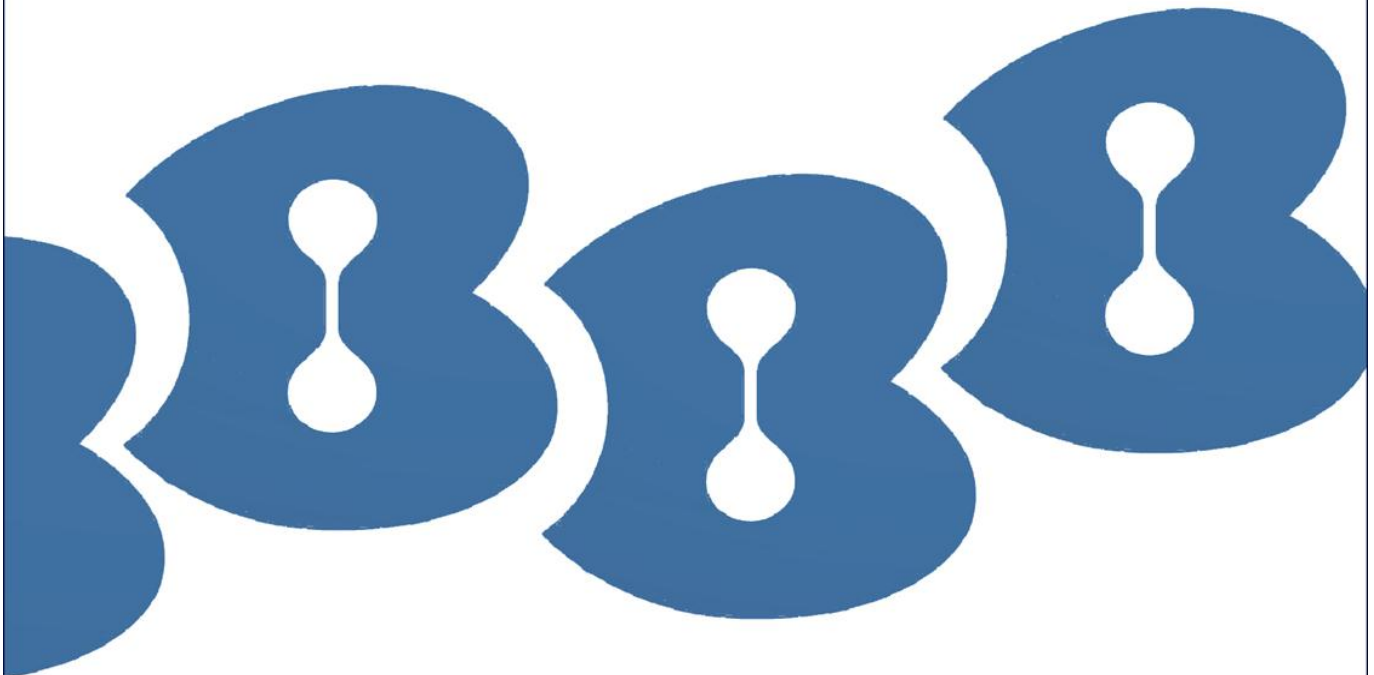


# **Bezeq The Israel Telecommunication Corporation Limited**

## **Consolidated Interim Pro Forma Financial Statements**

**March 31, 2015**

**(Unaudited)**



The information contained in these financial statements constitutes a translation of the financial information published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.

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## **Review Report to the Shareholders of**

### **“Bezeq” -The Israel Telecommunication Corporation Ltd.**

#### Introduction

We have reviewed the accompanying pro forma financial information of “Bezeq” -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the pro forma condensed consolidated interim statements of income and comprehensive income for the three month period ended on March 31, 2015. The Board of Directors and Management are responsible for the preparation and presentation of interim financial information for this interim period in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for this interim period in accordance with Regulation 38b of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on pro forma interim financial information for this interim period based on our review.

We did not review the condensed interim financial information of a certain consolidated subsidiary whose revenues constitute 1% of the total consolidated revenues for the three month period then ended. The condensed interim financial information of that company was reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of that company, is based solely on the said review report of the other auditors.

#### Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying pro forma financial information was not prepared, in all material respects, in accordance with IAS 34 based on the assumptions set forth in Note 2.

In addition to that mentioned in the previous paragraph, based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying pro forma interim financial information does not comply, in all material respects, with the disclosure requirements of Regulation 38b of the Securities Regulations (Periodic and Immediate Reports), 1970 based on the assumptions set forth in Note 2.

Somekh Chaikin

Certified Public Accountants (Isr.)

May 20, 2015

**Pro Forma Condensed Consolidated Interim Statements of Income**

	Three months ended March 31, 2015			Three months ended March 31, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues	2,174	434	<b>2,608</b>	2,311	420	<b>2,731</b>
Costs of activity						
Depreciation and amortization	317	113	<b>430</b>	314	117	<b>431</b>
Salaries	439	69	<b>508</b>	448	62	<b>510</b>
General and operating expenses	799	230	<b>1,029</b>	869	215	<b>1,084</b>
Other operating income, net	(17)	12	<b>(5)</b>	(8)	-	<b>(8)</b>
	1,538	424	<b>1,962</b>	1,623	394	<b>2,017</b>
Operating profit	636	10	<b>646</b>	688	26	<b>714</b>
Financing expenses (income)						
Financing expenses	101	32	<b>133</b>	113	24	<b>137</b>
Financing income	(64)	(21)	<b>(85)</b>	(71)	21	<b>(50)</b>
Financing expenses, net	37	11	<b>48</b>	42	45	<b>87</b>
Profit after financing expenses, net	599	(1)	<b>598</b>	646	(19)	<b>627</b>
Share in the losses (profits) of equity-accounted investees	(16)	17	<b>1</b>	19	(18)	<b>1</b>
Profit before income tax	615	(18)	<b>597</b>	627	(1)	<b>626</b>
Income tax	152	-	<b>152</b>	170	-	<b>170</b>
Profit for the period	463	(18)	<b>445</b>	457	(1)	<b>456</b>
Earnings per share (NIS)						
Basic and diluted earnings per share	0.17	(0.01)	<b>0.16</b>	0.17	-	<b>0.17</b>

