Bezeq The Israel Telecommunication Corporation Limited

Condensed Consolidated Interim Financial Statements

September 30, 2015

(Unaudited)

bezeq

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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 September 30, 2015 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine 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 September 30 2015, and whose revenues constitute 1% of the total consolidated revenues for the nine 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.)

November 18, 2015

Condensed Consolidated Interim Statements of Financial Position

		September 30, 2015	September 30, 2014	December 31, 2014
		(Unaudited)	(Unaudited)	(Audited)
Assets		NIS million	NIS million	NIS million
Cash and cash equivalents		**1,030**	1,599	660
Investments, including derivatives		**1,126**	2,495	2,223
Trade receivables		**2,203**	2,225	2,227
Other receivables		**214**	286	238
Inventories		**90**	83	96
Assets classified as held for sale		**6**	33	22
Total current assets		**4,669**	6,721	5,466
Trade and other receivables		**643**	567	566
Broadcasting rights, net of rights exercised		**458**	-	-
Property, plant and equipment		**6,975**	6,052	6,079
Goodwill	4.2	**1,647**	1,057	1,040
Intangible assets	4.2	**1,966**	753	753
Deferred and other expenses		**260**	255	253
Investments in equity-accounted investees	4.2	**27**	1,043	1,057
Investments		**101**	85	99
Deferred tax assets	4.2	**860**	6	-
Total non-current assets		**12,937**	9,818	9,847
Total assets		**17,606**	16,539	15,313

Condensed Consolidated Interim Statements of Financial Position (Contd.)

		September 30, 2015	September 30, 2014	December 31, 2014
		(Unaudited)	(Unaudited)	(Audited)
Liabilities and equity		NIS million	NIS million	NIS million
Debentures, loans and borrowings		**1,952**	1,491	1,481
Trade payables		**949**	572	664
Other payables, including derivatives		**873**	787	710
Current tax liabilities		**723**	592	600
Provisions		**87**	124	62
Employee benefits		**268**	358	259
Dividend payable		**933**	1,267	-
Liability to Eurocom DBS Ltd, related party	4.2.1	**101**	-	-
Total current liabilities		**5,886**	5,191	3,776
Loans and debentures		**9,125**	8,872	8,606
Employee benefits		**253**	231	233
Provisions		**70**	69	69
Deferred tax liabilities		**56**	16	17
Derivatives		**109**	63	94
Deferred income and others		**82**	73	77
Total non-current liabilities		**9,695**	9,324	9,096
Total liabilities		**15,581**	14,515	12,872
Total equity		**2,025**	2,024	2,441
Total liabilities and equity		**17,606**	16,539	15,313

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: November 18, 2015

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 8)	**7,379**	6,793	**2,602**	2,232	9,055
Cost of Activities					
Depreciation and amortization	**1,225**	960	**457**	327	1,281
Salaries	**1,442**	1,328	**506**	437	1,768
Operating and general expenses (Note 9)	**2,801**	2,513	**1,000**	822	3,366
Other operating expenses (income), net (Note 10)	**(171)**	(601)	**(13)**	(25)	(586)
	5,297	4,200	**1,950**	1,561	5,829
Operating profit	**2,082**	2,593	**652**	671	3,226
Financing expenses (income)					
Financing expenses	**371**	365	**106**	125	486
Financing income	**(105)**	(252)	**(6)**	(86)	(356)
Financing expenses, net	**266**	113	**100**	39	130
Profit after financing expenses, net	**1,816**	2,480	**552**	632	3,096
Share in the (profits) losses of equity accounted investees	**15**	(132)	**(1)**	(34)	(170)
Profit before income tax	**1,831**	2,348	**551**	598	2,926
Taxes on income	**479**	653	**144**	170	815
Profit for the period	**1,352**	1,695	**407**	428	2,111
Earnings per share (NIS)					
Basic and diluted earnings per share	**0.49**	0.62	**0.15**	0.16	0.77

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	**2014**	**2015**	**2014**	**2014**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Profit for the period	**1,352**	1,695	**407**	428	2,111
Items of other comprehensive loss (net of tax) (including loss on hedging transactions and actuarial losses)	**-**	(33)	**(33)**	(24)	(36)
Total comprehensive income for the period	**1,352**	1,662	**374**	404	2,075

