Quarterly Report for the Period Ending September 30, 2013

- **Update to Chapter A (Description of Company Operations) of the Periodic Report for 2012**
- **Directors report on the state of the Company's affairs for the period ended September 30, 2013**
- **Interim Financial Statements as at September 30, 2013**

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Update to Chapter A (Description of Company Operations) of the Periodic Report for 2012

bezeq

Update to Chapter A (Description of Company Operations)[1] of the Periodic Report for 2012 ("Periodic Report") of "Bezeq" - The Israel Telecommunication Corporation Limited ("the Company")

1. Description of the general development of Bezeq Group's business

Section 1.1 - Bezeq Group activities and business development

Section 1.1.1 – General

Following are details of the current holdings in the Company including fully diluted holdings, assuming exercise of all the options allotted to the Group's employees and managers as of September 30, 2013 and November 5, 2013:

Shareholders	Percentage of holdings		
	as of September 30, 2013	as of November 5, 2013	Fully diluted as of November 5, 2013[2]
B Communications (through B Tikshoret)[3]	30.95%	30.92%	30.25%
The public	69.05%	69.08%	69.75%

Section 1.1.2 – Mergers and Acquisitions

On October 27, 2013 the Company received the initial draft of terms for the merger of the Company and D.B.S. sent by the Antitrust Authority ("the Authority"). On the same date, a meeting was held by the Company's Board of Directors adopting a resolution according to which the Company is interested in principle in preparing for the process of examining the Company's option to increase its holdings in D.B.S., subject to conducting all of the tests and examining all of the conditions set (if and when they are set) by the Authority. For this purpose, the Board of Directors established a subcommittee all of the members of which are external/independent directors to handle this subject, taking into account the possibility that this

[1] The update is further to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, and includes material changes or innovations that have occurred in the corporation in any matter which must be described in the periodic report. The update relates to the Company's periodic report for the year 2012 and refers to the section numbers in Chapter A (Description of Company Operations) in the said periodic report.

[2] Full dilution was calculated assuming that all the allotted options will be exercised for shares. In view of the cashless exercise mechanism (exercise of stock appreciation rights) in the plan for managers and senior employees of the Group from November 2007 and the employee stock option plan (2010) this assumption is purely theoretical, since in practice, the recipients exercising the stock options, will not be allotted all the shares deriving from them, but only shares of an amount that reflects the financial benefit embedded in the stock options.

[3] In addition to the foregoing holdings, 4,000,000 shares are held jointly by the Chairman of the board of directors, Mr. Shaul Elovitch and his brother Mr. Yosef Elovitch, the controlling shareholders (indirectly) of the Company, 72,360 shares are held by Ms. Iris Elovitch the wife of the controlling shareholder Shaul Elovitch, and 11,556 shares are held by Ms. Orna Elovitch, the daughter-in-law of the controlling shareholder Shaul Elovitch. These holdings total approximately 0.15% of all holdings in the Company.

will involve a transaction with the Company's controlling shareholder. The committee must present its recommendations to the Audit Committee and the Board of Directors.

Subsequently, on November 6, 2013 the Antitrust Authority issued, for public comments (until November 28, 2013) a draft of terms according to which it is considering approving a merger between the Company and D.B.S., the key points of which are: forcing the Company to observe network neutrality and prohibition on restrictions on the consumption of internet infrastructure services deriving from accumulated internet volume, forcing the sale and supply of television services under equal and composite terms to all Company customers, whether or not they purchase additional services, prohibition on collecting payment for the relative portion of the ISP connection to the Company's network in order for the ISP to provide television services, and forcing the Company to sell its internet infrastructure services under equal terms to all other companies, whether or not they purchase additional services (when selling as part of a service package is not in and of itself considered as sale under unequal conditions). Furthermore forcing the Company and D.B.S. to cancel the restrictions of exclusivity arrangements to which D.B.S. is a party to regarding content, and prohibition of serving as a party to such arrangements. The wording of the announcement appears on the Antitrust Authority's website.

Section 1.3.1 – Transactions with Bezeq Shares

To Section B – regarding negotiations between the Eurocom Group and the Antitrust Commissioner on the terms of the Eurocom Group's holdings in DBS shares – in accordance with the Authority's notice and the merger`s conditions draft it published as noted in the update to Section 1.1.2, the Commissioner is examining the request of Eurocom D.B.S. Ltd. to cancel the terms of the merger set for the "Eurocom Group" regarding the purchase of the Company's control core in 2010 regarding holdings in D.B.S. (as detailed in Section 1.3.1.(b) of the Description of the Corporation's Business in the 2012 Periodic Report) and set new terms in their place as detailed in the update to Section 1.1.2.

Section 1.4 - Dividend distribution

Section 1.4.2 - Distribution that does not pass the profit test

Concerning the application filed in the Tel Aviv District Court (Economic Department) on March 13, 2013 by a holder of Company debentures (Series 5), declaring his objection to the distribution of the fifth portion of the distribution which does not pass the profit test which was approved by the court on March 31, 2011 - on April 18, 2013 the Company was also served with "an objection to distribution of the fifth portion of an unearned dividend" which was filed by the same debenture holder. The Company rejected the arguments set out in the objections, and asked the court to dismiss the objections in limine and in substance. On May 6, 2013, a hearing on the objection took place and at the court's recommendation, the holder of the debentures withdrew his objection.

On September 12, 2013 the District Court (Economic department) decided to postpone a motion to set dates for filing objections in the matter of the distribution of the sixth portion of the special distribution filed by the party holding the Company's debentures (Series 5).

On September 15, 2013 the sixth portion (at a total of NIS 500 million) out of the special distribution was paid, thus completing the entire special distribution.

Section 1.4.3 - Dividend distribution

On April 24, 2013, the general meeting of the Company's shareholders (further to a recommendation of the Board of Directors from March 13, 2013), approved the distribution of a cash dividend to the Company's shareholders in the total sum of NIS 861 million, which on the determining date for the distribution (May 1, 2013) was NIS 0.3159446 per share and 31.59446% of the Company's issued and paid-up share capital. The dividend was paid on May 13, 2013. Together with this distribution, the fifth portion of the Special Distribution was paid, in the amount of NIS 500 million, which on the determining date for the distribution (May 1, 2013) was NIS 0.1834754 per share and 18.34754% of the Company's issued and paid-up share capital (on this, see also the update to Section 1.4.2). On the matter of shareholder suits on the subject of this dividend distribution see the update to Section 2.18.

On August 27, 2013, the general meeting of the Company's shareholders (further to a recommendation of the Board of Directors from August 4, 2013), approved the distribution of a cash dividend to the Company's shareholders in the total sum of NIS 969 million, which on the determining date for the distribution (September 3, 2013) was NIS 0.3553748 per share and 35.53748% of the Company's issued and paid-up share capital. The dividend was paid on September 15, 2013. Together with this distribution, the sixth (and the last) portion of the Special Distribution was paid, in the amount of NIS 500 million, which on the determining date for the distribution (September 3, 2013) was NIS 0.1833720 per share and 18.33720% of the Company's issued and paid-up share capital (on this, see also the update to Section 1.4.2).

The outstanding, distributable profits at the reporting date amount to NIS 449 million[4].

Section 1.5 - Financial information about Bezeq Group's operating segments

[4] Subject to compliance with the distribution tests.

Section 1.5.4 - Main results and operational data

a. Bezeq Fixed Line (the Company's operations as a domestic carrier)

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues (NIS millions)	1,127	1,121	1,129	1,121	1,149	1,161	1,199
Operating profit (NIS millions)	494	510	535	*564	419	437	539
Depreciation and amortization (NIS millions)	174	168	167	189	185	178	178
Earnings before interest, taxes, depreciation and amortization (EBITDA) (NIS millions)(6)	668	678	702	*753	604	615	717
Net profit (NIS millions)	360	351	348	*370	246	263	348
Cash flow from operating activities (NIS millions)	631	556	561	512	470	376	651
Payments for investments in property, plant & equipment and intangible assets (NIS millions)	198	186	183	202	249	238	269
Proceeds from the sale of property, plant & equipment and intangible assets (NIS millions)	48	124	42	136	96	22	46
Free cash flow (NIS millions)(1)(7)	481	494	420	446	317	160	428
Number of active subscriber lines at end of the period (in thousands) (2)	2,223	2,224	2,242	2,268	2,299	2,335	2,368
Average monthly revenue per line (NIS) (ARPL)(3)	67	68	69	71	73	73	74
Number of outgoing minutes (in millions)	1,707	1,805	1,788	1,979	2,126	2,226	2,360
Number of incoming minutes (in millions)	1,522	1,551	1,503	1,571	1,595	1,516	1,543
Number of internet subscribers at end of the period (in thousands)(2)	1,230	1,202	1,185	1,169	1,153	1,136	1,121
Percentage of subscribers using NGN services out of the Company's total internet subscribers connected to NGN network (%) (4)(8)	84%	84%	65%	62%	60%	57%	55%
Average monthly revenue per internet subscriber (NIS)	86	85	83	80	80	80	84
Average bandwidth per internet subscriber (Mbps)(8)	17.3	15.2	10.4	9.6	9.0	8.3	7.5
Churn rate (5)	2.8%	3.5%	3.7%	4.0%	4.2%	3.9%	3.2%

(1) Cash from operating activities less purchase of property, plant and equipment, and intangible assets, net.

(2) Inactive subscribers are subscribers whose Bezeq lines have been physically disconnected (except for a subscriber during (approximately) the first three months of the collection process).

(3) Not including revenues from air time transferred to cellular operators and revenues from transmission services and data communication, internet services, services to communications operators and contractors and other services. Calculated according to average lines for the period.

(4) The figures for Q1 2012 were corrected due to an update in the number of internet subscribers connected to the NGN network, following data optimization.

(5) The number of telephony subscribers who left Bezeq Fixed Line during the period divided by the average number of registered telephony subscribers in the period. The figures for the previous quarters are presented after (immaterial) revision of 0.1% per quarter.

(6) Operating profit before depreciation and amortization (EBITDA) is a financial index which is not based on generally accepted accounting principles. The Company presents this index as an additional index for estimating its business results, as it is an accepted index for company activities which disregards aspects arising from variance in the equity structure, various taxation perspectives, and the manner and period of the depreciation of property plant and equipment and intangible assets. This index is not a substitute for indices which are based on generally accepted accounting principles and it is not used as a single index for estimating the results of the Company's activities or cash flows. Additionally, the index presented in this report is unlikely to be calculated in the same way as corresponding indices in other companies.

(7) Free cash flow is a financial index which is not based on generally accepted accounting principles. Free cash flow is defined as cash from operating activities less cash for the purchase/sale of property, plant and equipment, and intangible assets, net. The Company presents free cash flow as an additional index for assessing its business performance and cash flows, given that it believes that the free cash flow is an important liquidity index which reflects cash from ongoing operations after cash investments in infrastructure, property plant and equipment and in other fixed and intangible assets.

(8) During the second and third quarters of 2013, the Company initiated an upgrade of surfing speeds for its customers on the Company’s network for no additional cost to the customer. Concurrently, customers were required to upgrade surfing speeds with their ISPs.

* Restated due to retrospective implementation of the amendment to IAS 19 “Employee Benefits”. On this, see Note 2.3C to the Company’s consolidated financial statements for the period ended September 30, 2013.

b. Pelephone

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues from services (NIS millions)	710	696	714	754	816	857	834
Revenues from sales of equipment (NIS millions)	237	219	250	273	233	291	410
Total revenues (NIS millions)	947	915	964	1,027	1,049	1,148	1,244
Operating profit (NIS millions)	172	186	174	167	199	259	267
Depreciation and amortization (NIS millions)	111	113	121	129	130	137	135
Earnings before interest, taxes, depreciation and amortization (EBITDA)((NIS millions)(1)	283	299	295	296	329	396	402
Net profit (NIS millions)	140	161	153	134	154	194	216
Cash flow from operating activities (NIS millions)	442	468	354	388	490	556	294
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions)	92	84	66	73	84	109	115
Free cash flow (NIS millions) (1)	350	384	288	315	406	447	179
Number of subscribers at end of the period (thousands) (2)	2,683	2,702	2,741	2,800	2,839	2,859	2,876
Average number of minutes per subscriber per month (MOU) (3)	459	467	440	442	425	409	399
Average monthly revenue per subscriber (NIS) (ARPU) (4)	88	85	86	89	95	99	97
Churn rate (5)	6.2%	6.9%	7.2%	5.9%	6.7%	6.0%	3.9%

(1) For the definition of EBITDA and free cash flow, see comments (6) and (7) in the Bezeq Fixed Line table.

(2) Subscriber data include Pelephone subscribers (excluding subscribers to other operators who are hosted on the Pelephone network), and do not include subscribers connected to Pelephone services for six months or more but who are inactive. Inactive subscribers are those who in the past six months have not received or made at least one call or have not paid for Pelephone services.

(3) Average monthly use per subscriber in minutes. The index is calculated by the average monthly total outgoing minutes and incoming minutes in the period, divided by the average number of subscribers in the same period.

(4) Average monthly revenue per subscriber. The index is calculated by dividing the average total monthly revenues from cellular services, from Pelephone subscribers and other telecom operators, including revenues from cellular operators who use Pelephone's network, repair services and warranty in the period, by the average number of active Pelephone subscribers in the same period.

(5) The churn rate is calculated according to the ratio of subscribers who disconnected from Pelephone's services and subscribers who became inactive during the period, to the average number of active subscribers during the period.

c. Bezeq International

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues (NIS millions)	360	359	346	339	339	330	332
Operating profit (NIS millions)	55	60	56	61	55	53	50
Depreciation and amortization (NIS millions)	33	33	31	34	34	34	34
Earnings before interest, taxes, depreciation and amortization (EBITDA)((NIS millions)(1)	88	93	87	95	89	87	84
Net profit (NIS millions)	39	44	37	45	40	39	36
Cash flow from operating activities (NIS millions)	71	81	58	87	63	64	58
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions)(2)	21	27	31	38	28	36	71
Free cash flow (NIS millions) (1)	50	54	28	49	35	28	(13)
Churn rate (3)	4.7%	4.5%	4.2%	5.5%	4.6%	4.1%	4.3%

(1) For the definition of EBITDA and free cash flow, see comments (6) and (7) in the Bezeq Fixed Line table.

(2) This item also includes long-term investments in assets.

(3) The number of internet subscribers who left Bezeq International during the period divided by the average number of registered internet subscribers in the period.

d. DBS

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues (NIS millions)	410	404	404	407	403	409	417
Operating profit (NIS millions)	72	68	67	73	54	74	52
Depreciation and amortization (NIS millions)	66	64	62	64	64	54	66
Earnings before interest, taxes, depreciation and amortization (EBITDA) ((NIS millions)(1)	138	132	130	137	118	128	118
Net profit (loss) (NIS millions)	(136)	(101)	(61)	(20)	(119)	(107)	(64)
Cash flow from operating activities (NIS millions)	126	110	122	119	83	100	116
Payments for investments in property, plant & equipment and intangible assets, net (NIS millions)	67	84	90	72	87	69	56
Free cash flow (NIS millions) (1)	59	26	32	47	(4)	31	60
Number of subscribers (at end of the period, in thousands) (2)	593	583	578	578	581	582	585
Average monthly revenue per subscriber (ARPU) (NIS) (3)	233	232	233	234	231	234	237
Churn rate (4)	3.4%	3.2%	3.8%	3.8%	4.1%	3.9%	3.6%

(1) For the definition of EBITDA and free cash flow, see comments (6) and (7) in the Bezeq Fixed Line table.

(2) Subscriber - a single household or small business customer. Where a business customer has multiple reception points or a large number of decoders (such as a hotel, kibbutz, or gym), the number of subscribers is calculated by dividing the total payment received from the business customer by the average revenue per small business customer.

(3) Average monthly revenue per subscriber is calculated by dividing DBS's total revenues (revenues from content and equipment, premium channels, advanced products, and other) by the average number of customers.

(4) Number of DBS subscribers who left DBS during the period divided by the average number of registered DBS subscribers in the period.

Section 1.7 - General environment and the influence of outside factors on the Group's activity

Section 1.7.1 – Formulation of communication groups in the Israeli market and shift to competition between groups

On August 14, 2013, the Ministry of Communications published a hearing regarding the arrangement of a unified general license, in which all of the services provided today through a unique Domestic Operator's license, mobile radio telephone on a different network, international services (as detailed below), ISP and network end point services, may be provided. A draft of the regulations was also attached to the hearing papers.

Section 1.7.2 - Activities of Bezeq Group as a communications group and the structural separation restriction

In July 2013, the Knesset approved an amendment to the Communications Law within the context of the proposed Law for the Change of National Priorities (Legislative amendments to achieve budget targets in 2013-2014), 2013 ("**the Economic Arrangements Law**"). The amendment includes, inter alia, a directive whereby the Minister of Communications' authority to order structural separation between a license holder and another entity for the purpose of rendering various services will also include "separation between the rendering of services to a license holder and services rendered to a subscriber". As stipulated in the explanations to the bill, in accordance with the policy document on the expansion of competition, the structural separation which is currently in place will gradually be phased out. Nevertheless, the explanations stipulated that the Minister's power to order corporate separation also applies vertically (between services rendered to subscribers and services rendered to a license holder), and that the directive may be applied if a wholesale market does not develop at all, or if problems emerge in the development of such a market, in part due to price discrimination, high entry barriers, etc.

On October 16, 2013, the Ministry of Communications published a hearing paper (to be responded to by December 1, 2013) on a new arrangement in the international telecommunications services market. According to the proposed arrangement, each Domestic Operator or Mobile Radio Telephone license holder will be allowed to provide international communications services, as part of the packages of services offered their subscribers; this through the use of the "00" dial code. Subscribers whose service packages purchased from their domestic operator (Domestic Operator or Mobile Radio Telephone) do not include international telephone services, or who are interested in calling destinations not included in the service package, could continue to make use of the International Operator license holder, at their discretion, using the appropriate international dial code. The proposed arrangement also includes the provision of international data communications and transmission services through land-based and mobile operators. In this regard see the update to Section 4.14.

Section 1.7.3 - Regulatory oversight and changes in the regulatory environment

Section A - Policy for regulating competition

Concerning a Ministry of Communications hearing in relation to the director's directive, on June 11, 2013, an administrative order was issued to the Company to give Cellcom and Partner (under secure conditions) the geographical location of the Company's sites and facilities. Based on this directive, it will apply to any domestic carrier license holder that wishes, as part of its deployment for implementing a wholesale sub-loop unbundling service, to receive the information from Bezeq.

The amendment to the Communications Law in the Economic Arrangements Law, which was approved by the Knesset in July 2013, included, inter alia, the following additions and amendments, the purpose of which, according to the explanations to the proposed amendment, is to oversee competition in the era of a wholesale market:

(1) The Minister of Communications was granted the authority to set payments for interconnect fees or for the use of Bezeq facilities operated by one license holder by another license holder and to issue directives on this matter (including in relation to related arrangements), which may be applied, inter alia, on the basis of one of the following: (a) cost, a method of calculation as instructed by the minister, plus reasonable profit; (b) reference points which are derived from one of the following: payment for services rendered by the license holder; payment for comparable services; payments in other countries for such services.

