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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**F O R M 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of December 2015**

**INTERNET GOLD-GOLDEN LINES LTD.**

(Name of Registrant)

**2 Dov Friedman Street, Ramat Gan 5250301, Israel**

(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- \_\_\_\_\_

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Internet Gold-Golden Lines Ltd.

EXPLANATORY NOTE

The following exhibits are attached:

- 99.1 Internet Gold-Golden Lines Ltd. Condensed Consolidated Interim Financial Statements as of September 30, 2015 and for the Nine Months ended September 30, 2015 and September 30, 2014 (Unaudited).
  - 99.2 Operating and Financial Review and Prospects for the Nine Months ended September 30, 2015 and September 30, 2014.
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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNET GOLD-GOLDEN LINES LTD.  
(Registrant)

By /s/Doron Turgeman  
Doron Turgeman  
Chief Executive Officer

Date: December 9, 2015

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## EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
99.1	Internet Gold-Golden Lines Ltd. Condensed Consolidated Interim Financial Statements as of September 30, 2015 and for the Nine Months ended September 30, 2015 and September 30, 2014 (Unaudited).
99.2	Operating and Financial Review and Prospects for the Nine Months ended September 30, 2015 and September 30, 2014.

**Internet Gold - Golden Lines Ltd.**  
**Condensed Consolidated Interim Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

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**Condensed Consolidated Interim Financial Statements (unaudited)**

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**Condensed Consolidated Statements of Financial Position (Unaudited)**

(In millions)

		Convenience translation into U.S. dollars (Note 2C)		
	September 30	September 30	September 30	December 31
	2015	2015	2014	2014
	NIS	US\$	NIS	NIS
<b>Assets</b>				
Cash and cash equivalents	1,071	273	1,642	732
Restricted cash	8	2	4	65
Investments, including derivatives	2,281	581	3,540	3,406
Trade receivables, net	2,203	562	2,224	2,227
Other receivables	219	56	289	242
Inventory	90	23	83	96
Assets classified as held-for-sale	23	6	144	52
<b>Total current assets</b>	<b>5,895</b>	<b>1,503</b>	<b>7,926</b>	<b>6,820</b>
Investments, including derivatives	307	78	85	271
Long-term trade and other receivables	643	164	567	566
Property, plant and equipment	7,302	1,861	6,491	6,572
Intangible assets	7,482	1,907	6,037	5,908
Deferred and other expenses	364	93	369	364
Broadcasting rights	458	117	-	-
Investment in equity-accounted investee	27	7	1043	1,057
Deferred tax assets	860	219	6	-
<b>Total non-current assets</b>	<b>17,443</b>	<b>4,446</b>	<b>14,598</b>	<b>14,738</b>
<b>Total assets</b>	<b>23,338</b>	<b>5,949</b>	<b>22,524</b>	<b>21,558</b>

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

**Condensed Consolidated Statements of Financial Position (Unaudited) (cont'd)**

(In millions)

		Convenience translation into U.S. dollars (Note 2C)		
	September 30	September 30	September 30	December 31
	2015	2015	2014	2014
	NIS	US\$	NIS	NIS
<b>Liabilities</b>				
Bank loans and credit and debentures	2,325	593	1,562	1,561
Trade payables	949	242	573	664
Liability to an affiliate	101	26	-	-
Other payables including derivatives	966	246	869	757
Dividend payable	647	165	876	-
Current tax liabilities	801	204	728	671
Provisions	87	22	124	62
Employee benefits	268	68	358	259
<b>Total current liabilities</b>	<b>6,144</b>	<b>1,566</b>	<b>5,090</b>	<b>3,974</b>
Bank loans and debentures	13,604	3,468	13,598	13,419
Employee benefits	259	66	231	233
Other liabilities	212	54	188	262
Provisions	70	18	69	69
Deferred tax liabilities	761	194	865	835
<b>Total non-current liabilities</b>	<b>14,906</b>	<b>3,800</b>	<b>14,951</b>	<b>14,818</b>
<b>Total liabilities</b>	<b>21,050</b>	<b>5,366</b>	<b>20,041</b>	<b>18,792</b>
<b>Equity</b>				
Total equity attributable to equity holders of the Company	(165)	(42)	(218)	(183)
Non-controlling interests	2,453	625	2,701	2,949
<b>Total equity</b>	<b>2,288</b>	<b>583</b>	<b>2,483</b>	<b>2,766</b>
<b>Total liabilities and equity</b>	<b>23,338</b>	<b>5,949</b>	<b>22,524</b>	<b>21,558</b>

Date of approval of the financial statements: December 9, 2015

/s/ Doron Turgeman

CEO

/s/ Itzik Tadmor

Principal Financial Officer

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



**Condensed Consolidated Statements of Income (Unaudited)**

(In millions, except per share data)

	Note	Nine months period ended September 30		
		Convenience translation into U.S. dollars		
		2015 NIS	2015 US\$	2014 NIS
<b>Revenues</b>	<b>8</b>	<b>7,379</b>	<b>1,881</b>	<b>6,793</b>
<b>Cost and expenses</b>				
Depreciation and amortization		1,588	405	1,422
Salaries		1,445	368	1,328
General and operating expenses	9	2,808	716	2,519
Other operating income, net	10	(103)	(26)	(561)
		<b>5,738</b>	<b>1,463</b>	<b>4,708</b>
<b>Operating income</b>		<b>1,641</b>	<b>418</b>	<b>2,085</b>
<b>Financing expenses (income)</b>				
Finance expenses		770	196	1,090
Finance income		259	66	423
<b>Financing expenses, net</b>		<b>511</b>	<b>130</b>	<b>667</b>
<b>Income after financing expenses, net</b>		<b>1,130</b>	<b>288</b>	<b>1,418</b>
Share of loss (income) in equity- accounted investee		(15)	(4)	132
<b>Income before income tax</b>		<b>1,145</b>	<b>292</b>	<b>1,286</b>
Income tax		368	94	525
<b>Net income for the period</b>		<b>777</b>	<b>198</b>	<b>761</b>
<b>Income (loss) attributable to:</b>				
Owners of the company		17	4	(134)
Non-controlling interests		760	194	895
<b>Net income for the period</b>		<b>777</b>	<b>198</b>	<b>761</b>
<b>Earnings (loss) per share</b>				
<b>Basic income (loss) per share</b>		<b>0.90</b>	<b>0.23</b>	<b>(7.02)</b>
<b>Diluted income (loss) per share</b>		<b>0.84</b>	<b>0.22</b>	<b>(7.11)</b>

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

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

(In millions)

	Nine months period ended September 30		
		Convenience translation into U.S. dollars	
	2015	2015	2014
	NIS	US\$	NIS
<b>Net income for the period</b>	<b>777</b>	<b>198</b>	761
Items of other comprehensive income (loss), net of tax	-	-	(33)
<b>Total of other comprehensive income for the period</b>	<b>777</b>	<b>198</b>	<b>728</b>
<b>Attributable to:</b>			
Owners of the Company	17	4	(141)
Non-controlling interests	<b>760</b>	<b>194</b>	869
<b>Total of other comprehensive income for the period</b>	<b>777</b>	<b>198</b>	<b>728</b>