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
Nine months ended September 30, 2015 (Unaudited):							
Balance at January 01, 2015	**3,855**	**253**	**131**	**390**	**(105)**	**(2,083)**	**2,441**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**1,352**	**1,352**
Other comprehensive income (loss), net of tax	**-**	**-**	**-**	**-**	**10**	**(10)**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**10**	**1,342**	**1,352**
Transactions with owners recognized directly in equity							
Dividends to Company shareholders (see Note 7)	**-**	**-**	**-**	**-**	**-**	**(1,777)**	**(1,777)**
Exercise of options for shares	**9**	**61**	**(61)**	**-**	**-**	**-**	**9**
Balance at September 30, 2015	**3,864**	**314**	**70**	**390**	**(95)**	**(2,518)**	**2,025**
Nine months ended September 30, 2014 (Unaudited):							
Balance at January 01, 2014	3,842	143	242	390	(67)	(2,127)	2,423
Profit for the period	-	-	-	-	-	1,695	1,695
Other comprehensive loss for the period, net of tax	-	-	-	-	(33)	-	(33)
Total comprehensive income for the period	-	-	-	-	(33)	1,695	1,662
Transactions with owners recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(2,069)	(2,069)
Share-based payments	-	-	(1)	-	-	-	(1)
Exercise of options for shares	9	79	(79)	-	-	-	9
Balance at September 30, 2014	3,851	222	162	390	(100)	(2,501)	2,024

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
Three months ended September 30, 2015 (Unaudited)							
Balance at July 01, 2015	**3,860**	**288**	**96**	**390**	**(72)**	**(1,982)**	**2,580**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**407**	**407**
Other comprehensive income for the period, net of tax	**-**	**-**	**-**	**-**	**(23)**	**(10)**	**(33)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(23)**	**397**	**374**
Transactions with owners recognized directly in equity							
Dividends to Company shareholders (see Note 7)	**-**	**-**	**-**	**-**	**-**	**(933)**	**(933)**
Exercise of options for shares	**4**	**26**	**(26)**	**-**	**-**	**-**	**4**
Balance at September 30, 2015	**3,864**	**314**	**70**	**390**	**(95)**	**(2,518)**	**2,025**
Three months ended September 30, 2014 (Unaudited)							
Balance at July 1, 2014	3,848	198	186	390	(76)	(1,662)	2,884
Profit for the period	-	-	-	-	-	428	428
Other comprehensive loss for the period, net of tax	-	-	-	-	(24)	-	(24)
Total comprehensive income for the period	-	-	-	-	(24)	428	404
Transactions with owners recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(1,267)	(1,267)
Exercise of options for shares	3	24	(24)	-	-	-	3
Balance at September 30, 2014	3,851	222	162	390	(100)	(2,501)	2,024
Year ended December 31, 2014 (Audited)							
Balance at January 01, 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
Transactions with owners recognized directly in equity							
Dividend to Company shareholders	-	-	-	-	-	(2,069)	(2,069)
Share-based payments	-	-	(1)	-	-	-	(1)
Exercise of options for shares	13	110	(110)	-	-	-	13
Balance 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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities					
Profit for the period	**1,352**	1,695	**407**	428	2,111
Adjustments:					
Depreciation and amortization	**1,225**	960	**457**	327	1,281
Profit from sale of the shares of Coral Tell Ltd.	**-**	(582)	**-**	-	(582)
Share in the losses (profits) of equity-accounted investees	**(15)**	132	**1**	34	170
Financing expenses, net	**305**	174	**102**	52	229
Profit from gaining control in an investee (see Note 4.2)	**(12)**	-	**-**	-	-
Capital gain, net	**(172)**	(149)	**(13)**	(28)	(175)
Income tax expenses	**479**	653	**144**	170	815
Sundries	**-**	(8)	**-**	-	(4)
Change in inventory	**6**	43	**6**	9	28
Change in trade and other receivables	**196**	529	**51**	142	549
Change in broadcasting rights	**2**	-	**13**	-	-
Change in trade and other payables	**(174)**	(118)	**21**	(11)	(39)
Change in provisions	**6**	(1)	**(3)**	(9)	(63)
Change in employee benefits	**-**	98	**(1)**	(19)	3
Change in other liabilities	**(10)**	1	**(5)**	-	-
Net income tax paid	**(337)**	(370)	**(130)**	(145)	(527)
Net cash from operating activities	**2,851**	3,057	**1,050**	950	3,796