(2) The Minister was given the power to order a license holder to take action to prevent immediate infringement of competition or the proper, regular rendering of services due to the actions of a license holder. The minister's directive will become valid within two working days, provided that until such time, the license holder is given an opportunity to comment on the directive. Wherever possible, a hearing will take place immediately the directive is issued and it will remain valid (if the hearing does not end) for six months.

(3) In addition to the authority of the Minister of Communications and Minister of Finance to set payments for a license holder's services, an option was added to determine maximum or minimum payments, and this too is based on the parameters listed in sub-section (1) above.

(4) An instruction was added whereby the Minister may instruct a license holder to report to him any payment that it intends to demand under Sections 5 or 15 of the Communications Law and any change of payment, before the service is rendered or the change is made, as instructed by the Minister.

(5) An instruction was added whereby if the Minister of Communications notes that the license holder intends to demand unreasonable payment, or payment which raises concern of an infringement of competition, he may issue an instruction (for a period of no more than a year): regarding the payment that the license holder may request for the service or for any other service, or that the payment must be separated from payment for a group of services. The Minister will examine whether or not a payment is reasonable, in part, based on the parameters listed in sub-section (1B) above and the Minister may review the payment based on the information in sub-section (1A) above.

(6) Concerning a Limited Group of Channels (narrow package)- see the update to Section 5.1.4.

The amendment to the law increases the flexibility of the Minister of Communications for the aforementioned issues, and the extent to which the provisions of the amendment to the law affect the Company depends on the manner in which they are implemented by the Minister of Communications.

Section C - Change in interconnect tariffs

Regarding the hearing on the reduction of reciprocal linking rates for the completion of calls on domestic operator networks – on October 28, 2013 the Ministry of Communications announced that the call completion rate for wired networks will be set at a maximum rate of NIS 0.01 per minute (in 2013 prices, plus VAT) all hours of the day, and that the rate would be updated once per year in accordance with the CPI. Accordingly, the Ministry of Communications is acting to revise the regulations so that the arrangement comes into effect starting December 1, 2013.

To Section D – Restrictions of exit commissions a license holder may collect from a subscriber –

On October 15, 2013 the Ministry of Communications provided the Company, for its comments, with an initial supervision report according to which the Company was preventing customers canceling their engagement with the Company from receiving credit for the terminal equipment (routers), allegedly in violation of Section 51.d.(b) of the Communications Law. According to the Company, its activity as in accordance with the law, and a response will be submitted to the Ministry of Communications.

2. Domestic fixed-line communications; "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company")

Section 2.6.4B – Other potential competing infrastructures

Regarding the communications venture with the Israel Electric Company – in August 2013 the IBC Israel Broadband Company (2013) Ltd. ("IBC") (60% of which is held by a group of investors headed by Via Europa and 40% of which is held by the Israel Electric Company) was granted a general license for the provision of telecommunications infrastructure services (including data services, digital transmissions and VPN) via fiber optic networks. In accordance with the license, the license holder will enter into an agreement with the Israel Electric Company to receive the right to use its fiber optic network, and will be the network's operator. In addition, the license holder will be entitled to use other telecommunication facilities. The engagement of the license holder for the provision of services through a different license holder operating on their behalf requires the Administration's approval. The license holder was required, pursuant to the license, to provide gradual universal coverage for a period of 20 years.

In addition, on the same day, IBC received a special license to provide domestic data communications services, according to which it is entitled to provide IPVPN services and broadband data communications services, in effect for five years (with the option of requesting an extension). A special license does not impose a universal service provision obligation to all who request it throughout the country.

The Company estimates that the significant relief in the universal service obligation as well as the granting of a special license to provide data communications services without the universal service obligation may have a negative impact on the Company's activities and results.

The above Company estimate constitutes forward-looking information, as defined in the Securities Law. This estimate might not be realized, among other things, depending on the manner and scope of activity and timetables of IBC's activity, as well as in the event of changes in the competitive structure of the telecommunications market.

Section 2.7.2 – Domestic fixed-line communications infrastructure

Concerning the extension of the optical fiber network to the customer's premises and residential buildings (FTTB/FTTH) – the Company estimates that by the end of 2013 it will complete this deployment to more than 400,000 households and businesses.

The Company's assessments regarding the pace of this deployment by the end of the year are forward-looking information, as defined in the Securities Law, based, in part, on the percentage of the Company's lines which were connected to the Fiber NGN network and on the number of homes and businesses in Israel as reported by the Central Bureau of Statistics. This estimate may not materialize or it may materialize in a manner different from that anticipated if the Company's plan for deployment, which is part of its work plans, encounters unforeseen difficulties which slow down the pace of connecting customers' premises and residential buildings.

Section 2.7.5 – Real estate

Section A - concerning the Company's right to receive an area in Sakia, in April 2013 the Company signed a five-year planning permission contract with the Israel Lands Administration for 115 acres. The Company is negotiating with the planning authorities to exercise the rights according to the agreement.

Section 2.9.2 – Employees headcount

As of September 30, 2013, the number of Company employees decreased to 6,576 (compared to 7,422 employees at the end of 2012), mainly as a result of improved processes and technological developments in customer interfaces.

Section 2.9.3 – Early retirement plans

On April 25, 2013, the Board of Directors approved the early retirement of 51 employees at a total cost of NIS 50 million.

Section 2.9.7 - Officers and senior management in the Company

On July 25, 2013, the Board of Directors, after accepting the recommendation of the Compensation Committee, approved a compensation policy for the Company's officers ("**Compensation Policy**"). Subsequently, on September 3, 2013 the compensation policy was also ratified by the General Meeting of the Company's shareholders. The Compensation Policy is detailed in the Company's July 29, 2013 Immediate Report (Special General Meeting Convening Report), presented by way of referral, and addresses, inter alia, parameters for reviewing the compensation conditions, the fixed salary component (the base salary (linked) for the CEO and CEOs of the important subsidiaries will not exceed NIS 2.5 million per annum, base salary for deputy CEOs in the range of NIS 85,000-100,000 per month, and VPs in the range of NIS 40,000-85,000 per month), acceptable fringe benefits, severance pay, terms of end-of-service, and retention bonuses, insurance and indemnity, as well as a variable component – a performance-linked bonus with an overall budget of 1% of the Group's EBITDA. Furthermore, in the future a new capital compensation plan will be considered for senior management which will be submitted for approval separately as an addition to the Compensation Policy.

Section 2.11 – Working capital

As of September 30, 2013 the Company has a working capital deficit of NIS 162 million (this data refers to the Company's solo Financial Statements. The Company's September 30, 2013 Consolidated Financial Statements have a working capital surplus of NIS 1,090 million). The company's Board of Directors decided on November 6, 2013 that despite the Company's working capital deficit, the Company has no liquidity problem. See Section 1.3 of the Board of Directors' Report.

Section 2.13 - Finance

Section 2.13.3 – Amounts of credit received during the Reporting Period, and Section 2.13.1 - Average and effective interest rates on loans

On May 29, 2013, the Company completed a private issue to classified investors, by way of expanding existing Bonds (Series 6) and Bonds (Series 7) issued by the Company under a shelf prospectus dated June 1, 2011, and an amendment to the said prospectus dated June 22, 2011:

Debentures Series 6 - issuance of NIS 600,265,000 par value in return for NIS 680.1 million, reflecting a yield of 2.16%.

Debentures Series 7 - issuance of NIS 189,900,000 par value in return for NIS 189.9 million, reflecting a yield of 2.81%.

The conditions of the issued debentures are the same as those of the debentures in circulation from the same series, all as detailed in an Immediate Report issued by the Company on May 22, 2013, cited here by way of reference.

Following is an up-to-date table of the distribution of long-term loans (including current maturities), including information about the aforementioned private placement:

Loan period	Source of financing	Amount (in NIS millions)	Currency or linkage	Type of interest and change in mech-anism	Average interest rate	Effective interest rate	Interest range in 2013
Long-term loans	banks	2,181	Unlinked NIS	Variable, based on prime rate*	2.46%	2.47%	2.46%-3.20%
	banks	2,340	Unlinked NIS	Fixed	5.67%	5.69%	5%-6.85%
	Non-bank sources**	615	Unlinked NIS	Variable, based on STGL interest per annum ***	2.65%	2.75%	2.65%-3.26%
	Non-bank sources**	1,729	Unlinked NIS	Fixed	5.92%	6.10%	5.70%-6.65%
	Non-bank sources***	2,579	CPI-linked NIS	Fixed	3.43%	3.51%	3.11%-5.95%

* Prime interest rate in November 2013 – 2.5%.

** Yield on short-term loans for a year (814) – 1.248% (average for the last 5 days of trading in August 2013) for the interest period commencing September 1, 2013.

*** Not including Debentures Series 5 held by a wholly owned subsidiary.

Section 2.13.6 - Credit rating

Regarding the Company's ilAA Stable Outlook credit rating issued by Standard & Poor's Maalot for the Company (and its debentures) - on April 22, 2013, Standard & Poor's Maalot published a full rating report in connection with the rating dated February 21, 2013. Likewise, on May 23, 2013, Standard & Poor's Maalot issued an ilAA rating for debentures in the amount of up to NIS 1 billion par value which the Company will issue by way of an expansion of Series 6 and 7 (see update to Section 2.13.3). [5]

Regarding a rating of the Company's debentures by Midroog - on May 22, 2013, Midroog approved a rating of Aa2 Stable Outlook for the raising of debentures in the amount of up to NIS 1 billion par value by way of an expansion of Series 6 and 7 (see update to Section 2.13.3). Moreover, on July 23, 2013, Midroog reaffirmed its Aa2 Stable rating for the Company's Bonds (Series 5 through 8).

These rating reports are included in the Board of Directors Report for this quarter.

5 Issuer rating ilAA\Stable Outlook

Section 2.16.8 – Antitrust Laws

On May 9, 2013, the Company submitted its position at a hearing concerning the announcement by the Antitrust Authority to the effect that the Commissioner is considering determining that the Company abused its position by adopting the practice of margin squeeze. According to the Company's position it acted lawfully and the Commissioner should therefore not publish such a ruling.

Section 2.17.5 – Management agreement

On June 13, 2013, (following approval by the Compensation Committee and Board of Directors of the Company), a general meeting of the Company's shareholders, approved the entering into a revised agreement with Eurocom Communications Ltd., to provide the Company with ongoing management and consulting services, all in consideration of a total of NIS 5.524 million per annum. The agreement is for a three-year period commencing June 1, 2013 (date of the termination of the current management agreement) until May 31, 2016, unless either party informs the other of its wish to terminate the agreement by giving three months advance notice. For additional information, see a transaction report and notice of convening a special general meeting of the Company dated May 7, 2013, and an immediate report dated June 13, 2013 on the outcome of the meeting, cited here by way of reference.

Section 2.18 – Legal proceedings

Section 2.18.1(A) concerning a notice filed by a party to a collective dispute - the National Labor Court resolved to delay the decision on determining a date for the hearing in the case until after HCJ has ruled on the appeal filed against the ruling in a claim by about 2,500 Company pensioners, which is described in Section 2.18.1(B) in Chapter A of the 2012 Periodic Report. As noted in the update below, the appeal was rejected on July 22, 2013.

Section 2.18.1(B) concerning a claim which was filed by a group of about 2,500 pensioners who were transferred from the Ministry of Communications to the Company when it was set up, which dealt mainly with the inclusion of the premium component in the effective wage for calculating overtime and the redemption of vacation days - on July 22, 2013, the Supreme Court dismissed the petition which was filed in the High Court of Justice against the National Labor Court and the Company on an appeal judgment of the National Labor Court which had approved dismissal of the claim against the Company.

Section 2.18.2 - concerning claims against the Company, the Broadcasting Authority and the State of Israel, for compensation for physical injury and damage to property, caused, according to the plaintiffs, as a result of prohibited radiation from the Hillel broadcasting station - on July 3, 2013, the court resolved to strike out, in limine, on account of limitation, 21 of the 31 claims included in the new claim for physical injury. An appeal was filed on this ruling on October 14, 2013.

Section 2.18.4 – on the matter of a suit, along with a motion to approve its status as a class action, claiming that the Company offers its customers the option of joining call plans for a fixed monthly payment that causes monetary losses for customers for whom the plan is not worthwhile, and in which a settlement was received between the parties to the sum of 6.5 million NIS for the Company – on August 11, 2013 the court approved the settlement, thus concluding the proceeding.

Section 2.18.5 - concerning two applications to approve the submittal of derivative claims (the hearing of which was consolidated) in the matter of the taking of loans and distribution of a dividend - on May 20, 2013, the court resolved to strike out from the additional application for certification of a derivative claim, the Company's previous controlling shareholder (F.SAB.R. Holdings Ltd.) and four directors who had previously served the Company and who are not domiciled in Israel.

Section 2.18.7 – on the matter of a suit, plus a motion to approve its status as a class action, claiming that the Company was unlawfully broadcasting self-advertising on its "waiting music" service regarding joining the service – on October 2, 2013 the Court approved a mutually-agreed motion to withdraw the class action approval motion and the dismissal of the applicants' personal suit against the Company.

Section 2.18.9 - concerning two actions together with applications for their certification as class actions, claiming that in contravention of Ministry of Communications instructions and the Company's license, the Company does not include a record of call details in the phone bills which it sends to subscribers - on April 4, 2012 a judgment was given certifying the plaintiff's abandonment of the application for certification from September 2012 and striking it out, and also dismissing the action. Furthermore, on April 14, 2013, a judgment was given also certifying abandonment of the other action which had been filed against the Company in April 2011 on the same subject, after the court considered that the chances of being granted the application for certification were low at best.

On April 8, 2013, the Company received a claim which was filed against the Company and against the controlling shareholder by one of its shareholders in the Tel Aviv District Court (Economic Department), requesting that the court declare that the controlling shareholder has a personal interest in the dividend distribution due to be approved by the general meeting, and demanding that the Company publish information and documents as well as summons the economic experts whose opinion had been published by the Company. On April 21, 2013, the court dismissed an immediate motion for summary proceedings to investigate the claim which had been filed by the plaintiff. Accordingly, the claim will be investigated in accordance with the dates prescribed by law and there is no change in the dates scheduled for the dividend distribution and the general meeting, which took place on April 24, 2013. On June 17, 2013, Mr. Shaul Elovitch was removed (by consent) as a defendant in the case, applications for withdrawal in limine that the plaintiffs had filed were dismissed without prejudice, and applications for a stay of proceedings in the case were left in place (due to the fact that a proceeding is pending regarding a matter detailed in Section 2.18.5 of Chapter A of the 2012 Periodic Report).

On June 27, 2013, an additional claim was filed against the Company, the Company Secretary and Eurocom Communications Ltd. in the Tel Aviv District Court Economic Department by the same shareholder in which the court was requested to issue a declarative ruling stipulating that the general meetings of the Company's shareholders from April 24, 2013 and June 13, 2013 were conducted unlawfully and that the manner of compensation defined and approved by the general meeting on June 13, 2013 with respect to the service of four directors of the Company (as part of the management agreement) is unlawful.

3. Mobile radio-telephone (cellular telephony) - Pelephone Communications Ltd. ("Pelephone")

<u>Section 3.7 – Property, plant and equipment, and facilities</u>

According to media reports, the Minister of Communications has formed an inter-ministerial task force which includes the Ministry of Communications, Ministry of the Environment, Ministry of Finance, and representative of the Antitrust Authority to review regulation of the sharing of cellular infrastructures in Israel. The task force will examine models for shared infrastructures and alternatives to sharing among the operators in Israel's cellular market in an effort to promote the sharing of infrastructures by cellular operators with infrastructures.

<u>Section 3.7.2 B - areas used by Pelephone</u>

In June 2013, Pelephone entered into a permit agreement with the Israel Lands Administration ("ILA") for the use of ILA land to erect and operate communications sites, which regulates, inter alia, the permit fee for use of the land for a period up to December 31, 2019.

Section 3.10.1 –Terminal equipment suppliers

In May 2013, Pelephone signed an agreement with Apple Distribution International ("**Apple**") for continuation of the purchase and distribution of iPhone handsets in Israel. According to the agreement, Pelephone undertook to purchase a minimum annual quantity of handsets over a further three-year period at the manufacturer's prices which are valid on the actual date of purchase. Pelephone believes that as in previous years, these quantities will form a substantial share of the number of handsets it expects to sell during the agreement period.

The information in this section includes forward-looking information, based on the estimates and projections. Actual results may differ significantly from these estimates, taking note of the changes which may occur in the business conditions.

Section 3.12.5 - Credit rating

Regarding the Company's ilAA\Stable Outlook credit rating issued by Standard & Poor's issued for Pelephone (and its debentures) - on April 22, 2013, Standard & Poor's Maalot published a full rating report in connection with the rating from February 2013. The rating report is attached to the Board of Directors' report. At the date of the report, there is no change in Pelephone's rating (and its debentures).

Section 3.15.2 A - Obligations to banks

Following are further disclosures concerning compliance with financial criteria of reportable credit:

Financial covenants to which Pelephone is obligated:	As of September 30 2013	Maximum required ratio
Pelephone's total debts will not exceed 3 times its equity.	0.43	3.00
Total debt must not exceed NIS 3.8 billion (linked to the CPI known in January 2002. As at September 30, 2013 = NIS 4.98 billion).	1.22	4.98
Undertaking to a particular bank that debts to it will not exceed 40% of Pelephone's total cumulative debts to financial entities including debenture holders.	15.2%	40%

Section 3.16 – Substantial agreements

In April 2013 an agreement was signed whereby the Accountant General in the Ministry of Finance exercised the option given to him to extend the agreement to supply mobile telephone services to government ministries for a period of 24 months, from February 2014 until February 2016.

Section 3.17 – Legal proceedings

Section 3.17.1(E) - Regarding a claim in the District Court (Central Region) together with an application for its certification as class action in the amount of NIS 122 million, alleging that Pelephone deliberately conceals significant limitations pertaining to benefits on selected destinations - in June 2013 the court approved a compromise settlement between the parties whereby Pelephone will credit its customers with insignificant amounts.

Section 3.17.2(F) - Regarding a claim in the Tel Aviv District Court together with an application for its recognition as a class action in the amount of NIS 381 million for unlawfully updating service tariffs to business customers, which was dismissed in February 2013 - in April 2013 Pelephone was served with notice of appeal in the Supreme Court on the District Court's ruling to dismiss the action and in July the court dismissed the appeal.