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

**Condensed Consolidated Statements of Changes in Equity (Unaudited)**

(In millions except number of shares)

For the nine months period ended September 30, 2015	Attributable to owners of the Company								Convenience translation Into U.S. dollars (Note 2C) US\$	
	Share capital		Share premium	Treasury Shares	Other reserves <sup>(2)</sup>	Retained earnings	Total	Non-Controlling interests		Total equity
	Number of Shares <sup>(1)</sup>	Amount								
	NIS 0.1 par value	NIS								
Balance as at January 1, 2015	19,203,186	*	658	(169)	(197)	(475)	(183)	2,949	2,766	705
Exercise of options in a subsidiary	-	-	-	-	1	-	1	5	6	2
Dividends to Non-controlling interests (see note 13)	-	-	-	-	-	-	-	(1,261)	(1,261)	(322)
Other comprehensive income, net of tax	-	-	-	-	2	(2)	-	-	-	-
Net income for the period	-	-	-	-	-	17	17	760	777	198
Comprehensive income for the period	-	-	-	-	3	15	17	760	777	198
Balance as at September 30, 2015	19,203,186	*	658	(169)	(194)	(460)	(165)	2,453	2,288	583

(1) Net of treasury shares.

(2) Including reserve from transaction with non-controlling interest.

\* Represents an amount less than NIS 1.

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

**Condensed Consolidated Statements of Changes in Equity (Unaudited)**

(In millions except number of shares)

	Attributable to owners of the Company							Non-Controlling interests	Total equity
	Share capital		Share premium	Treasury Shares	Other reserves <sup>(2)</sup>	Retained earnings	Total		
	Number of Shares <sup>(1)</sup>	Amount							
	NIS 0.1 par value	NIS							
	NIS	NIS							
For the nine months period ended September 30, 2014									
Balance as at January 1, 2014	19,203,186	*	658	(169)	(202)	(373)	(86)	3,239	3,153
Exercise of options in a subsidiary	-	-	-	-	10	-	10	23	33
Dividends to Non-controlling interests (see note 13)	-	-	-	-	-	-	-	(1,431)	(1,431)
Other comprehensive loss, net of tax	-	-	-	-	(7)	-	(7)	(26)	(33)
Net income (loss) for the period	-	-	-	-	-	(135)	(135)	896	761
Comprehensive income (loss) for the period	-	-	-	-	(7)	(135)	(142)	870	728
Balance as at September 30, 2014	19,203,186	*	658	(169)	(199)	(508)	(218)	2,701	2,483

(1) Net of treasury shares.

(2) Including reserve from transaction with non-controlling interest.

\* Represents an amount less than NIS 1.

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

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

(In millions)

	Nine months period ended September 30		
		Convenience translation into U.S. dollars	
	2015	2015	2014
	NIS	US\$	NIS
<b>Cash flows from operating activities</b>			
Net income for the period	777	198	761
Adjustments:			
Depreciation and amortization	1,588	404	1,422
Profit from consolidation of investee	(12)	(3)	(582)
Share in profit of equity accounted investees	(15)	(4)	132
Finance expenses, net	539	137	739
Capital gains, net	(103)	(27)	(109)
Income tax expenses	368	94	525
Income (expenses) from derivatives, net	-	-	(8)
Change in inventory	6	2	43
Change in trade and other receivables	196	50	527
Change in trade and other payables	(174)	(44)	(120)
Changes in provisions	6	2	(1)
Change in employee benefits	-	-	98
Changes in broadcasting rights	2	1	-
Change in other liabilities	(10)	(3)	1
Net income tax paid	(389)	(99)	(370)
<b>Net cash provided by operating activities</b>	<b>2,779</b>	<b>708</b>	<b>3,058</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(1,038)	(265)	(820)
Investment in intangible assets and deferred expenses	(268)	(68)	(140)
Proceeds from the sale of property, plant and equipment	119	30	147
Change in investments, net	1,141	291	(1,655)
Net deposits to restricted cash	57	15	(4)
Proceeds from disposal of investments	(9)	(2)	(8)
Net proceeds from the sale of Coral Tel	-	-	596
Obtaining control over investee (see note 4)	299	76	-
Other	27	7	22
<b>Net cash generated from (used in) investing activities</b>	<b>328</b>	<b>84</b>	<b>(1,862)</b>

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

**Condensed Consolidated Statements of Cash Flows (Unaudited) (cont'd)****(In millions)**

	Nine months period ended September 30		
	Convenience translation into U.S. dollars		
	2015	2015	2014
	NIS	US\$	NIS
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debentures and loans	229	58	4,030
Repayment of debentures and loans	(1,116)	(285)	(3,432)
Redemption of debentures	(65)	(16)	-
Interest paid	(500)	(128)	(447)
Dividends paid by Bezeq to non-controlling interests	(585)	(149)	(554)
Dividend paid by BCOM	(30)	(8)	-
Payments to related party (see note 4)	(680)	(173)	-
Others	(21)	(5)	(18)
<b>Net cash used in financing activities</b>	<b>(2,768)</b>	<b>(706)</b>	<b>(421)</b>
<b>Net increase in cash and cash equivalents</b>	<b>339</b>	<b>86</b>	<b>775</b>
Cash and cash equivalents as at the beginning of the period	732	187	867
<b>Cash and cash equivalents as at the end of the period</b>	<b>1,071</b>	<b>273</b>	<b>1,642</b>

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

## Notes to the Consolidated Financial Statements

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(All amounts are in millions except where otherwise stated)

### Note 1 - Reporting Entity

- A. Internet Gold - Golden Lines Ltd. ("the Company") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is: 2 Dov Friedman Street, Ramat-Gan, Israel. The consolidated financial statements of the Company as at and for the nine month period ended September 30, 2015, comprise the Company and its subsidiaries (together referred to as the Group). The Company is a subsidiary of Eurocom Communications Ltd. ("Eurocom" or "the Parent Company") and its ultimate parent is Eurocom Holdings (1979) Ltd.

On April 14, 2010, the Company's principal subsidiary, B Communications Ltd. ("B Communications"), completed the acquisition of 30.44% of the outstanding shares of Bezeq The Israel Telecommunications Corp. Limited. ("Bezeq") and became the controlling shareholder of Bezeq. Bezeq's ordinary shares are registered for trade on the Tel-Aviv Stock Exchange ("TASE").

The ordinary shares of the Company are registered for trade on the NASDAQ Global Select Market and on the TASE.

- B. Material events in the reporting period

On March 23, 2015, Bezeq gained control of DBS Satellite Services (1998) Ltd. ("DBS") and began consolidation as at that date. On June 24, 2015, acquisition of the remaining ownership interest in DBS that was held by Eurocom was completed and as from that date, Bezeq holds all of the outstanding shares of DBS. 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 regarding discontinued operations.

### Note 2 - Basis of Preparation

#### A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at December 31, 2014 and for the year then ended. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements as at December 31, 2014 and for the year then ended ("annual financial statements").

