208	201	802
Other services	113	112	55	55	220
	<b>2,081</b>	<b>2,021</b>	<b>1,038</b>	<b>1,008</b>	<b>4,052</b>
<b>Cellular telephony</b>					
Cellular services and terminal	975	1,232	489	609	2,399
Sale of terminal equipment	443	500	219	220	966
	<b>1,418</b>	<b>1,732</b>	<b>708</b>	<b>829</b>	<b>3,365</b>
<b>International communications, internet and NEP services</b>	<b>739</b>	<b>689</b>	<b>368</b>	<b>357</b>	<b>1,425</b>
<b>Multi-channel television</b>	<b>439</b>	<b>-</b>	<b>439</b>	<b>-</b>	<b>-</b>
<b>Other</b>	<b>100</b>	<b>119</b>	<b>50</b>	<b>56</b>	<b>213</b>
	<b>4,777</b>	<b>4,561</b>	<b>2,603</b>	<b>2,250</b>	<b>9,055</b>

**9. General and Operating Expenses**

	Six months ended June 30		Three months ended June 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
Terminal equipment and materials	431	474	205	212	928
Interconnectivity and payments to domestic and international operators	453	414	241	208	847
Maintenance of buildings and sites	306	312	156	156	639
Marketing and general	289	306	160	153	603
Content services	157	30	144	15	58
Services and maintenance by sub-contractors	89	78	55	38	137
Vehicle maintenance	76	77	41	40	154
	1,801	1,691	1,002	822	3,366

**10. Other Operating Expenses (Income), Net**

	Six months ended June 30		Three months ended June 30		For the 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 gaining control in DBS Satellite Services (1998) Ltd.	12	-	-	-	-
Capital gain from the sale of property, plant and equipment (mainly real estate)	159	121	148	104	175
Elimination of provision for contingent liabilities, net	-	-	-	-	23
Profit from sale of the shares of Coral Tell Ltd.	-	582	-	582	582
Other operating income	171	703	148	686	780
Provision for contingent liabilities, net	12	-	6	-	-
Provision for severance pay in voluntary redundancy	1	125	1	117	176
Others	-	2	-	1	18
Total other operating expenses	13	127	7	118	194
	(158)	(576)	(141)	(568)	(586)

## 11. Financial Instruments

### 11.1. Fair value

#### 11.1.1 Financial instruments at fair value for disclosure purposes only

The table below shows the differences between the carrying amount and the fair value of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 28.7 to the Annual Financial Statements.

	June 30, 2015		June 30, 2014		December 31, 2014	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)		(Unaudited)		(Audited)	
	NIS million		NIS million		NIS million	
Bank loans (unlinked)	2,197	2,358	2,101	2,246	2,112	2,292
Debentures issued to the public (CPI-linked)	3,459	3,634	2,796	3,026	3,820	4,033
Debentures issued to the public (unlinked)	890	949	1,335	1,438	1,335	1,426
Debentures issued to financial institutions (unlinked)	403	463	403	455	403	467
Debentures issued to financial institutions (CPI-linked)	1,952	2,089	-	-	-	-
	8,901	9,493	6,635	7,165	7,670	8,218

#### 11.1.2 Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, with details of the evaluation method. The methods used to measure the fair value of investments in ETFs, monetary funds, and forward contracts are described in Note 28.7 to the annual financial statements.

The methods used to measure the fair value of the future credit from the banks are described in Note 11.1.3 below. The methods used to measure the fair value of contingent consideration for a business combination are described in Note 11.1.4 below.

	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: investment in exchange-traded funds and financial funds	200	1,629	1,513
Level 2 - future credit from banks	36	-	-
Level 2: forward contracts	(93)	(47)	(110)
Level 3: contingent consideration for a business combination (Note 4.2)	(101)	-	-
Level 3: investment in non-marketable shares	9	9	9

11.1.3 Information about fair value measurement of the credit line to refinance future debt

The fair value of the future credit in accordance with the agreement with the banks, as set out in Note 5.1 above, was estimated by discounting the difference between the interest rate in the agreement and present interest for the remaining period, using appropriate market interest rates for similar instruments, including the required adjustments for credit risk.

11.1.4 Information about fair value measurement of contingent consideration in a business combination (Level 3)

Below is the fair value of the contingent consideration liability for a business combination, as described in Note 4.2:

	June 30, 2015	
	Maximum additional consideration under the agreement	Fair value
	(Unaudited)	(Unaudited)
	NIS million	NIS million
Additional consideration for tax synergy (first additional consideration)(A)	200	84
Additional consideration for the business results of DBS (second additional consideration) (B)	170	17
	<b>370</b>	<b>101</b>

A. First additional consideration

The fair value of the first additional contingent consideration was calculated by an independent assessor, based on a legal opinion on tax issues related to the possible merger between the Company and DBS. The legal opinion includes the probability of the chances and risks facing the Company regarding utilization of losses.

The estimated fair value of the contingent consideration will increase as the probability attributed to major risks in utilization of losses, as assessed in the legal opinion, decreases.

A 10% change in the probability attributed to major risks will result in a change of NIS 36 million in the first contingent consideration.

B. Second additional consideration

The fair value of the first additional consideration was estimated by the assessor, using the Monte Carlo simulation with risk neutral measure of the underlying asset which is the expected cash flow. The unobservable parameter that was used in the model and would have significantly changed the fair value is the expected cash flows in 2015-2017. To calculate the value of the second contingent consideration, a free cash flow was assumed as presented in the fair value assessment of Bezeq's holdings in DBS prior to gain of control as described in Note 4.2.2.

An increase of 10% in the expected cash flow will result in an increase of NIS 7 million in the estimated contingent consideration.

## 12. **Segment Reporting**

- 12.1. Further to Note 26 to the annual financial statements, the Company's investment in DBS was presented on the basis of the equity method up to March 25, 2015. As from this date, the financial statements of DBS are consolidated with the financial statements of the Group as described in Note 4 above. The Group reports on multichannel television as an operating segment without adjustment to ownership rates and excess cost in all reporting periods.