Section 3.17.1(K) - Regarding a claim in the Nazareth District Court together with an application to certify it as a class action in the amount of NIS 450 million, for a nation-wide malfunction of Pelephone's network on February 3, 2013 - in June 2013 the court dismissed the application for certification on the grounds that there is already an identical class action against the Company (described in that section). Subsequently, in July 2013 the applicant appealed this ruling before the Supreme Court, and in September 2013 the Court ruled that the applicant must deposit collateral within 21 days, and if they fail to do so, the proceeding shall be rejected with no further notice. To the best of Pelephone's knowledge, as of the publication of this report, this collateral has yet to be deposited, despite over 21 days having passed from the date set.

4. Bezeq International – international communication and internet services

Section 4.7 - Property, plant and equipment, and facilities

In June 2013, Bezeq International signed an agreement to extend the lease period on the Bezeq International building at 40 Shacham Street in Petach Tikva for an additional period of 10 years, with an exit option for Bezeq International.

Section 4.14 - Restrictions on and supervision of Bezeq International

On the matter of the hearing paper published on October 16, 2013 by the Ministry of Communications on the subject a new arrangement in the international telecommunications services market, see update to Section 1.7.2. Approval of the proposed arrangement may have a material impact on Bezeq International's business activity in the field of international telephone services.

Section 4.16 – Legal proceedings

- To Section 4.16.3 on the matter of a suit before the Tel Aviv District Court with the addition of a motion to approve it as a class action to the sum of 216 million NIS for the increase in internet access service rates after the first year of activity and charging the plaintiff for allegedly unordered services – on October 17, 2013 the Supreme Court ruled to reject the appeal and uphold the District Court ruling rejecting the class action.

5. Multi-Channel Television – DBS Satellite Services (1998) Ltd. ("DBS")

Section 5.1 - General information about this area of activity

Section 5.1.1.B - Structure of this area of activity and the applicable changes therein

In July 2013, the Knesset passed a second and third reading of an amendment to the Broadcasting by means of Digital Broadcast Stations Law, 2012 the purpose of which is to expand the variety of broadcasts distributed on the DTT system, and this as part of the Law for the Change of National Priorities (Legislative amendments to achieve budget targets in 2013-2014), 2013.

According to the Law, the Minister of Communications and Minister of Finance will be given the power to appoint a private entity to operate the DTT system, replacing the Second Authority, and the Minister of Communications will also have the power to set limitations on the subject; the Council's authority to grant a license to special-subject channel operators will not be limited to three license holders only, where these operators will be chosen by tender, based on the price bid by each participant; according to the Law, the special-subject channels will be permitted to finance their broadcasts by charging a subscription fee (in addition to the option of financing through advertising); the Minister of Communications and the Minister of Finance will be permitted to determine that the state will subsidize the distribution fees which apply to the special-subject broadcasts and the designated channel; the Council may establish the extent of the obligation to invest in local productions which will apply to a special-subject channel, provided that for at least three of the first nine special-subject channels to be distributed, they will be obligated to invest between 8% and 12% of their annual revenues in local productions.

An increase or diversification of the number of channels to be distributed via the distribution system and an option for operation of the system by a private entity will, in the opinion of DBS, increase the chances that the system will be a substitute for DBS's services, thus severely affecting its results.

This opinion of DBS is forward-looking information, as defined in the Securities Law, which is based, in part, on the wording of the Law. This estimate may not materialize, or it may materialize in a manner that differs significantly from that foreseen, in part depending on the channels which become part of the DTT system, the regulatory decisions which are passed and the regulatory limitations which become applicable, insofar as they apply, to the set of channels integrated in the system.

Section 5.1.4 - Market developments in the segment of operation

In May 2013, the Council announced an extension of the period during which DBS and HOT may offer the Limited Group of Channels until August 31, 2013.

In July 2013, the Knesset passed a second and third reading of provisions concerning the offering of a basic package (“Limited Group of Channels”) in cable and satellite broadcasts as part of the Law for the Change of National Priorities (Legislative amendments to achieve budget targets in 2013-2014), 2013. According to the Law, the Minister of Communications will stipulate the number of channels and price of the package and he will be authorized to stipulate the policy concerning the specifications of and types of channels in the package. The Council will issue instructions for implementation of the Minister’s stipulations, including with respect to the specification, content, standard and scope of the channels. The Minister's stipulations will remain in effect for a period of no more than 3 years, but the Minister may, after consulting with the Council, instruct an extension for additional periods. Payment may not be collected from customers of the basic package for related services (including installation fees or the cost of installation and for terminal equipment) if customers are not charged for other packages, and in any event such payment will not exceed the payment requested from customers of other packages without permission from the Council.

In August 2013, the Council announced that it is considering amending the Communications Rules and adopting a different model from the one which had been tried so far according to its previous decision. According to the other model, DBS and HOT will be obligated to offer their subscribers a basic package of broadcasts which will include the mandatory channels as well as a number of additional channels which the subscriber will be able to choose from all the broadcast channels (except for a small number of channels which will not be open to choice), so that the basic package will include, together with the mandatory channels, between 17 and 24 channels. The Council is considering recommending that the Minister apply his power to set a supervised price for the basic package. The Council initiated a hearing process in which D.B.S.’s response was filed in October 2013.

DBS believes that insofar as the Minister and the Council apply their authority, there may be a significant increase in the number of subscribers to the basic package in a manner which adversely affects the performance of DBS.

This opinion of DBS is forward-looking information, as defined in the Securities Law, which is based, in part, on the wording of the Law and on the Council’s aforementioned decision. This estimate may not materialize, or it may materialize in a manner that differs significantly from that foreseen, in part depending on the type and content of the instructions of the Minister of Communications and the Council and the rate of subscribers to the basic package.

Section 5.15 – Finance

For information about the financial covenants and DBS's compliance with them, see Note 4 to the financial statements of DBS as at September 30, 2013, which are included in this quarterly report.

Section 5.15.3 - Institutional financing

In March-April 2013, DBS issued additional debentures (Series B), by way of an expansion of the series, in the total amount of NIS 99 million.

In October 2013, DBS issued additional debentures (Series B), by way of an expansion of the series, in the total amount of NIS 240 million.

Section 5.15.4 - Changes in the rating of DBS and rating of the debentures by S&P Maalot during the Reporting Period

On March 13, 2013, S&P Maalot issued an ilA- rating for the additional debentures issued by DBS by way of a new issuance of debentures and/or expansion of an existing series, with respect to the raising of a total of up to NIS 200 million par value.

On October 15, 2013, S&P Maalot issued (following notice from October 1, 2013) an ilA- rating for the additional debentures issued by DBS up to a total of NIS 300 million par value by way of a new issuance of debentures or expansion of an existing series.

On October 7, 2013 S&P Maalot issued D.B.S. a rating of ilA- (Stable) (issuer rating).

Section 5.17 - Restrictions on and supervision of the company

In July 2013, the proposed Broadcasting (Telecommunications and Broadcasts) (Amendment no. 57) (The Authority and Council for Commercial Broadcasts) Law, 2013, was published, whereby an authority for commercial broadcasts will be established which will be the regulatory body coordinating the regulatory powers which are currently part of the Second Authority, the Second Authority Council and the Council, and will be responsible for regulating commercial broadcasts in Israel.

Section 5.18.1 - Space segment lease agreements

On May 8, 2013, the general meeting of the Company's shareholders approved the manner of voting at the general meeting of the shareholders of DBS in favor of an amendment to the existing agreement between DBS and Spacecom and an extension of the agreement for the leasing of space segments on the satellites Amos 2, Amos 3, Amos 6 and/or any other satellite that the parties agree upon, until the end of 2028 and for an amount of USD 227 million for the entire period. Subsequently, on the same day, the general meeting of the shareholders of DBS gave its approval for DBS to enter into the said agreement.

Section 5.19 – Legal proceedings

In July 2013, an action was filed in the Central District Court against DBS and HOT, together with an application for its certification as a class action. The plaintiffs allege that DBS and HOT were in breach of the provisions of the Communications Law in that over the years they advertised and promoted the affairs of different commercial entities as part of their broadcasts. The plaintiffs wish to represent all the subscribers of DBS and HOT during the 7 years prior to the filing of the action. The plaintiffs did not specify the amount of the action. In August 2013 D.B.S. sent notices to content providers and the producers to whom the violations alleged in the motion to approve and in the suit are attributed, in which it informed them that some of the claims addressed at it in the motion to approve and in the claim are for alleged actions and inactions allegedly carried out by them, and that it considered them responsible for any damage or shortage of funds caused it, if such is caused it, as a result of the violations in question.

In October 2013 the a suit was filed before the Tel Aviv District Court against D.B.S, along with a motion to approve it as a class action, on the matter of a claim that money had been unlawfully charged by Yes from its subscribers at arbitrary and variable sums for services provided to subscribers, initially for free or at reduced cost, with no notice to or consent from the subscribers. The applicant is asking the court, among other things, to compel Yes to repay the Group members all of the sums collected from them, allegedly, unlawfully, and to compensate them for negative impact on their freedom of engagement and/or distress from enforcing the continued engagement with it. The applicant did not note the sum of their suit, with the exception of an assessment of the sum of non-capital damage (only) amounting to NIS 8.6 million.

November 6 2013

Date	"Bezeq" - The Israel Telecommunication Corp. Ltd.

Names and titles of signatories:
Shaul Elovitch, Chairman of the Board of Directors
Stella Handler, CEO

Board of Directors' Report on the State of the Company's Affairs for the Nine and Three Month Periods Ended September 30, 2013

bezeq

We hereby present the Board of Directors' report on the state of affairs of "Bezeq" - The Israel Telecommunication Corporation Ltd. ("the Company") and the consolidated Group companies (the Company and the consolidated companies, jointly - "the Group"), for the nine months ended September 30, 2013 ("the Reporting Period") and the three months then ended ("Quarter").

The Board of Directors' report includes a summary review of those matters discussed therein, and was prepared assuming the Board of Directors' report of December 31, 2012 is also available to the reader.

In its financial statements, the Group reports on four main operating segments:

1. **Domestic fixed line communications**
2. **Cellular Communications**
3. **International Communications, Internet and NEP Services**
4. **Multi-Channel Television (presented using the equity method)**

The Company's consolidated financial statements also include an "Other" segment, which comprises mainly internet services and internet portal operation services (through Walla), as well as customer call center services (through Bezeq On-Line). The "Other" segment is immaterial at the Group level.

Profit in the period attributable to owners of the Company totaled NIS 1,419 million, as compared to NIS 1,339 million in the same period last year, an increase of 6%.
The Group's EBITDA (operating profit before depreciation and amortization) decreased from NIS 3,338 million in the corresponding period last year, to NIS 3,209 million in the present Reporting Period, a decrease of 3.9%.

In the Quarter, profit attributable to owners of the Company totaled NIS 449 million, as compared to NIS 342 million in the same quarter last year, an increase of 31.3%.
The Group's EBITDA decreased from NIS 1,026 million in the corresponding quarter to NIS 1,050 million in the present Quarter, a decrease of 2.3%.

Results for the Reporting Period and Quarter, as compared with results for the corresponding period and quarter last year, were affected mainly by increased competition in the telecommunications market, (notably in the Cellular Communications segment), which reduced Group revenue. On the other hand, actions carried out by Group members brought about a drop in operating expenses. This drop, in addition to a drop in the Company's share of the losses of investees and tax expenses, offset the influence of the drop in revenues and led to an increase in profits for the period and for the quarter.

1. The Board of Directors' explanations for the state of the Company's affairs, the results of its operations, equity, cash flows, and additional matters

1.1. Financial Status

1.1.1. Assets

The Group's assets as of September 30, 2013, totaled NIS 14.79 billion, as compared to NIS 16.22 billion on September 30, 2012; of these assets, NIS 5.95 billion (40%) comprise property, plant and equipment, compared with NIS 6.12

billion (38%) on September 30, 2012.

The decrease in the Group's assets is mainly attributable to the Cellular Communications segment.

Cellular Communications assets decreased from NIS 5.09 billion on September 30, 2012, and totaled NIS 4.1 billion on September 30, 2013. This decrease was mainly attributable to a decrease in trade receivables as a result of a decrease in revenues from handset sales paid for in installments, the factoring in of receivables of non-refundable credit-card payments during the period, and decreased revenues from services. Decreases were also recorded in the balances of cash and cash equivalents, fixed assets, intangible assets and inventory.

In the Domestic Fixed-Line Communications segment, total assets net of loans and investments in investees, without dividends receivable, decreased compared to September 30, 2012, totaling NIS 310 million. The drop results from a decrease in cash, ongoing investments, trade receivables and long-term receivables, fixed assets and deferred tax assets.

In the International Communications, Internet, and NEP segment, total assets decreased by NIS 100 million. Most of the revaluation occurred in the balances of cash and financial assets held for trade.

In the Multi-Channel Television segment, total assets were up by NIS 110 million. This increase was due to an increase in the balance of broadcast rights following an increase in the balance of original productions and content purchases, from an increase in fixed assets largely deriving from an increase in investment in set-top boxes as well as an increase in net intangible assets deriving largely from an increase in software.

1.1.2. Liabilities

The Group's debt to financial institutions and bondholders as of September 30, 2013, totaled NIS 9.84 billion, as compared to NIS 8.94 billion as of September 30, 2012.[1]. This increase is attributable to the Domestic Fixed-Line Communications segment, following a bond issuance in the second quarter of 2013 as an expansion of an existing bond series and the receipt of loans from banks. This increase was offset by repayment of bonds and loans in the Domestic Fixed-Line Communications, and the Cellular Communications segments

1.1.3. Equity

Equity attributable to owners of the Company totaled NIS 2.05 billion as of September 30, 2013, comprising 13.9% of the balance sheet total, compared to NIS 1.94 billion on September 30, 2012 that constitutes 12% of the balance sheet total.
The increase in equity due to the Group's earnings was offset due to a NIS 1.83 billion in dividend distribution during the period, due to the profits in the second half of 2012 and in the first half of 2013 (see Note 6.2 to the financial statements).

[1] The Group's debt to financial institutions and bondholders, net of cash and cash equivalents and current investments, totaled NIS 8.58 billion as of September 30, 2013, as compared to NIS 7.19 billion as of September 30, 2012.

1.2. Results of operations

1.2.1. Highlights

Highlights from the consolidated statement of income:

	1-9/2013	1-9/2012	Increase/ (Decrease)		7-9/2013	7-9/2012	Increase/ (Decrease)	
	NIS Millions	NIS Millions	NIS Millions	%	NIS Millions	NIS Millions	NIS Millions	%
Revenues	**7,154**	7,829	(675)	(8.6)	**2,398**	2,494	(96)	(3.8)
Operating expenses	**4,928**	5,566	(638)	(11.5)	**1,677**	1,827	(150)	(8.2)
Operating profit	**2,226**	2,263	(37)	(1.6)	**721**	667	54	8.1
Finance expenses, net	**96**	88	8	9.1	**45**	55	(10)	(18.2)
Profit after finance expenses, net	**2,130**	2,175	(45)	(2.1)	**676**	612	64	10.5
Share in losses of investees	**195**	233	(38)	(16.3)	**88**	92	(4)	(4.3)
Profit before income tax	**1,935**	1,942	(7)	(0.4)	**588**	520	68	13.1
Taxes on income	**516**	597	(81)	(13.6)	**139**	178	(39)	(21.9)
Profit for the period	**1,419**	1,345	74	5.5	**449**	342	107	31.3
Attributed to:								
Owners of the Company	**1,419**	1,339	80	6.0	**449**	342	107	31.3
Non-controlling interest	**-**	6	(6)	(100)	**-**	-	-	-
Profit for the period	**1,419**	1,345	74	5.5	**449**	342	107	31.3
Earnings per share (NIS)								
Basic and diluted earnings per share	**0.52**	0.49	0.03	6.1	**0.16**	0.13	0.03	23.1

The 8.6% and 3.8% decline in the Group's revenues in the period and in the quarter, respectively, were largely derived from the Cellular Communications segment as a result of increased competition that brought about a drop in revenues from services and in the reported period, a drop in revenues from the sale of end equipment.

The following is an explanation of the decline in the Group's operating expenses:

Depreciation and amortization expenses totaled NIS 983 million in the Period, as compared to NIS 1,075 million in the same period last year, a decrease of 8.6%.
In the Quarter, the Group's depreciation and amortization expenses totaled NIS 329 million, as compared to NIS 359 million in the corresponding quarter last year, a decrease of 8.4%.
The decrease was mainly recorded in the Cellular Communications and Domestic Fixed-Line Communications segments.

The Group's salary expenses totaled NIS 1,431 million in the Period, as compared to NIS 1,527 million in the same period last year, a decrease of 6.3%.
In the Quarter, the Group's salary expenses totaled NIS 464 million, as compared to NIS 511 million in the corresponding quarter last year, a decrease of 9.2%.
The decrease in salary expenses is mainly attributable to the Cellular Communications and Domestic Fixed-Line Communications segments, primarily due to a reduction in the workforce.

The Group's operating and general expenses totaled NIS 2,610 million in the Period, as compared to NIS 2,976 million in the same period last year, a decrease of 12.3%.
In the Quarter, the Group's operating and general expenses totaled NIS 890 million, as compared to NIS 963 million in the same quarter last year, a decrease of 7.6%.
The decrease in operating and general expenses derives from the Cellular Communications and Domestic Fixed-Line Communications segments, as described below. Furthermore, starting 2013, Group companies are no longer required to pay royalties to the State.

The Group's other operating income, net, totaled NIS 96 million in the Period, as compared to NIS 12 million in the same period last year.
In the Quarter, the Group's other operating income, net, totaled NIS 6 million, similar to the same quarter last year.
This increase in the reported period is attributable to the Domestic Fixed-Line Communications segment.

The Group's net finance expenses totaled NIS 96 million in the Period, as compared to NIS 88 million in the same period last year, an increase of 9.1%.
In the Quarter, the Group's net finance expenses totaled NIS 45 million, as compared to NIS 55 million in the same quarter last year, a decrease of 18.2%.
Most of the increase in net finance expenses in the Period stems from the sale of all of the Group's shares in Traffix Communications Systems Ltd., for a gain of NIS 74 million in the first quarter of 2012. In the present Quarter and Period, growth was moderated by a decrease in net finance expenses, mainly attributable to the Domestic Fixed-Line Communications and the Cellular Communications segments.

Income taxes totaled NIS 516 million in the Period (24.2% of the Group's profit after finance expenses, net), as compared to NIS 597 million in the same period last year, which constituted 27.5% of profit after finance expenses, net.
In the Quarter, income taxes totaled NIS 139 million (20.6% of profit after finance expenses, net), as compared to NIS 178 million in the same period last year (29.1% of profit after finance expenses, net).
The decrease in the percentage ratio of taxes to profit after net finance expenses, largely derives from a drop in non-deductible tax expenses in the Quarter and Period compared to the corresponding periods last year in the domestic Fixed-Line Communications segment.