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on December 9, 2015.

#### B. Use of estimates and judgment

Preparing the interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

## Notes to the Consolidated Financial Statements

(All amounts are in millions except where otherwise stated)

### Note 2 - Basis of Preparation (cont'd)

#### B. Use of estimates and judgment (cont'd)

Other than the contents of Note 3, in preparing these condensed consolidated interim financial statements, significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 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 2.F 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 market participant assumptions.	Change in profit/loss from gaining control	Note 4
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
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 and Note 11

#### C. Convenience translation into U.S. dollars ("dollars" or "\$")

For the convenience of the reader, the reported NIS figures as at September 30, 2015, have been presented in dollars, translated at the representative rate of exchange as at September 30, 2015 (NIS 3.923 = US\$ 1.00). The dollar amounts presented in these condensed consolidated interim financial statements are merely supplementary information and should not be construed as complying with IFRS translation method or as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

### Note 3 - Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

#### A. 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, below is a description of the accounting policy implemented in these condensed consolidated interim financial statements:

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.



## Notes to the Consolidated Financial Statements

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(All amounts are in millions except where otherwise stated)

### Note 3 - Significant Accounting Policies (cont'd)

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. 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.
4. In a step acquisition, 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.
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.

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 are expensed in the period the services are received.

### B. New standards not yet adopted

Further to Note 3.R to the annual financial statements regarding the amendment to IFRS 15, Revenues from Contracts with Customers ("The standard"), in July 2015, the IASB approved the deferral of the date of initial application of the standard by one year, meaning that the standard will be effective for annual periods beginning on January 1, 2018. Early adoption is permitted.

### Note 4 - Group entities

A detailed description of the Group entities appears in Note 11 to the Company's annual financial statements as at December 31, 2014. Below is a description of the material changes that occurred in connection with the Group entities since publication of the annual financial statements.

#### Business combination with DBS Satellite Services (1998) Ltd. ("DBS") that occurred in the period

- A. As described in Note 11.A.2 to the annual financial statements, Bezeq held 49.78% of the share capital of DBS and options that confer the right to 8.6% of the DBS shares, which Bezeq was unable to exercise. Accordingly, Bezeq accounted for its investment in DBS in accordance with the equity method.

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

## Notes to the Consolidated Financial Statements

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(All amounts are in millions except where otherwise stated)

### Note 4 – Group Entities (cont'd)

Further to the aforesaid, on February 10, 2015, a special subcommittee of Bezeq's Board of Directors that was established to review the proposed acquisition of DBS, Bezeq's audit committee and Bezeq's Board of Directors approved Bezeq's entry into a transaction with Eurocom DBS. In the transaction, Bezeq agreed to acquire the entire holdings of Eurocom DBS in DBS ("the Acquisition Transaction"), which as of such date represented 50.22% of the issued share capital of DBS (41.62% on a fully diluted basis) and all the shareholder loans provided by Eurocom DBS to DBS. It was further decided that prior to the Acquisition Transaction, Bezeq and DBS would accept the merger terms and Bezeq would exercise the option granted, at no cost, for the allotment of 8.6% of the issued capital of DBS.

Under the terms of the Acquisition Transaction, Bezeq was required to pay NIS 680 in cash to Eurocom DBS on the closing date in consideration for the DBS shares held by Eurocom DBS and repayment of the shareholder loans provided to DBS. Eurocom DBS also received the right to receive two additional contingent payments of: (i) up to NIS 200 to be paid in accordance with the amount of the carryforward losses of DBS used for tax purposes; and (ii) up to NIS 170 to be paid in accordance with the business results of DBS during the next three years.

On March 23, 2015, the general meeting of Bezeq's shareholders approved the merger terms and exercise of the option, and Bezeq's engagement in the Acquisition Transaction, as described above. Subsequently, Bezeq and DBS announced the acceptance of the merger terms, and on March 25, 2015, Bezeq exercised its option for 8.6% of the issued capital of DBS. As of March 23, 2015, Bezeq held 58.4% of the outstanding shares of DBS. Accordingly, Bezeq 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 Bezeq). In view of the Bezeq'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.

Bezeq's engagement in the transaction with Eurocom DBS for acquisition of the entire holdings of Eurocom DBS in DBS was subject to the approval of the Ministry of Communications, which approval was received unconditionally on June 23, 2015. On June 24, 2015, the transaction was completed. On the completion date, Bezeq transferred the cash consideration of NIS 680 to Eurocom DBS and Eurocom DBS transferred its rights and the rights to DBS shares to Bezeq and assigned to Bezeq its entire rights in the shareholders loans to DBS. On completion of the transaction, DBS became a wholly owned subsidiary (100%) of Bezeq.

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

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

**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 4 - Group Entities (cont'd)**

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 of DBS will be 1%.

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

## C. Identifiable acquired assets and liabilities

	<b>March 23, 2015</b>
	<b>NIS</b>
Cash and cash equivalents	299
Trade and other receivables	182
Broadcasting rights	449
Property, plant and equipment	801
Deferred tax asset, net of deferred tax liabilities (for attributed excess cost)	831
Intangible assets (including excess cost attributed to customer relations and brand as described below)	1,284
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	<u>1,248</u>

## D. Bezeq allocated 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.

**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 4 - Group Entities (cont'd)**

Excess cost was allocated as follows:

	March 23, 2015 NIS
Customer relations (see section 1 below)	790
Brand (see section 2 below)	347
Goodwill (see section 3 below)	609
Deferred tax asset, net of deferred tax liabilities (see 4 below)	831
<b>Total excess cost attributed to intangible assets</b>	<b>2,577</b>
Debentures (see section 5 below)	(160)
Contingent liabilities (see section 6 below)	(10)
<b>Total excess cost</b>	<b>2,407</b>

1. **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.
2. **Brand value:** 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.
3. **Goodwill:** Following the acquisition of control, goodwill was recognized as follows:

	March 23, 2015 NIS
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>

4. **Deferred tax asset:** Following completion of the acquisition transaction on June 24, 2015, as described in Note 4.A above, Bezeq believes that it 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.

## Notes to the Consolidated Financial Statements

(All amounts are in millions except where otherwise stated)

### Note 4 - Group Entities (cont'd)

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 recognized a deferred tax asset from the day which they gain control in DBS (retroactively).