In addition, after DBS became a wholly-owned subsidiary of the Company on June 24, 2015, the Company updated the internal management reporting structure for financing income for the shareholders loans that were provided to DBS. In addition, the Company restated financing income under separate interim financial information. As from the second quarter of 2015, the Company no longer recognizes financing income for the shareholders loans under the financing income of the fixed-line domestic communications segment. Financing expenses in the multi-channel television segment include financing expenses for the loans without any change. The comparative figures were restated to reflect the change in the reporting structure: financing income in the amount of NIS 100 million and NIS 63 million was eliminated in the fixed-line domestic communications segment for the six and three months ended June 30, 2014, respectively, and NIS 213 million in the year ended December 31, 2014.

## 12.2. Operating segments

Six months ended June 30, 2015 (Unaudited):							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,079	1,418	736	878	100	(440)	4,771
Inter-segment revenues	139	30	48	1	7	(219)	6
<b>Total revenues</b>	<b>2,218</b>	<b>1,448</b>	<b>784</b>	<b>879</b>	<b>107</b>	<b>(659)</b>	<b>4,777</b>
Depreciation and amortization	356	210	65	156	6	(25)	768
Segment results –operating profit	1,209	85	122	129	(4)	(111)	1,430
Financing expenses	220	3	7	320	1	(286)	265
Financing income	(45)	(31)	(4)	(23)	(9)	13	(99)
<b>Total financing expenses (income), net</b>	<b>175</b>	<b>(28)</b>	<b>3</b>	<b>297</b>	<b>(8)</b>	<b>(273)</b>	<b>166</b>
Segment profit (loss) after financing expenses, net	1,034	113	119	(168)	4	162	1,264
Share in earnings of associates	-	-	-	-	-	16	16
<b>Segment profit (loss) before income tax</b>	<b>1,034</b>	<b>113</b>	<b>119</b>	<b>(168)</b>	<b>4</b>	<b>178</b>	<b>1,280</b>
Income tax	306	28	30	1	-	(30)	335
<b>Segment results –net profit (loss)</b>	<b>728</b>	<b>85</b>	<b>89</b>	<b>(169)</b>	<b>4</b>	<b>208</b>	<b>945</b>

## 12.2 Operating segments (contd.)

Six months ended June 30, 2014 (Unaudited):							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	2,017	1,730	685	851	119	(851)	4,551
Inter-segment revenues	133	30	36	-	7	(196)	10
Total revenues	2,150	1,760	721	851	126	(1,047)	4,561
Depreciation and amortization	340	211	65	144	13	(140)	633
Segment results –operating profit	975	253	116	140	638	(200)	1,922
Financing expenses	230	9	9	299	1	(308)	240
Financing income	(27)*	(44)	(4)	(11)	-	(80)*	(166)
Total financing expenses (income), net	203*	(35)	5	288	1	(388)*	74
Segment profit (loss) after financing expenses, net	772*	288	111	(148)	637	188*	1,848
Share in profits (losses) of associates	-	-	1	-	(3)	(96)	(98)
Segment profit (loss) before income tax	772*	288	112	(148)	634	92*	1,750
Income tax	226	74	29	1	154	(1)	483
Segment results –net profit (loss)	546*	214	83	(149)	480	93*	1,267

\* Reclassified, see section 12.1 above



## 12.2 Operating segments (contd.)

Three months ended June 30, 2015 (Unaudited):							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,037	709	368	438	51	-	2,603
Inter-segment revenues	68	12	23	1	3	(107)	-
Total revenues	1,105	721	391	439	54	(107)	2,603
Depreciation and amortization	180	106	33	80	3	49	451
Segment results –operating profit	662	53	62	70	(2)	(51)	794
Financing expenses	122	-	3	240	1	(202)	164
Financing income	(22)	(14)	(1)	(4)	(5)	11	(35)
Total financing expenses (income), net	100	(14)	2	236	(4)	(191)	129
Segment profit (loss) after financing expenses, net	562	67	60	(166)	2	140	665
Income tax	180	18	15	-	-	(30)	183
Segment results –net profit (loss)	382	49	45	(166)	2	170	482

## 12.2 Operating segments (contd.)

Three months ended June 30, 2014 (Unaudited):							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,006	828	354	427	57	(427)	2,245
Inter-segment revenues	67	15	12	-	2	(91)	5
Total revenues	1,073	843	366	427	59	(518)	2,250
Depreciation and amortization	172	105	33	74	6	(71)	319
Segment results –operating profit	471	127	58	67	637	(126)	1,234
Financing expenses	124	3	4	187	(1)	(190)	127
Financing income	(14)*	(20)	(1)	(6)	-	(54)*	(95)
Total financing expenses (income), net	110*	(17)	3	181	(1)	(244)*	32
Segment profit (loss) after financing expenses, net	361*	144	55	(114)	638	118*	1,202
Share in losses of associates	-	-	-	-	(3)	(76)	(79)
Segment profit (loss) before income tax	361*	144	55	(114)	635	42*	1,123
Income tax	110	38	14	1	151	(1)	313
Segment results –net profit (loss)	251*	106	41	(115)	484	43*	810

\* Reclassified, see section 12.1 above

## 12.2 Operating segments (contd.)

Year ended December 31, 2014 (Audited)							
	Domestic fixed-line communication	Cellular communications	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	4,045	3,361	1,419	1,724	209	(1,724)	9,034
Inter-segment revenues	272	58	85	-	17	(411)	21
Total revenues	4,317	3,419	1,504	1,724	226	(2,135)	9,055
Depreciation and amortization	688	430	130	297	23	(287)	1,281
Segment results –operating profit	1,980	449	232	273	629	(337)	3,226
Financing expenses	472	21	18	620	2	(647)	486
Financing income	(72)*	(77)	(9)	(26)	(11)	(161)*	(356)
Total financing expenses (income), net	400*	(56)	9	594	(9)	(808)*	130
Segment profit (loss) after financing expenses, net	1,580*	505	223	(321)	638	471*	3,096
Share in profits (losses) of associates	-	-	1	-	(3)	(168)	(170)
Segment profit (loss) before income tax	1,580*	505	224	(321)	635	303*	2,926
Income tax	478	132	60	1	147	(3)	815
Segment results –net profit (loss)	1,102*	373	164	(322)	488	306*	2,111