1.2.2. Operating segments

a. Revenue and operating profit by operating segment:

	1-9/2013		1-9/2012		7-9/2013		7-9/2012	
	NIS Millions	% of revenues	NIS Millions	% of revenues	NIS Millions	% of revenues	NIS Millions	% of revenues
Revenues by operating segment								
Domestic Fixed-Line Communications	**3,377**	**47.2%**	3,509	44.8%	**1,127**	**47.0%**	1,149	46.1%
Cellular Communications	**2,826**	**39.5%**	3,441	43.9%	**947**	**39.5%**	1,049	42.1%
International Communications, Internet and NEP Services	**1,064**	**14.9%**	1,001	12.8%	**360**	**15.0%**	339	13.6%
Multi-Channel Television	**1,218**	**17.0%**	1,228	15.7%	**410**	**17.1%**	403	16.1%
Other and setoffs*	**(1,331)**	**(18.6%)**	(1,350)	(17.2%)	**(446)**	**(18.6%)**	(446)	(17.9%)
Total Group revenues	**7,154**	**100%**	7,829	100%	**2,398**	**100%**	2,494	100%

	1-9/2013		1-9/2012		7-9/2013		7-9/2012	
	NIS Millions	% of segment revenues	NIS Millions	% of segment revenues	NIS Millions	% of Revenues from the Segment	NIS Millions	% of Revenues from the Segment
Operating profit by segment								
Domestic Fixed-Line Communications	**1,539**	**45.6%**	1,395	39.8%	**494**	**43.8%**	419	36.5%
Cellular Communications	**532**	**18.8%**	725	21.1%	**172**	**18.2%**	199	19.0%
International Communications, Internet and NEP Services	**171**	**16.1%**	157	15.7%	**55**	**15.3%**	55	16.2%
Multi-Channel Television	**207**	**17.0%**	180	14.7%	**72**	**17.6%**	54	13.4%
Other and setoffs*	**(223)**	**-**	(194)	-	**(72)**	**-**	(60)	-
Consolidated operating profit / % of Group revenues	**2,226**	**31.1%**	2,263	28.9%	**721**	**30.1%**	667	26.7%

* Setoffs are mainly attributable to the Multi-Channel Television segment, an associate company.

b. Domestic Fixed-Line Communication Segment

Revenues

The segment's revenues in the Period totaled NIS 3,377 million, as compared to NIS 3,509 million in the same period last year, a decrease of 3.8%.
In the Quarter, the segment's revenues totaled NIS 1,127 million, as compared to NIS 1,149 million in the same period last year, a decrease of 1.9%.
The decrease in the segment's revenues is mainly attributable to decreased revenues from telephone operations, as a result of erosion in average revenue per phone line, a decrease in the number of lines, and a decrease in revenue from interconnect fees to cellular networks.
The decrease in revenues was partially offset by an increase in revenues from internet operations, as a result of an increase in the number of internet subscribers and in average revenue per subscriber.

Operating expenses:

Depreciation and amortization expenses totaled NIS 509 million in the Period, as compared to a total of NIS 541 million in the same period last year, a decrease of 5.9%.
In the Quarter, depreciation and amortization expenses totaled NIS 174 million, as compared to NIS 185 million in the same period last year, a decrease of 6%.
The decrease is attributable to the conclusion of amortizing the old network in 2012, the conclusion of amortizing other property, plant and equipment, and the adjustment of depreciation rates. The decrease was partially offset by the amortization of new investments.

Salary expenses totaled NIS 755 million in the Period, as compared to NIS 808 million in the same period last year, a decrease of 6.6%.
In the Quarter, salary expenses totaled NIS 243 million, as compared to NIS 274 million in the same period last year, a decrease of 11%.
Salary expenses were down mainly due to a reduction in the workforce and in share-based payments. This decrease was offset mainly by wage creep.

Operating and general expenses totaled NIS 672 million in the Period, as compared to NIS 778 million in the same period, a decrease of 13.6%.
In the Quarter, operating and general expenses totaled NIS 224 million, as compared to NIS 278 million in the same period last year, a decrease of 19.4%.
The decrease is attributable to the fact that, starting 2013, the Group is no longer required to pay royalties to the State. Operating and general expenses were also down due to a reduction in interconnect fees paid to communication carriers, along with a corresponding decrease in revenues from interconnect fees. Operating expenses were also down due to the Company's streamlining efforts. The decrease in these expenses was partially offset in the Reporting Period by a reduction in the obligation to pay frequency licensing fees in the first quarter of 2012.

Other operating income, net, totaled NIS 98 million in the Period, as compared to NIS 13 million in the same period last year.
The increase is due to increased capital gains on the sale of real estate assets, and due to a NIS 54 million loss recorded in the second quarter of last year following the termination of a customer relations management system project. The increase was partially offset by a NIS 37 million net expense, recognized on the termination of employment by way of early retirement in the Reporting Period (see Note 10 to the financial statements).

Profitability:

The segment's operating profits in the Period totaled NIS 1,539 million, as compared to NIS 1,395 million in the same period last year, an increase of 10.3%.
In the Quarter, operating profit totaled NIS 494 million, as compared to NIS 419 million in the same period last year, an increase of 17.9%.

This increase in operating profit is attributable to the aforesaid developments, as detailed for the various revenue and expense items.

Finance expenses, net:

Net financing expenses totaled NIS 162 million in the Reporting Period, as compared to NIS 188 million in the same period last year, a decrease of 13.8%.
In the Quarter, net finance expenses totaled NIS 57 million, as compared to NIS 63 million in the same period last year, a decrease of 9.5%.
The decrease in net finance expenses is mainly due to a decrease in finance expenses following the revaluation of an obligation to distribute dividends which does not pass the profit test, from an increase in financing revenues from shareholder loans to DBS, and a decrease in linkage and interest expenses on bonds following their repayment and hedging transactions carried out on the linked debt. The decrease in net finance expenses was offset mainly by a decrease in finance income from loans extended to investees. In the Reporting Period, influence was also due to the recognition of finance income following a decrease in frequency licensing fee obligations in the first quarter of 2012.

c. Cellular Communications segment

Revenues

Segment revenues totaled NIS 2,826 million in the Period, as compared to NIS 3,441 million in the same period last year, a decrease of 17.9%.
In the Quarter, revenues totaled NIS 947 million, as compared to NIS 1,049 million in the same period last year, a decrease of 9.7%.
Revenues were down due to a significant increase in competition, as detailed in the 2012 Periodic Report.
Segment revenues from services totaled NIS 2,120 million in the Period, as compared to NIS 2,507 million in the same period last year, a decrease of 15.4%.
In the Quarter, revenues from services totaled NIS 710 million, as compared to NIS 816 million in the same period last year, a decrease of 13%.
Revenues from services were down due to lower tariffs as a result of increased competition, and migration to unlimited usage plans which reduced the average revenue per user (ARPU), as well as a decrease in the number of subscribers. The decrease in revenues was partially offset, particularly in the period, by an increase in revenues from cellular operators using the segment’s network
Revenues from the sale of terminal equipment totaled NIS 706 million in the Period, as compared to NIS 934 million in the same period last year, a decrease of 24.4%.
Revenues from terminal equipment sales were down due to a decrease in the number of handsets sold as well as in their selling price, which was attributable, *inter alia*, to the market being opened to import, and the opening of numerous stores selling terminal equipment.
In the Quarter, revenues from the sale of terminal equipment totaled NIS 237 million, as compared to NIS 233 million in the same period last year, an increase of 1.7%.
The increase in revenues from the sale of end equipment derived from an increase in the level of sales, partially offset by a drop in sales prices.

Operating expenses:

Depreciation and amortization expenses totaled NIS 345 million in the Period, as compared to a total of NIS 402 million in the same period last year, a decrease of 14.2%.
In the Quarter, depreciation and amortization expenses totaled NIS 111 million, as compared to NIS 130 million in the same period last year, a decrease of 14.6%.
Depreciation and amortization expenses were down mainly due to cessation of capitalization of subscriber acquisition costs, and assets whose depreciation period has ended.
Salary expenses totaled NIS 334 million in the Period, as compared to NIS 386 million in the same period last year, a decrease of 13.5%.

In the Quarter, salary expenses totaled NIS 111 million, as compared to NIS 124 million in the same period last year, a decrease of 10.5%.
The decrease in salary expenses is mainly attributable to a reduction in the workforce, partially offset, mainly in the Quarter, by an increase in the value of executive's options.

Operating and general expenses totaled NIS 1,615 million in the Period, as compared to NIS 1,928 million in the same period last year, a decrease of 16.2%.
The decrease was mainly due to a decrease in the cost of handset sales, attributable to a decrease in the number of handsets sold, the cancellation of mandatory royalty payments to the State starting 2013 and a decrease in distribution commission and bad and doubtful debt expenses. Furthermore, expenses were also down due to a one-time decrease of NIS 30 million in site rental fees following adjustment of a liability estimate included in the financial statements, and a one-time decrease in net collection expenses.
In the Quarter, operating and general expenses totaled NIS 553 million, as compared to NIS 596 million in the same period last year, a decrease of 7.2%.
The decrease largely derived from a drop in content activity expenses and repair service expenses and from a one-time drop in net collection expenses.

Operating profit for the segment totaled NIS 532 million in the Period, as compared to NIS 725 million in the same period last year, a decrease of 26.6%.
This decrease in operating profit in the Period was mainly due to decreased revenue from services and a reduction in end equipment as aforesaid, as well as a decrease in the profitability of the sale of terminal equipment.
In the Quarter, operating profit totaled NIS 172 million, as compared to NIS 199 million in the same period last year, a decrease of 13.6%.
This decrease in operating profit in the Quarter was mainly due to decreased revenue from services as aforesaid.

Finance income, net:

Net finance income for the segment totaled NIS 76 million in the Period, as compared to NIS 32 million in the same period last year.
Net finance income for the segment totaled NIS 17 million in the Quarter, as compared to NIS 10 million in the same period last year.
The increase in net finance income was mainly due to lower average debt balances in the Period and in the Quarter, as well as a one-time liability adjustment in Q2 2013, which led to a NIS 10 million reduction in finance expenses.

d. International Communications, Internet and NEP Services

Revenues:

The scope of revenue in the Period totaled NIS 1,064 million, as compared to NIS 1,001 million in the same period last year, an increase of 6.3%.
In the Quarter, segment revenues totaled NIS 360 million, as compared to NIS 339 million in the same period last year, an increase of 6.2%.
The increase in Revenues was due to increased 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.
This increase was partially offset by a decrease in revenues from outgoing calls, stemming mainly from migration to plans offering unlimited international calls in the cellular market.

Operating expenses:

Depreciation and amortization expenses totaled NIS 97 million in the Period, as compared to a total of NIS 103 million in the same period last year, a decrease of 5.8%.
In the Quarter, depreciation and amortization expenses totaled NIS 33 million, as compared to NIS 34 million in the same period last year, a decrease of 2.9%.

The decrease is mainly due to extension of the agreement for irrevocable bandwidth usage rights in a submarine communications cable, serving as a back-up to the segment’s own cable.

Salary expenses totaled NIS 213 million in the Period, as compared to NIS 207 million in the same period last year, an increase of 2.9%.
In the Quarter, salary expenses totaled NIS 70 million, similar to the corresponding quarter.
The increase in the period is due to an increase in the value of executive's options, a decrease in capitalized salary costs attributable to investments in the segment, and an increase in the number of employees providing outsourcing services in ICT operations.

Operating and general expenses totaled NIS 581 million in the Period, as compared to NIS 532 million in the same period, an increase of 9.2%.
In the Quarter, operating and general expenses totaled NIS 200 million, as compared to NIS 179 million in the same period last year, an increase of 11.7%.
The increase in expenses was due to an increase in costs related to call transfers between global communications carriers, and increased expenses from enterprise communications solutions. These increases were offset by a decrease in expenses due to outgoing calls, which was mirrored in the corresponding revenue item, as aforesaid.

Profitability:

In the Reporting Period, operating profit totaled NIS 171 million, as compared to NIS 157 million in the same period last year, an increase of 8.9%.
In the Quarter, operating profits totaled NIS 55 million, similar to the corresponding quarter.
This increase in operating profit is attributable to the aforesaid developments, detailed for the various revenue and expense items.

e. Multi-Channel Television

Revenues:

The segment’s revenues in the Period totaled NIS 1,218 million, as compared to NIS 1,228 million in the same period, a decrease of 0.8%.
This decrease in revenues was mainly attributable to a one-time sale of content in the first quarter of 2012, a decrease in average revenues per subscriber and a year-on-year decrease in the average number of customers in the Reporting Period. The decline was offset by increased revenues from use of advanced products.
In the Quarter, segment revenues totaled NIS 410 million, as compared to NIS 403 million in the same period last year, an increase of 1.7%.
The increase derives from an increase in the average number of customers and an increase in average revenue per subscriber.

Costs and expenses:

Cost of revenues totaled NIS 777 million in the Period, as compared to NIS 801 million in the same period last year, a decrease of 3%.
In the Quarter, the cost of revenue totaled NIS 258 million, as compared to NIS 273 million in the corresponding quarter last year, a decrease of 5.5%.
The decrease in cost of revenues was affected mainly by lower expenses on royalties, space segments and content, which was offset by increased depreciation expenses.

Sales, marketing and general expenses totaled NIS 233 million in the Period, as compared to NIS 247 million in the same period, a decrease of 5.7%.
The decrease in these expenses is mainly attributable to lower advertising expenditure and reduced depreciation and amortization expenses following cessation of the capitalization of subscriber acquisition costs.
In the Quarter, sales, marketing and management and general expenses totaled NIS 80 million, as compared to NIS 76 million in the same period last year, an increase of 5.3%.

Profitability:

In the Period, operating profit totaled NIS 207 million, as compared to NIS 180 million in the same period last year, an increase of 15%.
In the Quarter, profitability totaled NIS 72 million, as compared to NIS 54 million in the same period last year, an increase of 33.3%.
This increase in operating profit is attributable to the aforesaid developments, detailed for the various revenue and expense items.

1.3. Cash Flow

Consolidated cash flows from operating activities in the Period totaled NIS 3,217 million, as compared to NIS 3,012 million in the same period last year, an increase of NIS 205 million.
In the Quarter, consolidated cash flows from operating activities totaled NIS 1,143 million, as compared to NIS 1,024 million in the same period last year, an increase of NIS 119 million.
The increase is attributable to the Domestic Fixed-Line Communications segment, mostly due to changes in working capital. The increase was partially offset by a decrease in cash flows from operating activities in the Cellular Communications segment, due to lower net profit, which in the reported Period was partially offset by a decrease in working capital. The decrease in working capital was mainly the result of a decrease in installment-based handset sales, which reduced trade receivables balances along with an offset by an increase in payments to handset suppliers.

The consolidated cash flow used for investment activity in the Period totaled NIS 528 million, as compared to NIS 1,048 million in the same period last year.
The consolidated cash flow deriving from investment activity in the Quarter totaled NIS 246 million, as compared to NIS 707 million used for investment activity in the same period last year.
In the present Reporting Period, the Group invested NIS 767 million in developing communications infrastructures, as compared to NIS 1,009 million in the same period last year. The decrease in investment was mainly due to completion of the NGN project, and the completion of the deployment of the submarine cable in the corresponding period. Furthermore, a net yield from the sale of financial assets held for trade was received in the Reported Period at the sum of NIS 137 million, as compared to a net purchase of proceeds held for trade at the sum of NIS 126 million in the corresponding period. Furthermore, a net yield from the sale of financial assets held for trade was received in the Reported Quarter to the sum of NIS 508 million, as compared to a net purchase of NIS 446 million in the corresponding quarter.

The consolidated cash flow used for financing activity in the Period totaled NIS 2,855 million, as compared to NIS 2,640 million in the same period last year.
In the Quarter, consolidated cash flows used for financing activities totaled NIS 1,633 million, as compared to NIS 244 million in the same period last year.

In the present Reporting Period, the Group recorded NIS 894 million in debt repayments and interest payments. This figure compares to NIS 1,010 million recorded in the same period last year. However, the Group raised NIS 869 million in debt through a bonds issue in its Domestic Fixed-Line Communications segment (see Section 5.1 below).
Furthermore, the Group paid a dividend of NIS 1,469 million in the present Quarter, with no dividends paid in the corresponding quarter.

In the Reporting Period, the average balance of long-term liabilities (including current maturities) to financial institutions and bondholders totaled NIS 9,673 million.
Average supplier credit in the Reporting Period was NIS 682 million.
Average short-term customer credit in the Reporting Period was NIS 2,866 million.
Average long-term customer credit was NIS 856 million.

As at September 30, 2013, the Group had a working capital surplus of NIS 1,090 million, as compared to a working capital surplus of NIS 219 million on September 30, 2012.
According to its separate financial statements, the Company had a working capital surplus of NIS 162 million as of September 30, 2013, as compared to a deficit of NIS 1,073 million on September 30, 2012.
The decrease in working capital deficit largely derives from the lack of a dividend balance payable as of September 30 2013. The decrease in the deficit was partially offset as a result of a drop in total current assets and an increase in current maturities of long-term loans.

The Company's Board of Directors has examined the existing resources and cash requirements and those expected in the foreseeable future, the Company's investment needs and the sources of finance and the potential levels of monetary offerings available to the Company. Based on the examination of all of these factors, the Board of Directors reached the conclusion that despite the deficit in the Company's working capital (according to the "solo" Financial Statements), the Company has no liquidity problem. The Company has the ability to meet existing cash needs and those in the foreseeable future, both through the creation of cash from activity, through the receipt of dividends from subsidiaries and by raising debt from banking and non-banking sources, if the Company chooses to do so.[2]

The above information includes forward-looking information, based on the Company's assessments regarding liquidity. Data in practice may be materially different from the above estimate if changes occur to any of the factors taken into account in these assessments.

2. Exposure to Market Risk and Management Thereof

2.1. Fair value sensitivity analysis and the effects of changes in market prices on the fair value of on-balance sheet items and off-balance sheet items for which there was a strong commitment as of September 30, 2013, are not materially different than as reported on December 31, 2012.

2.2. The linkage bases report as of September 30, 2013, is different from the report for December 31, 2012, primarily due to additional forward transactions seeking to minimize the exposure of Bonds to fluctuations in the Consumer Price Index totaling NIS 322 million (Series 5) and NIS 1.034 Billion (Series 5) in the Domestic Fixed-Line Communications segment, as well as forward transactions totaling USD 68 million in the Cellular Communications segment aimed at minimizing exposure to fluctuations in exchange rates from the purchase of terminal equipment (see Note 11.3 in the Financial Statements).

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[2] In light of the Board of Directors' conclusion that despite the deficit in the Company's working capital (according to the "solo" Financial Statements), the Company has no liquidity problem, the Company does not feature the warning signs as noted in Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Financial Statements), for the addition of a projected cash flow report.

3. Corporate Governance

Disclosure concerning the financial statements' approval process

3.1. Committee

The Company's Financial Statements Review Committee is a separate committee which does not serve as the Audit Committee. The Committee comprises 4 members, as follows: Yitzhak Idelman, chairman (external director); Mordechai Keret (external director); Tali Simone (external director); and Dr. Yehoshua Rosenzweig (independent director). All Committee members have accounting and financial expertise. All Committee members have submitted a statement prior to their appointment. For more information concerning the directors serving on the Committee, see Chapter D of the Company's Periodic Report for 2012.