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	**2014**	**2015**	**2014**	**2014**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	NIS Million	**NIS Million**	**NIS Million**	**NIS Million**	**NIS Million**
Cash flow used for investing activities					
Investment in intangible assets and deferred expenses	**(268)**	(140)	**(54)**	(50)	(194)
Proceeds from the sale of property, plant and equipment	**119**	147	**22**	72	230
Acquisition of financial assets held for trading and others	**(1,229)**	(1,497)	**(300)**	(811)	(2,720)
Proceeds from the sale of financial assets held for trading and others	**2,342**	137	**154**	43	1,635
Cash in a company consolidated for the first time (see Note 4.2.3)	**299**	-	**-**	-	-
Purchase of property, plant and equipment	**(1,038)**	(820)	**(373)**	(272)	(1,081)
Non-current investments, net	**(9)**	(8)	**(8)**	(7)	(19)
Net consideration for the sale of Coral Tell Ltd. shares	**-**	596	**-**	-	596
Sundries	**4**	6	**1**	3	7
Net cash used for investing activities	**220**	(1,579)	**(558)**	(1,022)	(1,546)
Cash flows used in financing activities					
Payment to Eurocom DBS for acquisition of shares and DBS loans (see Note 4.2)	**(680)**	-	**-**	-	-
Issue of debentures and receipt of loans	**229**	1,146	**1**	1,146	1,446
Repayment of debentures and loans	**(1,116)**	(588)	**(253)**	(126)	(1,149)
Dividend paid	**(844)**	(802)	**-**	-	(2,069)
Interest paid	**(284)**	(244)	**(41)**	(25)	(431)
Sundries	**(6)**	(1)	**5**	3	3
Net cash from financing operations (used for financing operations)	**(2,701)**	(489)	**(288)**	998	(2,200)
Increase in cash and cash equivalents	**370**	989	**204**	926	50
Cash and cash equivalents at beginning of period	**660**	610	**826**	673	610
Cash and cash equivalents at end of period	**1,030**	1,599	**1,030**	1,599	660

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 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 November 18, 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:

Description	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 Group 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 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 carryforward 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 September 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 13, 2015.

The valuation was based on the income approach, whereby the discounted cash flow method (DCF) was applied on the basis of the projected 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 of Pelephone 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)**
Identifiable assets, net	**1,248**

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.

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)**
Total excess cost	**2,407**

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)**
Goodwill	**609**

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.

Completion of the acquisition transaction subsequent to the date of gaining control was accounted by the Company as new information that was presented in the measurement period with regard to the existing facts and circumstances at date of acquisition and therefore, at date of completion of the acquisition transaction on June 24, 2015 the Company recognized a deferred tax asset on the date of gaining control (retrospectively).

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)**
Deferred tax asset, net	**831**

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 reflected amounts represent 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 Further to that provided in Note 10.1.5 to the annual financial statements regarding the debentures issued by DBS on September 17, 2015, the Company signed guarantees undertaking DBS's liabilities to pay the full balance of its debts to holders of Debentures Series B and Debentures 2012 (in the amount of NIS 1.05 billion and NIS 307 million, respectively), which were deposited with the lenders' representatives on September 17, 20154 and September 20, 2015, respectively. This was against reducing the annual interest rate on the Debentures (by 0.5% and 1%, respectively) and cancellation of certain collateral and provisions in the deeds of trust and debentures (including BDS's obligation to comply with financial covenants and restrictions on distribution of dividends by BDS), and all in accordance with the terms of the deeds of trust of the Debentures and the Debentures. It is noted that, in accordance with the terms of the Debentures, a decrease in interest and cancellation of collateral and certain provisions in the debentures as aforesaid, are subject to the Company's rating not falling below Maalot's -AA or corresponding rating ("Minimum Rating"), a term that as at the date of providing the guarantees has been met, and that if in the future the Company's rating will be reduced to below the Minimum Rating, then the decrease in interest will be canceled, the collateral will be reissued and the canceled provisions will be reinstated and the guarantees will expire. The holders of Debentures 2012 can choose between the foregoing and maintaining the Company's guarantees, the decrease in interest and cancellation of the collateral and other terms in place (except if the Company's rating is reduced to below Maalot's A rating or a corresponding rating, then at such time (and so long as the Company's rating is not reinstated to the foregoing rating) the decrease in interest will be canceled).

