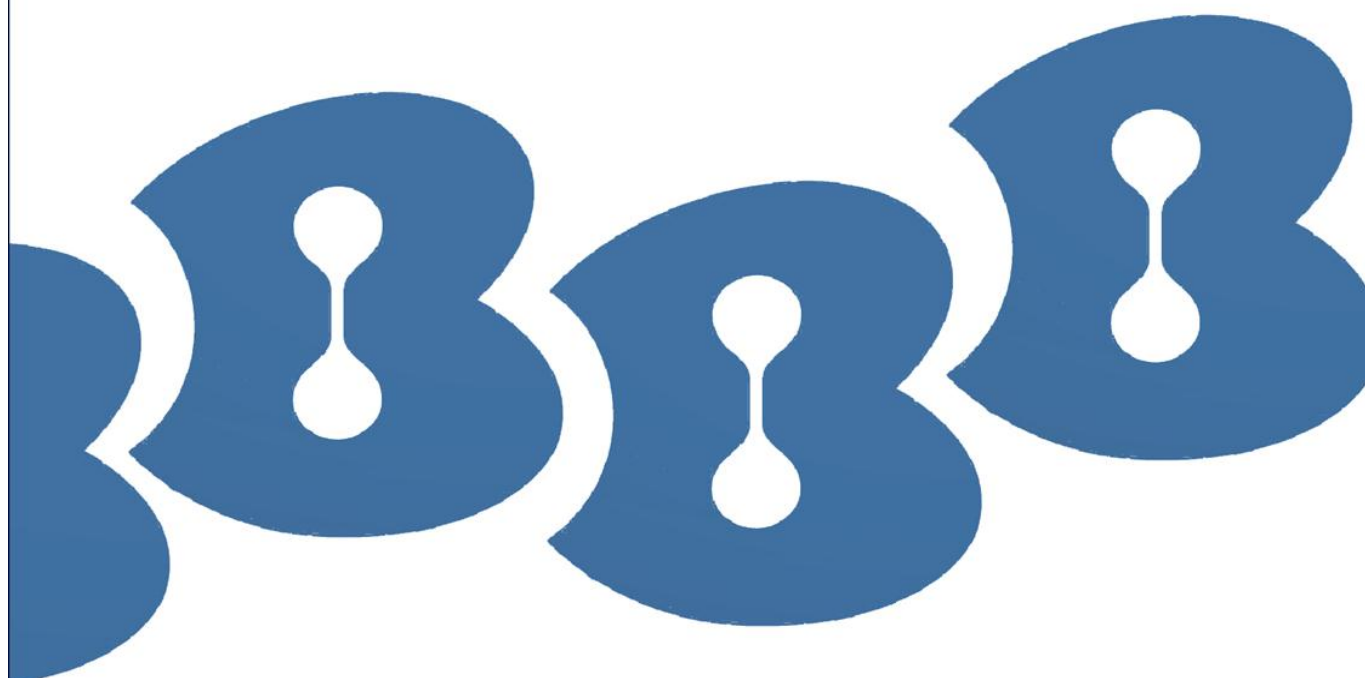


Bezeq The Israel Telecommunication Corporation Ltd.

Condensed Separate Interim Financial Information as at March 31, 2014 (Unaudited)



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

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

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To:
The Shareholders of "Bezeq"- The Israel Telecommunication Corporation Ltd.

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

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of "Bezeq"- The Israel Telecommunication Corporation Ltd. (hereinafter – "the Company") as of March 31, 2014 and for the three-month period then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of an investee company the investment in which amounted to NIS 155 million as of March 31, 2014, and the loss from this investee company amounted to NIS 5 million for three-month period then ended. The financial statements of that company were reviewed by other auditors whose review report thereon was furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of that company, is based solely on the said review report of the other auditors.

Scope of Review

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

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 28, 2014

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

Condensed interim information of Financial Position

| | March 31, 2014 | March 31, 2013 | December 31, 2013 |
|-------------------------------------|----------------|----------------|-------------------|
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Assets | | | |
| Cash and cash equivalents | 684 | 170 | 237 |
| Investments, including derivatives | 1,341 | 1,506 | 1,129 |
| Trade receivables | 746 | 743 | 738 |
| Other receivables | 175 | 260 | 166 |
| Dividends receivable from investees | 283 | 371 | - |
| Inventory | 7 | 25 | 7 |
| Loans provided to investees | 266 | 474 | 498 |
| Assets classified as held for sale | 50 | 94 | 66 |
| Total current assets | 3,552 | 3,643 | 2,841 |
| Investments | 70 | 71 | 67 |
| Trade and other receivables | 47 | 120 | 61 |
| Property, plant and equipment | 4,497 | 4,338 | 4,426 |
| Intangible assets | 322 | 350 | 334 |
| Investment in investees | 5,770 | 5,878 | 5,890 |
| Loans provided to investees | 544 | 977 | 555 |
| Deferred tax assets | 28 | 53 | 50 |
| Total non-current assets | 11,278 | 11,787 | 11,383 |
| Total assets | 14,830 | 15,430 | 14,224 |