3.2. Financial Statement Approval Process

a. The Financial Statements Review Committee discussed and finalized its recommendations to the Company's Board of Directors in its meetings of September 30, 2013, and November 3, 2013.

   The Committee's meetings of October 30, 2013, and November 3, 2013, were attended by all Committee members and by the Chairman of the Board, Mr. Shaul Elovitch; Company CEO, Ms. Stella Handler; Deputy CEO and CFO, Mr. Dudu Mizrahi; Company Comptroller, Mr. Danny Oz; the Internal Auditor, Mr. Lior Segal; the General Counsel, Mr. Amir Nachlieli; Mr. Rami Nomkin - director; the external auditors; and other Company officers.

b. The Committee reviewed, inter alia, the assessments and estimates made in connection with the financial statements; internal controls over financial reporting; full and proper disclosure in the financial statements; and the accounting policies adopted on material matters.

c. The Committee submitted its recommendations to the Company's Board of Directors in writing on November 3, 2013.
   The Board of Directors discussed the Financial Statements Review Committee's recommendations and the financial statements on November 6, 2013.

d. The Company's Board of Directors believes that the Financial Statements Review Committee's recommendations were submitted a reasonable time (three days) prior to the Board meeting, taking into account the scope and complexity of these recommendations.

e. The Company's Board of Directors adopted the Financial Statements Review Committee's recommendations and resolved to approve the Company's financial statements for the third quarter of 2013.

4. Disclosure Concerning the Company's Financial Reporting

4.1 Due to the material nature of legal actions brought against the Group, which cannot yet be assessed or for which the Group cannot yet estimate its exposure, the auditors drew attention to these actions in their opinion concerning the financial statements.

4.2 **Material Events Subsequent to the Balance Sheet Date**

On November 6, 2013 the Antitrust Authority issued, for public remark (by November 28, 2013), terms that subject to which it is considering approving a merger between the Company and D.B.S. For further details see update to section 1.1.2 and section 1.3.1 to Chapter A (Description of Company Operations) of the Periodic Report for 2012.

5. Details of debt certificate series

5.1. Information regarding the expansion of existing Bonds (**Series** 6) and Bonds (Series 7) in the second quarter of 2013 is provided in Note 11.1 to the Financial Statements. Following the expansion of this series, the total liability for Bonds (Series 7) has become material in relation to the Company's total liabilities balance.

5.2. Bonds (Series 5)

On June 1, 2013, the Company repaid NIS 397,827,833 par value in bonds.

The fair value and market value totaled NIS 1,608,815,758 as of June 30, 2013.

5.3. For information regarding the rating of the bond series, see update to Section 2.13.6 in Chapter A of the 2012 Periodic Report.

The rating reports are included in the Board of Directors Report.

6. Miscellaneous

For information concerning the liabilities balances of the reporting corporation and those consolidated companies in its financial statements as of September 30, 2013, see the Company's reporting form on the MAGNA system, dated November 7, 2013.

We thank the managers of the Group's companies, its employees, and shareholders.

Shaul Elovitch Chairman of the Board	Stella Handler CEO

Signed: November 6, 2013

Bezeq The Israel Telecommunication Corporation Ltd.

Condensed Consolidated Interim Financial Statements

September 30, 2013

(Unaudited)

The information contained in these financial statements constitutes a translation of the financial statements 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 financial information of “Bezeq” -The Israel Telecommunication Corporation Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of September 30, 2013 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of interim financial information for these interim periods in accordance with IAS 34 “Interim Financial Reporting”, and are also responsible for the preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information for these interim periods based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 2% of the total consolidated assets as of September 30, 2013, and whose revenues constitute 1.6% and 1.7% of the total consolidated revenues for the nine and three month periods then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports 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 reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Group which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 5.

Somekh Chaikin

Certified Public Accountants (Isr.)

November 6, 2013

Condensed Consolidated Interim Statements of Financial Position

Assets	Note	September 30, 2013 (Unaudited) NIS million	September 30, 2012 (Unaudited) NIS million	December 31, 2012 (Audited) NIS million
Cash and cash equivalents		**300**	676	466
Investments, including derivatives	11.2.2	**956**	1,071	1,081
Trade receivables		**2,791**	3,044	2,927
Other receivables		**340**	250	321
Inventory		**122**	149	123
Assets classified as held for sale		**83**	44	44
Total current assets		**4,592**	5,234	4,962
Investments, including derivatives		**90**	94	90
Trade and other receivables		**701**	1,193	1,074
Property, plant and equipment		**5,948**	6,116	6,076
Intangible assets		**2,105**	2,175	2,178
Deferred and other expenses		**260**	276	255
Investments in equity-accounted investees (mainly loans)		**1,000**	984	1,005
Deferred tax assets		**93**	147*	128*
Total non-current assets		**10,197**	10,985	10,806
Total assets		**14,789**	16,219	15,768

Condensed Consolidated Interim Statements of Financial Position (Contd.)

Liabilities and equity	September 30, 2013 (Unaudited) NIS million	September 20, 2012 (Unaudited) NIS million	December 31, 2012 (Audited) NIS million
Debentures, loans and borrowings	**1,067**	608	1,140
Trade payables	**629**	771	790
Other payables, including derivatives	**794**	730	703
Current tax liabilities	**640**	475	456
Provisions	**124**	172	155
Employee benefits	**248**	281*	251*
Dividend payable	**-**	1,978	969
Total current liabilities	**3,502**	5,015	4,464
Debentures	**4,700**	4,265	4,250
Loans	**4,071**	4,066	4,156
Employee benefits	**258**	246*	260*
Other liabilities	**78**	86	62
Provisions	**67**	71	66
Deferred tax liabilities	**63**	54	55
Dividend payable	**-**	473	-
Total non-current liabilities	**9,237**	9,261	8,849
Total liabilities	**12,739**	14,276	13,313
Total equity	**2,050**	1,943*	2,455*
Total liabilities and equity	**14,789**	16,219	15,768

Shaul Elovitch	Stella Handler	David "Dudu" Mizrahi
Chairman of the Board	CEO	Deputy CEO and CFO

Date of approval of the financial statements: November 6, 2013

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 8)	**7,154**	7,829	**2,398**	2,494	10,278
Costs and expenses					
Depreciation and amortization	**983**	1,075	**329**	359	1,436
Salaries	**1,431**	1,527	**464**	511	1,976*
General and operating expenses(Note 9)	**2,610**	2,976	**890**	963	3,953
Other operating expenses (income), net (Note 10)	**(96)**	(12)	**(6)**	(6)	(128)
	4,928	5,566	**1,677**	1,827	7,237
Operating profit	**2,226**	2,263	**721**	667	3,041
Financing expenses (income)					
Financing expenses	**447**	506	**163**	181	649*
Financing income	**(351)**	(418)	**(118)**	(126)	(498)
Financing expenses, net	**96**	88	**45**	55	151
Profit after financing expenses, net	**2,130**	2,175	**676**	612	2,890
Share in losses of equity-accounted investees	**(195)**	(233)	**(88)**	(92)	(245)
Profit before income tax	**1,935**	1,942	**588**	520	2,645
Taxes on income	**516**	597	**139**	178	778*
Profit for the period	**1,419**	1,345	**449**	342	1,867
Attributable to:					
Owners of the Company	**1,419**	1,339	**449**	342	1,861*
Non-controlling interests	**-**	6	**-**	-	6
Profit for the period	**1,419**	1,345	**449**	342	1,867
Earnings per share (NIS)					
Basic and diluted earnings per share	**0.52**	0.49	**0.16**	0.13	0.68

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

Condensed Consolidated Interim Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**1,419**	1,345	**449**	342	1,867*
Items of other comprehensive income not transferred to profit or loss					
Actuarial gains, net of tax	**-**	-	**-**	-	(20)
Items of other comprehensive income (net of tax) to be transferred to profit or loss subsequent to initial recognition in comprehensive income	**(19)**	(5)	**(9)**	3	(7)
Total comprehensive income for the period	**1,400**	1,340	**440**	345	1,840
Attributable to:					
Owners of the Company	**1,400**	1,334	**440**	345	1,834*
Non-controlling interests	**-**	6	**-**	-	6
Total comprehensive income for the period	**1,400**	1,340	**440**	345	1,840

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

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Condensed Consolidated Interim Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company						
Nine months ended September 30, 2013							
Balance as at January 01, 2013 (Audited)	3,837	100	256	390	(38)	(2,090)*	2,455
Profit for the period (Unaudited)	-	-	-	-	-	1,419	1,419
Other comprehensive income for the period, net of tax (Unaudited)	-	-	-	-	(19)	-	(19)
Total comprehensive income for the period	-	-	-	-	(19)	1,419	1,400
Transactions with owners recognized directly in equity							
Dividends to shareholders of the Company (Unaudited) (Note 6)	-	-	-	-	-	(1,830)	(1,830)
Share-based payments(Unaudited)	-	-	23	-	-	-	23
Exercise of options to shares (Unaudited)	2	18	(18)	-	-	-	2
Balance as at September 30, 2013 (Unaudited)	3,839	118	261	390	(57)	(2,501)	2,050

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

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Condensed Consolidated Interim Statements of Changes in Equity (Contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company								
Nine months ended September 30, 2012									
Balance as at January 01, 2012 (Audited)	3,826	68	220	390	(2)	(1,860)*	2,642	38	2,680
Profit for the period (Unaudited)	-	-	-	-	-	1,339	1,339	6	1,345
Other comprehensive income for the period, net of tax (Unaudited)	-	-	-	-	(5)	-	(5)	-	(5)
Total comprehensive income for the period	-	-	-	-	(5)	1,339	1,334	6	1,340
Transactions with owners recognized directly in equity									
Dividends to shareholders of the Company (Unaudited)	-	-	-	-	-	(2,071)	(2,071)	-	(2,071)
Share-based payments(Unaudited)	-	-	60	-	-	-	60	-	60
Exercise of options to shares (Unaudited)	11	31	(35)	-	-	-	7	-	7
Exercise of options to shares in a subsidiary (Unaudited)	-	-	-	-	2	-	2	6	8
Acquisition of non-controlling interests (Unaudited)	-	-	-	-	(31)	-	(31)	(46)	(77)
Distribution to holders of non-controlling interests less their investments in a subsidiary (Unaudited)	-	-	-	-	-	-	-	(4)	(4)
Balance as at September 30, 2012 (Unaudited)	3,837	99	245	390	(36)	(2,592)	1,943	-	1,943

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

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Condensed Consolidated Interim Statements of Changes in Equity (Contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company						
Three months ended September 30, 2013							
Balance as at July 1, 2013 (Unaudited)	3,838	102	270	390	(48)	(1,981)	2,571
Profit for the period (Unaudited)	-	-	-	-	-	449	449
Other comprehensive income for the period, net of tax (Unaudited)	-	-	-	-	(9)	-	(9)
Total comprehensive income for the period	-	-	-	-	(9)	449	440
Transactions with owners recognized directly in equity							
Dividends to shareholders of the Company (Unaudited)	-	-	-	-	-	(969)	(969)
Share-based payments(Unaudited)	-	-	7	-	-	-	7
Exercise of options to shares (Unaudited)	1	16	(16)	-	-	-	1
Balance as at September 30, 2013 (Unaudited)	3,839	118	261	390	(57)	(2,501)	2,050

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

Condensed Consolidated Interim Statements of Changes in Equity (Contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company						
Three months ended September 30, 2012							
Balance as at July 1, 2012 (Unaudited)	3,831	82	242	390	(39)	(1,937)*	2,569
Profit for the period (Unaudited)	-	-	-	-	-	342	342
Other comprehensive income for the period, net of tax (Unaudited)	-	-	-	-	3	-	3
Total comprehensive income for the period	-	-	-	-	3	342	345
Transactions with owners recognized directly in equity							
Dividends to shareholders of the Company (Unaudited)	-	-	-	-	-	(997)	(997)
Share-based payments(Unaudited)	-	-	21	-	-	-	21
Exercise of options to shares (Unaudited)	6	17	(18)	-	-	-	5
Balance as at September 30, 2012 (Unaudited)	3,837	99	245	390	(36)	(2,592)	1,943

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

Condensed Consolidated Interim Statements of Changes in Equity (Contd.)

	Share capital	Share premium	Capital reserve for employee options	Capital reserve for a transaction between a corporation and a controlling shareholder	Other reserves	Retained deficit	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
	Attributable to owners of the Company								
Year ended December 31, 2012 (Audited)									
Balance as at January 1, 2012	3,826	68	220	390	(2)	(1,860)*	2,642	38	2,680
Profit for the year	-	-	-	-	-	1,861*	1,861	6	1,867
Other comprehensive income for the year, net of tax	-	-	-	-	(7)	(20)	(27)	-	(27)
Total comprehensive income for the year	-	-	-	-	(7)	1,841	1,834	6	1,840
Transactions with owners recognized directly in equity									
Dividend to Company shareholders	-	-	-	-	-	(2,071)	(2,071)	-	(2,071)
Share-based payments	-	-	72	-	-	-	72	-	72
Exercise of options to shares	11	32	(36)	-	-	-	7	-	7
Exercise of options to shares in a subsidiary	-	-	-	-	2	-	2	6	8
Acquisition of non-controlling interests	-	-	-	-	(31)	-	(31)	(46)	(77)
Distribution to holders of non-controlling interests less their investments in a subsidiary	-	-	-	-	-	-	-	(4)	(4)
Balance as at December 31, 2012	3,837	100	256	390	(38)	(2,090)	2,455	-	2,455

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

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

Condensed Consolidated Interim Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities					
Profit for the period	**1,419**	1,345	**449**	342	1,867*
Adjustments:					
Depreciation and amortization	**983**	1,075	**329**	359	1,436
Share in losses of equity-accounted investees	**195**	233	**88**	92	245
Financing expenses, net	**211**	200	**82**	91	291
Capital loss (gain), net (Note 10)	**(124)**	(20)	**(16)**	(22)	(150)
Share-based payments	**23**	60	**7**	21	72
Income tax expenses	**516**	597	**139**	178	778*
Expenses (income) for derivatives, net	**(7)**	5	**3**	11	-
Change in inventory	**(3)**	49	**19**	56	74
Change in trade and other receivables	**469**	320	**201**	226	505
Change in trade and other payables	**(62)**	(249)	**19**	(112)	(264)
Change in provisions	**(30)**	(14)	**1**	(2)	(34)
Change in employee benefits	**(5)**	(103)	**(23)**	(38)	(144)*
Net income tax paid	**(368)**	(486)	**(155)**	(178)	(662)
Net cash from operating activities	**3,217**	3,012	**1,143**	1,024	4,014
Cash flow used in investing activities					
Investment in intangible assets and deferred expenses	**(143)**	(200)	**(50)**	(58)	(269)
Proceeds from the sale of property, plant and equipment	**219**	166	**53**	97	305
Acquisition of financial assets held for trading	**(1,308)**	(2,315)	**(171)**	(460)	(2,527)
Proceeds from the sale of financial assets held for trading	**1,445**	2,189	**679**	14	2,396
Purchase of property, plant and equipment	**(767)**	(1,009)	**(270)**	(309)	(1,271)
Proceeds from disposal of long-term investments	**6**	96	**-**	3	100
Miscellaneous	**20**	25	**5**	6	29
Net cash from (used in) investment activities	**(528)**	(1,048)	**246**	(707)	(1,237)

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

Condensed Consolidated Interim Statements of Cash Flows (Contd.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows used in financing activities					
Issue of debentures and receipt of loans	**869**	-	**-**	-	650
Repayment of debentures and loans	**(622)**	(693)	**(135)**	(205)	(720)
Dividend paid (Note 6)	**(2,830)**	(1,574)	**(1,469)**	-	(3,071)
Interest paid	**(272)**	(317)	**(33)**	(41)	(464)
Increase in the rate of holding in a subsidiary	**-**	(77)	**-**	-	(77)
Miscellaneous	**-**	21	**4**	2	19
Net cash used for financing activities	**(2,855)**	(2,640)	**(1,633)**	(244)	(3,663)
Increase (decrease) in cash and cash equivalents	**(166)**	(676)	**(244)**	73	(886)
Cash and cash equivalents at beginning of period	**466**	1,352	**544**	603	1,352
Cash and cash equivalents at end of period	**300**	676	**300**	676	466

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

Notes to the Financial Statements

1. Reporting Entity

Bezeq – The Israel Telecommunication Corporation Limited ("the Company") is a company registered in Israel whose shares are traded on the Tel Aviv Stock Exchange. The consolidated financial statements of the Company include those of the Company and its subsidiaries (together referred to as "the Group"), as well as the Group's interests in associates. The Group is a principal provider of communication services in Israel (see also Note 12 – Segment Reporting).

2. Basis of Preparation

2.1 The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting, and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

2.2 The condensed consolidated interim financial statements do not contain all the information required in full annual financial statements, and should be reviewed in the context of the annual financial statements of the Company and its subsidiaries as at December 31, 2012 and the year then ended, and their accompanying notes ("the Annual Financial Statements"). The notes to the interim financial statements include only the material changes that have occurred from the date of the most recent Annual Financial Statements until the date of these consolidated interim financial statements.

2.3 The condensed consolidated interim financial statements were approved by the Board of Directors on November 6, 2013.

2.4 **Use of estimates and judgment**

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments and use estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The judgments made by management, when applying the Group's accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied in the Annual Financial Statements.

3. Reporting Principles and Accounting Policy

3.1 The Group's accounting policy applied in these condensed consolidated interim financial statements is consistent with the policy applied in the Annual Financial Statements, except as described in section 3.2 below.

3.2 As from January 1, 2013, the Group applies the following standards and amendments ("the New Standards"):

A. A new suite of financial reporting standards on consolidation of financial statements (IFRS 10), joint arrangements (IFRS 11) and disclosure of involvement with other entities (IFRS 12). Application of the new standards did not have a material effect on the Group's financial statements, including IFRS 10, regarding assessment of the absence of the Company's effective control of DBS.

B. IFRS 13, Fair Value Measurement: Application of the new standard did not have a material effect on the Group's financial statements. The standard introduces new disclosure requirements for fair value measurement of financial instruments in the interim financial statements. These requirements are included in Note 11, Financial Instruments.

C. As from January 1, 2013, the Group applies the amendment to IAS 19 – Employee Benefits (“the Amendment”). Application of the Amendment changes the method for measuring the liability for vacation days. In addition, upon initial application of the Amendment, the Company recognized the full commitment towards employees transferred from civil service to the Company, which until that time was accounted for as cost of past service and the Company was required to recognize it over the period of the future service. The Amendment was adopted retrospectively by restatement of the financial statements. As a result, the Group restated the statement of income for 2012 and recognized an increase in net profit of NIS 3 million. In addition, as at September 30, 2012 and December 31, 2012, the Company recognized a decrease in capital of NIS 8 million and NIS 5 million, respectively.