Composition of the tax asset:

	March 23, 2015
	NIS
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>

5. **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%.
  6. **Contingent liabilities:** Amounts that represents a present obligation arising from a class action filed by DBS customers.
- E. Bezeq's 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 and there would have been no significant change in the consolidated profit for the period. When determining the amounts, Bezeq's management assumed that the fair value adjustments at the date of the business combination, which were determined provisionally, are the same as the adjustments that would have been received had the business combination taken place on January 1, 2015.
- F. Further to Note 11 to the annual financial statements, regarding debentures issued by DBS on September 17, 2015, Bezeq provided a guarantee to secure the undertakings of D.B.S to make full payment of its remaining debts to holders of its Debentures (Series B and C) (a total of NIS 1.05 billion and NIS 307 million, respectively), that were deposited with the representatives of the lenders on September 17, 2015 and September 20, 2015, respectively, against a reduction in the annual interest rate bearing on the Debentures (by 0.5%-1%, respectively), and cancellation of collateral and certain terms in the trust deeds and the Debentures. The reduction in the annual interest rate bearing on the Debentures and cancellation of collateral and certain terms in the trust deeds and the Debentures is contingent on Bezeq's rating from Standard & Poor's Maalot will not be less than "ilAA-" or an equivalent rating by another rating agency ("the minimum rating"), that was outstanding at the date that the guarantee was granted. In the event that Bezeq's rating will be lower than the minimum rating, the reduction in the interest rate will be cancelled, the collateral and certain terms in the trust deeds and the Debentures that were canceled will be reinstated and the guarantee will be withdrawn. Holders of the Series C Debentures will be able to choose between the above and keeping Bezeq's guarantee, the reduction in the annual interest rate bearing on the Debentures and cancellation of collateral and certain terms in the trust deeds and the Debentures (unless Bezeq's rating from Standard & Poor's Maalot or an equivalent rating by another rating agency will be lower than "ilA". In such event the reduction of the annual interest rate will be cancelled until such time as Bezeq's rating will be "ilAA-" or higher.

## Notes to the Consolidated Financial Statements

(All amounts are in millions except where otherwise stated)

### Note 4 - Group Entities (cont'd)

As a result of the interest rate reduction, Bezeq re-estimated the expected cash flows and recognized interest income of NIS 31 in the three months ended September 30, 2015.

- G. Since the beginning of its operations, DBS has accumulated considerable losses. The loss of DBS in 2014 amounted to NIS 322 and the loss in the nine months ended September 30, 2014, amounted to NIS 244. As a result of these losses, as of September 30, 2014, DBS had an equity deficit and a working capital deficit of NIS 4,908 and NIS 455, respectively.
- H. As at September 30, 2015, DBS is in compliance with the financial covenants established under its financing and debenture agreements.
- I. The management of DBS believes that the financing resources at its disposal, which include, among other things, loans from Bezeq, 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.

### Note 5 - Debentures, Loans and Borrowings

During the reporting period, Bezeq entered into agreements with banks and a financial institution, which undertook to provide Bezeq with credit in a total amount of NIS 1.4 billion, to refinance its future debt in 2016 (with terms of between 4.6-4.9 years, at a fixed NIS unlinked interest rate of between 3.7-4.3%).

The terms of the undertaking and the loans to be provided thereunder include terms that are similar to the terms of other loans taken by Bezeq, as described in Note 12 to the annual financial statements, including the following: an undertaking to refrain from creating additional liens on Bezeq's assets (with certain restrictions); an undertaking that if Bezeq assumes an undertaking towards a party in respect of compliance with financial covenants, Bezeq 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 September 30, 2015, Bezeq recognized financing income amounting to NIS 30 for the reevaluation to fair value of loan commitments from banks, net of transaction costs.

- A. During the reporting period, DBS issued additional debentures (Series B) amounting to NIS 228 by expanding the series. For information about the terms of the debentures, see Note 11.A.5 to the annual financial statements.
- B. On October 15, 2015, Bezeq completed the public issuance of debentures (Series 9) and (Series 10), pursuant to a "shelf offering". The total (gross) consideration of the offering of NIS 788 is detailed below:

	<b>Gross consideration (NIS)</b>	<b>Annual interest rate</b>	<b>Linkage terms</b>
Series 9	388	3.65%	Not-linked
Series 10	400	2.20%	CPI linked

## Notes to the Consolidated Financial Statements

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(All amounts are in millions except where otherwise stated)

### Note 5 - Debentures, Loans and Borrowings (cont'd)

Principal will be paid in four installments: 10% in 2022, 20% in each year between 2023 till 2025 and 30% in 2025. Interest will be payable semi-annually starting as of December 1, 2015.

The Debentures (Series 9) and (Series 10) include common terms and conditions, such as a negative pledge, rating preservation, as well as common infringement clauses.

- C. In August 2015, Bezeq entered into additional agreements with a bank and a financial institution, whereby Bezeq received a commitment for additional credit of NIS 400 for future debt refinancing during 2017.
- D. On August 10, 2014, B Communications announced that its Board of Directors has approved the buyback of up to US\$50 of its notes. Through the end of the third quarter of 2015, B Communications purchased notes having a par value of US\$15.3.

From October 1, 2015 until December 9, 2015, B Communications purchased additional notes having a par value of US\$11.6.

### Note 6 - Contingent Liabilities

As at September 30, 2015, contingent liabilities only include contingent liabilities relating to the Bezeq Group.

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

In the opinion of the managements of the Bezeq Group companies, based, among other things, on legal opinions as to the likelihood of success of the legal claims, the financial statements include appropriate provisions of NIS 86, where provisions are required to cover the exposure arising from such legal claims.

In the opinion of the managements of the Bezeq Group companies, the additional exposure (beyond these provisions) as at September 30, 2015 for claims filed against such companies on various matters and which are unlikely to be realized, amounted to NIS 5.1 billion. There is also additional exposure of NIS 1.1 billion for claims, the chances of which cannot yet be assessed.

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

These amounts 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 B below.

**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 6 - Contingent Liabilities (cont'd)**

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

<b>Claims group</b>	<b>Nature of the claims</b>	<b>Balance of provisions NIS</b>	<b>Amount of additional exposure NIS</b>	<b>Amount of exposure for claims for which the amount of exposure cannot be assessed NIS</b>
Claims of employees and former employees of Bezeq Group companies	Mainly collective and individual claims filed by employees and former employees of Bezeq in respect of recognition of various salary components as components for calculation of payments to employees, some of which have broad ramifications in Bezeq.	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 Bezeq 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 Bezeq 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 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 Bezeq Group companies and financial disputes concerning monies paid by the Bezeq Group companies to the authorities (including property taxes) or by the authorities to the Group companies.	19	42	11
Claims by enterprises and companies	Claims alleging liability of the Bezeq Group companies in respect of their activities and/or the investments made in various projects.	11	*2,047	-
		<u>86</u>	<u>5,091</u>	<u>1,167</u>

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



**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 6 - Contingent Liabilities (cont'd)****B. Subsequent customer claims**

Subsequent to the reporting date, claims amounting to NIS 3.56 billion were filed against Bezeq 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 came to an end.

**Note 7 - Capital and Capital Reserves**

	<u>Authorized</u> <u>December 31</u> <u>2014</u> <u>Number of shares</u>	<u>Registered</u> <u>and paid up</u> <u>December 31</u> <u>2014</u> <u>Number of shares</u>	<u>Authorized</u> <u>September 30</u> <u>2014 and 2015</u> <u>Number of shares</u>	<u>Registered</u> <u>and paid up</u> <u>September 30</u> <u>2014 and 2015</u> <u>Number of shares</u>
Ordinary shares of NIS 0.1 par value each	<u>501,000,000</u>	<u>19,203,186*</u>	<u>501,000,000</u>	<u>19,203,086*</u>

\* Net of 5,862,615 treasury shares.