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

Condensed interim information of Financial Position (Contd.)

| | March 31, 2014 | March 31, 2013 | December 31, 2013 |
|-------------------------------------------------------------------|----------------|----------------|-------------------|
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Liabilities | | | |
| Debentures, loans and borrowings | 1,123 | 1,056 | 1,127 |
| Trade payables | 130 | 93 | 129 |
| Other payables, including derivatives | 632 | 631 | 484 |
| Current tax liabilities | 524 | 487 | 522 |
| Provisions (Note 4) | 106 | 109 | 109 |
| Employee benefits | 229 | 192 | 222 |
| Dividend payable | 802 | 981 | - |
| Total current liabilities | 3,546 | 3,549 | 2,593 |
| Debentures and loans | 8,900 | 8,628 | 8,926 |
| Employee benefits | 199 | 218 | 201 |
| Other liabilities, including derivatives | 93 | 68 | 81 |
| Total non-current liabilities | 9,192 | 8,914 | 9,208 |
| Total liabilities | 12,738 | 12,463 | 11,801 |
| Equity | | | |
| Share capital | 3,844 | 3,837 | 3,842 |
| Share premium | 161 | 100 | 143 |
| Reserves | 559 | 623 | 565 |
| Deficit | (2,472) | (1,593) | (2,127) |
| Total equity attributable to equity holders of the Company | 2,092 | 2,967 | 2,423 |
| Total liabilities and equity | 14,830 | 15,430 | 14,224 |

Shaul Elovitch
Chairman of the Board of
Directors

Stella Handler
CEO

David (Dudu) Mizrahi
Deputy CEO and CFO

Date of approval of the financial statements: May 28, 2014

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

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

Condensed interim information of Profit or Loss

| | Three months ended | | Year ended |
|------------------------------------------------------------------------|--------------------|-------------|-------------|
| | March 31 | | December 31 |
| | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Revenues (Note 2) | 1,077 | 1,129 | 4,478 |
| Cost of Activities | | | |
| Depreciation and amortization | 168 | 167 | 683 |
| Salaries | 223 | 270 | 980 |
| Operating and general expenses (Note 3) | 190 | 230 | 895 |
| Other operating income, net | (8) | (73) | (78) |
| Cost of Activities | 573 | 594 | 2,480 |
| Operating profit | 504 | 535 | 1,998 |
| Financing expenses (income) | | | |
| Financing expenses | 106 | 129 | 534 |
| Financing income | (50) | (77) | (317) |
| Financing expenses, net | 56 | 52 | 217 |
| Profit after financing expenses, net | 448 | 483 | 1,781 |
| Share in earnings of investees, net | 125 | 149 | 400 |
| Profit before income tax | 573 | 632 | 2,181 |
| Income tax | 116 | 135 | 410 |
| Profit for the period attributable to the owners of the Company | 457 | 497 | 1,771 |

Condensed interim information of Comprehensive Income

| | Three months ended | | Year ended |
|--------------------------------------------------------------------------------------------|--------------------|-------------|-------------|
| | March 31 | | December 31 |
| | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Profit for the period | 457 | 497 | 1,771 |
| Items of other comprehensive income | | | |
| Actuarial gains, net of tax | - | - | 17 |
| Other items of other comprehensive income for the period, net of tax | 13 | 7 | (11) |
| Other comprehensive income for the period, net of tax | 13 | 7 | 6 |
| Total comprehensive income for the period attributable to the owners of the Company | 470 | 504 | 1,777 |

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

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

Condensed interim information of Cash Flows

| | Three months ended | | Year ended |
|--------------------------------------------------------------------------|--------------------|-------------|--------------|
| | March 31 | | December 31 |
| | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Cash flows from operating activities | | | |
| Profit for the period | 457 | 497 | 1,771 |
| Adjustments: | | | |
| Depreciation and amortization | 168 | 167 | 683 |
| Profits of investees accounted by the equity method, net | (125) | (149) | (400) |
| Financing expenses, net | 61 | 88 | 267 |
| Capital gain, net | (17) | (47) | (161) |
| Share-based payment transactions | (1) | 8 | 29 |
| Income tax expenses | 116 | 135 | 410 |
| Sundries | - | (4) | (7) |
| Change in inventory | 1 | (12) | 6 |
| Change in trade and other receivables | (6) | (33) | 25 |
| Change in trade and other payables | 57 | 51 | 40 |
| Change in provisions | (4) | (30) | (29) |
| Change in employee benefits | 6 | (25) | 3 |
| Net cash used in operating activities due to transactions with investees | (4) | (25) | (35) |
| Net income tax paid | (93) | (60) | (328) |
| Net cash flows from operating activities | 616 | 561 | 2,274 |

