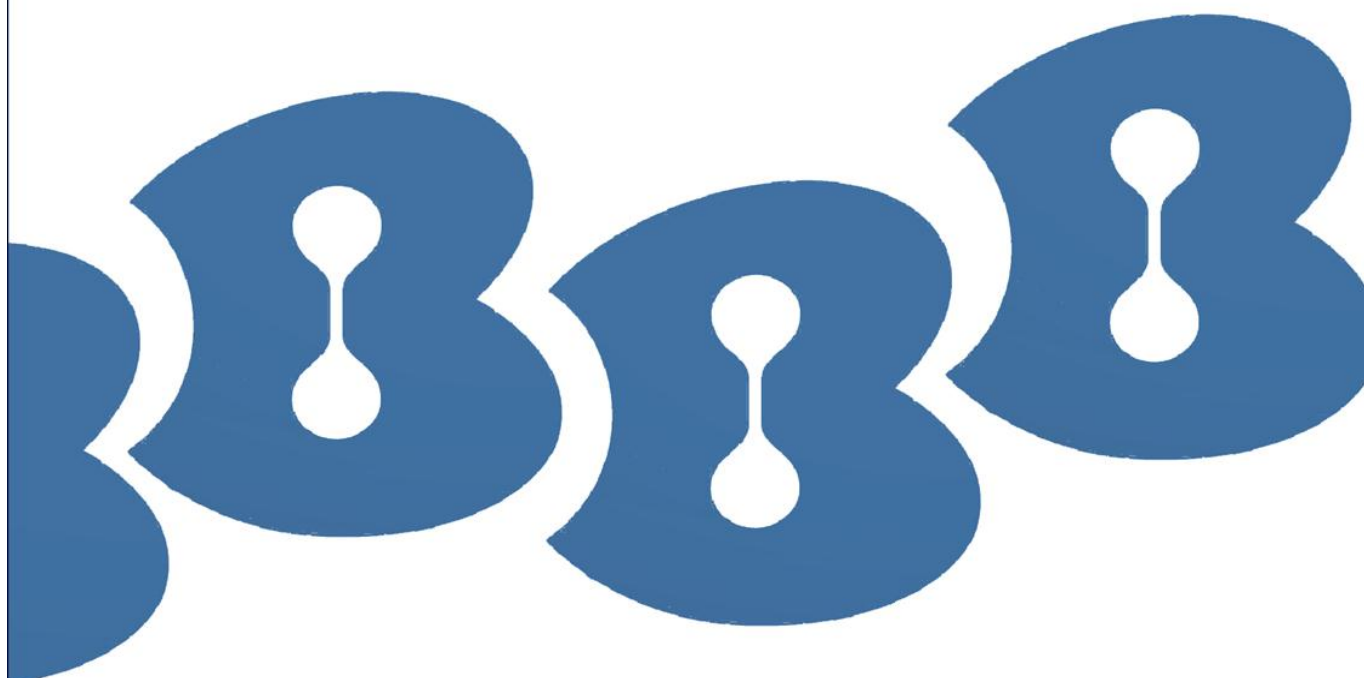


**“Bezeq” The Israel
Telecommunication Corporation
Limited**

**Pro Forma Consolidated Financial
Statements for the Year Ended
December 31, 2015**



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Auditors' Report to the Shareholders of

"Bezeq "the Israeli Telecommunication Corporation Ltd.

We have audited the accompanying pro forma financial information of "Bezeq "the Israel Telecommunication Corporation Ltd. (hereinafter "the Company") comprising of the pro forma consolidated statements of income and the pro forma consolidated statements of comprehensive income for each of the three years in the period ended December 31, 2015. These pro forma financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these pro forma financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries whose revenues constitute approximately 1% of the total consolidated revenues for the years ended December 31, 2015, 2014 and 2013. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the pro forma consolidated financial statements referred to above presents fairly, in all material respects, the pro forma results of operations of the Company and its consolidated subsidiaries for each of the three years in the period ended December 31, 2015, in accordance with the requirements of Regulation 9a of the Securities Regulations (Periodic and Immediate Reports), 1970, as it is based on the assumptions set forth in Note 2.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 16, 2016

Pro Forma Consolidated Statements of Income

| | Year ended December 31, 2015 | | |
|--|------------------------------|---------------------------------------|-----------------------|
| | Prior to the pro forma event | Adjustments for pro forma information | Pro forma information |
| | NIS million | NIS million | NIS million |
| Revenues | 9,985 | 434 | 10,419 |
| Costs of activity | | | |
| General and operating expenses | 3,869 | 230 | 4,099 |
| Salaries | 1,957 | 69 | 2,026 |
| Depreciation and amortization | 1,684 | 83 | 1,767 |
| Other operating income, net | (95) | 12 | (83) |
| | 7,415 | 394 | 7,809 |
| Operating profit | 2,570 | 40 | 2,610 |
| Financing expenses (income) | | | |
| Financing expenses | 376 | 64 | 440 |
| Financing income | (113) | (21) | (134) |
| Financing expenses, net | 263 | 43 | 306 |
| Profit after financing expenses, net | 2,307 | (3) | 2,304 |
| Share in profits (losses) of equity-accounted investees | 12 | (17) | (5) |
| Profit before income tax | 2,319 | (20) | 2,299 |
| Income tax | 598 | 4 | 602 |
| Profit for the year | 1,721 | (24) | 1,697 |
| Earnings per share (NIS) | | | |
| Basic earnings per share | 0.63 | (0.01) | 0.62 |
| Diluted earnings per share | 0.62 | (0.01) | 0.61 |