\* Reclassified, see section 12.1 above

**12.3. Adjustment of profit or loss for reporting segments**

	Six months ended June 30		Three months ended June 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
Operating profit for reporting segments	1,545	1,484	847	723	2,934
Cancellation of results for a segment classified as an associate (up to gain of control)	(59)	(140)	-	(67)	(273)
Financing expenses, net	(166)	(74)	(129)	(32)	(130)
Share in profits (losses) of associates	16	(98)	-	(79)	(170)
Profit (loss) for operations classified in other categories and other adjustments	(56)	578	(53)	578	565
<b>Income before income tax</b>	<b>1,280</b>	<b>1,750</b>	<b>665</b>	<b>1,123</b>	<b>2,926</b>

**13. Condensed Financial Statements of Pelephone, Bezeq International and DBS****13.1. Pelephone Communications Ltd.**

Selected data from the statement of financial position

	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	1,468	1,775	1,658
Non-current assets	1,952	1,962	1,883
<b>Total assets</b>	<b>3,420</b>	<b>3,737</b>	<b>3,541</b>
Current liabilities	553	735	610
Long-term liabilities	96	105	86
<b>Total liabilities</b>	<b>649</b>	<b>840</b>	<b>696</b>
Capital	2,771	2,897	2,845
<b>Total liabilities and equity</b>	<b>3,420</b>	<b>3,737</b>	<b>3,541</b>

Selected data from the statement of income

	Six months ended June 30		Three months ended June 30		Year ended
	2015	2014	2015	2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	1,001	1,259	502	622	2,453
Revenues from sales of terminal equipment	447	501	219	221	966
<b>Total revenues from services and sales</b>	<b>1,448</b>	<b>1,760</b>	<b>721</b>	<b>843</b>	<b>3,419</b>
Cost of services and sales	1,195	1,293	588	612	2,537
<b>Gross profit</b>	<b>253</b>	<b>467</b>	<b>133</b>	<b>231</b>	<b>882</b>
Selling and marketing expenses	120	159	57	76	309
General and administrative expenses	48	55	23	28	106
Other operating expenses	-	-	-	-	18
	<b>168</b>	<b>214</b>	<b>80</b>	<b>104</b>	<b>433</b>
<b>Operating profit</b>	<b>85</b>	<b>253</b>	<b>53</b>	<b>127</b>	<b>449</b>
Financing expenses	3	9	-	3	21
Financing income	(31)	(44)	(14)	(20)	(77)
<b>Financing income, net</b>	<b>(28)</b>	<b>(35)</b>	<b>(14)</b>	<b>(17)</b>	<b>(56)</b>
<b>Profit before income tax</b>	<b>113</b>	<b>288</b>	<b>67</b>	<b>144</b>	<b>505</b>
Income tax	28	74	18	38	132
<b>Profit for the period</b>	<b>85</b>	<b>214</b>	<b>49</b>	<b>106</b>	<b>373</b>

**13.2. Bezeq International Ltd.**

Selected data from the statement of financial position

	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	507	497	487
Non-current assets	736	746	730
Total assets	1,243	1,243	1,217
Current liabilities	340	299	313
Long-term liabilities	72	121	79
Total liabilities	412	420	392
Capital	831	823	825
Total liabilities and equity	1,243	1,243	1,217

Selected data from the statement of income

	Six months ended June 30		Three months ended June 30		For the year ended
	2015	2014	2015	2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	784	721	391	366	1,504
Operating expenses	501	447	250	229	951
Gross profit	283	274	141	137	553
Selling and marketing expenses	107	100	54	50	209
General and administrative expenses	54	58	25	29	112
	161	158	79	79	321
Operating profit	122	116	62	58	232
Financing expenses	7	9	3	4	18
Financing income	(4)	(4)	(1)	(1)	(9)
Financing expenses, net	3	5	2	3	9
Share in profits of equity-accounted associates	-	1	-	-	1
Profit before income tax	119	112	60	55	224
Income tax	30	29	15	14	60
Profit for the period	89	83	45	41	164

**13.3. DBS Satellite Services (1998) Ltd.**

Selected data from the statement of financial position

	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	651	558	434
Non-current assets	1,392	1,351	1,386
<b>Total assets</b>	<b>2,043</b>	<b>1,909</b>	<b>1,820</b>
Current liabilities	1,000	989	980
Long-term liabilities	1,577	3,798	1,450
Loans from shareholders	4,299	1,614	4,054
<b>Total liabilities</b>	<b>6,876</b>	<b>6,401</b>	<b>6,484</b>
Capital deficit	(4,833)	(4,492)	(4,664)
<b>Total liabilities and capital deficit</b>	<b>2,043</b>	<b>1,909</b>	<b>1,820</b>

Selected data from the statement of income

	Six months ended June 30		Three months ended June 30		For the year ended
	2015	2014	2015	2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	879	851	439	427	1,724
Operating expenses	634	588	314	297	1,203*
Gross profit	245	263	125	130	521
Selling and marketing expenses	70	80	34	40	154
General and administrative expenses	46	43	21	23	94*
	116	123	55	63	248
Operating profit	129	140	70	67	273
Financing expenses	76	73	59	50	137
Financing expenses for shareholder loans, net	244	226	181	137	483
Financing income	(23)	(11)	(4)	(6)	(26)
Financing expenses, net	297	288	236	181	594
Loss before income tax	(168)	(148)	(166)	(114)	(321)
Income tax	1	1	-	1	1
Loss for the period	(169)	(149)	(166)	(115)	(322)

\* Reclassified

## 14. Subsequent Events

**14.1.** On August 30, 2015, the Company's Board of Directors approved Amendment (No. 5) to the special collective agreement of December 5, 2006 between the Company, the employees union and the Histadrut New General Federation of Labor. The main points of the amendment are as follows:

1. Extension of the collective agreement and retirement arrangements up to December 31, 2021 and their amendments.
2. As part of the retirement arrangements, the Company may terminate the employment of 203 tenured employees (including newly-hired tenured employees) each year, at its discretion.

The Company's management believes that the estimated costs over the term of the agreement, including wage improvements, not including the retirement of employees subject to the Company's discretion, will amount to NIS 280 million (of which an amount of NIS 30 million is dependent on the Company's performance).

**14.2.** On August 30, 2015, the Board of Directors authorized the Company's management to review the option of issuing one or more new series of debentures to the public under the Company's shelf prospectus of May 2014. It is clarified that there is no final decision regarding the issuance and its scope, and the terms of the debentures have not yet been determined. The issuance is subject, in part, to the final decision of the Company's Board of Directors, publication of a shelf offering memorandum, and approval from the Tel Aviv Stock Exchange Ltd. to list the debentures for trading. The above is not an undertaking by the Company to perform the issuance and/or a public offering of securities, and there is no certainty that the issuance will indeed take place and/or what its terms will be.