**Note 8 - Revenues**

	<u>Nine months period ended</u> <u>September 30</u>	
	<u>2015</u> <u>NIS</u>	<u>2014</u> <u>NIS</u>
<b>Domestic fixed line communications</b>		
Fixed line telephony	1,169	1,234
Internet - infrastructure	1,149	1,029
Transmission and data communication	625	606
Other services	166	167
	<u>3,109</u>	<u>3,036</u>
<b>Cellular</b>		
Cellular services and terminal equipment	1,482	1,828
Sale of terminal equipment	649	715
	<u>2,131</u>	<u>2,543</u>
<b>International communications, internet services and NEP</b>	<u>1,099</u>	<u>1,048</u>
<b>Multi-channel Television</b>	<u>885</u>	<u>-</u>
<b>Others</b>	<u>155</u>	<u>166</u>
	<u>7,379</u>	<u>6,793</u>

**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 9 - General and Operating Expenses**

	Nine months period ended September 30	
	2015	2014
	NIS	NIS
Terminal equipment and materials	624	674
Interconnectivity and payments to domestic and international operators	689	633
Maintenance of buildings and sites	467	475
Marketing and general expenses	460	464
Services and maintenance by sub-contractors	141	113
Vehicle maintenance expenses	123	115
Content services expenses	304	45
	<u>2,808</u>	<u>2,519</u>

**Note 10 - Other Operating Expenses (Income), Net**

	Nine months period ended September 30	
	2015	2014
	NIS	NIS
Profit from consolidation of investee	(12)	-
Profit from the sale of Coral Tell shares	-	(582)
Capital gain from sale of property plant and equipment	(104)	(109)
Total other operating income	(116)	(691)
Provision for severance pay in early retirement	1	133
Provision for contingent liabilities, net	12	(3)
Total other operating expenses	13	130
Other Operating income, net	<u>(103)</u>	<u>(561)</u>

## Notes to the Consolidated Financial Statements

(All amounts are in millions except where otherwise stated)

### Note 11 - Financial Instruments

#### (1) Fair values versus carrying amounts

The table below shows the difference between the carrying amount and the fair value of groups of financial liabilities. The methods used to estimate the fair values of financial instruments are described in Note 4 to the annual financial statements.

	December 31, 2014		September 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS	NIS	NIS	NIS
<b>Bank loans</b>				
Unlinked	2,112	2,292	2,216	2,375
<b>Debentures</b>				
Issued to the public (CPI linked)	4,798	5,099	4,627	4,769
Issued to the public (Unlinked)	2,044	2,214	1,603	1,724
Issued to institutional investors (CPI linked)	-	-	1,757	1,845
Issued to institutional investors (US\$ linked)	3,073	3,309	3,102	3,318
Issued to institutional investors (unlinked)	403	467	410	470
	<u>12,610</u>	<u>13,381</u>	<u>13,715</u>	<u>14,501</u>

#### (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, marketable securities, and forward contracts on the CPI or foreign currency are described in Note 16.E.2 to the annual financial statements. The methods used to measure the fair value of future credit from bank are described in section 3 below. The methods used to measure the fair value of contingent consideration for a business combination are described in section 4 below.

	December 31, 2014			Total
	Level 1	Level 2	Level 3	
	NIS	NIS	NIS	NIS
<b>Financial assets held for trading</b>				
Monetary funds and ETFs	1,513	-	-	1,513
Marketable securities	1,183	-	-	1,186
<b>Derivatives not used in hedging</b>				
Forward contracts on foreign currencies	-	174	-	174
Forward contracts on CPI	-	(125)	-	(125)
<b>Available-for-sale financial assets</b>				
Unmarketable shares	-	-	9	9
	<u>2,696</u>	<u>49</u>	<u>9</u>	<u>2,754</u>

**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 11 - Financial Instruments (cont'd)**
**(2) Fair value hierarchy (cont'd)**

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	NIS	NIS	NIS	NIS
<b>Financial assets held for trading</b>				
Monetary funds and ETFs	194	-	-	194
Marketable securities	1,155	-	-	1,155
<b>Derivatives not used in hedging</b>				
Forward contracts on foreign currencies	-	205	-	205
Forward contracts on CPI	-	(140)	-	(140)
Banks future credit	-	2	-	2
<b>Other liabilities</b>				
Contingent consideration for a business combination	-	-	(101)	(101)
<b>Available-for-sale financial assets</b>				
Unmarketable shares	-	-	3	3
	<u>1,349</u>	<u>67</u>	<u>(98)</u>	<u>1,318</u>

**(3) Information about fair value measurement of line of credit for future debt refinance**

The fair value of the future credit according to 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 the credit risk.

**(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:

	September 30, 2015	
	Maximum additional consideration under the agreement	Fair value
	NIS	NIS
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
	<u>370</u>	<u>101</u>

## Notes to the Consolidated Financial Statements

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(All amounts are in millions except where otherwise stated)

### Note 11 - Financial Instruments (cont'd)

#### 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 Bezeq and DBS. The legal opinion includes the probability of the chances and risks facing Bezeq 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 in the first contingent consideration.

#### B. Second additional consideration

The fair value of the first additional consideration was estimated by the assessor, whose opinion is attached to these financial statements, 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.C.

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

### Note 12 - Segment Reporting

- A. Further to Note 26 to the annual financial statements, Bezeq's investment in DBS was presented on the basis of the equity method up to March 25, 2015. As of such 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 Bezeq on June 24, 2015, Bezeq updated the internal management reporting structure for financing income for the shareholders loans that were provided to DBS. As from the second quarter of 2015, Bezeq 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.

## Notes to the Consolidated Financial Statements

(All amounts are in millions except where otherwise stated)

## Note 12 - Segment Reporting (cont'd)

## B. Operating Segments

	Nine-month period ended September 30, 2015						
	Domestic fixed-line communications	Cellular communications	International communications and Internet services	Multi- channel television	Others	Adjustments	Consolidated
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Revenue from external entities	3,108	2,131	1,097	1,324	149	(440)	7,369
Inter-segment revenues	211	46	76	1	16	(340)	10
Total revenue	3,319	2,177	1,173	1,324	165	(780)	7,379
Depreciation and amortization	540	319	98	234	10	387	1,588
Segment results - operating income (loss)	1,721	146	182	203	(8)	(603)	1,641
Finance income	20	42	5	23	13	156	259
Finance expenses	(333)	(3)	(11)	(469)	(1)	47	(770)
Total finance income (expense), net	(313)	39	(6)	(446)	12	203	(511)
Segment profit (loss) after finance expenses, net	1,408	185	176	(243)	4	(400)	1,130
Share in loss (income) of equity-accounted investee	-	-	-	-	1	(16)	(15)
Segment profit (loss) before income tax	1,408	185	176	(243)	3	(384)	1,145
Income tax	424	45	46	1	-	(148)	368
Segment results - net profit (loss)	984	140	130	(244)	3	(236)	777

## Notes to the Consolidated Financial Statements

(All amounts are in millions except where otherwise stated)

