

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
Assets			
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
Total current assets	2,049	3,101	3,537
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	-
Total non-current assets	12,416	11,661	11,649
Total assets	14,465	14,762	15,186

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

Condensed interim information of Financial Position (contd.)

	June 30, 2015	June 30, 2014	December 31, 2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
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	-	-
Total current liabilities	3,716	3,602	3,151
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
Total non-current liabilities	8,169	8,276	9,594
Total liabilities	11,885	11,878	12,745
Equity			
Share capital	3,860	3,848	3,855
Share premium	288	198	253
Reserves	414	500	416
Deficit	(1,982)	(1,662)	(2,083)
Total equity attributable to equity holders of the Company	2,580	2,884	2,441
Total liabilities and equity	14,465	14,762	15,186

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
Revenues (Note 2)	2,218	2,150	1,105	1,073	4,317
Cost of Activities					
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)
Cost of Activities	1,009	1,175	443	602	2,337
Operating profit	1,209	975	662	471	1,980
Financing expenses (income)					
Financing expenses	220	230	122	124	472
Financing income	(45)	(27)*	(22)	(14)*	(72)*
Financing expenses, net	175	203	100	110	400
Profit after financing expenses, net	1,034	772	562	361	1,580
Share in earnings of investees, net	217	721*	100	559*	1,009*
Profit before income tax	1,251	1,493	662	920	2,589
Income tax	306	226	180	110	478
Profit for the period attributable to the owners of the Company	945	1,267	482	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)
Total comprehensive income for the period attributable to equity holders of the Company	978	1,258	498	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
Cash flows from operating activities					
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)
Net cash flows from operating activities	1,004	1,161	456	545	2,259
Cash flows from investing activities					
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
Net cash provided by (used in) investment activities	1,320	(282)	1,906	(133)	(721)
Cash flow from financing activities					
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
Net cash used for financing activities	(2,507)	(909)	(2,492)	(889)	(1,527)
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
Cash and cash equivalents at the end of the period	65	207	65	207	248

* 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)	2014
	NIS million	NIS million	NIS million	NIS million	(Audited)
					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.