**14.3.** On August 30, 2015, the Company's Board of Directors approved the Company's guarantee for the undertaking of DBS to pay all of its obligations to the holders of Debentures Series B and C of DBS (amounting to NIS 1.05 billion and NIS 307 million respectively), against reduction of the rate of annual interest that the debentures will bear (0.5% and 1% respectively), and cancellation of securities and certain provisions in the deeds of trust of the debentures and in the debentures. Subsequently, the Company is taking steps towards signing an appropriate guarantee. For information about the terms of these debentures, see also section 5.15 of Chapter A to the Periodic Report for 2014.

**14.4.** For information about the undertaking to provide additional credit, which the Company received in August 2015, see Note 5.2 above.

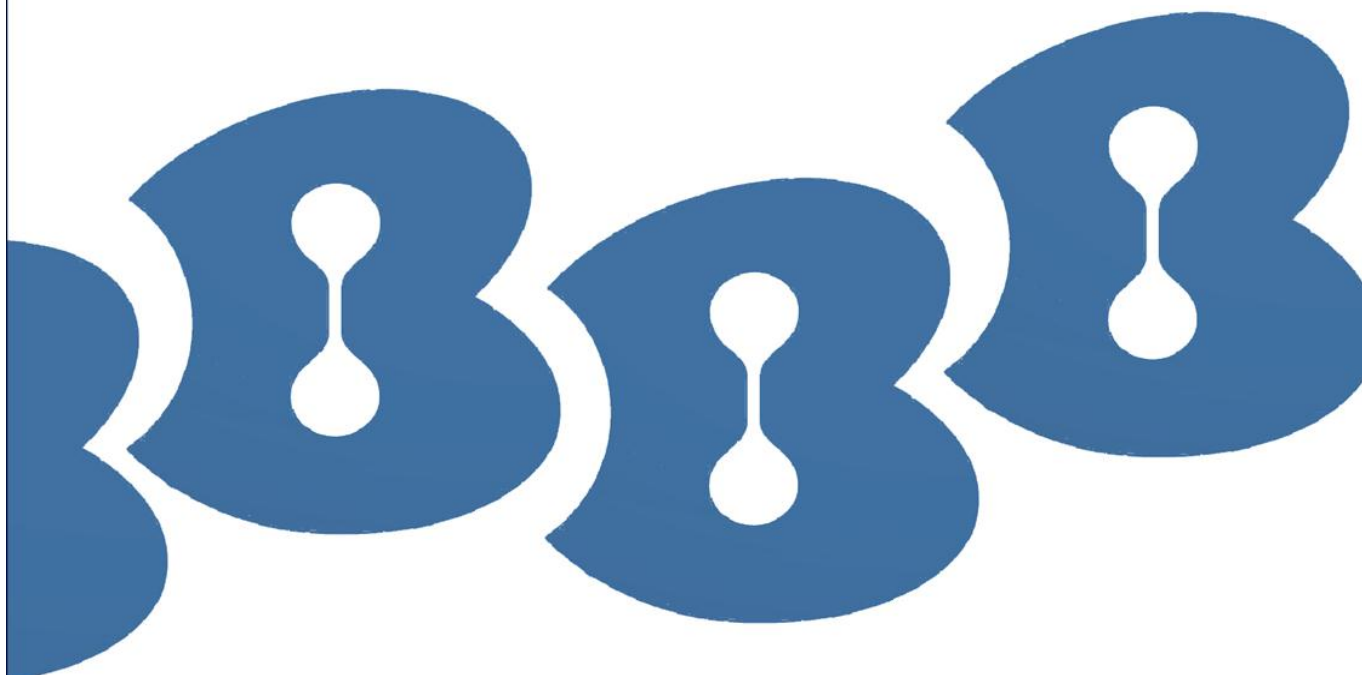


**Bezeq The Israel  
Telecommunication Corporation  
Limited**

**Consolidated Interim Pro Forma  
Financial Statements**

**June 30, 2015**

**(Unaudited)**



The information contained in these financial statements constitutes a translation of the financial information 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.

## **Pro Forma Consolidated Interim Financial Statements as at June 30, 2015 (Unaudited)**

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## **Review Report to the Shareholders of “Bezeq” -The Israel Telecommunication Corporation Ltd.**

### Introduction

We have reviewed the accompanying pro forma financial information of “Bezeq” -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the pro forma condensed consolidated interim statements of income and comprehensive income for the six and three month periods ended on June 30, 2015. The Board of Directors and Management are responsible for the preparation and presentation of interim financial information for these interim periods in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for these interim periods in accordance with Regulation 38b of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on pro forma interim financial information for these interim periods based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose revenues constitute 1% of the total consolidated revenues for the six and three month periods then ended. The condensed interim financial information of that company was 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 information 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 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 pro forma financial information was not prepared, in all material respects, in accordance with IAS 34 based on the assumptions set forth in Note 2.

In addition to that mentioned in the previous paragraph, 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 pro forma interim financial information does not comply, in all material respects, with the disclosure requirements of Regulation 38b of the Securities Regulations (Periodic and Immediate Reports), 1970 based on the assumptions set forth in Note 2.

Somekh Chaikin  
Certified Public Accountants (Isr.)