Pro Forma Consolidated Statements of Comprehensive Income

| | Year ended December 31, 2015 | | |
|--|------------------------------|---------------------------------------|-----------------------|
| | Prior to the pro forma event | Adjustments for pro forma information | Pro forma information |
| | NIS million | NIS million | NIS million |
| Profit for the year | 1,721 | (24) | 1,697 |
| Items of other comprehensive income (net of tax) | 7 | - | 7 |
| Total comprehensive income for the year | 1,728 | (24) | 1,704 |

Shaul Elovitch
 Chairman of the Board of Directors

Stella Handler
 CEO

David (Dudu) Mizrahi
 Deputy CEO and CFO

Date of approval of the pro forma financial statements: March 16, 2015

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

Pro Forma Consolidated Statements of Income

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

Pro Forma Consolidated Statements of Comprehensive Income

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

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

Pro Forma Consolidated Statements of Income

| | Year ended December 31, 2013 | | |
|--|---------------------------------|---|--------------------------|
| | Prior to the pro forma event | Adjustments for pro forma information | Pro forma information |
| | NIS million | NIS million | NIS million |
| Revenues | 9,563 | 1,624 | 11,187 |
| Costs of activity | | | |
| General and operating expenses | 3,576 | 841 | 4,417 |
| Salaries | 1,872 | 253 | 2,125 |
| Depreciation and amortization | 1,311 | 449 | 1,760 |
| Other operating income, net | (15) | - | (15) |
| | 6,744 | 1,543 | 8,287 |
| Operating profit | 2,819 | 81 | 2,900 |
| Financing expenses (income) | | | |
| Financing expenses | 573 | 131 | 704 |
| Financing income | (428) | 219 | (209) |
| Financing expenses, net | 145 | 350 | 495 |
| Profit after financing expenses, net | 2,674 | (269) | 2,405 |
| Share in losses of equity-accounted investees | (252) | 251 | (1) |
| Profit before income tax | 2,422 | (18) | 2,404 |
| Income tax | 651 | (72) | 579 |
| Profit for the year | 1,771 | 54 | 1,825 |
| Earnings per share (NIS) | | | |
| Basic and diluted earnings per share | 0.65 | 0.02 | 0.67 |

Pro Forma Consolidated Statements of Comprehensive Income

| | Year ended December 31, 2013 | | |
|--|---------------------------------|---|--------------------------|
| | Prior to the pro forma event | Adjustments for pro forma information | Pro forma information |
| | NIS million | NIS million | NIS million |
| Profit for the year | 1,771 | 54 | 1,825 |
| Items of other comprehensive loss (net of tax) | 6 | - | 6 |
| Total comprehensive income for the year | 1,777 | 54 | 1,831 |

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

1. General

- 1.1 These pro forma consolidated financial statements are prepared in accordance with Regulation 9A of the Israel Securities Regulations (Periodic and Immediate Reports), 1970 and refer to the acquisition of control in DBS. Up to March 23, 2015, the Company held 49.78% of DBS shares and accounted for this investment using the equity method. On this date, the general meeting of the Company's shareholders approved the acceptance of the merger terms and exercise of the option, and the Company's engagement in the Acquisition Transaction, as described in Note 11.2 to the Group's financial statements. As from March 23, 2015, the Company consolidates the financial statements of DBS in the Group's financial statements.
- 1.2 The pro forma consolidated financial statements are based on the consolidated financial statements of the Company and the financial statements of DBS for the year ended December 31, 2015, which were prepared in accordance with International Financial Reporting Standards (IFRS).

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

- 2.1 The pro forma consolidated financial statements have been prepared to reflect the results of the Company's operations for 2013-2015. The reports were prepared under the assumption that the business combination with DBS, which is described in Note 11.2 to the Group's consolidated financial statements, was completed on January 1, 2013.
- 2.2 Prior to acquiring control in DBS, as described above, the Company held 49.78% of its shares and accounted for this investment using the equity method. Accordingly, the consolidated statements of income included equity gains for this investment. In addition, for the purpose of the pro forma statement of income, the equity gains that were recognized up to March 23, 2015 were eliminated. In addition, a gain in the amount of NIS 12 million from the acquisition of control was eliminated in the pro forma statement of income for 2015.
- 2.3 Income and expenses arising from transactions between the Company and DBS were eliminated in the pro forma consolidated statements.
- 2.4 The adjustments for pro forma information included additional amortization of surplus cost amounting to NIS 30 million in 2015. In addition, in each of the years 2013 and 2014, amortization of excess cost amounting to NIS 150 million was included. The amortization was based on the estimated forecasted useful life and fair value of the excess cost as at the date of the business combination.
- 2.5 The Company assumes that there is no change in measurement of the fair value of DBS and allocation of surplus cost in the periods. In addition, the Company assumed that there was no change in the fair value measurement of the contingent consideration in 2013 and 2014.