As a result of the decrease in the annual interest on the debentures, the Group reassessed its expected cash flows at the date of the change and recognized financing revenues of NIS 31 million under the statement of income for the three months ended September 30, 2015.

With regard to the decision for early redemption of debentures 2012 subsequent to the date of the financial statements, see Note 14.3 below.

4.2.7 Since commencing its operations, DBS has accumulated considerable losses. The loss of DBS in 2014 amounted to NIS 322 million and the losses in the nine month period ended September 30, 2015 amounted to NIS 244 million. As a result of these losses, as at September 30, 2015, DBS had an equity deficit and a working capital deficit of NIS 4,908 million and NIS 455 million, respectively.

4.2.8 Further to that provided in Note 10.1.5 to the annual financial statements concerning the covenants applicable to DBS, as at September 30, 2015 DBS is in compliance with the financial covenants as set in the financing agreements with the banks: Debt/EBITDA ratio is 2.5 and Debt/E-C ratio is 5.7. DBS's undertaking to comply with financial covenants under certain provisions set out in the deed of trust for Debentures B and Debentures 2012 were canceled as described in section 4.2.6 above.

4.2.9 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 projected cash flows approved by DBS's board of directors.

5. Debentures, loans and borrowings

5.1 In the Reporting Period, the Company engaged in agreements with banks and institutional investors under which the Company received undertakings from these organizations to provide credit to the Company to refinance its future debt in 2016 to a total amount of NIS 1.4 billion, (with average duration of 4.6 through 4.9 years and at a fixed NIS interest rate of 3.7% - 4.3%) and undertakings to provide credit in 2017 to a total amount of NIS 400 million.

The undertakings and 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.

5.2 In the Reporting Period, DBS issued debentures (Series B) by expanding the series in an amount of NIS 228 million. For information about the terms of the debentures, see Note 10.1.5 to the Annual Financial Statements and Note 4.2.6 above.

5.3 Subsequent to the date of the financial statements, on October 15, 2015 the Company completed the issue of debentures (Series 9 and 10) under a shelf offering memorandum. The total proceeds (gross) from the issue amounted to NIS 788,451,000 according to following breakdown:

	Gross proceeds (NIS)	Annual weighted interest	Linkage terms
Series 9	388,451,000	3.65%	Unlinked
Series 10	400,000,000	2.2%	Linked to the rise in the CPI

The denture principal will be repaid in four unequal installments as follows: In 2022 - 10%, in each of the years 2023 through 2025 - 30%). The interest is payable twice a year as of December 1, 2015.

With regard to the two foregoing debenture series the Company undertook liabilities, the main ones being:

A. An undertaking refrain from creating additional liens on its assets (negative liens), an undertaking that in the event that the Company assumes an undertaking towards a party in respect of compliance with financial covenants, the Company will also assume the same towards the holders these debentures, and an undertaking to act so that, to the extent under its control, the debentures will continue to be rated until full redemption with a rating similar to that set out in Note 11.2.1 to the Company's 2014 Financial Statements and all at the terms as set out in the deed of trust for the debentures.

B. Generally accepted grounds were included for the immediate repayment of the debentures, including events of breach, insolvency, liquidation or receivership proceedings, as well as the right to call for immediate repayment if a third party lender calls for immediate repayment of the Company's debts (in an amount exceeding NIS 150 million, and in the event of another tradable debenture series being called for immediate repayment, in an unlimited amount), if more than 50% of the Group's assets (consolidated) are sold in a way that the communications industry ceases to be the Group's key area of operations, in the event of a change of control resulting in the current controlling shareholders of the Company ceasing to be its controlling shareholders (other than the transfer of control to an entity that obtains consent to control the Company in accordance with the provisions of the Communications Law or changes in control under other circumstances to be set), if a going concern caveat is recorded in the Company's financial statements for a period of two consecutive quarters, in the event of a material deterioration in the Company's business compared with its position on the date of issue and if there are any real concerns that the Company will be unable to redeem the debentures when they come due (as provided in section 35I1(a)(1) of the Securities Law), and all in accordance with the terms set out in the deed of trust for the debentures.