4. Group Entities

A detailed description of the Group entities appears in Note 12 to the Annual Financial Statements. Below is a description of the material changes that occurred in connection with the Group entities since publication of the Annual Financial Statements.

4.1. DBS Satellite Services (1998) Ltd. (an equity-accounted associate) ("DBS")

4.1.1 The Group attaches the condensed interim financial statements of DBS to these condensed consolidated interim financial statements.

4.1.2 Since the beginning of its operations, DBS has accumulated substantial losses. The loss of DBS in 2012 amounted to NIS 310 million and the losses in the nine month period ended September 30, 2013 amounted to NIS 298 million. As a result of these losses, the capital deficit and working capital deficit of DBS as at September 30, 2013 amounted to NIS 4,259 million and NIS 733 million, respectively.

4.1.3 As at September 30, 2013, DBS was in compliance with the financial covenants under the financing agreements and the debentures. As at September 30, 2013, DBS is in compliance with the debt-EBITDA ratio set out in Deed of Trust B (as at September 30, 2013, the debt-EBIDTA ratio was 3.1). In addition, DBS is in compliance with the debt-EBITDA ratio set out in Debenture 2012 (as at September 30, 2013, the debt/EBIDTA ratio was 2.8) and the debt/E-C ratio set out in Debenture 2012 (as at September 30, 2013, the debt/E-C ratio was 7.4).

4.1.4 In the first half of 2013, DBS issued debentures (Series B) by expanding the series, amounting to NIS 99.7 million.

In addition, on October 15, 2013, S&P Maalot announced a rating of ilA- for the additional debentures that will be issued by DBS, by way of a new issue of debentures and/or expansion of an existing series, for total financing of up to NIS 300 million par value. Subsequently, in October 2013, DBS issued additional debentures (Series B) by expanding the series, amounting to NIS 240 million.

4.1.5 The management of DBS believes that the financial resources at its disposal, which include, inter alia, the deficit in working capital and the potential volume of debt raised, will be sufficient for the operations of DBS for the coming year, based on the cash flow forecast approved by DBS’s board of directors. If additional resources are required to meet its operational requirements for the coming year, DBS will adapt its operations to preclude the need for additional resources beyond those available to it.

4.1.6 On October 27, 2013 the Company received the initial draft of terms for the merger of the Company and D.B.S. sent by the Antitrust Authority. On the same date, a meeting was held by the Company’s Board of Directors in which it was decided that the Company was interested in principle in preparing for the process of examining the Company’s option to increase its holdings in D.B.S., subject to conducting all of the tests and examining all of the conditions set (if and when they are set) by the Antitrust Authority. For this purpose, the Board of Directors established a subcommittee, all of the members of which are external/independent directors to handle this subject, taking into account the possibility that this will involve a transaction with the Company’s controlling shareholder. Subsequently, on November 6, 2013 the Authority issued, for public remark (by November 28, 2013), draft terms that subject to which it is considering approving a merger between the Company and D.B.S.

5. Contingent Liabilities

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

In the opinion of the managements of the Group companies, based, inter alia, on legal opinions as to the likelihood of success of the legal claims, the financial statements include appropriate provisions of NIS 110 million, where provisions are required to cover the exposure arising from such legal claims.

In the opinion of the managements of the Group companies, the additional exposure (beyond these provisions) as at September 30, 2013 for claims filed against Group companies on various matters and which are unlikely to be realized, amounted to NIS 6.9 billion. There is also additional exposure of NIS 1 billion for claims, the chances of which cannot yet be assessed.

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

This amount and all the amounts of the additional exposure in this note are linked to the CPI and are stated net of interest.

5.1 Following is a detailed description of the Group's contingent liabilities as at September 30, 2013, classified into groups with similar characteristics:

Claims group	Nature of the claims	Provision	Additional exposure	Exposure for claims that cannot yet be assessed
		NIS million		
Claims of employees and former employees of Group companies	Mainly collective and individual claims filed by employees and former employees of the Company in respect of recognition of various salary components as components for calculation of payments to Company employees, some of which have wide ramifications in the Company.	63	122	-
Customer claims	Mainly motions for certification of class actions concerning contentions of unlawful collection of payment and impairment of the service provided by the Group companies.	15	2,466	999
Supplier and communication provider claims	Claims filed by suppliers of goods and/or services to Group companies or by communications providers that the Group companies supply goods and/or services to or receive goods and/or services from. These claims are usually for compensation for alleged damage as a result of the supply of the service and/or the product.	3	133	-
Claims for punitive damages	Claims for alleged physical damage or damage to property caused by Group companies (including in relation to environmental quality and radiation). The additional amount of exposure for punitive damages does not include claims for which the insurance coverage is not disputed.	1	4,038*	15
Claims by enterprises and companies	Claims alleging liability of the Group companies in respect of their activities and/or the investments made in various projects.	11	48	-
Claims by the State and authorities	Various claims by the State of Israel, government institutions and authorities ("the Authorities"). These are mainly procedures related to regulations relevant to the Group companies and financial disputes concerning monies paid by the Group companies to the authorities (including property taxes).	17	91	-
		110	6,898	1,014

* Of this amount, a total of NIS 3.7 billion is for the motion for certification of a class action against Pelephone for which a settlement for summary dismissal was signed in January 2013 (Pelephone expects the cost to be negligible), pending court approval

5.2 Subsequent to the reporting date, claims amounting to NIS 139 million were filed against Group companies, the chances of which cannot be assessed at this stage. In addition, claims with exposure of NIS 334 million came to an end. The costs to the Group companies for these claims were minor.

5.3 Contingent liabilities referring to equity-accounted associates

5.3.1 Contingent liabilities referring to DBS

As at September 30, 2013, the exposure for claims against DBS for various matters amounted to NIS 129 million (before linkage and interest).

In addition, motions for certification of claims as class actions were filed against DBS, for which DBS has additional exposure, beyond the aforesaid, which cannot yet be estimated.

5.3.2 Contingent liabilities referring to Shopmind Ltd. (a jointly-owned company with 50% of the shares held by Walla)

As at September 30, 2013, the exposure for claims against Shopmind Ltd. for various matters amounted to NIS 52 million. Shopmind also has additional exposure of NIS 100 million for a claim, which at this stage cannot be assessed, and for another class action for which an exact amount has not been stated.

6. Equity and Share-based Payments

6.1 Below are details of the Company's equity:

Registered			Issued and paid up		
September 30, 2013	September 30, 2012	December 31, 2012	September 30, 2013	September 30, 2012	December 31, 2012
(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
2,825,000,000	2,825,000,000	2,825,000,000	**2,727,545,950**	2,724,581,334	2,724,754,676

6.2 In 2013, the Company declared and paid the following dividends in cash:

	Nine months ended September 30, 2013
	NIS million
Current distribution of a dividend (NIS 0.671 per share)	1,830
Distribution not in compliance with the earnings test (NIS 0.367 per share) (see section 20.2.2 to the annual statements)	1,000
	2,830

7. Transactions with interested and related parties

7.1 Further to Note 29.5.2 to the Annual Financial Statements, regarding approval of the Company's Board of Directors for the agreement between DBS and Space Communications Ltd. ("Space") to lease space segments, in May 2013, the general meeting of the Company and DBS approved the agreement.

7.2 On June 13, 2013, the general meeting of the Company's shareholders approved (after approval of the Company's compensation committee and Board of Directors) the amended agreement between the Company and Eurocom Communications Ltd. to provide the Company with ongoing management and consultation services for NIS 5.524 million per year. The term of the agreement is for three years, starting June 1, 2013 (the termination date of the current management agreement) through to May 31, 2016, unless one of the parties gives three-months notice of termination of the agreement.

8. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Domestic fixed-line communication					
Fixed-line telephony	**1,444**	1,661	**465**	537	2,179
Internet - infrastructure	**963**	872	**332**	291	1,166
Transmission and data communication	**603**	589	**209**	196	784
Other services	**162**	173	**51**	53	218
	3,172	3,295	**1,057**	1,077	4,347
Cellular communications					
Cellular services and terminal equipment	**2,072**	2,441	**695**	792	3,174
Sale of terminal equipment	**706**	931	**237**	231	1,203
	2,778	3,372	**932**	1,023	4,377
International communications, internet and NEP services	**1,022**	963	**346**	325	1,289
Other	**182**	199	**63**	69	265
	7,154	7,829	**2,398**	2,494	10,278

9. Operating and General Expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Terminal equipment and materials	**769**	957	**264**	285	1,263
Interconnectivity and payments to domestic and international operators	**684**	675	**232**	229	900
Maintenance of buildings and sites	**456**	489	**168**	169	663
Marketing and general	**392**	430	**126**	156	556
Services and maintenance by sub-contractors	**107**	112	**33**	35	158
Vehicle maintenance	**113**	121	**38**	44	162
Content services	**50**	69	**16**	21	103
Collection fees (in 2012, including royalties)	**39**	123	**13**	24	148
	2,610	2,976	**890**	963	3,953

10. Other Operating Expenses (Income), Net

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Capital gain from disposal of real estate and copper	**(125)**	(74)	**(16)**	(22)	(204)
Capital loss from derecognition of assets	**1**	54	**-**	-	54
Provision for severance pay in early retirement	**37**	13	**2**	5	32
Other	**(9)**	(5)	**8**	11	(10)
	(96)	(12)	**(6)**	(6)	(128)

11. Financial Instruments:

11.1. Issue of debentures

On May 29, 2013, the Company completed a private placement to classified investors by expanding series 6 debentures and series 7 debentures, issued in the Company's shelf prospectus of June 1, 2011 and amended on June 22, 2011.

A. Series 6 debentures: issuance of 600,265,000 par value for NIS 680.1 million

B. Series 7 debentures: issuance of 189,900,000 par value for NIS 189.9 million.

The conditions for these debentures are the same as the conditions for debentures of the same series in circulation. For the conditions of series 6 and 7 debentures, see Note 13 "Debentures, Loans and Borrowings" to the Annual Financial Statements.

11.2. Fair value

11.2.1 Fair value compared to carrying amounts

The carrying amount of financial assets does not differ significantly from their fair value.

The following table describes the differences between the carrying amount and the fair value of groups of fixed-interest or interest-free financial liabilities, where there is a difference between the carrying amount and the fair value of the liabilities.

	September 30, 2013		December 31, 2012	
	Carrying amount (including accrued interest)	Fair value	Carrying amount (including accrued interest)	Fair value
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Financial liabilities	NIS million	NIS million	NIS million	NIS million
Bank loans (unlinked)	**2,399**	**2,510**	2,362	2,487
Debentures issued to the public (CPI-linked)	**2,665**	**2,859**	2,245	2,451
Debentures issued to the public (unlinked)	**1,354**	**1,476**	1,335	1,460
Debentures issued to financial institutions (unlinked)	**410**	**448**	403	440
Special dividend payable	**-**	**-**	969	983
	6,828	**7,293**	7,314	7,821

The methods used to estimate the fair values of financial instruments are described in Note 4 to the Annual Financial Statements.

11.2.2 Fair value hierarchy of investments

The Group's investments in securities (including ETFs, deposits and monetary mutual funds traded on the TASE), amounting to NIS 941 million as at September 30, 2013 (as at December 31, 2012, NIS 962 million), are measured at fair value, using quoted prices (unadjusted) in an active market for identical instruments (Level 1).

11.3. Cash flow hedge accounting

11.3.1 In 2013, the Company entered into two forward contracts to hedge exposure to changes in the CPI for the balance of series 5 debentures amounting to NIS 322 million. The contracts expire on June 1, 2016. In addition, the Company entered into five additional forward contracts to hedge exposure to changes in the CPI for series 6 debentures amounting to NIS 1.034 billion. The contracts expire between 2018 and 2020, in accordance with the debenture payment schedule.

As at September 30, 2013, the fair value of all forward contracts used to hedge the Company's cash flows is not material.

11.3.2 In 2013, Pelephone engaged in a number of forward transactions to reduce exposure to exchange rate fluctuations for terminal equipment purchases. As at September 30, 2013, the forward transactions amount to NIS 68 million and their fair value is not material.

12. Segment Reporting

12.1. Operating segments

	Nine months ended September 30, 2013 (Unaudited):						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,166	2,775	1,020	1,217	181	(1,217)	7,142
Inter-segment revenues	211	51	44	1	14	(309)	12
Total revenues	3,377	2,826	1,064	1,218	195	(1,526)	7,154
Depreciation and amortization	509	345	97	192	23	(183)	983
Segment results – operating profit (loss)	1,539	532	171	207	(6)	(217)	2,226
Financing expenses	414	39	17	509	6	(538)	447
Financing income	(252)	(115)	(7)	(5)	(1)	29	(351)
Total financing expenses (income), net	162	(76)	10	504	5	(509)	96
Segment profit (loss) after financing expenses, net	1,377	608	161	(297)	(11)	292	2,130
Share in earnings (losses) of equity accounted investees	-	-	1	-	-	(196)	(195)
Segment profit (loss) before income tax	1,377	608	162	(297)	(11)	96	1,935
Taxes on income	318	154	42	1	2	(1)	516
Segment results – net profit (loss)	1,059	454	120	(298)	(13)	97	1,419

12. Segment Reporting (contd.)

	Nine months ended September 30, 2012 (Unaudited):						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	3,289	3,370	962	1,228	190	(1,228)	7,811
Inter-segment revenues	220	71	39	-	30	(342)	18
Total revenues	3,509	3,441	1,001	1,228	220	(1,570)	7,829
Depreciation and amortization	541	402	103	184	18	(173)	1,075
Segment results – operating profit (loss)	1,395	725	157	180	(3)	(191)	2,263
Financing expenses	455	79	14	470	5	(517)	506
Financing income	(267)	(111)	(8)	(2)	-	(30)	(418)
Total financing expenses (income), net	188	(32)	6	468	5	(547)	88
Segment profit (loss) after financing expenses, net	1,207	757	151	(288)	(8)	356	2,175
Share in earnings (losses) of equity accounted investees	-		1	-	-	(234)	(233)
Segment profit (loss) before income tax	1,207	757	152	(288)	(8)	122	1,942
Taxes on income	350	193	37	1	(1)	17	597
Segment results – net profit (loss)	857	564	115	(289)	(7)	105	1,345

12. Segment Reporting (contd.)

	Three months ended September 30, 2013 (Unaudited):						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,054	931	345	410	65	(411)	2,394
Inter-segment revenues	73	16	15	-	4	(104)	4
Total revenues	1,127	947	360	410	69	(515)	2,398
Depreciation and amortization	174	111	33	66	8	(63)	329
Segment results – operating profit (loss)	494	172	55	72	4	(76)	721
Financing expenses	150	13	6	208	2	(216)	163
Financing income	(93)	(30)	(2)	-	-	7	(118)
Total financing expenses (income), net	57	(17)	4	208	2	(209)	45
Segment profit (loss) after financing expenses, net	437	189	51	(136)	2	133	676
Share in earnings (losses) of equity accounted investees	-	-	1	-	-	(89)	(88)
Segment profit (loss) before income tax	437	189	52	(136)	2	44	588
Taxes on income	77	49	13	-	-	-	139
Segment results – net profit (loss)	360	140	39	(136)	2	44	449

12. Segment Reporting (contd.)

	Three months ended September 30, 2012 (Unaudited):						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	1,075	1,023	324	403	63	(403)	2,485
Inter-segment revenues	74	26	15	-	13	(119)	9
Total revenues	1,149	1,049	339	403	76	(522)	2,494
Depreciation and amortization	185	130	34	64	7	(61)	359
Segment results – operating profit (loss)	419	199	55	54	(2)	(58)	667
Financing expenses	161	30	5	173	3	(191)	181
Financing income	(98)	(40)	(2)	(1)	-	15	(126)
Total financing expenses (income), net	63	(10)	3	172	3	(176)	55
Segment profit (loss) after financing expenses, net	356	209	52	(118)	(5)	118	612
Share in earnings (losses) of equity accounted investees	-	-	1	-	-	(93)	(92)
Segment profit (loss) before income tax	356	209	53	(118)	(5)	25	520
Taxes on income	110	55	13	1	(1)	-	178
Segment results – net profit (loss)	246	154	40	(119)	(4)	25	342

12. Segment Reporting (contd.)

	Year ended December 31, 2012 (Audited)						
	Domestic fixed-line communication	Cellular	International communications and internet services	Multi-channel television	Other	Adjustments	Consolidated
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from external sources	4,339	4,371	1,286	1,636	256	(1,636)	10,252
Inter-segment revenues	291	97	54	-	36	(452)	26
Total revenues	4,630	4,468	1,340	1,636	292	(2,088)	10,278
Depreciation and amortization	730	531	136	248	25	(234)	1,436
Segment results – operating profit	1,959*	892	219	253	(13)	(269)	3,041*
Financing expenses	581*	101	18	563	7	(621)	649*
Financing income	(322)	(146)	(10)	(2)	-	(18)	(498)
Total financing expenses (income), net	259	(45)	8	561	7	(639)	151
Segment profit (loss) after financing expenses, net	1,700	937	211	(308)	(20)	370	2,890
Share in earnings (losses) of equity accounted investees	-	-	1	-	-	(246)	(245)
Segment profit (loss) before income tax	1,700	937	212	(308)	(20)	124	2,645
Taxes on income	473*	239	52	2	(3)	15	778*
Segment results – net profit (loss)	1,227	698	160	(310)	(17)	109	1,867

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

12. Segment Reporting (contd.)

12.2. Adjustments for segment reporting of profit or loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Operating profit for reporting segments	**2,449**	2,457	**793**	727	3,323*
Cancellation of expenses for a segment classified as an associate	**(207)**	(180)	**(72)**	(54)	(253)
Financing expenses, net	**(96)**	(88)	**(45)**	(55)	(151)*
Share in losses of equity-accounted investees	**(195)**	(233)	**(88)**	(92)	(245)
Profit (loss) for operations classified in other categories	**(6)**	(3)	**4**	(2)	(13)
Other adjustments	**(10)**	(11)	**(4)**	(4)	(16)
Segment profit (loss) before income tax	**1,935**	1,942	**588**	520	2,645

* Restated following retrospective application of the amendment to IAS 19 - Employee Benefits. See Note 3.2C.