## Note 12 - Segment Reporting (cont'd)

## B. Operating Segments

	Nine-month period ended September 30, 2014						
	Domestic fixed-line communications	Cellular communications	International communications and Internet services	Multi- channel television	Others	Adjustments	Consolidated
	NIS	NIS	NIS	NIS	NIS	NIS	NIS
Revenue from external entities	3,033	2,541	1,045	1,284	164	(1,284)	6,783
Inter-segment revenues	198	43	60	0	9	(300)	10
Total revenue	3,231	2,584	1,105	1,284	173	(1,584)	6,793
Depreciation and amortization	518	319	97	218	19	251	1,422
Segment results - operating income (loss)	1,473	375	175	215	632	(785)	2,085
Finance income	35	61	7	26	5	289	423
Finance expenses	(355)	(12)	(14)	(475)	(1)	(233)	(1,090)
Total finance income (expense), net	(320)	49	(7)	(449)	4	56	(667)
Segment profit (loss) after finance expenses, net	1,153	424	168	(234)	636	(729)	1,418
Share in loss (income) of equity-accounted investee	-	-	1	-	(3)	(130)	(132)
Segment profit (loss) before income tax	1,153	424	169	(234)	633	(859)	1,286
Income tax	344	110	45	1	156	(131)	525
Segment results - net profit (loss)	809	314	124	(235)	477	(728)	761

**Notes to the Consolidated Financial Statements**

(All amounts are in millions except where otherwise stated)

**Note 12 - Segment Reporting (cont'd)****C. Adjustments for segment reporting of profit or loss**

	<b>Nine months period ended</b>	
	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
	<b>NIS</b>	<b>NIS</b>
<b>Profit or loss</b>		
Operating income for reporting segments	2,252	2,238
Elimination of expenses from a segment classified as an associate	(59)	(215)
Financing expenses, net	(511)	(667)
Share in the loss (income) of equity-accounted investees	(15)	132
Depreciation and amortization of intangible assets resulting from the Bezeq PPA adjustments	(526)	(502)
Loss from operations classified in other categories and other adjustments	(26)	564
<b>Consolidated profit before income tax</b>	<b>1,145</b>	<b>1,286</b>

**Note 13 - Dividends from Subsidiaries**

- A. On March 25, 2015, the Board of Directors of Bezeq resolved to recommend to the general meeting of shareholders the distribution of a cash dividend of NIS 844. On May 6, 2015, Bezeq's shareholders approved the dividend distribution and on May 27, 2015, B Communications received its share of the dividend distribution in the amount of NIS 259.
- B. On August 30, 2015, the Board of Directors of Bezeq resolved to recommend to the general meeting of shareholders the distribution of a cash dividend of NIS 933 representing Bezeq's profits for the first half of 2015, excluding its NIS 12 revaluation gain arising from its gaining control over DBS. On September 21, 2015, Bezeq's shareholders approved the dividend distribution and on October 26, 2015, B Communications received its share of the dividend distribution in the amount of NIS 286.
- C. On May 21, 2015, B Communications' board of directors declared a cash dividend of NIS 67. On June 16, 2015, the Company received its share of the dividend distribution in the amount of NIS 45.
- D. On August 31, 2015, B Communications' board of directors declared a cash dividend of NIS 22. On September 29, 2015, the Company received its share of the dividend distribution in the amount of NIS 15.
- E. On November 19, 2015, B Communications' board of directors declared a cash dividend of NIS 38. The dividend will be payable to all of B Communications' shareholders of record at the end of the NASDAQ trading day on December 10, 2015. The payment date will be December 23, 2015. The Company's share of this dividend distribution is NIS 25.



## Notes to the Consolidated Financial Statements

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(All amounts are in millions except where otherwise stated)

### Note 14 - Subsequent Events

- A. Regarding the issuance of Bezeq's debentures Series 9 and 10, see note 5 above.
- B. On October 26, 2015, Bezeq received an approval from the "Local Committee for Planning and Construction" for an "outline plan" for the use of a 70 dunams (approximately 18 acres) parcel of land owned by Bezeq which is designated for use as offices and storage building purposes in "Sakiya", which is adjacent to the "Mesubim" Junction.  
  
Bezeq is examining the implications of the approval and the various possibilities which Bezeq may have in order to fully realize the value of the property, including selling the property or portions of it.
- C. On November 8, 2015, the Board of Directors of DBS approved an early repayment of debentures in a total amount of approximately NIS 307 subject to early repayment fees, all in accordance with the debenture terms (the: "**Early Repayment**"). On November 18, 2015, Bezeq's Board of Directors approved the grant of a loan to DBS for the purpose of the Early Repayment in a total amount of approximately NIS 325. The Early Repayment is expected to take place within 30 days from notification to the debentures holders by DBS of its intention to carry out the early repayment.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The information contained in this section should be read in conjunction with our unaudited condensed interim consolidated financial statements as of September 30, 2015 and for the nine months then ended and related notes included elsewhere in this report and our consolidated financial statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2014 and the other information contained in such Annual Report, particularly the information in Item 5 - "Operating and Financial Review and Prospects." Our financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").*

This section contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on our current expectations, estimates and projections about our operations, industry, financial condition, and expected performance. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as future financial performance, future operational performance, the anticipated impact of specific items on future earnings, and our plans, objectives and expectations. Statements containing words such as "may," "believes," "anticipates," "expects," "intends," "plans," "projects," "estimates," "should," "will," "designed to," "projections," or "business outlook," or other similar expressions constitute forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results and events to differ materially from those projected.

Potential factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our Annual Report on Form 20-F for the year ended December 31, 2014. These include, without limitation, information under the captions "Operating and Financial Review and Prospects" and "Risk Factors" and additional factors that accompany the related forward-looking statements in such Annual Report. In light of the significant risks and uncertainties inherent in the forward-looking information included herein that may cause actual performance and results to differ materially from those predicted, any such forward-looking information should not be regarded as representations or guarantees by us of future performance or results, or that its objectives or plans will be achieved, or that any of its operating expectations or financial forecasts will be realized. Reported results should not be considered an indication of future performance. Investors are cautioned not to place undue reliance on any forward-looking information contained herein, which reflect management's analysis only as of the date hereof. Except as required by law, we assume no obligation to publicly release the results of any update or revision to any forward-looking statement that may be made to reflect new information, events or circumstances after the date hereof or to reflect the occurrence of unanticipated or future events, or otherwise.

In addition to regarding forward-looking statements with caution, you should consider that the preparation of the unaudited consolidated financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to certain factual, legal, and accounting matters. Our financial statements might have been materially impacted if we had reached different conclusions or made different interpretations, judgments, assumptions or estimates.

### Overview

We are the controlling shareholder of B Communications Ltd., or B Communications, which currently holds 30.58% of the outstanding shares of Bezeq The Israel Telecommunications Corp. Limited, or Bezeq, and we consolidate Bezeq's financial results into our financial statements. We are a subsidiary of Eurocom Communications Ltd., or Eurocom, and its ultimate parent is Eurocom Holdings (1979) Ltd.