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 86 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 September 30, 2015 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 5.1 billion. There is also additional exposure of NIS 1.2 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 September 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.	**40**	**2,643**	**1,156**
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**	**169**	**-**
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**	**62**	**-**
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**	**2,047***	**-**
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.	**19**	**42**	**11**
Total legal claims against the Company and subsidiaries		**86**	**5,091**	**1,167**

* The amount includes exposure of NIS 2 billion for a claim filed by shareholders against the Company and officers of the Company which has been estimated by the applicants to be 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 660 million were filed against Group companies, and another claim 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 47 million came to an end.

7. Capital

7.1 Below are details of the Company's equity:

Registered			Issued and paid up		
September 30, 2015	September 30, 2014	December 31, 2014	September 30, 2015	September 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	**2,748,517,340**	2,738,776,941	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 September 21, 2015, the general meeting of the Company's shareholders approved (further to the recommendation of the Company's Board of Directors of August 30, 2015) to distribute a cash dividend to the shareholders in the amount of NIS 933 million (representing NIS 0.338958 per share on date of record). 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, 2012 as set out in Note 18.2.1 to the annual financial statements. The dividend was paid on October 26, 2015.

8. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communication					
Fixed-line telephony	**1,169**	1,234	**386**	410	1,636
Internet - infrastructure	**1,149**	1,029	**379**	352	1,394
Transmission and data communication	**625**	606	**210**	198	802
Other services	**166**	167	**53**	55	220
	3,109	3,036	**1,028**	1,015	4,052
Cellular					
Cellular services and terminal equipment	**1,482**	1,828	**507**	596	2,399
Sale of terminal equipment	**649**	715	**206**	215	966
	2,131	2,543	**713**	811	3,365
International communications, internet and NEP services	**1,099**	1,048	**360**	359	1,425
Multi-channel television	**885**	-	**446**	-	-
Other	**155**	166	**55**	47	213
	7,379	6,793	**2,602**	2,232	9,055

9. General and operating expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**624**	674	**193**	200	928
Interconnectivity and payments to domestic and international operators	**689**	633	**236**	219	847
Maintenance of buildings and sites	**467**	475	**161**	163	639
Sales and marketing	**453**	458	**164**	152	603
Content services	**304**	45	**147**	15	58
Services and maintenance by sub-contractors	**141**	113	**52**	35	137
Vehicle maintenance	**123**	115	**47**	38	154
	2,081	2,513	**1,000**	822	3,366

10. Other operating expenses (income), net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit from gaining control in DBS Satellite Services (1998) Ltd.	**12**	-	**-**	-	-
Capital gain from the sale of property, plant and equipment (mainly real estate)	**172**	149	**13**	28	175
Elimination of provision for contingent liabilities, net	**-**	3	**-**	5	23
Profit from sale of the shares of Coral Tell Ltd.	**-**	582	**-**	-	582
Other operating income	**184**	734	**13**	33	780
Provision for contingent claims, net	**12**	-	**-**	-	-
Provision for voluntary redundancy severance payments	**1**	133	**-**	8	176
Other	**-**	-	**-**	-	18
Total other operating expenses	**13**	133	**-**	8	194
	(171)	(601)	**(13)**	(25)	(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.

	September 30, 2015		September 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)	**2,216**	**2,375**	2,121	2,287	2,112	2,292
Debentures issued to the public (CPI-linked)	**3,486**	**3,661**	3,858	4,509	3,820	4,033
Debentures issued to the public (unlinked)	**903**	**953**	1,354	1,459	1,335	1,426
Debentures issued to financial institutions (unlinked)	**410**	**470**	410	469	403	467
Debentures issued to financial institutions (CPI-linked)	**1,757**	**1,845**	-	-	-	-
	8,772	**9,304**	7,743	8,724	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.