August 30, 2015

## Pro Forma Consolidated Interim Financial Statements as at June 30, 2015 (Unaudited)

### Pro Forma Condensed Consolidated Interim Statements of Income

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Revenues</b>	4,777	434	<b>5,211</b>	4,561	842	<b>5,403</b>
<b>Costs of activity</b>						
Depreciation and amortization	768	104	<b>872</b>	633	237	<b>870</b>
Salaries	936	69	<b>1,005</b>	891	131	<b>1,022</b>
General and operating expenses	1,801	230	<b>2,031</b>	1,691	428	<b>2,119</b>
Other operating income, net	(158)	12	<b>(146)</b>	(576)	-	<b>(576)</b>
	3,347	415	<b>3,762</b>	2,639	796	<b>3,435</b>
<b>Operating profit</b>	1,430	19	<b>1,449</b>	1,922	46	<b>1,968</b>
<b>Financing expenses (income)</b>						
Financing expenses	265	34	<b>299</b>	240	55	<b>295</b>
Financing income	(99)	(21)	<b>(120)</b>	(166)	89	<b>(77)</b>
Financing expenses, net	166	13	<b>179</b>	74	144	<b>218</b>
<b>Profit after financing expenses, net</b>	1,264	6	<b>1,270</b>	1,848	(98)	<b>1,750</b>
<b>Share in earnings (losses) of equity accounted investees</b>	16	(17)	<b>(1)</b>	(98)	94	<b>(4)</b>
<b>Profit before income tax</b>	1,280	(11)	<b>1,269</b>	1,750	(4)	<b>1,746</b>
<b>Income tax</b>	335	12	<b>347</b>	483	(24)	<b>459</b>
<b>Profit for the period</b>	945	(23)	<b>922</b>	1,267	20	<b>1,287</b>
<b>Earnings per share (NIS)</b>						
Basic earnings per share	0.34	-	<b>0.34</b>	0.46	0.01	<b>0.47</b>
Diluted earnings per share	0.34	(0.01)	<b>0.33</b>	0.46		<b>0.47</b>

Shaul Elovitch  
Chairman of the Board of Directors

Stella Handler  
CEO

David (Dudu) Mizrahi  
Deputy CEO and CFO

Date of approval of the pro forma financial statements: August 30, 2015

The attached notes are an integral part of these pro forma consolidated interim financial statements.

## Pro Forma Consolidated Interim Financial Statements as at June 30, 2015 (Unaudited)

### Condensed Consolidated Interim Statements of Comprehensive Income

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	945	(23)	<b>922</b>	1,267	20	<b>1,287</b>
Items of other comprehensive income (loss) (net of tax)	33	-	<b>33</b>	(9)	-	<b>(9)</b>
<b>Total comprehensive income for the period</b>	<b>978</b>	<b>(23)</b>	<b>955</b>	<b>1,258</b>	<b>20</b>	<b>1,278</b>

The attached notes are an integral part of these pro forma consolidated interim financial statements.

## Pro Forma Consolidated Interim Financial Statements as at June 30, 2015 (Unaudited)

### Pro Forma Condensed Consolidated Interim Statements of Income (Contd.)

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
<b>Revenues</b>	2,603	-	<b>2,603</b>	2,250	422	<b>2,672</b>
Costs of activity						
Depreciation and amortization	451	(9)	<b>442</b>	319	120	<b>439</b>
Salaries	497	-	<b>497</b>	443	69	<b>512</b>
General and operating expenses	1,002	-	<b>1,002</b>	822	213	<b>1,035</b>
Other operating income, net	(141)	-	<b>(141)</b>	(568)	-	<b>(568)</b>
	1,809	(9)	<b>1,800</b>	1,016	402	<b>1,418</b>
<b>Operating profit</b>	794	9	<b>803</b>	1,234	20	<b>1,254</b>
<b>Financing expenses (income)</b>						
Financing expenses	164	2	<b>166</b>	127	31	<b>158</b>
Financing income	(35)	-	<b>(35)</b>	(95)	68	<b>(27)</b>
Financing expenses, net	129	2	<b>131</b>	32	99	<b>131</b>
<b>Profit after financing expenses, net</b>	665	7	<b>672</b>	1,202	(79)	<b>1,123</b>
<b>Share in earnings (losses) of equity accounted investees</b>	-	-	<b>-</b>	(79)	76	<b>(3)</b>
<b>Profit before income tax</b>	665	7	<b>672</b>	1,123	(3)	<b>1,120</b>
<b>Income tax</b>	183	2	<b>185</b>	313	(22)	<b>291</b>
<b>Profit for the period</b>	482	5	<b>487</b>	810	19	<b>829</b>
<b>Earnings per share (NIS)</b>						
<b>Basic earnings per share</b>	0.18	-	<b>0.18</b>	0.30	-	<b>0.30</b>
Diluted earnings per share	0.17	0.01	<b>0.18</b>	0.29	0.01	<b>0.30</b>

### Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	482	5	<b>487</b>	810	19	<b>829</b>
Items of other comprehensive income (loss) (net of tax)	16	-	<b>16</b>	(22)	-	<b>(22)</b>
<b>Total comprehensive income for the period</b>	498	5	<b>503</b>	788	19	<b>807</b>

The attached notes are an integral part of these pro forma consolidated interim financial statements

## Pro Forma Consolidated Interim Financial Statements as at June 30, 2015 (Unaudited)

### Pro Forma Condensed Consolidated Interim Statements of Income (Contd.)

	Year ended December 31, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
<b>Revenues</b>	9,055	1,710	<b>10,765</b>
<b>Costs of activity</b>			
Depreciation and amortization	1,281	484	<b>1,765</b>
Salaries	1,768	267	<b>2,035</b>
General and operating expenses	3,366	872	<b>4,238</b>
Other operating income, net	(586)	1	<b>(585)</b>
	5,829	1,624	<b>7,453</b>
<b>Operating profit</b>	3,226	86	<b>3,312</b>
<b>Financing expenses (income)</b>			
Financing expenses	486	98	<b>584</b>
Financing income	(356)	188	<b>(168)</b>
Financing expenses, net	130	286	<b>416</b>
<b>Profit after financing expenses, net</b>	3,096	(200)	<b>2,896</b>
<b>Share in losses of equity-accounted investees</b>	(170)	165	<b>(5)</b>
<b>Profit before income tax</b>	2,926	(35)	<b>2,891</b>
<b>Income tax</b>	815	(47)	<b>768</b>
<b>Profit for the year</b>	2,111	12	<b>2,123</b>
<b>Earnings per share (NIS)</b>			
Basic earnings per share	0.77	0.01	<b>0.78</b>
Diluted earnings per share	0.77	-	<b>0.77</b>

### Condensed Consolidated Interim Statements of Comprehensive Income

	Year ended December 31, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the year	2,111	12	2,123
Items of other comprehensive loss (net of tax)	(36)	-	(36)
<b>Total comprehensive income for the year</b>	2,075	12	2,087

The attached notes are an integral part of these pro forma consolidated interim financial statements.