13. Condensed Financial Statements of Pelephone Communications Ltd. and Bezeq International Ltd.

13.1. Pelephone Communications Ltd.

Selected data from the statement of financial position

	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**1,983**	2,395	2,169
Non-current assets	**2,115**	2,697	2,535
	4,098	5,092	4,704
Current liabilities	**883**	1,326	1,054
Long-term liabilities	**400**	928	681
Total liabilities	**1,283**	2,254	1,735
Equity	**2,815**	2,838	2,969
	4,098	5,092	4,704

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**2,120**	2,507	**710**	816	3,261
Revenues from sales of terminal equipment	**706**	934	**237**	233	1,207
Total revenues from services and sales	**2,826**	3,441	**947**	1,049	4,468
Cost of services and sales	**1,978**	2,299	**675**	716	3,040
Gross profit	**848**	1,142	**272**	333	1,428
Selling and marketing expenses	**230**	332	**69**	105	422
General and administrative expenses	**86**	85	**31**	29	114
	316	417	**100**	134	536
Operating profit	**532**	725	**172**	199	892
Financing expenses	**39**	79	**13**	30	101
Financing income	**(115)**	(111)	**(30)**	(40)	(146)
Financing expenses (income), net	**(76)**	(32)	**(17)**	(10)	(45)
Profit before income tax	**608**	757	**189**	209	937
Taxes on income	**154**	193	**49**	55	239
Profit for the period	**454**	564	**140**	154	698

13.2. Bezeq International Ltd.

Selected data from the statement of financial position

	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Current assets	**478**	556	456
Non-current assets	**773**	796	803
	1,251	1,352	1,259
Current liabilities	**311**	362	256
Long-term liabilities	**163**	209	180
Total liabilities	**474**	571	436
Equity	**777**	781	823
	1,251	1,352	1,259

Selected data from the statement of income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues from services	**1,064**	1,001	**360**	339	1,340
Operating expenses	**649**	596	**223**	199	796
Gross profit	**415**	405	**137**	140	544
Selling, marketing and development expenses	**151**	157	**49**	54	209
General and administrative and other expenses	**93**	91	**33**	31	116
	244	248	**82**	85	325
Operating profit	**171**	157	**55**	55	219
Financing expenses	**17**	14	**6**	5	18
Financing income	**(7)**	(8)	**(2)**	(2)	(10)
Financing expenses (income), net	**10**	6	**4**	3	8
Share in profits of equity-accounted associates	**1**	1	**1**	1	1
Profit before income tax	**162**	152	**52**	53	212
Taxes on income	**42**	37	**13**	13	52
Profit for the period	**120**	115	**39**	40	160

14. Material events in the reporting period

14.1 In May 2013, Pelephone signed an agreement with Apple International (“Apple”) for continued acquisition and distribution of iPhones in Israel. According to the agreement, Pelephone undertook to purchase a minimum number of iPhones every year for an additional three years at the prices in effect at the manufacturer on the actual purchase date. Pelephone believes that, similar to previous years, these quantities will constitute a substantial part of the quantities of iPhones that it expects to sell in the agreement period.

14.2 In June 2013, Pelephone entered into an agreement with the Israel Lands Administration ("the ILA") for use of ILA land to establish and operate communication sites. The agreement regulates, inter alia, payments for this use up to December 31, 2019.

DBS Satellite Services (1998) Ltd.

Condensed Interim Financial Statements as at September 30, 2013

The information contained in these financial statements constitutes a translation of the financial statements 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
D.B.S. Satellite Services (1998) Ltd.

Introduction

We have reviewed the accompanying financial information of D.B.S. Satellite Services (1998) Ltd. (hereinafter- "the Company") comprising of the condensed interim statement of financial position as of September 30, 2013 and the related condensed interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of interim financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information for these interim periods based on our review.

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, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusion, we draw attention to Note 4 regarding the financial condition of the Company.

Somekh Chaikin
Certified Public Accountants (Isr.)

October 29, 2013

Condensed Interim Statements of Financial Position

	September 30 2013	September 30 2012	December 31 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	**9,300**	-	-
Trade receivables	**161,751**	166,961	163,043
Other receivables	**3,057**	3,416	1,674
Total current assets	**174,108**	170,377	164,717
Broadcasting rights, net of rights exercised	**407,040**	362,793	377,349
Property, plant and equipment, net	**772,790**	736,498	745,365
Intangible assets, net	**124,986**	99,530	99,864
Total non-current assets	**1,304,816**	1,198,821	1,222,578
Total assets	**1,478,924**	1,369,198	1,387,295

The notes to the condensed interim financial statements are an integral part thereof.

Condensed Interim Statements of Financial Position

	September 30 2013	September 30 2012	December 31 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Borrowings from banks	**36,090**	84,097	69,322
Current debenture maturities	**258,903**	90,611	174,305
Suppliers and service providers	**445,611**	394,316	396,572
Other payables	**154,629**	177,919*	172,412
Provisions	**11,724**	35,906	6,200
Total current liabilities	**906,957**	782,849	818,811
Debentures	**1,321,318**	1,458,222	1,364,840
Loans from shareholders	**3,462,314**	3,008,207	3,085,742
Other long-term liabilities	**43,448**	53,198*	73,899
Employee benefits	**4,278**	6,182	5,837
Total non-current liabilities	**4,831,358**	4,525,809	4,530,318
Total liabilities	**5,738,315**	5,308,658	5,349,129
Capital deficit			
Share capital	**29**	29	29
Share premium	**85,557**	85,557	85,557
Option warrants	**48,219**	48,219	48,219
Capital reserves	**1,537,271**	1,537,271	1,537,271
Capital reserve for share-based payments	**10,280**	10,280	10,280
Accumulated deficit	**(5,940,747)**	(5,620,816)	(5,643,190)
Total capital deficit	**(4,259,391)**	(3,939,460)	(3,961,834)
Total liabilities and capital	**1,478,924**	1,369,198	1,387,295

David Efrati Authorized to sign as the chairman of the board (See Note 9)	Ron Eilon CEO	Mickey Naiman CFO

Date of approval of the financial statements: October 29, 2013

The accompanying notes to the condensed interim financial statements are an integral part thereof.

* Reclassified - see Note 2.G to the 2012 annual financial statements with regard to classification changes.

Condensed Interim Statements of Income

	Nine months ended		Three months ended		Year ended
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenue	**1,217,645**	1,228,156	**410,264**	402,720	1,635,994
Cost of revenues	**776,770**	800,632	**257,775**	272,641	1,067,087
Gross profit	**440,875**	427,524	**152,489**	130,079	568,907
Selling and marketing expenses	**116,544**	135,152	**41,196**	40,060	166,274
General and administrative expenses	**116,910**	112,289	**38,885**	36,029	149,884
Operating profit	**207,421**	180,083	**72,408**	53,990	252,749
Financing expenses	**132,444**	139,240	**56,079**	52,988	155,431
Finance revenues	**(4,712)**	(1,587)	-	(740)	(1,859)
Financing expenses with respect to shareholders' loans	**376,572**	330,291	**152,047**	119,550	407,826
Financing expenses, net	**504,304**	467,944	**208,126**	171,798	561,398
Loss before income tax	**(296,883)**	(287,861)	**(135,718)**	(117,808)	(308,649)
Income tax	**840**	1,317	**366**	864	1,668
Loss for the period	**(297,723)**	(289,178)	**(136,084)**	(118,672)	(310,317)
Basic and diluted losses per share (in NIS)	**9,959**	9,673	**4,552**	3,969	10,380

The notes to the condensed interim financial statements are an integral part thereof.

Condensed Interim Statements of Comprehensive Income

	Nine months ended		Three months ended		Year ended
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Loss for the period	**(297,723)**	(289,178)	**(136,084)**	(118,672)	(310,317)
Items of other comprehensive income not transferred to profit and loss					
Actuarial gains (losses) from a defined benefit plan	**166**	-	**-**	-	(1,235)
Total other comprehensive profit (loss) for the period not transferred to profit and loss	**166**	-	**-**	-	(1,235)
Total comprehensive loss for the period	**(297,557)**	(289,178)	**(136,084)**	(118,672)	(311,552)

The notes to the condensed interim financial statements are an integral part thereof

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Option	Capital reserve	Capital reserve for share-based payments	Retained Loss	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Nine months ended September 30, 2013 (unaudited)							
Balance at January 1, 2013 (audited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,643,190)**	**(3,961,834)**
Total comprehensive loss for the period							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(297,723)**	**(297,723)**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**166**	**166**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(297,557)**	**(297,557)**
Balance at September 30, 2013 (unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,940,747)**	**(4,259,391)**
Nine months ended September 30, 2012 (unaudited)							
Balance at January 1, 2012 (audited)	29	85,557	48,219	1,537,271	10,280	(5,331,638)	(3,650,282)
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(289,178)	(289,178)
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(289,178)	(289,178)
Balance at September 30, 2012 (unaudited)	29	85,557	48,219	1,537,271	10,280	(5,620,816)	(3,939,460)

The notes to the condensed interim financial statements are an integral part thereof.

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Option	Capital reserve	Capital reserve for share-based payments	Retained Loss	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Three months ended September 30, 2013 (unaudited)							
Balance at July 1, 2013 (unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,804,663)**	**(4,123,307)**
Total comprehensive loss for the period							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(136,084)**	**(136,084)**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(136,084)**	**(136,084)**
Balance at September 30, 2013 (unaudited)	**29**	**85,557**	**48,219**	**1,537,271**	**10,280**	**(5,940,747)**	**(4,259,391)**
Three months ended September 30, 2012 (unaudited)							
Balance at July 1, 2012 (unaudited)	29	85,557	48,219	1,537,271	10,280	(5,502,144)	(3,820,788)
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(118,672)	(118,672)
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(118,672)	(118,672)
Balance at September 30, 2012 (unaudited)	29	85,557	48,219	1,537,271	10,280	(5,620,816)	(3,939,460)

The notes to the condensed interim financial statements are an integral part thereof.

Condensed Interim Statements of Changes in Equity

	Share capital	Share premium	Option	Capital reserve	Capital reserve for share-based payments	Retained Loss	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the year ended December 31, 2012 (audited)							
Balance at January 1, 2012 (audited)	29	85,557	48,219	1,537,271	10,280	(5,331,638)	(3,650,282)
Total comprehensive loss for the year							
Loss for the year	-	-	-	-	-	(310,317)	(310,317)
Other comprehensive loss for the year	-	-	-	-	-	(1,235)	(1,235)
Total comprehensive income for the year	-	-	-	-	-	(311,552)	(311,552)
Balance at January 1, 2008 (audited)	29	85,557	48,219	1,537,271	10,280	(5,643,190)	(3,961,834)

The notes to the condensed interim financial statements are an integral part thereof.

Condensed Interim Statements of Cash Flows

	Nine months ended		Three months ended		Year ended
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities					
Loss for the period	**(297,723)**	(289,178)	**(136,084)**	(118,672)	(310,317)
Adjustments:					
Depreciation and amortization	**192,064**	184,076	**66,006**	64,432	248,250
Financing expenses, net	**491,042**	455,478	**197,567**	169,275	548,997
Loss (profit) from the sale of property, plant and equipment	**557**	441	**(167)**	(25)	504
Income tax expenses	**840**	1,317	**366**	864	1,668
Change in trade receivables	**1,292**	(7,365)	**(938)**	(4,888)	(3,447)
Change in other receivables	**(1,383)**	4,604	**1,688**	2,986	6,346
Changes in broadcasting rights, net of rights exercised	**(29,691)**	(32,221)	**(10,750)**	(9,046)	(46,777)
Change in trade payables and other liabilities	**2,977**	(17,305)	**9,177**	(21,524)	(24,271)
Change in employee benefits	**(1,393)**	11	**(539)**	(29)	(1,569)
	656,305	589,036	**262,410**	202,045	729,701
Income tax paid	**(974)**	(1,317)	**(500)**	(864)	(1,337)
Net cash flows from operating activities	**357,608**	298,541	**125,826**	82,509	418,047
Cash flows from investing activities					
Proceeds from the sale of property, plant and equipment	**329**	224	**212**	52	471
Purchase of property, plant and equipment	**(191,058)**	(179,241)	**(46,951)**	(75,056)	(240,686)
Payments for software and licenses	**(50,114)**	(32,955)	**(19,847)**	(11,515)	(43,531)
Net cash used for investing activities	**(240,843)**	(211,972)	**(66,586)**	(86,519)	(283,746)

The notes to the condensed interim financial statements are an integral part thereof.

Condensed Interim Statements of Cash Flows

	Nine months ended		Three months ended		Year ended
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flow from finance activities					
Repayment of bank loans	**-**	(423,235)	**-**	(399,856)	(423,235)
Repayment of debenture principal	**(90,432)**	(58,211)	**(58,737)**	(58,211)	(58,211)
Short-term credit from banking corporations, net	**(33,232)**	83,655	**33,621**	84,097	66,046
Payment of liability for financing transactions	**(1,653)**	(972)	**(912)**	(322)	(1,554)
Interest paid	**(81,297)**	(96,133)	**(23,912)**	(36,748)	(125,674)
Issue of Debentures, net	**99,149**	395,002	**-**	395,002	395,002
Net cash used for financing activities	**(107,465)**	(99,894)	**(49,940)**	(16,038)	(147,626)
Increase (decrease) in cash and cash equivalents	**9,300**	(13,325)	**9,300**	(20,048)	(13,325)
Cash and cash equivalents at beginning of period	**-**	13,325	**-**	20,048	13,325
Cash and cash equivalents at the end of the period	**9,300**	-	**9,300**	-	-

The notes to the condensed interim financial statements are an integral part thereof.

NOTE 1 – REPORTING ENTITY

D.B.S. Satellite Services (1998) Ltd. (“the Company”) was incorporated in Israel in 1998. The Company’s head office is at 6, Hayozma St., Kfar Saba, Israel.
The Company holds a license from the Ministry of Communications for satellite television broadcasts (“the License”). The License is valid until January 2017 and may be extended for additional periods of six years under certain conditions. The Company's operations are subject, inter alia, to the Communications Law (Telecommunications and Broadcasts), 1982 (“the Communications Law”) and the regulations and rules promulgated thereunder and to the License terms.

Pursuant to its license, Bezeq The Israel Telecommunication Corporation Limited (“Bezeq”), is required to maintain structural separation between it and its subsidiaries, and between it and the Company. Furthermore, under the licenses of the Company and Bezeq, there are restrictions on the joint marketing of services (service bundles).

In 2009, the Supreme Court accepted the Antitrust Commissioner’s appeal of the ruling of the Antitrust Tribunal approving the merger (as defined in the Antitrust Law, 1988) between the Company and Bezeq by exercising the options held by Bezeq into Company shares, subject to certain conditions, and ruled against the merger.

In October 2012 the Antitrust Authority notified the Company that in its opinion cooperation between the Company and between Bezeq for the marketing of a joint service bundle constitutes cooperation between competitors (potential) in an area of competition (following the above ruling of the Supreme Court) amounting to a cartel arrangement (even if it complies with the terms of the broadcasting license) requiring exemption or approval under the Antitrust Law, and that the Antitrust Commissioner does not intend to grant an exemption from the requirement for approval of such an arrangement.

The Company believes that as a result of the development of competition between the telecommunications groups and the increasing importance of providing comprehensive communications services, if the restrictions on Bezeq’s control of the Company and on Bezeq’s cooperation with it remain intact, the adverse effect of these restrictions on the Company’s results is liable to increase.

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance with IFRS

The condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements for the year ended December 31, 2012 (“the Annual Report”). Additionally, these statements were prepared in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

The condensed interim financial statements were approved by the Company's Board of Directors on October 29, 2013.

B. Use of estimates and judgments

Preparation of condensed financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting standards and the reported amounts of assets, liabilities, income and expenses. It is hereby clarified that actual results may differ from these estimates.
The judgment of the management when applying the Company’s accounting policy and the principal assumptions used in assessments that involve uncertainty are consistent with those applied in the annual financial statements.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in these condensed interim financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2012, other than as described below:

First time application of new accounting standards

A. Since January 1, 2013, the Company has been applying the amendment to IAS 19 - Employee Benefits ("the Amendment") As a result of the application of the Amendment, the method used for measuring liabilities with respect to annual leave days was changed. Implement of the standard had no material effect on the Company's financial statements.

B. Since January 1, 2013, the Company has applied the amendment to IFRS 13, Fair Value Measurement. Application of the amended standard has had no material effect on the financial statements. Publication of the standard has led to expansion of the disclosure requirements in respect of the fair value of financial instruments in the interim financial statements. The requirements of the standard have been integrated into the financial statements in Note 7 concerning financial instruments.

NOTE 4 – FINANCIAL POSITION OF THE COMPANY

A. Since the beginning of its operations, the Company has accumulated substantial losses. The Company's losses in 2012 amounted to NIS 310 million and losses for the nine months ended September 30, 2013 amounted to NIS 298 million. As a result of these losses, the Company's capital deficit and working capital deficit at September 30, 2013 amounted to NIS 4,259 million and NIS 733 million, respectively.

B. 1. As at September 30, 2013, the Company was in compliance with the financial covenants under its financing agreements and debentures. As at September 30, 2013, the Company is in compliance with the debt/EBITDA ratio covenant fixed in Deed of Trust B (the Company's debt/EBITDA ratio at September 30, 2013 was 3.1). The Company was also in compliance with the debt/EBITDA ratio covenant set out in the 2012 debentures (the Company's debt/EBITDA ratio at September 30, 2013 was 2.8) and with the debt/(E-C) ratio covenant set out in the 2012 debentures (the Company's debt/ (E-C) ratio at September 30, 2013 was 7.4).

2. For information with regard to the raising of further debt during the reporting period and subsequent to the reporting date, see Notes 6 and 8 below.

3. In the opinion of the management of the Company, its available financing resources will be sufficient for the Company’s operating requirements for the coming year, based on the cash flow forecast approved by the Company’s Board of Directors. If additional resources are required to meet its operational requirements for the coming year, the Company will adapt its operations to preclude the need for additional resources beyond those available to it.

NOTE 5 – CONTINGENT LIABILITIES

Legal proceedings

Various lawsuits have been filed against the Company and it faces various pending legal proceedings (in this section: “legal proceedings”).
In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the legal proceedings, the financial statements include appropriate provisions, where provisions are required, to cover its exposure resulting from such legal proceedings.

As at September 30, 2013, the exposure resulting from the legal proceedings filed against the Company in respect of various matters amounts to NIS 129,153 thousand. These amounts and all the amounts of the proceedings mentioned in this note do not include interest and linkage.

Below is a description of the pending material legal proceedings against of the Company's as at September 30, 2013, classified by groups with similar characteristics.

A. Employee claims

During the normal course of business, employees and former employees filed collective and individual claims against the Company. Most of these claims are for alleged non-payment of salary components and withholding salary payment. At September 30, 2013, the amount of the foregoing claims totaled NIS 83,618 thousand. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 1,520 thousand where provisions are required to cover the exposure resulting from such claims.

B. Customer claims

During the normal course of business, various legal proceedings were find against the Company by its customers. These are mainly motions for certification of class actions (and resulting claims) usually concerning contentions of unlawful collection of payment and impairment of the service provided by the Company. As at September 30, 2013, the amount of these proceedings totaled NIS 43,945 thousand. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 5,338 thousand where provisions are required to cover the exposure resulting from such claims. Furthermore, other petitions have been filed against the Company for certifying as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be as yet be estimated.