	September 30, 2015	September 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Level 1: investment in exchange-traded funds and financial funds	**194**	2,392	1,513
Level 2 - future credit from banks	**9**	-	-
Level 2: forward contracts	**(128)**	(76)	(110)
Level 3: contingent consideration for a business combination (Note 4.2)	**(101)**	-	-
Level 3: investment in non-marketable shares	**3**	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:

	September 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**
	370	**101**

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 161 million and NIS 61 million was eliminated in the fixed-line domestic communications segment for the nine and three months ended September 30, 2014, respectively, and NIS 213 million in the year ended December 31, 2014.

12.2 Operating segments

	Nine months ended September 30, 2015 (Unaudited):						
	Domestic fixed-line communi-cations	**Cellular communi-cations**	**International communi-cations 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	**3,108**	**2,131**	**1,097**	**1,324**	**149**	**(440)**	**7,369**
Inter-segment revenues	**211**	**46**	**76**	**1**	**16**	**(340)**	**10**
Total income	**3,319**	**2,177**	**1,173**	**1,325**	**165**	**(780)**	**7,379**
Depreciation and amortization	**540**	**319**	**98**	**234**	**10**	**24**	**1,225**
Segment results – operating profit	**1,721**	**146**	**182**	**203**	**(8)**	**(162)**	**2,082**
Financing expenses	**333**	**3**	**11**	**469**	**1**	**(446)**	**371**
Financing income	**(20)**	**(42)**	**(5)**	**(23)**	**(13)**	**(2)**	**(105)**
Total financing expenses (income), net	**313**	**(39)**	**6**	**446**	**(12)**	**(448)**	**266**
Segment profit (loss) after financing expenses, net	**1,408**	**185**	**176**	**(243)**	**4**	**286**	**1,816**
Share in earnings of associates	**-**	**-**	**-**	**-**	**(1)**	**16**	**15**
Segment profit (loss) before income tax	**1,408**	**185**	**176**	**(243)**	**3**	**302**	**1,831**
Taxes on income	**424**	**45**	**46**	**1**	**-**	**(37)**	**479**
Segment results – net profit (loss)	**984**	**140**	**130**	**(244)**	**3**	**339**	**1,352**

12.2 Operating Segments (contd.)

	Nine months ended September 30, 2014 (Unaudited):						
	Domestic fixed-line communi-cations	Cellular communi-cations	International communi-cations 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	3,033	2,541	1,045	1,284	164	(1,284)	6,783
Inter-segment revenues	198	43	60	-	9	(300)	10
Total income	3,231	2,584	1,105	1,284	173	(1,584)	6,793
Depreciation and amortization	518	319	97	218	19	(211)	960
Segment results – operating profit	1,473	375	175	215	632**	(277)	2,593
Financing expenses	355	12	14	475	1	(492)	365
Financing income	(35)*	(61)	(7)	(26)	(5)	(118)*	(252)
Total financing expenses (income), net	320*	(49)	7	449	(4)	(610)*	113
Segment profit (loss) after financing expenses, net	1,153*	424	168	(234)	636	333*	2,480
Share in profits (losses) of associates	-	-	1	-	(3)	(130)	(132)
Segment profit (loss) before income tax	1,153*	424	169	(234)	633	203*	2,348
Taxes on income	344	110	45	1	156	(3)	653
Segment results – net profit (loss)	809*	314	124	(235)	477	206*	1,695

* Reclassified, see section 12.1 above

* Including income from the sale of Coral Tell Ltd. shares amounting to NIS 582 million.