**1. General**

- 1.1 These pro forma consolidated interim financial statements are prepared in accordance with Regulation 38B of the Israel Securities Regulations (Periodic and Immediate Reports), 1970 and refer to the gain of control in DBS. Up to March 23, 2015, the Company held 49.78% of DBS shares and accounted for this investment using the equity method. On this date, the general meeting of the Company's shareholders approved the acceptance of the merger terms and exercise of the option, and the Company's engagement in the Acquisition Transaction, as described in Note 4.2 to the Group's interim financial statements. As from March 23, 2015, the Company consolidates the financial statements of DBS in the Group's financial statements.
- 1.2 The pro forma consolidated interim financial statements are based on the condensed consolidated interim financial statements of the Company and the condensed interim financial statements of DBS as at June 30, 2015, which were prepared in accordance with IAS 34, Interim Financial Reporting.

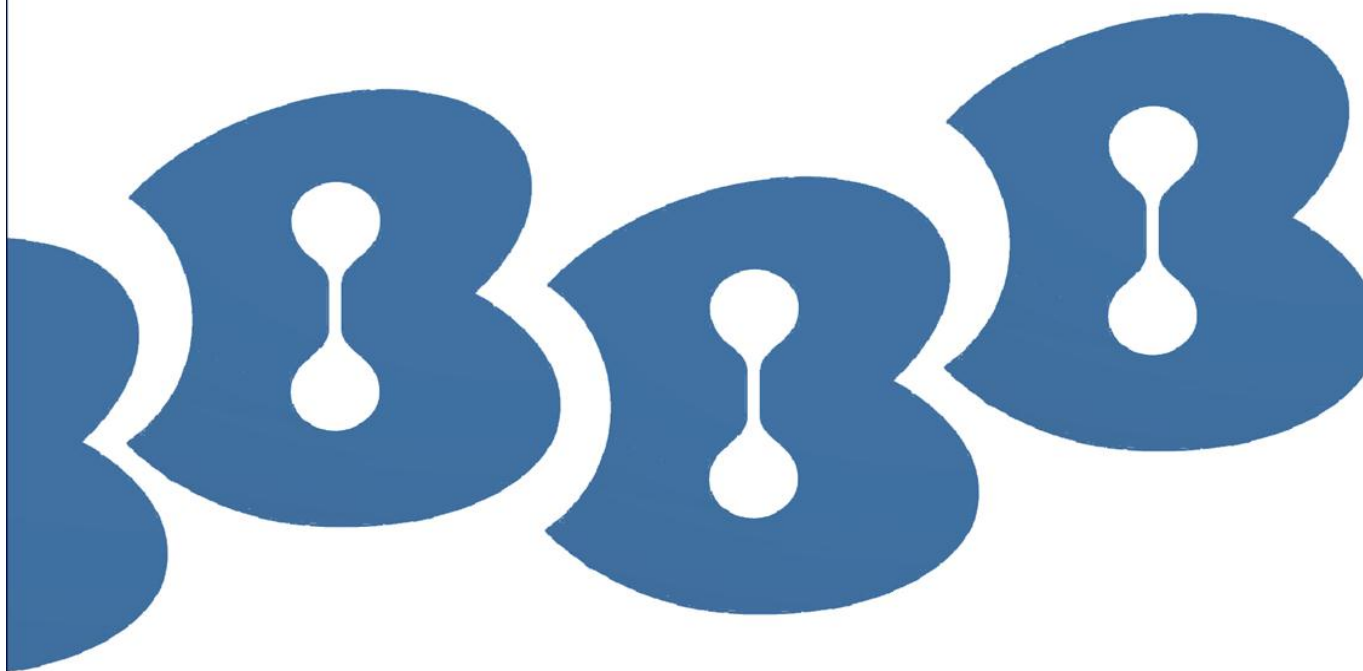
**2. Assumptions and adjustments used to prepare the pro forma interim financial statements**

- 2.1 The pro forma consolidated financial statements have been prepared to reflect the results of the Company's operations for the six and three months ended June 30, 2015 and June 30, 2014, and for the year ended December 31, 2014. The reports were prepared under the assumption that the business combination with DBS, which is described in Note 4.2 to the Group's condensed consolidated interim financial statements, was completed on January 1, 2013.
- 2.2 Prior to gaining control in DBS, as described above, the Company held 49.78% of its shares and accounted for this investment using the equity method. Accordingly, the consolidated statements of income included equity gains for this investment. In addition, for the purpose of the pro forma statement of income, the equity gains that were recognized up to March 23, 2015 were eliminated. In addition, a profit of NIS 12 million from acquisition of control was eliminated in the pro forma statement of income for the six months ended June 30, 2015.
- 2.3 Income and expenses arising from transactions between the Company and DBS were eliminated in the pro forma consolidated statements.
- 2.4 The adjustments for pro forma information include amortization of excess cost amounting to NIS 20 million and NIS 75 million for the six months ended June 30, 2015 and June 30, 2014, respectively, NIS 37 million for the three months ended June 30, 2014, and NIS 149 million for the year ended December 31, 2014. In addition, amortization of excess cost in the amount of NIS 7 million was recorded for the three month period ending June 30, 2015. The amortization was based on the estimated forecasted useful life of the excess cost as at the date of the business combination.
- 2.5 The Company assumes that there is no change in measurement of the fair value of DBS, allocation of excess cost, and the contingent consideration in the periods.



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

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



The information contained in this financial information report constitutes a translation of the financial information 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.

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

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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 June 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 597 million as of June 30, 2015, and the profit from this investee company amounted to NIS 5 million and NIS 2 million for the six and three month periods then ended, respectively. 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.)

August 30, 2015

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

### Condensed interim information of Financial Position

	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
<b>Assets</b>			
Cash and cash equivalents	65	207	248
Investments, including derivatives	757	1,659	2,175
Trade receivables	796	727	720
Other receivables	111	216	107
Inventories	5	6	4
Loans provided to investees	309	262	261
Assets classified as held for sale	6	24	22
<b>Total current assets</b>	<b>2,049</b>	<b>3,101</b>	<b>3,537</b>
Investments	87	69	86
Trade and other receivables	156	36	51
Property, plant and equipment	4,715	4,563	4,620
Intangible assets	276	314	295
Investment in investees	7,097	6,328	6,325
Loans provided to investees	85	311	272
Deferred tax assets	-	40	-
<b>Total non-current assets</b>	<b>12,416</b>	<b>11,661</b>	<b>11,649</b>
<b>Total assets</b>	<b>14,465</b>	<b>14,762</b>	<b>15,186</b>