On April 14, 2010, B Communications completed the acquisition of 30.44% of the outstanding shares of Bezeq. Bezeq and its subsidiaries, or the Bezeq Group, operates the most comprehensive telecommunications infrastructure in Israel, with a broad range of telecommunications services across all of its markets. Through its wholly-owned subsidiaries, the Bezeq Group is a leading provider in Israel of fixed-line telephony services and fixed-line broadband Internet infrastructure access services, cellular telephony services, ISP services, ILD services, international and domestic data transfer and network services and ICT, pay television services and other communications infrastructures and services. In each of these markets, the Bezeq Group holds a significant market share.

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On March 23, 2015, Bezeq gained control of DBS Satellite Services (1998) Ltd., or DBS, and began consolidation as of such date. On June 24, 2015, the acquisition of the remaining ownership interest in DBS that was held by our parent company, Eurocom, was completed and as from that date, Bezeq holds all of the outstanding shares of DBS.

### Key Factors Affecting the Businesses of the Bezeq Group

The operations of the Bezeq Group and the operating metrics discussed below have been, and will likely continue to be, affected by certain key factors as well as certain historical events and actions. The key factors affecting the business of the Bezeq Group and its results of operations include, among others, competition, government regulation, the build out of infrastructures, macro-economic and political risks, churn, seasonality, impact of currency fluctuations and inflation, effective corporate tax rate, conditions in Israel and trade relations. For further discussion of the factors affecting the operations of the Bezeq Group please see our Annual Report on Form 20-F for the year ended December 31, 2014.

## RESULTS OF OPERATIONS

### Condensed Consolidated Statements of Income

(In millions – except basic and diluted earnings (loss) per share)

	Nine months ended September 30,		
	2015	2015	2014
	NIS	US\$	NIS
<b>Statement of Income Data:</b>			
<b>Revenues</b>	<b>7,379</b>	<b>1,881</b>	<b>6,793</b>
<b>Cost and expenses:</b>			
Depreciation and amortization	1,588	405	1,422
Salaries	1,445	368	1,328
General and operating expenses	2,808	716	2,519
Other operating income, net	(103)	(26)	(561)
<b>Total operating income</b>	<b>1,641</b>	<b>418</b>	<b>2,085</b>
Financial expenses, net	511	130	667
<b>Income after financing expenses, net</b>	<b>1,130</b>	<b>288</b>	<b>1,418</b>
Share of loss (income) in equity – accounted investee	(15)	(4)	132
<b>Income before income tax</b>	<b>1,145</b>	<b>292</b>	<b>1,286</b>
Income tax	368	94	525
<b>Net income</b>	<b>777</b>	<b>198</b>	<b>761</b>
Net income attributable to non-controlling interest	760	194	895
<b>Net income (loss) attributable to the Company's Shareholders</b>	<b>17</b>	<b>4</b>	<b>(134)</b>
Basic net earnings (loss) per share attributable to the Company's shareholders	0.90	0.23	(7.02)
Diluted net earnings (loss) per share attributable to the Company's shareholders	0.84	0.22	(7.11)

### Nine months ended September 30, 2015 compared with the nine months ended September 30, 2014

**Revenues** in the nine months ended September 30, 2015 amounted to NIS 7.38 billion (\$1.88 billion) compared with NIS 6.79 billion in the corresponding period of 2014, an increase of 8.6%. The increase was related to the consolidation of DBS revenues of NIS 885 million (\$226 million) and to the increase in the revenues of Bezeq Fixed-Line and Bezeq International. The increases were partially offset by lower revenues at Pelephone.

Bezeq Fixed-Line's revenues in the nine months ended September 30, 2015 increased to NIS 3.32 billion (\$846 million) compared with NIS 3.23 billion in the nine months ended September 30, 2014, an increase of 2.7%. The increase in revenues was primarily due a NIS 157 million (\$40 million), or 8.7%, increase in revenues from internet services as a result of an increase in the average revenue per user, or ARPU, and an increase in the number of Internet subscribers. The increase in the segment's revenues was partially offset by a NIS 48 million (\$12 million), or 3.9%, reduction in telephony revenues as a result of a decrease in the average revenue per line, or ARPL, and a decrease in the number of access lines.

Pelephone's revenues in the nine months ended September 30, 2015 decreased to NIS 2.18 billion (\$555 million) compared with NIS 2.58 billion in the nine months ended September 30, 2014, a decrease of 15.8%. The decrease is primarily attributable to the reduction in tariffs that resulted from the continued intensified competition in the cellular market. The intensified competition led to a migration to unlimited usage plans which resulted in a decrease in ARPU, as well as to a decrease in the total number of subscribers. Revenues from the sale of terminal equipment in the nine months ended September 30, 2015 decreased to NIS 655 million (\$167 million), compared with NIS 715 million in the nine months ended September 30, 2014, a decrease of 8.4%. The decrease is primarily attributable to a decrease in handset sales and prices.

Bezeq International's revenues in the nine months ended September 30, 2015 increased to NIS 1.17 billion (\$299 million) compared with NIS 1.11 billion in the nine months ended September 30, 2014, an increase of 6.1%. The increase in revenues is primarily attributable to an increase in revenues from call transfers between communication carriers worldwide, increased revenues from enterprise communication solutions (ICT) and increased revenues from internet operations due to an increase in the number of subscribers. The increase was partially offset by a decrease in revenues from outgoing calls attributable to the transition in the cellular market to packages that include unlimited overseas calls.

DBS's revenues in the nine months ended September 30, 2015 amounted to NIS 1.33 billion (\$338 million) compared with NIS 1.28 billion in the nine months ended September 30, 2014, an increase of 3.2%. The increase in revenues is primarily attributable to an increase in the average number of subscribers.

**Salary expenses** in the nine months ended September 30, 2015 amounted to NIS 1.45 billion (\$368 million) compared with NIS 1.3 billion in the corresponding period of 2014, an increase of 8.8%. The increase was due to the consolidation of DBS salary expenses of NIS 131 million (\$33 million). The increase was partially offset by a decrease in the salary expenses of Pelephone due to continued streamlining efforts.

**General and operating expenses** in the nine months ended September 30, 2015 amounted to NIS 2.8 billion (\$716 million) compared with NIS 2.5 billion in the corresponding period of 2014, an increase of 11.5%. The increase was due to the consolidation of DBS operating expenses of NIS 452 million (\$115 million). The increase was partially offset by a decrease in the operating expenses of Pelephone and Bezeq Fixed-Line due to continued streamlining efforts.

**Depreciation and amortization expenses** in the nine months ended September 30, 2015 amounted to NIS 1.6 billion (\$405 million) compared with NIS 1.4 billion in the corresponding period of 2014, an increase of 11.7%. The increase was due to the consolidation of DBS depreciation and amortization expenses of NIS 158 million (\$40 million), as well as from the amortization of purchase price allocation costs incurred from Bezeq's gaining control of DBS.