12.2 Operating Segments (contd.)

	Three months ended September 30, 2015 (Unaudited):						
	Domestic fixed-line communi-cations	Cellular communi-cations	International communi-cations 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	**1,029**	**713**	**361**	**446**	**49**	**-**	**2,598**
Inter-segment revenues	**72**	**16**	**28**	**-**	**9**	**(121)**	**4**
Total income	**1,101**	**729**	**389**	**446**	**58**	**(121)**	**2,602**
Depreciation and amortization	**184**	**109**	**33**	**78**	**4**	**49**	**457**
Segment results – operating profit	**512**	**61**	**59**	**74**	**(3)**	**(51)**	**652**
Financing expenses	**142**	**-**	**4**	**168**	**-**	**(208)**	**106**
Financing income	**(4)**	**(11)**	**(1)**	**(19)**	**(4)**	**33**	**(6)**
Total financing expenses (income), net	**138**	**(11)**	**3**	**149**	**(4)**	**(175)**	**100**
Segment profit (loss) after financing expenses, net	**374**	**72**	**56**	**(75)**	**1**	**124**	**552**
Share in losses of associates	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Segment profit (loss) after financing expenses, net	**374**	**72**	**56**	**(75)**	**-**	**124**	**551**
Taxes on income	**118**	**17**	**15**	**-**	**-**	**(6)**	**144**
Segment results – net profit (loss)	**256**	**55**	**41**	**(75)**	**-**	**130**	**407**

	Three months ended September 30, 2014 (Unaudited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	International communi-cations 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	1,016	811	361	432	45	(433)	2,232
Inter-segment revenues	65	13	24	-	2	(104)	-
Total income	1,081	824	385	432	47	(537)	2,232
Depreciation and amortization	178	108	32	75	5	(71)	327
Segment results – operating profit	498	122	59	76	(6)	(78)	671
Financing expenses	125	3	5	182	-	(190)	125
Financing income	(8)*	(17)	(3)	(20)	(5)	(33)*	(86)
Total financing expenses (income), net	117*	(14)	2	162	(5)	(223)*	39
Segment profit (loss) after financing expenses, net	381*	136	57	(86)	(1)	145*	632
Share in losses of associates	-	-	-	-	-	(34)	(34)
Segment profit (loss) before income tax	381*	136	57	(86)	(1)	111*	598
Taxes on income	118	36	15	-	2	(1)	170
Segment results – net profit (loss)	263*	100	42	(86)	(3)	112*	428

* Reclassified, see section 12.1 above

12.2 Operating Segments (contd.)

	Year ended December 31, 2014 (Audited)						
	Domestic fixed-line communi-cations	Cellular communi-cations	International communi-cations 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 income	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
Taxes on income	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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2015	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reporting segments	**2,252**	2,238	**706**	755	2,934
Cancellation of results for a segment classified as an associate (up to gain of control)	**(59)**	(215)	**-**	(76)	(273)
Amortization of excess cost	**(94)**	-	**(47)**	-	-
Financing expenses - net	**(266)**	(113)	**(100)**	(39)	(130)
Share in profits (losses) of associates	**15**	(132)	**(1)**	(34)	(170)
Profit (loss) for operations classified in other categories and other adjustments	**(17)**	570*	**(7)**	(8)	565*
Profit before income tax	**1,831**	2,348	**551**	598	2,926

* Including income from the sale of Coral Tell Ltd. shares amounting to NIS 582 million.

13. Condensed Financial Statements of Pelephone, Bezeq International, and DBS

13.1. Pelephone Communications Ltd.

Selected data from the statement of financial position

	September 30, 2015	September 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,503**	1,790	1,658
Non-current assets	**1,913**	1,927	1,883
Total assets	**3,416**	3,717	3,541
Current liabilities	**576**	840	610
Long-term liabilities	**98**	90	86
Total liabilities	**674**	930	696
Equity	**2,742**	2,787	2,845
Total liabilities and equity	**3,416**	3,717	3,541

Data from the Profit and Loss Statement

	Nine months ended September 30		Three months ended September 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
Revenues from services	**1,522**	1,869	**521**	610	2,453
Revenue from sales of terminal equipment	**655**	715	**208**	214	966
Total revenues from services and sales	**2,177**	2,584	**729**	824	3,419
Cost of services and sales	**1,781**	1,894	**586**	601	2,537
Gross profit	**396**	690	**143**	223	882
Selling and marketing expenses	**179**	235	**59**	76	309
General and administrative expenses	**71**	80	**23**	25	106
Other operating expenses	**-**	-	**-**	-	18
	250	315	**82**	101	433
Operating profit	**146**	375	**61**	122	449
Financing expenses	**3**	12	**-**	3	21
Financing income	**(42)**	(61)	**(11)**	(17)	(77)
Financing income, net	**(39)**	(49)	**(11)**	(14)	(56)
Profit before income tax	**185**	424	**72**	136	505
Taxes on income	**45**	110	**17**	36	132
Profit for the period	**140**	314	**55**	100	373