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

<b>Condensed interim information of Financial Position (contd.)</b>			
	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
<b>Liabilities</b>			
Debentures, loans and borrowings	1,615	1,555	1,570
Loan from an investee	434	434	-
Trade payables	150	127	167
Other payables, including derivatives	462	465	553
Current tax liabilities	677	574	590
Provisions (Note 5)	57	107	48
Employee benefits	220	340	223
Liability to Eurocom DBS Ltd., a related party	101	-	-
<b>Total current liabilities</b>	<b>3,716</b>	<b>3,602</b>	<b>3,151</b>
Debentures and loans	7,772	7,975	8,787
Loan from an investee	-	-	434
Employee benefits	195	195	203
Deferred tax liabilities	54	-	1
Derivatives	76	36	94
Other liabilities	72	70	75
<b>Total non-current liabilities</b>	<b>8,169</b>	<b>8,276</b>	<b>9,594</b>
<b>Total liabilities</b>	<b>11,885</b>	<b>11,878</b>	<b>12,745</b>
<b>Equity</b>			
Share capital	3,860	3,848	3,855
Share premium	288	198	253
Reserves	414	500	416
Deficit	(1,982)	(1,662)	(2,083)
<b>Total equity attributable to equity holders of the Company</b>	<b>2,580</b>	<b>2,884</b>	<b>2,441</b>
<b>Total liabilities and equity</b>	<b>14,465</b>	<b>14,762</b>	<b>15,186</b>

**Shaul Elovitch**  
Chairman of the  
Board of Directors

**Stella Handler**  
CEO

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

Date of approval of the financial statements: August 30, 2015

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

## Condensed Separate Interim Financial Information as at June 30, 2014 (unaudited)

### Condensed interim information of Profit or Loss

	Six months ended June 30		Three months ended June 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>2,218</b>	2,150	<b>1,105</b>	1,073	4,317
<b>Cost of Activities</b>					
Depreciation and amortization	356	340	180	172	688
Salaries	453	451	226	228	895
Operating and general expenses (Note 3)	356	378	176	188	777
Other operating expenses (income), net (Note 4)	(156)	6	(139)	14	(23)
<b>Cost of Activities</b>	<b>1,009</b>	1,175	<b>443</b>	602	2,337
<b>Operating profit</b>	<b>1,209</b>	975	<b>662</b>	471	1,980
<b>Financing expenses (income)</b>					
Financing expenses	220	230	122	124	472
Financing income	(45)	(27)*	(22)	(14)*	(72)*
Financing expenses, net	175	203	100	110	400
<b>Profit after financing expenses, net</b>	<b>1,034</b>	772	<b>562</b>	361	1,580
<b>Share in earnings of investees, net</b>	<b>217</b>	721*	<b>100</b>	559*	1,009*
<b>Profit before income tax</b>	<b>1,251</b>	1,493	<b>662</b>	920	2,589
<b>Income tax</b>	<b>306</b>	226	<b>180</b>	110	478
<b>Profit for the period attributable to the owners of the Company</b>	<b>945</b>	1,267	<b>482</b>	810	2,111

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

### Condensed Interim Statement of Comprehensive Income

	Six months		Three months		Year ended
	Ended June 30		Ended June 30		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	945	1,267	482	810	2,111
Items of other comprehensive income (loss) for the period including actuarial gains and hedging transactions, net of tax	33	(9)	16	(22)	(36)
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>	<b>978</b>	1,258	<b>498</b>	788	2,075

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

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

### Condensed interim information of Cash Flows

	Six months		Three months		Year ended
	Ended June 30		Ended June 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	945	1,267	482	810	2,111
Adjustments:					
Depreciation and amortization	356	340	180	172	688
Share in earnings of investees, net	(217)	(721)*	(100)	(559)*	(1,009)*
Financing expenses, net	178	205*	96	107*	432*
Profit from gaining control in an investee	(12)	-	-	-	-
Capital gain, net	(157)	(120)	(146)	(103)	(175)
Income tax expenses	306	226	180	110	478
Sundries	(3)	(1)	(2)	-	3
Change in trade and other receivables	(76)	48	(2)	53	59
Change in trade and other payables	(111)	(15)	(131)	(72)	85
Change in provisions	10	(3)	7	1	(62)
Change in employee benefits	(11)	113	(3)	107	3
Net cash (used in) from operating activities due to transactions with subsidiaries	(23)	(6)	(5)	(2)	5
Net income tax paid	(181)	(172)	(100)	(79)	(359)
<b>Net cash flows from operating activities</b>	<b>1,004</b>	<b>1,161</b>	<b>456</b>	<b>545</b>	<b>2,259</b>
<b>Cash flows from investing activities</b>					
Investment in intangible assets	(37)	(39)	(17)	(20)	(82)
Proceeds from the sale of property, plant and equipment	92	70	80	42	221
Acquisition of financial assets held for trading and others	(729)	(620)	(289)	(410)	(2,654)
Proceeds from the sale of financial assets held for trading and others	2,180	94	2,060	94	1,617
Purchase of property, plant and equipment	(385)	(378)	(174)	(187)	(740)
Sundries	2	2	5	3	(14)
Net cash from investment activities due to transactions with subsidiaries	197	589	241	345	931
<b>Net cash provided by (used in) investment activities</b>	<b>1,320</b>	<b>(282)</b>	<b>1,906</b>	<b>(133)</b>	<b>(721)</b>
<b>Cash flow from financing activities</b>					
Issue of debentures and receipt of loans	-	-	-	-	1,446
Repayment of debentures and loans	(752)	(323)	(752)	(323)	(920)
Dividend paid	(844)	(802)	(844)	(802)	(2,069)
Payment to Eurocom DBS for purchase of shares and DBS loans	(680)	-	(680)	-	-
Interest paid	(200)	(213)	(182)	(191)	(421)
Sundries	(11)	(5)	(14)	(7)	3
Net cash (used in) from operating activities due to transactions with subsidiaries	(20)	434	(20)	434	434
<b>Net cash used for financing activities</b>	<b>(2,507)</b>	<b>(909)</b>	<b>(2,492)</b>	<b>(889)</b>	<b>(1,527)</b>
Increase (decrease) in cash and cash equivalents	(183)	(30)	(130)	(477)	11
Cash and cash equivalents at beginning of period	248	237	195	684	237
<b>Cash and cash equivalents at the end of the period</b>	<b>65</b>	<b>207</b>	<b>65</b>	<b>207</b>	<b>248</b>

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

The attached notes are an integral part of this 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 June 30, 2015 ("the Consolidated Financial Statements").