**Other operating income** in the nine months ended September 30, 2015 amounted to NIS 103 million (\$26 million) compared with NIS 561 million in the corresponding period of 2014, a decrease of 81.6%. Other operating income was influenced by the recording of a one-time gain of NIS 582 million (\$154 million) from the sale of Coral Tel Ltd. in the first nine month of 2014. The decrease in other operating income was partially offset by the provision of NIS 117 million in expenses associated with the early retirement of employees at Bezeq Fixed-Line in the first nine month of 2014.

**Operating profit** in the nine months ended September 30, 2015 amounted to NIS 1.6 billion (\$418 million) compared with NIS 2.1 billion in the corresponding period of 2014, a decrease of 21.3%.

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**Net financial expenses** in the nine months ended September 30, 2015 amounted to NIS 511 million (\$130 million) compared with NIS 667 million in the corresponding period of 2014, a decrease of 23.4%. The decrease was primarily due to the one-time expenses of NIS 183 million relating to the early repayment of the loans incurred to acquire the controlling interest in Bezeq and the early redemption of all outstanding Series A Debentures of B Communications.

**Income tax** in the nine months ended September 30, 2015 amounted to NIS 368 million (\$94 million) compared with NIS 525 million in the corresponding period of 2014, a decrease of 29.9%. The decrease was primarily due to a reduction in pre-tax profit associated with the capital gain on the sale of Coral-Tel in 2014.

**Net profit** in the nine months ended September, 30 2015 amounted to NIS 777 million (\$198 million) compared with NIS 761 million in the corresponding period of 2014, an increase of 2.1%.

#### **Effects of Changes in the Israeli Consumer Price Index**

Our total net exposure to changes in the Israeli CPI was NIS 590 million (\$150 million) as at September 30, 2015. The exposure relates to the NIS 1.1 billion (\$287 million) of our outstanding debentures which are partially hedged by forward contracts on the Israeli CPI in the amount of NIS 510 million (\$130 million) and our investment of NIS 31 million (\$8 million) in CPI linked marketable securities. Each increase or decrease of 1% in the Israeli CPI will result in an increase or decrease in our yearly financial expense of NIS 6 million (\$2 million).

#### **LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2015, we had unconsolidated net debt of NIS 816 million (\$208 million), comprised of our cash and cash equivalents and short term investments of NIS 316 million (\$81 million) and financial debt of NIS 1.1 million (\$287 million).

As of September 30, 2015, our financial debt includes our three publicly traded series of debentures. The Series B debentures were fully repaid on November 1, 2015.

Our Series C debentures are payable in four equal annual installments on March 10 of each of the years 2016 through 2019 and pay interest at a fixed annual rate of 4.45%, which is payable semi-annually on March 10 and September 10 of each year through 2019 (the last interest payment is payable on March 10, 2019). As of September 30, 2015, NIS 522 million (\$133 million) of Series C Debentures are outstanding.

Our Series D debentures are payable in five installments as follows: (i) payments of 10% of the principal amount of the Series D Debentures will be made on each of September 15, 2018 and 2019; (ii) payments of 30% of the principal amount of the Series D Debentures will be made on each of September 15, 2020 and 2021; and (iii) a final payment of 20% of the principal amount of the Series D Debentures will be made on September 15, 2022. Interest on the outstanding principal of the Series D Debentures are to be paid on March 15 and September 15 of each of the years 2014 through 2022, beginning with the first interest payment being made on September 15, 2014. The principal and interest will be linked to the consumer price index of January 2014. As of September 30, 2015, NIS 531 million (\$135 million) of Series D Debentures are outstanding.

#### **Dividends**

On March 25, 2015, the Board of Directors of Bezeq resolved to recommend to the general meeting of its shareholders the distribution of a cash dividend of NIS 844 million. On May 6, 2015, Bezeq's shareholders approved the dividend distribution and on May 27, 2015, B Communications received its share of the dividend distribution in the amount of NIS 259 million.

On August 30, 2015, the Board of Directors of Bezeq resolved to recommend to the general meeting of its shareholders the distribution of a cash dividend of NIS 933 million representing Bezeq's profits for the first half of 2015, excluding its NIS 12 million revaluation gain arising from its gaining control over DBS. On September 21, 2015, Bezeq's shareholders approved the dividend distribution and on October 26, 2015, B Communications received its share of the dividend distribution in the amount of NIS 286 million.

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On May 21, 2015, B Communications' board of directors declared a cash dividend of NIS 67 million. On June 16, 2015, we received our share of the dividend distribution in the amount of NIS 45 million.

On August 31, 2015, B Communications' board of directors declared a cash dividend of NIS 22 million. On September 29, 2015, we received our share of the dividend distribution in the amount of NIS 15 million.

On November 19, 2015, B Communications' board of directors declared a cash dividend of NIS 38 million. The dividend will be payable to all of B Communications' shareholders of record at the end of the NASDAQ trading day on December 10, 2015. The payment date will be December 23, 2015. Our share of this dividend distribution is NIS 25 million.

The following table summarizes our cash flows on a consolidated basis for the periods presented:  
(In millions)

	Nine months ended September 30		
	2015	2015	2014
	NIS	\$US	NIS
Net cash provided by operating activities	2,779	708	3,058
Net cash generated from (used in) investing activities	328	84	(1,862)
Net cash used in financing activities	(2,768)	(706)	(421)
<b>Net increase in cash and cash equivalents</b>	<b>339</b>	<b>86</b>	<b>775</b>
Cash and cash equivalents at the beginning of the period	732	187	867
<b>Cash and cash equivalents at the end of period</b>	<b>1,071</b>	<b>273</b>	<b>1,642</b>

#### *Operating Activities*

Consolidated cash provided by operating activities for the nine months ended September 30, 2015 amounted to NIS 2.78 billion (\$708 million) compared to NIS 3.06 billion for the nine months ended September 30, 2014. The decrease of NIS 279 million was primarily attributable to the decline in the profits and the changes in working capital of the Cellular Communications segment.

#### *Investing Activities*

Consolidated cash generated from investing activities for the nine months ended September 30, 2015 amounted to NIS 328 million (\$84 million) compared to NIS 1.9 billion used in investing activities for the nine months ended September 30, 2014. The increase of NIS 2.2 billion was primarily attributable to the net change in short term investments.

#### *Financing Activities*

Consolidated cash used in financing activities for the nine months ended September 30, 2015 was NIS 2.77 billion (\$706 million) compared to NIS 421 million for the nine months ended September 30, 2014. The increase of NIS 2.4 billion was primarily attributable to the issuance of B Communications senior secured notes in February 2014, and due to the payment of NIS 680 million to the related party for acquiring full control over DBS.

#### *Financing of Ongoing Operations*

We expect to have sufficient funds to meet our long term working capital needs, capital expenditures, debt service and other funding requirements, both on a consolidated level (including B Communications which consolidates Bezeq's results) and with respect to our own debt service (not including B Communications and Bezeq). We also expect to have sufficient funds to service our indebtedness (excluding Bezeq's indebtedness) from our current cash and cash equivalents, our ability to raise additional funds, including through the sale or pledge of a portion of our shareholdings in B Communications that are free from any encumbrances, and from future dividends from B Communications.