13.2. Bezeq International Ltd.

Selected data from the statement of financial position

	September 30, 2015	September 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**520**	533	487
Non-current assets	**725**	739	730
Total assets	**1,245**	1,272	1,217
Current liabilities	**397**	376	313
Long-term liabilities	**64**	114	79
Total liabilities	**461**	490	392
Equity	**784**	782	825
Total liabilities and equity	**1,245**	1,272	1,217

Data from the Profit and Loss Statement

	Nine months ended September 30		Three months ended September 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
Revenues from services	**1,173**	1,105	**389**	385	1,504
Operating expenses	**751**	692	**251**	246	951
Gross profit	**422**	413	**138**	139	553
Selling and marketing expenses	**156**	154	**49**	54	209
General and administrative expenses	**84**	84	**30**	26	112
	240	238	**79**	80	321
Operating profit	**182**	175	**59**	59	232
Financing expenses	**11**	14	**4**	5	18
Financing income	**(5)**	(7)	**(1)**	(3)	(9)
Financing expenses - net	**6**	7	**3**	2	9
Share in profits of equity-accounted associates	**-**	1	**-**	-	1
Profit before income tax	**176**	169	**56**	57	224
Taxes on income	**46**	45	**15**	15	60
Profit for the period	**130**	124	**41**	42	164

13.3. DBS Satellite Services (1998) Ltd.

Selected data from the statement of financial position

	September 30, 2015	September 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**527**	394	434
Non-current assets	**1,372**	1,358	1,386
Total assets	**1,899**	1,752	1,820
Current liabilities	**982**	964	980
Long-term liabilities	**1,372**	1,432	1,450
Loans from shareholders	**4,453**	3,934	4,054
Total liabilities	**6,807**	6,330	6,484
Capital deficit	**(4,908)**	(4,578)	(4,664)
Total liabilities and capital deficit	**1,899**	1,752	1,820

Data from the Profit and Loss Statement

	Nine months ended September 30		Three months ended September 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
Revenues from services	**1,325**	1,284	**446**	432	1,724
Operating expenses	**948**	889	**314**	299	1,203
Gross profit	**377**	395	**132**	133	521
Selling and marketing expenses	**107**	114	**37**	34	154
General and administrative expenses	**67**	66	**21**	23	94
	174	180	**58**	57	248
Operating profit	**203**	215	**74**	76	273
Financing expenses	**70**	113	**13**	42	137
Financing expenses for shareholder loans, net	**399**	362	**155**	136	483
Financing income	**(23)**	(26)	**(19)**	(16)	(26)
Financing expenses - net	**446**	449	**149**	162	594
Loss before income tax	**(243)**	(234)	**(75)**	(86)	(321)
Taxes on income	**1**	1	**-**	-	1
Loss for the period	**(244)**	(235)	**(75)**	(86)	(322)

14. Subsequent Events

14.1 With regard to the issue of debentures Series 9 and 10 subsequent to the date of the financial statements, see Note 5 above.

14.2 On October 26, 2015 the District Planning and Building Board approve the master plan for an area of 70 dunam (net) for warehouses and offices in Sakia (near Mesubim Junction). As of this date the Company has the right to the foregoing land under a leasing contract for a period of 49 years from March 22, 1993, with an option to extend it for a further 49 years, free of charge. The foregoing right was granted to the Company as part of the settlement agreement of May 15, 2003 between the Company and the Government of Israel and Israel Lands Administration, lending it validity of a judgment on March 10, 2004. The exercise of the rights is contingent upon obtaining permits from the planning authorities for the planning of the site.

14.3 On November 8, 2015 the board of directors of DBS approved early redemption of DBS Debentures 2012 in a total amount of NIS 307 million and the payment of a redemption commission, in accordance with DBS's right under the terms of the debentures. Later, on November 18, 2015 the Company's board of directors provided DBS a loan for the purpose of executing early redemption of Debentures 2012, in an amount of NIS 325 million. Early redemption is expected to be executed within 30 days from date of DBS notice to the holders of the debentures of its intention to execute early redemption.