Other than as set out in section 1.3 below, 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**

Following closing of the transaction for the acquisition of Eurocom DBS's entire holdings of DBS shares and shareholders loans on June 24, 2015 as set out in Note 4 to the Consolidated Financial Statements, the Company changed its accounting policies with regard to the presentation of financing income for the shareholders loans provided to DBS.

Prior to acquisition of the entire holdings of DBS shares and shareholders loans the Company presented the financing revenue from shareholders loans under a financing revenue item in the statement of income, while the Company's share regarding DBS financing expenses were presented under the item "Company's share in profit (loss) of investees". As a result of the acquisition of 100% of the rights in DBS and in view of the Company's position that it does not expect to collect this financing income, the Company concluded that the financing revenue regarding shareholders loans to DBS should be presented net of DBS gains (losses) in the statement of income included in the separate financial information.

The change of policy was adopted and applied retrospectively. Effect of retrospective application on the relevant statement of income items:

	Six months ended June 30, 2014 (unaudited)		
	As previously presented	Effect of retrospective application	As reported in these financial statements
	NIS million	NIS million	NIS million
Financing expenses	230	-	230
Finance revenues	(127)	100	(27)
Financing expenses, net	103	100	203
Share in earnings of investees, net	621	100	721



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

Three months ended June 30, 2014 (unaudited)			
	As previously presented	Effect of retrospective application	As reported in these financial statements
	NIS million	NIS million	NIS million
Financing expenses	124	-	124
Finance revenues	(77)	63	(14)
Financing expenses, net	47	63	110
Share in earnings of investees, net	496	63	559

For the 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
Finance revenues	(285)	213	(72)
Financing expenses, net	187	213	400
Share in earnings of investees, net	796	213	1,009

## 2. Revenues

	Six months ended June 30		Three months ended June 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	799	841	396	415	1,668
Internet - infrastructure	770	677	387	345	1,394
Transmission and data communication	530	514	264	255	1,022
Other services	119	118	58	58	233
	2,218	2,150	1,105	1,073	4,317

## 3. Operating and general expenses

	Six months ended June 30		Three months ended June 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	98	108	47	53	217
Sales and marketing	95	100	48	52	213
Interconnectivity and payments to communications operators	75	81	37	39	161
Services and maintenance by sub-contractors	30	31	14	15	61
Vehicle maintenance	36	36	19	19	76
Terminal equipment and materials	22	22	11	10	49
	356	378	176	188	777

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

	Six months ended June 30		Three months ended June 30		Year ended
	2015	2014	2015	2014	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Gain from disposal of property, plant and equipment (mainly real estate)	(157)	(120)	(146)	(103)	(175)
Provision for contingent liabilities, net	12	-	6	-	(24)
Provision for severance pay in early retirement	1	125	1	117	176
Gain from increase in the Company's control of DBS Satellite Services Ltd.	(12)	-	-	-	-
Other	-	1	-	-	-
Other operating income, net	(156)	6	(139)	14	(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 57 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 June 30, 2015 due to legal claims filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 1,030 million. Of this amount, NIS 372 million is for a claim filed against the Company and other communications companies, without specifying the portion of the amount claimed from each of the plaintiffs. In addition, there is further exposure in the amount of NIS 2.1 billion\* for claims, the chances of which cannot be assessed at this stage. 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 reporting date, lawsuits were filed against the Company in a total amount of NIS 405 million, the chances of which cannot yet be assessed at this stage. Furthermore, another lawsuit in regard of which the exposure was NIS 144 million has concluded.

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

\* The total includes a shareholder's claim against the Company and officers in the Company amounting to a total of NIS 1.1 billion or NIS 2 billion (based on the method for calculating the claimed damages).

**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 August 2015 the board of directors of Pelephone decided to distribute a dividend to the Company in the amount of NIS 84 million in October 2015.
- 6.4** In August 2015 the board of directors of Bezeq International decided to distribute a dividend to the Company in the amount of NIS 88 million in October 2015.

**7. Events in and subsequent to the reporting period**

- 7.1 For information regarding the increase in control in 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. The loan bears annual interest of 3.05%.
- 7.3 On August 30, 2015, the Company's board of directors approved a revision (number 5) to the special collective agreement dated December 5, 2006 between the Company and the workers committee and New General Federation of Workers, the highlights of which are:
1. Extension of the collective agreement and retirement arrangements, and their revisions, through to December 31, 2021.
  2. Under the retirement arrangements, the Company will be entitled, at its discretion, to terminate the employment of up to 203 permanent employees (including new permanent employees) each year.

The Company's management estimates the expected costs for the entire period of the agreement, including wage hikes and excluding retrenchment of employees at the Company's discretion, to amount to NIS 280 million (of which NIS 30 million conditional upon the Company's results).

- 7.4 On August 30, 2015 the board of directors authorized the Company's management to examine options for issuing one or more new series of debentures to the public under the Company's shelf prospectus of May 2014. It is hereby clarified that a final decision with regard to such issue has not yet been made and the scope and terms thereof have not yet been set. Such an issue is subject, among other things, to a final decision by the Company's board of directors, issuing of a shelf offering and obtaining approval of the Tel Aviv Stock Exchange Ltd. for listing for trading. The foregoing does not constitute the Company's commitment to execute an issue and/or public offering of securities and it is not certain that such issue will indeed be executed and/or what its terms may be.
- 7.5 On August 30, 2015 the Company's board of directors provided the Company's guarantee for DBS's liability for full repayment of its debts to holders of DBS Series B and C debentures (in a total amount of NIS 1.05 billion and NIS 307million, respectively), against a reduction in the annual interest rates borne by the debentures (at 0.5% and 1%, respectively), and cancellation of certain collateral and provisions in the deeds of trust and debentures, and all in accordance with the provisions of the deeds of trust of the debentures and the debentures. Furthermore, the Company is taking measures for the signing of the appropriate letters of guarantee. For the terms of the foregoing debentures see section 5.15 of Chapter A to the Periodic Reports of 2014.
- 7.6 In August 2015 the Company entered into additional agreements with a bank and another financial institution, under which the Company received an undertaking from these organizations to provide additional credit of NIS 400 million for rescheduling a future debt of the Company in 2017.