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

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

| Condensed Interim Statements of Cash Flows (cont.) | | | |
|------------------------------------------------------------------------|--------------------|--------------|----------------|
| | Three months ended | | Year ended |
| | March 31 | | December 31 |
| | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Cash flows from investing activities | | | |
| Investment in intangible assets | (19) | (21) | (86) |
| Proceeds from the sale of property, plant and equipment | 28 | 42 | 304 |
| Acquisition of financial assets held for trading and others | (210) | (432) | (1,486) |
| Proceeds from the sale of financial assets held for trading and others | - | - | 1,441 |
| Purchase of property, plant and equipment | (191) | (162) | (703) |
| Sundries | (1) | 1 | 23 |
| Net cash from investment activities due to transactions with investees | 244 | 62 | 1,080 |
| Net cash from investing activities (used for activities) | (149) | (510) | 573 |
| Cash flow from financing activities | | | |
| Issue of debentures and receipt of loans | - | - | 1,360 |
| Repayment of debentures and loans | - | (75) | (928) |
| Dividend paid | - | - | (2,830) |
| Interest paid | (22) | (27) | (433) |
| Sundries | 2 | - | - |
| Net cash used for financing activities | (20) | (102) | (2,831) |
| Increase (decrease) in cash and cash equivalents | 447 | (51) | 16 |
| Cash and cash equivalents at beginning of period | 237 | 221 | 221 |
| Cash and cash equivalents at the end of the period | 684 | 170 | 237 |

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

Condensed Separate Interim Financial Information as at March 31, 2014 (unaudited)

Notes to the condensed separate interim financial information

1. Manner of preparation of 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 2013.

1.2. Principles used for preparing financial information

The condensed separate interim financial information is presented in accordance with Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Regulation") and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports),1970 ("the Tenth Addendum") with respect to the separate interim financial information of the corporation. They should be read in conjunction with the separate financial statements for the year ended December 31, 2013 and in conjunction with the condensed interim consolidated financial statements as at March 31, 2014 ("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, 2013.

2. Revenues

| | Three months ended | | Year ended |
|-------------------------------------|--------------------|-------------|-------------|
| | March 31 | | December 31 |
| | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Fixed-line telephony | 426 | 510 | 1,971 |
| Internet - infrastructure | 332 | 310 | 1,287 |
| Transmission and data communication | 259 | 247 | 990 |
| Other services | 60 | 62 | 230 |
| | 1,077 | 1,129 | 4,478 |

3. Operating and general expenses

| | Three months ended | | Year ended |
|------------------------------------------------------------|--------------------|-------------|-------------|
| | March 31 | | December 31 |
| | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Interconnectivity and payments to communications operators | 42 | 57 | 220 |
| Sales and marketing expenses | 42 | 44 | 186 |
| Terminal equipment and materials | 12 | 27 | 90 |
| Maintenance of buildings and sites | 55 | 59 | 233 |
| Services and maintenance by sub-contractors | 16 | 16 | 64 |
| Vehicle maintenance expenses | 17 | 20 | 76 |
| Collection commissions | 6 | 7 | 26 |
| | 190 | 230 | 895 |

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 106 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 March 31, 2014 due to legal claims filed against the Company on various matters, which are unlikely to be realized, amounts to a total of NIS 1.4 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 67 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 the reporting date, a lawsuit was filed against the Company for a total amount of NIS 41 million, the exposure to which cannot at this stage be estimated. In addition, claims for which exposure amounted to NIS 79 million were concluded.

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

5. Dividends from investees

5.1 On February 19, 2014 the board of directors of Pelephone Communications Ltd. decided to distribute a dividend in cash to the Company in the amount of NIS 206 million, which was paid in May 2014.

5.2 On February 18, 2014 the board of directors of Bezeq International Ltd. decided to distribute a dividend in cash to the Company in the amount of NIS 77 million, which was paid in May 2014.

6. Subsequent events

6.1 On May 21, 2014, Walla! Communications Ltd. ("Walla"), repaid the balance of the loans it received from the Company in the amount of NIS 58 million. In addition, Walla granted the Company a loan in the amount of NIS 433.8 million. The loan bears annual interest of 4.31% and is repayable by September 2014.