C. Supplier and communication provider claims

During the normal course of business, various legal claims were find against the Company by suppliers of goods and/or services to the Company. As at September 30, 2013, the amount for these proceedings totaled NIS 1.59 million. In the opinion of the management of the Company, which is based, inter alia, on legal opinions as to the likelihood of success of the claims, the financial statements include appropriate provisions of NIS 100 thousand.

NOTE 6 – EVENTS DURING THE REPORTING PERIOD

A. During the first half of 2013 the Company executed additional issues of debentures (Series B) by way of expansion of series in the amount of NIS 99.7 million. For information regarding the terms of the debentures see Note 14 to the financial statements as at December 31, 2012.

B. On May 8, 2013 the general meeting of the shareholders of Bezeq approved the Company's vote in the general meeting of the shareholders in favor of amending the Company's existing engagement with Space Communications Ltd. and extending it with regard to the leasing of space segments on the Amos 2, Amos 3, Amos 6 satellites and/or any other satellite that may be agreed upon between the parties, until the end of 2028, and in an amount of USD 227 million for the entire period. Furthermore, on the same day, the general meeting of the shareholders approved the engagement in the foregoing agreement.

C. On July 10, 2013, the Company received a letter from the municipality of Kfar Saba with regard to an amendment to its rates and taxes assessment for 2010 through 2013, in which it demands additional payment for rates and taxes in a total amount of NIS 9 million. The municipality also informed the Company in the foregoing letter that the Company has the right to file an objection against the assessment within 90 days from date of receipt of the letter and to appeal the municipality's response within 30 days. In a letter of objection dated October 3, 2013 the Company sent, through its legal counsel, a preliminary request to the municipality to cancel the municipality's demand and that the rates assessment remain as agreed.

NOTE 7 - FINANCIAL INSTRUMENTS

Fair value

A. Fair value compared to carrying amounts

The carrying amounts of certain financial assets and financial liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, derivatives, bank overdrafts, loans and short-term credit, trade payables, other payables are equal to or approximate their fair value. The fair value of financial assets and financial liabilities, and the carrying amounts which are presented in the statement of financial position, are as follows:

	As at September 30, 2013	
	Carrying amount	Fair value
	NIS thousands	
Debentures, including accrued interest	1,630,772	1,812,659

NOTE 7 - FINANCIAL INSTRUMENTS (CONT'D)

Fair value (contd.)

B. Fair value hierarchy

The fair value of financial instruments measured at fair value is determined using the valuation method based on the level of the fair value hierarchy.

The various levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in an active market for identical instruments
- Level 2: Observable market inputs, direct or indirect, other than Level 1 inputs
- Level 3: Inputs not based on observable market data

C. Data regarding fair value measurement at level 2

During the first nine months of 2013 the Company entered into several forward transactions in order to reduce its exposure to USD exchange rate volatility. The fair value of the forward transactions is determined by using observable market data. The net fair value of these forward contracts at September 30, 2013 (liability) is NIS 4.7 million.

NOTE 8 – SUBSEQUENT EVENTS

A. On October 15, 2013 S&P Maalot awarded an ilA- rating for additional debentures issued by the Company by means of a new issue of debentures and/or expansion of an existing series with regard to total borrowing of up to NIS 300 million par value.

B. During October 2013 the Company executed an additional issue of debentures (Series B) by way of expanding the series, in the amount of NIS 240 million. For information regarding the terms of the debentures see Note 14 to the financial statements as at December 31, 2012.

C. On October 24, 2013 the Company received a lawsuit together with a petition to certify it as a class action, which was filed against it with the District Court in Tel Aviv, claiming unlawful collection of money by the Company from its subscribers in arbitrary and varying amounts, for services provided to the subscribers, initially free of charge or at reduced cost, without providing notice or receiving the consent thereto from the subscribers. The applicant has petitioned the court, inter alia, to order the Company to refund to the members of the group, the full amount collected from them, it claims unlawfully, and to compensate them for violation of freedom of contract and/or mental anguish for forcing the continued engagement with it.
The petition does not state the amount of the claim, other than estimating monetary damages (only) in the amount of NIS 8.6 million.
The Company is currently studying the claim and the petition to certify it as a class action, and is unable, at this stage, to estimate the chances of it succeeding.

NOTE 9 – APPOINTMENT OF THE CHAIRMAN OF THE BOARD FOR THE FINANCIAL STATEMENTS APPROVAL MEETING

At the date of the meeting to approve the financial statements the Company does not have a serving chairperson of the board of directors. Consequently, on October 29, 2013 the Company's Board of Directors certified David Efrati, a director of the Company, to serve as chairman of the Board of Directors' at the meeting convened to approve the financial statements and to sign the Company's financial statements as at September 30, 2013.

Bezeq The Israel Telecommunication Corporation Ltd.

Condensed Separate Interim Financial Information as at September 30, 2013

(Unaudited)

bezeq

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To:

The Shareholders of “Bezeq”- The Israel Telecommunication Corporation Ltd.

Subject: Special auditors’ report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of “Bezeq”- The Israel Telecommunication Corporation Ltd. (hereinafter – “the Company”) as of September 30, 2013 and for the nine and three month periods then ended. The separate interim financial information is the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of investee companies the investments in which amounted to NIS 194 million as of September 30, 2013, and the profit (loss) from these investee companies amounted to NIS (5) million and NIS 2 million for the nine and three month periods then ended, respectively. The financial statements of those companies were reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our abovementioned conclusion, we draw attention to lawsuits filed against the Company which cannot yet be assessed or the exposure in respect thereof cannot yet be estimated, as set forth in Note 4.

Somekh Chaikin

Certified Public Accountants (Isr.)

November 6, 2013

Condensed Interim Information of Financial Position

	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Assets			
Cash and cash equivalents	**85**	205	221
Investments, including derivatives	**944**	1,013	1,071
Trade receivables	**761**	777	740
Other receivables	**194**	154	208
Dividend received from investees	**-**	484	-
Inventory	**15**	21	13
Loans granted to investees	**405**	328	465
Assets classified as held for sale	**83**	44	44
Total current assets	**2,487**	3,026	2,762
Investments, including derivatives	**75**	72	67
Trade and other receivables	**72**	145	128
Property, plant and equipment	**4,377**	4,424	4,403
Intangible assets	**338**	346	355
Investment in investees	**5,813**	5,881	6,061
Loans granted to investees	**744**	1,280	1,016
Deferred tax assets	**82**	135*	111*
Total non-current assets	**11,501**	12,283	12,141
Total assets	**13,988**	15,309	14,903

Condensed Separate Interim Financial Information as at September 30, 2013 (unaudited)

	September 30, 2013	September 30, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million
Liabilities			
Debentures, loans and borrowings	**1,061**	601	1,132
Trade payables	**86**	119	149
Other payables, including derivatives	**543**	548	493
Current tax liabilities	**638**	458	447
Provisions (Note 4)	**107**	148	139
Employee benefits	**214**	247*	216*
Dividend payable	**-**	1,978	969
Total current liabilities	**2,649**	4,099	3,545
Debentures	**4,996**	4,599	4,581
Loans	**3,999**	3,946	4,049
Employee benefits	**219**	202*	219*
Other liabilities	**75**	47	54
Dividend payable	**-**	473	-
Total non-current liabilities	**9,289**	9,267	8,903
Total liabilities	**11,938**	13,366	12,448
Equity			
Share capital	**3,839**	3,837	3,837
Share premium	**118**	99	100
Reserves	**594**	599	608
Deficit	**(2,501)**	(2,592)*	(2,090)*
Total equity	**2,050**	1,943	2,455
Total liabilities and equity	**13,988**	15,309	14,903

Shaul Elovitch Chairman of the Board of Directors	Stella Handler CEO	Dudu Mizrachi Deputy CEO and CFO

Date of approval of the financial statements: November 06, 2013

* Reclassified due to retrospective application of IAS 19 Employee Benefits, see Note 1.3

The attached notes are an integral part of this condensed separate interim financial information.

Condensed Interim Information of Profit or Loss

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Revenues (Note 2)	**3,377**	3,509	**1,127**	1,149	4,630
Cost of Activities					
Depreciation and amortization	**509**	541	**174**	185	730
Salaries	**755**	808	**243**	274	1,036*
Operating and general expenses (Note 3)	**672**	778	**224**	278	1,033
Other operating expenses (income), net	**(98)**	(13)	**(8)**	(7)	(128)
	1,838	2,114	**633**	730	2,671
Operating profit	**1,539**	1,395	**494**	419	1,959
Financing expenses (income)					
Financing expenses	**414**	455	**150**	161	581*
Finance income	**(252)**	(267)	**(93)**	(98)	(322)
Financing expenses, net	**162**	188	**57**	63	259
Profit after financing expenses, net	**1,377**	1,207	**437**	356	1,700
Share in earnings of investees, net	**360**	502	**89**	96	654
Profit before income tax	**1,737**	1,709	**526**	452	2,354
Income tax	**318**	370	**77**	110	493*
Profit for the period attributable to the owners of the Company	**1,419**	1,339	**449**	342	1,861

* Reclassified due to retrospective application of IAS 19 Employee Benefits, see Note 1.3

The attached notes are an integral part of this condensed separate interim financial information.

Condensed Interim Information of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Profit for the period	**1,419**	1,339	**449**	342	1,861*
Items of other comprehensive income not transferred to profit and loss					
Actuarial gains (losses) net of tax	**-**	-	**-**	-	(15)
I					
Items of other comprehensive income (net of tax) after initial recognition in comprehensive income is transferred to profit or loss	**(6)**	1	**(2)**	3	(3)
Other comprehensive income (loss), net of tax in respect of investees	**(13)**	(6)	**(7)**	-	(9)
Other comprehensive income (loss), net of tax	**(19)**	(5)	**(9)**	3	(27)
Total comprehensive income for the period attributable to equity holders of the Company	**1,400**	1,334	**440**	345	1,834

* Reclassified due to retrospective application of IAS 19 Employee Benefits, see Note 1.3

The attached notes are an integral part of this condensed separate interim financial information.

Condensed Interim Information of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from operating activities					
Profit for the period	**1,419**	1,339	**449**	342	1,861*
Adjustments:					
Depreciation	**430**	470	**147**	160	635
Amortization of intangible assets	**79**	71	**27**	25	95
Share in the profits of equity-accounted investees, net	**(360)**	(502)	**(89)**	(96)	(654)
Financing expenses, net	**201**	250	**65**	77	309
Capital gain, net	**(127)**	(23)	**(15)**	(25)	(150)
Share-based payment transactions	**23**	60	**7**	21	73
Income tax expenses	**318**	370	**77**	110	493*
Expenses (income) due to derivatives, net	**(7)**	5	**3**	11	-
Change in inventory	**(3)**	(8)	**4**	6	-
Change in trade and other receivables	**(9)**	(95)	**25**	(13)	(61)
Change in trade and other payables	**(7)**	(102)	**39**	(21)	(108)
Change in provisions	**(31)**	(15)	**2**	(2)	(24)
Change in employee benefits	**(3)**	(96)	**(18)**	(32)	(131)*
Net cash used in operating activities due to transactions with investees	**(30)**	(21)	**(17)**	(4)	(18)
Net income tax paid	**(145)**	(206)	**(75)**	(89)	(311)
Net cash flows from operating activities	**1,748**	1,497	**631**	470	2,009

* Reclassified due to retrospective application of IAS 19 Employee Benefits, see Note 1.3

The attached notes are an integral part of this condensed separate interim financial information.

Condensed Interim Information of Cash Flows (cont.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Cash flows from investing activities					
Investment in intangible assets	**(63)**	(103)	**(22)**	(33)	(136)
Proceeds from the sale of property, plant and equipment	**214**	164	**48**	96	300
Acquisition of financial assets held for trading and others	**(1,256)**	(2,249)	**(165)**	(398)	(2,457)
Proceeds from the sale of financial assets held for trading and others	**1,396**	2,175	**637**	-	2,329
Purchase of property, plant and equipment	**(504)**	(653)	**(176)**	(216)	(822)
Net proceeds for derivatives	**6**	13	**-**	3	14
Proceeds from disposal of investments and long-term loans	**(4)**	2	**(1)**	(1)	7
Interest and dividends received	**12**	7	**2**	2	9
Increase in the rate of holding in a subsidiary	**-**	(77)	**-**	-	(77)
Net cash from investment activities due to transactions with investees	**977**	705	**468**	253	1,323
Net cash used for investing activities	**778**	(16)	**791**	(294)	490
Cash flow from financing activities					
Bank loans received	**-**	-	**-**	-	650
Repayment of bank loans	**(125)**	(204)	**(50)**	(127)	(204)
Issue of debentures	**869**	-	**-**	-	-
Repayment of debentures	**(319)**	(316)	**-**	-	(327)
Dividend paid	**(2,830)**	(1,574)	**(1,469)**	-	(3,071)
Interest paid	**(253)**	(293)	**(25)**	(31)	(436)
Net proceeds (payment) for derivatives	**(6)**	8	**-**	(2)	7
Proceeds from exercise of options	**2**	7	**1**	5	7
Net cash used for financing activities	**(2,662)**	(2,372)	**(1,543)**	(155)	(3,374)
Increase (decrease) in cash and cash equivalents	**(136)**	(891)	**(121)**	21	(875)
Cash and cash equivalents at beginning of period	**221**	1,096	**206**	184	1,096
Cash and cash equivalents at the end of the period	**85**	205	**85**	205	221

The attached notes are an integral part of this condensed separate interim financial information.

Notes to the condensed separate interim financial information

1. Manner of preparing financial information

1.1. Definitions

The Company: Bezeq The Israel Telecommunication Corporation Limited

"Investee", the "Group", "Subsidiary": as these terms are defined in the Company's consolidated financial statements for 2012.

1.2. Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial information for the year ended December 31, 2012 and in conjunction with the condensed consolidated interim financial statements as at September 30, 2013 ("the Consolidated Financial Statements").

The accounting policies used in these condensed separate interim financial information are in accordance with the accounting policies set out in the separate financial information as of and for the year ended December 31, 2012.

1.3. Retrospective Application of Accounting Policies

As of January 1, 2013, the Company applies the amendment to IAS 19 - Employee Benefits ("the Amendment") As a result of the application of the Amendment, the method used for measuring liabilities with respect to annual leave days was changed. Furthermore on the date of first time application of the Amendment the Company recognized the total liabilities pertaining to employees transferred from the civil service to the Company which, until said date, was accounted as historic service costs and the Company was required to recognize this cost over a projected service period. The Amendment was adopted through retrospective application by way of reissue of the financial statements. As a result, the Company reissued its statement of income for 2012, by recording an increase in net profit in the amount of NIS 3 million. The Company also recorded a decrease in equity at September 30, 2012 and December 31, 2012 in the amounts of NIS 8 million and NIS 5 million, respectively.

2. Revenues

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Fixed-line telephony	**1,503**	1,717	**490**	557	2,254
Internet - infrastructure	**963**	872	**332**	291	1,166
Transmission and data communication	**740**	735	**252**	243	976
Other services	**171**	185	**53**	58	234
	3,377	3,509	**1,127**	1,149	4,630

3. Operating and general expenses

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS million	NIS million	NIS million	NIS million	NIS million
Interconnectivity and payments to communications operators	**170**	217	**55**	70	281
Maintenance of buildings	**175**	192	**61**	70	245
Marketing and general expenses	**132**	104*	**47**	54	159
Terminal equipment and materials	**72**	79	**22**	28	111
Services and maintenance by sub-contractors	**47**	54	**15**	15	73
Vehicle maintenance expenses	**57**	62	**18**	25	83
Collection commissions (in 2012 including royalties)	**19**	70	**6**	16	81
	672	778	**224**	278	1,033

* On April 2, 2012 the settlement between the Company and the Ministry of Communications, with regard to the State authorities' claims for payment of frequency fees in Judea, Samaria and Gaza, was given the validity of judgment. As a result of the settlement, in the first quarter of 2012, the Company reduced its liability to pay frequency fees and decreased its operating and general expenses by NIS 37 million and financing expenses by NIS 13 million.

4. Contingent Liabilities

During the normal course of business, legal claims were filed against the Company or there are various pending claims (“in this section: “Legal Claims”).

In the opinion of the Company's management, based, inter alia, on legal opinions as to the likelihood of success of these litigations, the financial statements include appropriate provisions in the amount of NIS 107 million, where provisions are required to cover the exposure arising from such litigation.

In the Company's opinion, the additional exposure (exceeding the foregoing provisions), as of September 30, 2013 due to legal claims filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 1.5 billion. Of this amount, NIS 361 million is for a claim filed against the Company and other associates without specifying the portion of the amount claimed from each of the plaintiffs. In addition, there is further exposure in the amount of NIS 188 million for claims, the success of which cannot be assessed at this stage. All the foregoing amounts are linked to the consumer price index and are before the addition of interest.

Furthermore, other claims have been filed against the Company as class actions with respect to which the Company has additional exposure beyond the aforesaid amounts, which cannot be quantified as the exact amounts of the claims are not stated in the claims.

Subsequent to reporting date, claims for which the exposure amounted to NIS 228 million came to an end. The Company's cost for these claims was negligible.

For further information concerning contingent liabilities see Note 5 to the Consolidated Financial Statements, Contingent Claims.

5. Material agreements and transactions with Investees during and subsequent to the reporting period

5.1 During May 2013, Pelephone Communications Ltd. ("Pelephone") paid to the Company a dividend in cash announced by Pelephone in March, in the amount of NIS 287 million.

5.2 During September 2013, Pelephone paid to the Company a dividend in cash announced by Pelephone in July, in the amount of NIS 314 million.

5.3 During May 2013, Bezeq International Ltd. ("Bezeq International") paid to the Company a dividend in cash announced by Bezeq International in March, in the amount of NIS 84 million.

5.4 During September 2013, Bezeq International paid to the Company a dividend in cash announced by Bezeq International in July, in the amount of NIS 81 million.

5.5 During August 2013, Pelephone made early repayment in an amount of NIS 88 million of the loan it received in March 2012 in a total amount of NIS 440 million. Accordingly, the date of final payment of the loan was set for March 2018.

5.6 During the reporting period the Company provided Walla Communications Ltd. with loans totaling an amount of NIS 30 million. The loans bear fixed annual interest of 4.68% and are due for repayment in three equal annual principal installments. The first payment will be made two years from the date on which the loan was provided.

5.7 During the reporting period, the Company provided Bezeq International with loans totaling NIS 40 million. These loans bear fixed annual interest of 4.1% and are repayable in one lump sum a year from the date on which the loan was given.

5.8 During September 2013, Bezeq On-line Ltd. ("Bezeq On-line") repaid the total outstanding balance of the loans that the Company provided in a total amount of NIS 19 million. On the other hand, the Company provided Bezeq On-line with a net loan in the amount of NIS 25 million. The loan bears fixed annual interest of 4.86% and is repayable in three equal annual principal installments. The first payment will be made two years from the date on which the loan was provided.