Shaul Elovitch  
Chairman of the Board of Directors

Stella Handler  
CEO

David (Dudu) Mizrahi  
Deputy CEO and CFO

Date of approval of the pro forma financial statements: May 20, 2015

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

**Condensed Consolidated Interim Statements of Comprehensive Income**

	Three months ended March 31, 2015			Three months ended March 31, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	463	(18)	445	457	(1)	456
Items of other comprehensive income (net of tax)	17	-	17	13	-	13
<b>Total comprehensive income for the period</b>	480	(18)	462	470	(1)	469

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

	Year ended December 31, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
<b>Revenues</b>	9,055	1,710	<b>10,765</b>
<b>Costs of activity</b>			
Depreciation and amortization	1,281	484	<b>1,765</b>
Salaries	1,768	267	<b>2,035</b>
General and operating expenses	3,366	872	<b>4,238</b>
Other operating income, net	(586)	1	<b>(585)</b>
	5,829	1,624	<b>7,453</b>
<b>Operating profit</b>	3,226	86	<b>3,312</b>
<b>Financing expenses (income)</b>			
Financing expenses	486	98	<b>584</b>
Financing income	(356)	188	<b>(168)</b>
Financing expenses, net	130	286	<b>416</b>
<b>Profit after financing expenses, net</b>	3,096	(200)	<b>2,896</b>
<b>Share in losses of equity-accounted investees</b>	170	(165)	<b>5</b>
<b>Profit before income tax</b>	2,926	(35)	<b>2,891</b>
<b>Income tax</b>	815	1	<b>816</b>
<b>Profit for the year</b>	2,111	(36)	<b>2,075</b>
<b>Earnings per share (NIS)</b>			
Basic earnings per share	0.77	(0.01)	<b>0.76</b>
Diluted earnings per share	0.77	(0.02)	<b>0.75</b>

**Condensed Consolidated Interim Statements of Comprehensive Income**

	Year ended December 31, 2014		
	Prior to the pro forma event	Adjustments for pro forma information	Pro forma information
	(Audited)	(Audited)	(Audited)
	NIS million	NIS million	NIS million
Profit for the year	2,111	(36)	<b>2,075</b>
Items of other comprehensive income (net of tax)	(36)	-	<b>(36)</b>
<b>Total comprehensive income for the year</b>	2,075	(36)	<b>2,039</b>

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

**Notes to the Pro forma Consolidated Financial Statements**

**1. General**

- 1.1 These pro forma consolidated interim financial statements are prepared in accordance with Regulation 38B of the Israel Securities Regulations (Periodic and Immediate Reports), 1970 and refer to the gain of control in DBS. Up until March 23, 2015, the Company held 49.78% of DBS shares and accounted for this investment using the equity method. On this date, the general meeting of the Company's shareholders approved the acceptance of the merger terms and exercise of the option, and the Company's engagement in the Acquisition Transaction, as described in Note 4.2 to the Group's interim financial statements. As from March 23, 2015, the Company consolidates the financial statements of DBS in the Group's financial statements.
- 1.2 The pro forma consolidated interim financial statements are based on the condensed consolidated interim financial statements of the Company and the condensed interim financial statements of DBS as at March 31, 2015, which were prepared in accordance with IAS 34, Interim Financial Reporting.

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

- 2.1 The pro forma consolidated financial statements have been prepared to reflect the results of the Company's operations for the three months ended March 31, 2014 and March 31, 2015, and for the year ended December 31, 2014. The reports were prepared under the assumption that the business combination with DBS, which is described in Note 4.2 to the Group's condensed consolidated interim financial statements, was completed on January 1, 2013.
- 2.2 Prior to gaining control in DBS, as described above, the Company held 49.78% of its shares and accounted for this investment using the equity method. Accordingly, the consolidated statements of income included equity gains for this investment. For the purpose of the pro forma statement of income, the equity gains that were recognized up to March 31, 2015 were eliminated. In addition, a profit of NIS 12 million from acquisition of control was eliminated in the pro forma statement of income for the three months ended March 31, 2015.
- 2.3 Revenues and expenses arising from transactions between the Company and DBS were eliminated in the pro forma consolidated statements.
- 2.4 The pro forma statement of income included amortization of excess cost amounting to NIS 37 million and NIS 28 million for the three months ended March 31, 2015 and March 31, 2014, respectively, and NIS 149 million for the year ended December 31, 2014. The amortization was based on the estimated forecasted useful life of the excess cost as at the date of the business combination.
- 2.5 The Company assumes that there is no change in measurement of the fair value of DBS, allocation of excess cost, and the contingent consideration in the periods.
- 2.6 The Company assumes that the acquisition transaction, including the commitment to Eurocom, is valid throughout the reporting periods